SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

July 2, 1987
Date of Report (Date earliest event reported)

BCI Holdings Corporation
(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

1-9119	**13-3327481**
(Commission File Number)	**(IRS Employer Identification Number)**
Two North LaSalle Street, Chicago, IL	**60602**
(Address of principal executive offices)	**(Zip Code)**

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

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS

On July 2, 1987, a Form S-1 Registration Statement, Registration No. 33-14454, was declared effective by the Securities and Exchange Commission for an initial public offering of common stock in a newly formed company, E-II Holdings Inc. ("E-II"), which was previously a wholly owned subsidiary of the registrant. E-II owns substantially all of the nonfood and food specialty businesses previously owned by the registrant. Concurrent with the effectiveness of the Registration Statement for the E-II common stock, the registrant distributed all of the then outstanding E-II common stock to registrant's stockholders and warrant holders (the "Distribution"). Consents from the holders of a majority of the outstanding principal amount of each of four issues of registrant's debt securities were received in June 1987 which permitted the Distribution. Registrant retained $800 million of principal amount of 11¼% notes issued by subsidiaries of E-II, which notes were repaid on July 9, 1987.

Separately, management has determined to dispose of substantially all of the registrant's non-U.S. food businesses and is currently seeking prospective buyers.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits

Exhibit 28.01, attached hereto, provides a restatement of the financial information contained in Items 6, 7 and 8 of the registrant's Form 10-K for the fiscal year ended February 28, 1987 reflecting the effects of the events described in Item 2.

SIGNATURE

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 hereunto duly authorized.

July 13, 1987

BCI HOLDINGS CORPORATION

By: /s/ MICHAEL FUNG
Vice President and Controller

INDEX TO EXHIBIT

Exhibit 28.01

BCI HOLDINGS CORPORATION

INDEX TO RESTATED FINANCIAL INFORMATION

All item references are to BCI Holdings Corporation's Annual Report on Form 10-K for the fiscal year ended February 28, 1987.

ITEM 6. SELECTED FINANCIAL DATA

The following table provides selected financial data for BCI Holdings Corporation ("BCI") and its predecessor, Beatrice Companies, Inc. ("Beatrice").

	Year ended last day of February				
	1987*	1986	1985	1984	1983
	(In millions, except per share data)				
Net sales	$4,588	$4,752	$6,015	$4,620	$4,725
Earnings (loss) before other items**	$ (105)	$ 25	$ 357	$ 370	$ 33
Loss per share before other items***	$ (1.43)				
Total assets	$6,924	$6,894	$8,050	$3,694	$3,837
Long-term debt	$4,244	$1,147	$2,121	$ 648	$ 625

**Fiscal 1987 includes the periods both before and after BCI's April 17, 1986 acquisition of Beatrice (the "Merger") and charges of $84 million pre-tax ($45 million after-tax) related to the change of control.*

***Fiscal 1985 includes gains from divestiture activities of $700 million pre-tax ($386 million after-tax) and charges of $264 million pre-tax ($149 million after-tax) for integration and restructuring of businesses. Fiscal 1984 includes gains from divestiture activities of $163 million pre-tax ($99 million after-tax). Fiscal 1983 includes losses from divestiture activities of $140 million pre-tax ($84 million after-tax), charges of $23 million pre-tax ($12 million after-tax) for a voluntary early retirement program and $188 million for goodwill write-downs. Items that are excluded from the determination of "Earnings (loss) before other items" are earnings from E-II and discontinued operations and extraordinary items.*

****Due to the substantial effect which the Merger had upon Beatrice's capitalization, per share information is presented only for Holdings in the period subsequent to the Merger.*

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Operations

The following table and discussion address the results of operations of BCI excluding the results of discontinued operations and operations to be distributed. Fiscal 1987 results include the periods both before and after the Merger. Additional business segment data is contained in Note 18 of the Notes to Consolidated Financial Statements.

BUSINESS SEGMENT DATA

(In millions)

	Year ended last day of February					
	1987		1986		1985	
	Net sales	Earnings (loss)	Net sales	Earnings (loss)	Net sales	Earnings (loss)
U.S. Food	$4,473	$352	$4,540	$334	$4,008	$ (85)
Corporate and other	115	(48)	212	(108)	2,007	117
	$4,588	$304	$4,752	$226	$6,015	$ 32

Fiscal 1987 Compared With Fiscal 1986

U.S. Food net sales were slightly less than the prior period. Lower selling prices, particularly for oil and fruit juice products, were the primary reason for the decrease, offset in part by volume improvements for fruit juice. Heavy promotion of grocery products in the latter part of last year also shifted sales between fiscal years causing lower volumes early this year. The absence of sales from the fresh red meat business exited late in fiscal 1986 also contributed to the sales decrease. Fruit juice sales volume was stimulated by lower selling prices, promotions and new product introductions. U.S. Food earnings increased 5%, primarily due to improved oil product margins and lower segment overhead expenses.

Corporate and other, consisting principally of unallocated corporate expenses and BCI's remaining nonfood businesses, experienced a decline in net sales primarily due to the absence of certain businesses that were divested during fiscal 1986. Overall reductions in corporate activities and the phase-out of automobile racing program sponsorships more than offset the absence of earnings from certain divested operations resulting in a substantial improvement in the results of Corporate and other.

The aforementioned factors resulted in a 3% decrease in net sales and a 35% increase in operating earnings.

The capital structure of BCI is significantly different than that of Beatrice prior to the Merger which caused a significant increase in interest expense. Change in control expenses associated with the Merger also materially affected the comparison of fiscal years. As a result of these factors, coupled with those mentioned above, a loss before other items of $105 million was incurred compared to earnings of $25 million in the prior year.

Fiscal 1986 Compared With Fiscal 1985

Two significant factors affect the comparison of fiscal 1986 to fiscal 1985; the June 1984 acquisition of Esmark, Inc. ("Esmark") and the divestiture of several businesses in fiscal 1985, notably Beatrice's chemical business. Improved results caused by the inclusion of Esmark operations for a full year in fiscal 1986 versus only eight months in fiscal 1985 and the absence of fiscal 1985 charges of $264 million for integrating and restructuring the combined businesses were offset to a great degree by the absence of net sales and earnings from divested businesses.

Net sales for U.S. Food increased 13% primarily due to the impact of Esmark's grocery, meats and cheese operations for a full year in fiscal 1986. These gains were somewhat offset by the exit from the fresh red meat business late in fiscal 1986 and lower selling prices for cheese and fruit juice products as the benefits of lower raw material costs were passed in part on to the consumer. U.S. Food earnings were $334 million compared to a loss of $85 million primarily due to the absence of fiscal 1985 integration and restructuring charges of $263 million. Improved margins and the impact of the Esmark food operations for a full year in fiscal 1986 also contributed to the increase in U.S. Food earnings. Margin improvements for fruit juice and processed meat products were primarily the result of lower product costs and reduced operating expenditures. Grocery margins improved as increased operating efficiencies reduced operating expenses.

The absence of net sales and earnings from divested businesses coupled with increased expenditures related to the sponsorship of automobile racing programs were the primary causes for the significant decline in the results of Corporate and other.

The aforementioned factors combined to cause net sales to decline by approximately $1.3 billion and operating earnings to increase by $194 million.

Earnings before income taxes and other items declined 88% due to a number of factors which more than offset the benefits of improved operating earnings and the decline in interest expense caused by reduced debt levels in fiscal 1986. The most significant factor was the absence of gains totaling $700 million from business divestitures. Change in control expenses of $17 million in fiscal 1986 also contributed to the decrease.

The provision for income taxes in fiscal 1985 was significantly affected by tax rate differentials related to divestiture gains and the reversal of $17 million of deferred taxes on domestic sales corporations' earnings. Note 15 of Notes to Consolidated Financial Statements contains additional information regarding income taxes. As a result of this and the factors discussed previously, earnings before other items declined 93%.

Financial Condition

Although BCI's financial condition is highly leveraged, management believes that its existing credit facilities, combined with cash flow from operations, are sufficient to meet anticipated working capital and other capital requirements as well as scheduled debt payments. As further described in Note 9 of Notes to Consolidated Financial Statements, debt incurred to finance the Merger has been substantially reduced through the application of divestiture proceeds.

Since the Merger, BCI has sold operations representing over 50% of the total purchase price of Beatrice for net proceeds aggregating $3.4 billion. These include the sales of the soft drink bottling operations in September 1986 for net proceeds amounting to $982 million and the personal products businesses for net proceeds of $1.2 billion in December 1986. BCI has contracted to sell its bottled water operation and intends to sell substantially all of its non-U.S. food businesses. Additionally, BCI distributed its ownership of a newly formed company, E-II Holdings Inc. ("E-II"), to its stockholders and warrant holders on July 2, 1987. E-II includes substantially all of the nonfood and food specialties businesses previously owned by BCI. On July 9, 1987, E-II used a portion of the proceeds from its public offerings of debt and equity securities to repay $800 million of indebtedness to BCI. Further information concerning E-II and discontinued operations is contained in Note 3 of Notes to Consolidated Financial Statements.

Also during fiscal 1987, $800 million principal amount of BCI's outstanding Exchange Debentures was redeemed at face value, Beatrice's preference stock was redeemed and BCI's Redeemable Preferred Stock was exchanged for Exchange Debentures. These events are further described in Notes 9, 10 and 11 of Notes to Consolidated Financial Statements.

During the third quarter of fiscal 1987 the Tax Reform Act of 1986 was signed into law and the Financial Accounting Standards Board issued an Exposure Draft proposing significant changes to current generally accepted accounting principles in the area of income taxes. With the exception of rate reductions, neither of these events are expected to materially impact BCI. Additional information is contained in Note 15 of Notes to Consolidated Financial Statements.

Inflation

Management continuously attempts to maintain profit margins and to counteract the effects of inflation with various productivity improvements, cost reduction programs and timely price increases within the constraints of highly competitive markets.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial statements and supplementary data filed herewith are listed in the Index to Restated Financial Information on page 5. Information regarding selected quarterly financial data can be found in Note 20 of Notes to Consolidated Financial Statements.

AUDITORS' REPORT

The Board of Directors and Stockholders
BCI Holdings Corporation

We have examined the consolidated balance sheet of BCI Holdings Corporation and subsidiaries (Successor) as of February 28, 1987 and of Beatrice Companies, Inc. and subsidiaries (Predecessor) as of February 28, 1986 and the related statements of consolidated earnings, stockholders' equity and changes in financial position for the periods from April 17, 1986 to February 28, 1987 (Successor period) and from March 1, 1986 to April 16, 1986 and for each of the years in the two-year period ended February 28, 1986 (Predecessor periods). Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully described in note 2 to the consolidated financial statements, BCI Holdings Corporation acquired Beatrice Companies, Inc. as of April 17, 1986 in a business combination accounted for as a purchase. As a result of the acquisition, the consolidated financial statements for the Successor period are presented on a different basis of accounting than that of the Predecessor periods and, therefore, are not comparable.

In our opinion, the aforementioned Successor consolidated financial statements present fairly the financial position of BCI Holdings Corporation and subsidiaries at February 28, 1987 and the results of their operations and changes in their financial position for the Successor period, in conformity with generally accepted accounting principles. Further, in our opinion, the aforementioned Predecessor consolidated financial statements present fairly the financial position of Beatrice Companies, Inc. and subsidiaries at February 28, 1986 and the results of their operations and changes in their financial position for the Predecessor periods, in conformity with generally accepted accounting principles applied on a consistent basis. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

PEAT MARWICK MAIN & CO.

Chicago, Illinois

April 13, 1987, except as to notes 3 and 9 to the financial statements, which are as of July 9, 1987.

BCI HOLDINGS CORPORATION

CONSOLIDATED BALANCE SHEET

(In millions)

	As of February 28, 1987 (Successor)	As of February 28, 1986 (Predecessor)
ASSETS		
Current assets:		
Cash	$ 16	$ 6
Short-term investments, at cost which approximates market	30	141
Receivables, less allowance for doubtful accounts of $14 and $16, respectively	384	346
Inventories	617	631
Net current assets of E-II and discontinued operations	409	656
Other current assets	129	238
Total current assets	1,585	2,018
Net property, plant and equipment	863	774
Intangible assets, principally unallocated purchase cost and goodwill, respectively	2,636	1,171
Net noncurrent assets of E-II and discontinued operations	1,492	2,810
Other noncurrent assets	348	121
	$6,924	$6,894
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 4	$ 541
Accounts payable	450	502
Accrued expenses	651	636
Current maturities of long-term debt	125	38
Total current liabilities	1,230	1,717
Long-term debt	4,244	1,147
Noncurrent and deferred income taxes	459	501
Other noncurrent liabilities	683	388
Stockholders' equity:		
Preferred stock	—	—
Preference stock	—	100
Common stock	1	212
Additional capital	418	536
Retained earnings (deficit)	(121)	2,308
Common stock in treasury, at cost	—	(12)
Cumulative foreign currency translation adjustment	10	(3)
Total stockholders' equity	308	3,141
	$6,924	$6,894

See Notes to Consolidated Financial Statements.

BCI HOLDINGS CORPORATION

STATEMENT OF CONSOLIDATED EARNINGS

(In millions, except per share data)

	Year ended February 28,			
	1987			
	From April 17 (Successor)	To April 16 (Predecessor)	1986 (Predecessor)	1985 (Predecessor)
Net sales	$4,063	$525	$4,752	$6,015
Cost of sales	2,875	381	3,436	4,455
Gross earnings	1,188	144	1,316	1,560
Selling and administrative expenses	856	112	1,050	1,233
Amortization of intangible assets	55	5	40	31
Integration and restructuring	—	—	—	264
Operating earnings	277	27	226	32
Interest expense	(317)	(14)	(117)	(145)
Change in control expenses	—	(84)	(17)	—
Divestiture gains	—	—	—	700
Miscellaneous income (expense), net	11	—	(17)	28
Earnings (loss) before income taxes and other items	(29)	(71)	75	615
Income tax expense (benefit)	36	(31)	50	258
Earnings (loss) before other items	(65)	(40)	25	357
Earnings from E-II and discontinued operations, net of income tax expense of $64, $15, $174 and $94, respectively	32	14	207	122
Extraordinary items, net of income tax benefit of $32 and $8, respectively	(36)	(10)	—	—
Net earnings (loss)	(69)	$(36)	$ 232	$ 479
Preferred dividend requirements	(52)			
Net loss applicable to common stockholders	$ (121)			
Weighted-average common shares outstanding	82			
Earnings (loss) per share:				
Before other items	$(1.43)			
E-II and discontinued operations	.39			
Extraordinary item	(.44)			
Net loss	$(1.48)			

See Notes to Consolidated Financial Statements.

BCI HOLDINGS CORPORATION

STATEMENT OF CONSOLIDATED STOCKHOLDERS' EQUITY

	Years ended February 28, 1987, 1986 and 1985								
	NUMBER OF SHARES* (In thousands)			STOCKHOLDERS' EQUITY (In millions)					
	Preference stock	Issued common stock	Common stock in treasury	Preference stock	Issued common stock	Additional capital	Retained earnings (deficit)	Common stock in treasury	Cumulative foreign currency translation adjustment
Balance, February 29, 1984	3,728	102,259	(10,819)	$194	$189	$178	$2,005	$(353)	$ (13)
Net earnings	—	—	—	—	—	—	479	—	—
Conversion of preference stock	(505)	—	941	(26)	—	(1)	(5)	32	—
Conversion of debentures	—	—	287	—	—	—	(2)	10	—
Exercise of stock options	—	—	203	—	—	—	(3)	7	—
Stock contributed to employee stock benefit plans (net of forfeitures)	—	—	51	—	—	(1)	—	2	—
Purchase of treasury stock	—	—	(1,393)	—	—	—	—	(46)	—
Dividends paid on:									
Common stock	—	—	—	—	—	—	(155)	—	—
Preference stock	—	—	—	—	—	—	(15)	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	11
Preference stock issued to retire outstanding debt	1,500	—	—	75	—	—	—	—	—
Debt redemption	—	—	126	—	—	(1)	—	4	—
Common stock warrants issued	—	—	—	—	—	5	—	—	—
Balance, February 28, 1985	4,723	102,259	(10,604)	243	189	180	2,304	(344)	(2)
Net earnings	—	—	—	—	—	—	232	—	—
Sale of common stock	—	4,738	9,662	—	9	134	(30)	321	—
Conversion of preference stock	(2,787)	4,516	150	(143)	9	130	(1)	5	—
Conversion of debentures	—	556	9	—	1	13	—	—	—
Exercise of stock options	—	231	154	—	1	5	(2)	5	—
Exercise of common stock warrants	—	2,200	—	—	3	73	—	—	—
Stock contributed to employee stock benefit plans (net of forfeitures)	—	17	(1)	—	—	1	—	1	—
Dividends paid on:									
Common stock	—	—	—	—	—	—	(181)	—	—
Preference stock	—	—	—	—	—	—	(14)	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(1)
Balance, February 28, 1986	1,936	114,517	(630)	100	212	536	2,308	(12)	(3)
Net loss	—	—	—	—	—	—	(36)	—	—
Conversion of preference stock	(804)	1,304	191	(41)	2	35	—	4	—
Conversion of debentures	—	17	10	—	—	—	—	—	—
Exercise of stock options	—	191	212	—	—	8	—	4	—
Exercise of common stock warrants	—	25	219	—	—	4	—	4	—
Stock contributed to employee stock benefit plans (net of forfeitures)	—	(125)	(2)	—	—	(3)	—	—	—
Dividends paid on:									
Common stock	—	—	—	—	—	—	(51)	—	—
Preference stock	—	—	—	—	—	—	(2)	—	—
Change stated value to par value	—	—	—	—	(213)	213	—	—	—
Balance, April 16, 1986	1,132	115,929	—	59	1	793	2,219	—	(3)
Effect of Merger:									
Retire Beatrice equity	(1,132)	(115,929)	—	(59)	(1)	(793)	(2,219)	—	3
Issue Holdings equity	—	81,425	—	—	1	416	—	—	—
Balance, April 17, 1986	—	81,425	—	—	1	416	—	—	—
Net loss	—	—	—	—	—	—	(69)	—	—
Sale of common stock	—	288	—	—	—	2	—	—	—
Common stock reacquired	—	(8)	—	—	—	—	—	—	—
Dividends paid on Redeemable Preferred Stock	—	—	—	—	—	—	(52)	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	10
Balance, February 28, 1987	—	81,705	—	$—	$ 1	$418	$ (121)	$ —	$ 10

*Beatrice preference shares authorized on last day of February: fiscal 1986 and 1985—50 million.
Beatrice common shares authorized on last day of February: fiscal 1986 and 1985—300 million.
Holdings preferred shares authorized on the last day of February: fiscal 1987—250 million.
Holdings common shares authorized on last day of February: fiscal 1987—200 million.

See Notes to Consolidated Financial Statements.

BCI HOLDINGS CORPORATION

STATEMENT OF CONSOLIDATED CHANGES IN FINANCIAL POSITION

(In millions)

	Year ended February 28,			
	1987			
	From April 17 (Successor)	To April 16 (Predecessor)	1986 (Predecessor)	1985 (Predecessor)
Cash provided (used) by operations:				
Earnings (loss) before other items	$ (65)	$ (40)	$ 25	$ 357
Items not involving cash:				
Depreciation and amortization of intangibles	141	16	129	139
Net charges due to integration and restructuring	—	—	—	274
Interest expense payable in Exchange Debentures	64	—	—	—
Deferred taxes	—	2	121	258
Other items, net	29	2	24	(6)
Changes in working capital, excluding current debt:				
Divestiture proceeds received in March 1985	—	—	855	(855)
Receivables	(72)	35	2	14
Inventories	(26)	14	42	(95)
Other current assets	52	(22)	6	(98)
Accounts payable and other current liabilities	(64)	(37)	(152)	90
Cash provided (used) by operations before other items	59	(30)	1,052	78
Net cash provided (used) by E-II and discontinued operations	(52)	(27)	11	(75)
Net cash used by extraordinary items	(36)	(10)	—	—
Cash provided (used) by operations	(29)	(67)	1,063	3
Cash provided (used) by investment activities:				
Net expenditures for property, plant and equipment	(94)	(9)	(127)	(61)
Noncurrent assets of purchased businesses	—	—	(7)	(58)
Net proceeds from divested operations and other asset sales	3,385	—	360	592
Other items, net	(11)	(4)	1	(6)
Cash provided (used) by investment activities	3,280	(13)	227	467
Cash provided (used) by financing activities, excluding the Merger:				
Change in debt	(3,770)	134	(1,778)	(455)
Exchange Debentures issued upon exchange of Redeemable Preferred Stock	1,230	—	—	—
Redeemable Preferred Stock retired upon exchange of Exchange Debentures	(1,230)	—	—	—
Proceeds from sale of Beatrice common stock	—	—	434	—
Refund of income taxes	—	—	176	—
Common stock issued upon conversion of preference stock and debentures	—	41	157	34
Preference stock and debentures retired upon conversion into common stock	—	(41)	(157)	(34)
Common stock issued for exercises of stock options and stock warrants	—	20	85	4
Redeemable Preferred Stock issued as dividends and upon conversion of convertible securities	74	—	—	—
Dividends paid in Redeemable Preferred Stock	(52)	—	—	—
Other items, net	106	(23)	(23)	42
Cash provided (used) by financing activities	(3,642)	131	(1,106)	(409)
Effect of Beatrice and Esmark acquisitions in fiscal 1987 and 1985, respectively:				
Funding	7,373	—	—	2,708
Purchase of equity securities	(6,183)	—	—	(2,708)
Debt repaid	(898)	—	—	—
Cash and short-term investments of acquired company	145	—	—	237
Increase in cash and short-term investments resulting from acquisitions	437	—	—	237
Cash provided before cash dividend payments	46	51	184	298
Cash dividends	—	(53)	(195)	(170)
Increase (decrease) in cash and short-term investments	46	(2)	(11)	128
Cash and short-term investments at beginning of period	—	147	158	30
Cash and short-term investments at end of period	$ 46	$ 145	$ 147	$ 158

See Notes to Consolidated Financial Statements.

1. Summary of Significant Accounting Policies

Principles of Consolidation The consolidated financial statements include BCI Holdings Corporation ("BCI") and its significant subsidiaries. Included on the equity method are entities which are 20% to 50% owned.

Fiscal Year The fiscal year of BCI ends on the last day of February. Substantially all non-U.S. subsidiaries have fiscal years that end on December 31 and certain other subsidiaries have fiscal years ending on the last Saturday in February. Unless otherwise stated, fiscal 1987 includes the periods both before and after BCI's April 17, 1986 acquisition of Beatrice Companies, Inc. ("Beatrice") (the "Merger").

Discontinued Operations The underlying net assets and related operating results of operations sold or to be disposed of subsequent to the Merger are segregated in the financial statements as discontinued. Any prior period financial information presented is also restated.

E-II Holdings Inc. The underlying net assets and related operating results of the operating companies transferred to E-II Holdings Inc. ("E-II") are segregated in the financial statements as net assets of E-II and earnings of E-II, respectively, and are included with discontinued operations. Any prior period financial information is also restated.

Inventories Inventories are valued at the lower of cost or market. The last-in, first-out (LIFO) cost basis was used to determine 36% and 34% of inventories at the end of fiscal 1987 and 1986, respectively. The first-in, first-out (FIFO) cost basis is generally used for other inventories. The value of inventories would not have been significantly different had all inventories been accounted for on a FIFO basis.

Net Property, Plant and Equipment Depreciation is provided principally on the straight-line method.

Intangible Assets Intangible assets are amortized using the straight-line method over periods not in excess of 40 years.

Income Taxes Income taxes include deferred income taxes which result from reporting certain items of income and expense in different periods for income tax purposes than for financial reporting purposes.

Per Share Data Per share data for periods prior to the Merger have not been presented due to the significantly different capital structures of Beatrice and BCI.

Postretirement Health Care Plans Approximately 82% of U.S. postretirement health care expense is determined by an actuarial cost method which accrues expense over employees' service lives. The remaining U.S. postretirement health care expense is recognized as claims are incurred under BCI's self-insured programs and by expensing premiums paid to outside carriers over the policy periods. Substantially all U.S. postretirement health care is funded when claims are paid.

Reclassification Certain amounts for previous years in the consolidated financial statements have been reclassified to conform to the presentation used for fiscal 1987.

2. Acquisition of Beatrice

BCI, Beatrice U.S. Food Corp. ("Beatrice U.S. Food"), BCI Consumer Products Corporation ("BCI Products") and BCI International Food Corporation ("BCI International") were formed solely for purposes relating to the acquisition of Beatrice. Beatrice U.S. Food, BCI Products, BCI International and Beatrice are collectively referred to as "First Tier Subsidiaries". The acquisition was completed on April 17, 1986, when a wholly-owned, direct and indirect, subsidiary of BCI was merged into Beatrice.

Merger Consideration

The total cost of the acquisition, including related expenses, was approximately $6.2 billion. In the Merger, each of Beatrice's then outstanding shares of common stock was converted into the right to receive $40 cash and $^{10}/_{25}$ of a share of Holdings 15¼% Cumulative Exchangeable Preferred Stock ("Redeemable Preferred Stock") with a liquidation preference of $25 per share (collectively, "Merger Consideration"). In addition, Beatrice's then outstanding convertible preference stock, convertible debt securities and stock warrants became convertible into Merger Consideration based upon the number of common shares the holders thereof would have received had such rights been converted or exercised immediately prior to the Merger.

Funding

The following table, in millions, summarizes the sources used to fund the Merger. Further information is contained in Notes 9 and 10.

Bank borrowings	$3,300
Debt securities issued	2,500
Common stock and Warrants issued	417
Redeemable Preferred Stock issued	1,156
	$7,373

Purchase Accounting

BCI has accounted for the Merger as a purchase. BCI's purchase cost has been initially allocated to Beatrice's net assets based upon, among other things, the preliminary results of asset appraisals and disposals of certain operations (Note 3). Such allocation is summarized as follows, in millions:

Other current assets	$1,109
Other current liabilities	(2,204)
Net current assets of E-II and discontinued operations	641
Other net noncurrent liabilities	(852)
Intangible assets, principally unallocated purchase cost	2,696
Net noncurrent assets of E-II and discontinued operations	4,793
	$6,183

Pro Forma Results of Operations

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

	1987	1986
	(Unaudited)	
Net sales	$4,588	$4,652
Loss before other items	$ (48)	$ (82)
Loss before other items per BCI common share	$ (.59)	$(1.01)

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

- The exchange of Redeemable Preferred Stock for Exchange Debentures (Note 10)
- The redemption of $800 million of Exchange Debentures (Note 9)
- The retirement of certain of Beatrice's existing debt (Note 9)
- Various Beatrice common stock issuances and business divestitures occurring during fiscal 1986
- Reduced debt levels and net corporate interest, assuming the net proceeds for businesses sold and the estimated net proceeds for the businesses which BCI intends to dispose of had been received (Note 3)
- The distribution of E-II (Note 3)

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

3. E-II Holdings Inc., Discontinued Operations and Divestitures

E-II Holdings Inc.

In May 1987 BCI's Board of Directors authorized the transfer of substantially all of BCI's nonfood and food specialty businesses to E-II Holdings Inc. and the distribution of all of E-II's common stock to the shareholders and warrant holders of BCI (the "Distribution"). Pursuant to this authorization, BCI transferred 15 operating companies to E-II in exchange for 41.1 million E-II common shares on July 2, 1987. These E-II shares were distributed to BCI shareholders and warrant holders in the ratio of one share of E-II common stock for every three BCI common shares held or entitled to be acquired under warrants. Also, $800 million of intercompany indebtedness evidenced by 11¼% senior promissory notes due 1994 (the "E-II Notes"), remained payable to BCI. All other intercompany amounts were capitalized or contributed to E-II. On July 9, 1987, E-II repaid the E-II notes with a portion of the proceeds it received from the sales of 20.7 million shares of common stock and $1.5 billion of debt securities. Of the proceeds BCI received from such repayments, $497 million was used to repay outstanding borrowings under the Revolving Credit Agreement (Note 9) and $71 million was distributed to BCI shareholders and warrant holders ($.574 for each BCI common share held or entitled to be acquired under warrants). The remaining proceeds, approximately $232 million, were invested in short-term investments. Of this, $9 million will be distributed to option holders. As further described in Note 9, modifications of provisions of certain Merger-related debt agreements were made in June 1987 to permit the Distribution. In the allocation of purchase cost to the Beatrice net assets acquired, the operations which comprise E-II were valued based upon the ratio of their aggregate fair market value to the aggregate fair market value of Beatrice as determined by an independent investment banking firm.

The following unaudited table summarizes the pro forma effects, in millions, of the E-II Distribution, as if it had occurred on February 28, 1987:

Net assets of E-II	$1,055
Less indebtedness to BCI remaining payable at date of Distribution	(800)
Net assets of E-II to be distributed	255
Cash to be distributed	80
Total to be distributed and charged to retained earnings (deficit)	$ 335

Discontinued Operations and Divestitures

Since the Merger, operations representing over 50% of the total purchase cost of Beatrice have been sold for net proceeds aggregating $3.4 billion. The businesses sold include the Avis vehicle rental and leasing business; the personal products, knitwear and specialty printing operations; and the soft drink bottling, dairy and warehousing operations. BCI also has entered into an agreement to sell its bottled water operation and intends to sell substantially all of its non-U.S. food businesses.

All of these businesses have been segregated in the accompanying consolidated financial statements as discontinued operations. In the allocation of purchase cost to the net assets acquired, the operations which have been sold or announced for sale prior to February 28, 1987, were valued at net proceeds and, therefore, no gains or losses were, or will be, recognized upon the sales. Operations which have been announced for sale subsequent to February 28, 1987, primarily non-U.S. food businesses, were valued consistent with the method used in valuing the E-II operations.

The use of proceeds received from the sales of these and certain other assets completed prior to June 30, 1987 were restricted to the repayment of senior Merger-related debt. On that date, modifications of these provisions in the underlying agreements were obtained which will provide more flexibility regarding the retirement, repayment and defeasance of the various issues of the Merger-related debt.

During fiscal 1986, Beatrice sold various businesses which it acquired as part of the June 1984 acquisition of Esmark, Inc. ("Esmark"). In the final allocation of the purchase cost, these businesses were valued at net sale proceeds; thus no gains or losses were recognized upon the sales.

In fiscal 1985, Beatrice identified certain businesses for divestiture. Net pre-tax gains amounting to $700 million were recognized as a result of these divestiture activities, the most significant of which was the divestiture of Beatrice's chemical business. The net after-tax gain from divestitures totaled approximately $386 million. Certain of these divestitures, resulting in proceeds of $158 million and after-tax gains of $18 million, were completed in March 1985 and are reflected as fiscal 1985 transactions in the accompanying financial statements.

Summary Financial Data

The following summarizes certain income statement and balance sheet data, in millions, for E-II and discontinued operations:

	1987	1986	1985
INCOME STATEMENT DATA*:			
Net sales and operating revenues	$7,248	$8,248	$6,865
Costs and expenses	(6,695)	(7,650)	(6,440)
Amortization of intangible assets	(53)	(36)	(24)
Interest allocation**	(375)	(181)	(185)
Earnings before income taxes	125	381	216
Income tax expense	79	174	94
Net earnings	$ 46	$ 207	$ 122

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

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

	1987	1986
BALANCE SHEET DATA:		
Current assets	$1,151	$1,172
Current liabilities	(742)	(743)
Net current assets of discontinued operations sold	—	227
Net current assets of E-II and discontinued operations	409	656
Property, plant and equipment, net	817	779
Intangible assets, principally unallocated purchase cost and goodwill, respectively	863	255
Long-term debt	(84)	(102)
Other, net	(104)	45
Net noncurrent assets of discontinued operations sold	—	1,833
Net noncurrent assets of E-II and discontinued operations	1,492	2,810
Net assets of E-II and discontinued operations	$1,901	$3,466

4. Integration and Restructuring

During fiscal 1985, following the acquisition of Esmark, Beatrice reorganized its business segments. Businesses serving specific market groups were integrated and restructured to better utilize combined resources for more efficient operations and effective marketing. The charge to earnings was for the anticipated cost of this integration and restructuring and pertained primarily to the U.S. Food businesses owned by Beatrice prior to the acquisition of Esmark.

5. Balance Sheet Components

The components of certain balance sheet accounts, in millions, are as follows:

	1987	1986
INVENTORIES:		
Raw materials and supplies	$ 150	$ 136
Work in process	138	125
Finished goods	329	370
	$ 617	$ 631
OTHER CURRENT ASSETS:		
Refundable U.S. federal income taxes	$ 100	$ —
Current deferred income taxes	—	193
Other	29	45
	$ 129	$ 238
OTHER NONCURRENT ASSETS:		
Receivables	$ 90	$ 44
Investments	85	28
Other	173	49
	$ 348	$ 121
ACCOUNTS PAYABLE:		
Outstanding drafts and checks and other in-transit cash items	$ 106	$ 166
Trade and other	344	336
	$ 450	$ 502
ACCRUED EXPENSES:		
Interest	$ 144	$ 59
Employee compensation and benefits	135	146
Restructuring costs	99	96
Advertising and sales promotion	85	86
Income taxes	24	113
Other	164	136
	$ 651	$ 636
OTHER NONCURRENT LIABILITIES:		
Postretirement health care and pensions	$ 159	$ 241
Deferred credits	22	27
Other	502	120
	$ 683	$ 388

6. Net Property, Plant and Equipment

The components of net property, plant and equipment, in millions, are as follows:

	1987	1986
Land	$ 89	$ 77
Buildings	274	337
Machinery and equipment	585	730
	948	1,144
Less accumulated depreciation	85	370
	$ 863	$ 774

Included in net property, plant and equipment are assets under capital leases aggregating $21 million and $25 million at February 28, 1987 and 1986, respectively. Depreciation expense amounted to $97 million, $89 million and $108 million in fiscal 1987, 1986 and 1985, respectively.

7. Leases

Future minimum payments under non-cancellable leases, in millions, are:

	Capital leases	Operating leases
1988	$ 7	$ 18
1989	4	15
1990	3	11
1991	2	9
1992	2	8
Later years	20	13
Total minimum lease payments	38	$ 74
Less:		
Estimated executory costs	1	
Amount representing interest	14	
Present value of net minimum lease payments	$23	

Future minimum rental receipts under capital subleases at the end of fiscal 1987 are $6 million.

Future minimum rental receipts under non-cancellable operating subleases at the end of fiscal 1987 are $4 million.

Rent expense for operating leases in fiscal 1987, 1986 and 1985 amounted to $23 million, $20 million and $23 million, respectively.

8. Short-term Debt

Short-term debt, in millions of dollars, is comprised of:

	1987	1986	1985
U.S. borrowings	$ —	$ 506	$1,321*
Non-U.S. borrowings	4	35	6
	$ 4	$ 541	$1,327
Weighted-average interest rate of short-term debt at year-end	13.8%	8.2%	8.8%

**Includes $855 million of short-term debt retired in March 1985 with proceeds received from divestiture transactions (Note 3).*

U.S. borrowings principally consisted of commercial paper in fiscal 1986 and 1985. Non-U.S. borrowings are primarily bank debt.

Information regarding short-term debt activities, in millions of dollars, during the periods follows:

	1987	1986	1985
Maximum amount outstanding	$ 915	$1,327	$2,571
Average amount outstanding	$ 100	$ 582	$1,286
Weighted-average interest rate	10.5%	10.3%	10.4%

In connection with the Merger, BCI entered into a Working Capital Facility with certain of the banks associated with the Bank Credit Agreement (Note 9). The Working Capital Facility provided revolving lines of credit aggregating $600 million to April 1988 bearing interest, at BCI's option, at a Eurodollar deposit-based rate plus 1¼%, the prime rate plus ½% or a certificate of deposit-based rate plus 1½%. Letters of credit and bankers acceptances were also available under this facility at comparable rates. Commitment fees of ½ of 1% of the unused portion of the facility were required. Beatrice's short-term domestic credit facilities which existed at February 28, 1986 were repaid in the Merger and subsequently cancelled. At February 28, 1987, letters of credit totaling $287 million were outstanding under the Working Capital Facility. As further described in Note 9, the Bank Credit Agreement and the Working Capital Facility were refinanced and replaced in June 1987.

In addition to the Working Capital Facility, informal lines of credit exist to support non-U.S. businesses, amounting to $4 million (1986—$17 million) of which none (1986—$8 million) was available.

9. Long-term Debt

Long-term debt at February 28, 1986 and 1987 and the major changes during fiscal 1987 are as follows:

	1986	Activity to April 16	Merger	Proceeds from asset sales	Other	1987
Merger-related:						
Term Loan due 1987 to 1993	$ —	$ —	$3,100	$(3,100)	$—	$ —
Revolving Loan due to 1992 (8.1%*)	—	—	200	(124)	319	395
11% senior notes due to 1996	—	—	600	—	—	600
12½% senior subordinated debentures due to 1998	—	—	800	—	—	800
12¾% subordinated debentures due to 2001	—	—	950	—	—	950
Floating rate junior subordinated debentures due to 2001 (13.9%*)	—	—	150	—	—	150
15.25% Exchange Debentures due to 2002	—	—	—	—	521	521
7.7% sinking fund debentures due to 1996	14	—	—	—	—	14
9½% sinking fund debentures due to 1999	32	—	—	—	—	32
9¼% sinking fund debentures due to 2000	41	(41)	—	—	—	—
8½% sinking fund debentures due 1989 to 2008	34	(34)	—	—	—	—
10⅞% sinking fund debentures due 1991 to 2010	98	(98)	—	—	—	—
12.85% due 1987	100	—	—	—	—	100
12% notes due 1989	100	—	—	—	—	100
8¼% notes due 1989 (*denominated in Dutch Guilders*)	38	1	—	—	10	49
12⅛% notes due 1991	51	2	—	—	33	86
10¼% notes due 1992 (*denominated in European Currency Units*)	46	1	—	—	9	56
7¾% notes due 1994 (*denominated in Deutsche Marks*)	55	2	—	—	14	71
10½% notes due 1994	120	(9)	—	—	(62)	49
11⅞% notes due to 1995	45	(45)	—	—	—	—
8.3% notes due 1997	67	—	—	—	(5)	62
9⅞% notes due to 2004	103	—	—	—	(5)	98
Zero coupon note payments due:						
1992—$250 million (14.6%*)	111	2	—	—	14	127
2014—$114 million (12.2%*)	4	—	—	—	1	5
Industrial revenue bonds, due various dates through 2014 (7.5%*)	24	—	—	—	1	25
Other, due various dates through 2007 (7.0%*)	76	(18)	—	—	(2)	56
Capitalized lease obligations, due various dates through 2037 (8.2%*)	26	(1)	—	—	(2)	23
	1,185	$(238)	$5,800	$(3,224)	$846	4,369
Current maturities	(38)					(125)
	$1,147					$4,244

**Represents weighted-average effective rate.*

Aggregate annual maturities and sinking fund requirements of long-term debt for fiscal 1989 through 1992 are $27 million, $171 million, $22 million and $230 million, respectively.

Immediately prior to the Merger, Beatrice redeemed or repaid certain debt issues at prices in excess of the stated values through direct redemptions or payments to trustee escrow accounts. These payments were financed through short-term bank borrowings which were repaid following the Merger. For purposes of financing the Merger and these repayments on a long-term basis, BCI obtained $2.5 billion through the issuance of the 11% senior notes, 12½% senior subordinated debentures, 12¾% subordinated debentures and floating rate junior subordinated debentures described in the preceding table. Also, BCI and a group of banks entered into a Bank Credit Agreement initially aggregating $3.5 billion, of which $3.1 billion was committed under a 7½ year term loan ("Term Loan") and $400 million was committed under a two year revolving loan ("Revolving Loan"). Effective December 8, 1986, the Revolving Loan commitment was increased to $800 million and the term extended to April 1992. The initial borrowings of $200 million under the Revolving Loan were repaid shortly after the Merger and, through the application of proceeds received from asset sales, the Term Loan was extinguished in January 1987. In August 1986, in exchange for Redeemable Preferred Stock (Note 10), BCI issued $1.2 billion of Exchange Debentures upon which interest may, through April 1992, be paid in additional Exchange Debentures or cash, at the option of Holdings. In December 1986, BCI used the Revolving Loan to redeem $800 million principal amount of the Exchange Debentures at face value. At February 28, 1987, the outstanding amount under the Revolving Loan had been reduced to $395 million through application of proceeds received from asset sales and through various other voluntary reductions. The amounts outstanding under the Bank Credit Agreement were refinanced on June 30, 1987 and the Bank Credit Agreement terminated. Borrowings under the Bank Credit Agreement bore interest, at BCI's option, at a Eurodollar deposit-based rate plus 1¼%, the prime rate plus ½ of 1% or a certificate of deposit-based rate plus 1½%. Commitment fees of ½ of 1% of the unused credit were also required.

Merger-related debt, including the Working Capital Facility (Note 8), was guaranteed by the First Tier Subsidiaries. Substantially all of the U.S. assets of BCI and the First Tier Subsidiaries were pledged as collateral. The agreements required the maintenance of certain financial ratios and restricted the (a) payment of dividends, (b) incurrence of indebtedness and guarantees, (c) creation of liens and (d) types of business activities and investments. The terms of the Merger-related debt agreements required that the net cash proceeds received from asset sales, as defined, be applied to repay the borrowings under the Bank Credit Agreement and that an offer be made to prepay the 11% senior notes. The first $1 billion of net proceeds were allocated entirely to repaying the Term Loan. Net proceeds in excess of $1 billion were allocated equally between the Term Loan and the 11% senior notes until the ratio of (i) the amount allocated (or reallocated) to repay the Term Loan to (ii) the amount allocated to the senior notes was 85.366% to 14.634%. Thereafter, net proceeds were to be allocated 85.366% to repay the Term Loan and 14.634% to the senior notes. Any amounts allocated to the 11% senior notes which were not accepted upon expiration of the offer had to be applied to the Term Loan. Since the Term Loan was repaid, any amounts allocated to the Term Loan had to be used to reduce the outstanding Revolving Loan. The amount of Revolving Loan commitment was also reduced by the amount of these payments. At February 28, 1987, the Revolving Loan commitment had been reduced to $676 million. In April 1987 an offer was made to purchase $45 million of the 11% senior notes. In connection with that offer, approximately $25 million of this amount was held as cash in an escrow account at February 28, 1987 and is classified in other noncurrent assets.

As disclosed in Note 3, modifications of certain provisions of certain of the Merger-related debt agreements were approved by the debt holders in June 1987. Such modifications permitted the Distribution described in Note 3 and provide more flexibility regarding the retirement, repayment and defeasance of the various issues of certain Merger-related debt. Various other operating restrictions were also modified to provide BCI with additional operating alternatives, however, substantially all of the U.S. assets of BCI and the First Tier Subsidiaries remain pledged as collateral under the modified agreements. In consideration for consents to such modifications, note holders who consented on a timely basis became entitled to receive $12.50 and $10.00 for each $1,000 in principal amount of Senior and certain other Merger-related notes, respectively. Such payments amounted to approximately $25 million and will be charged to the earnings of BCI in the second quarter of fiscal 1988.

Additionally, on June 25, 1987 BCI 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. The new agreement provides for an initial aggregate commitment of $1.2 billion which is subject to mandatory reductions in the event certain assets are sold. Borrowings under the Revolving Credit Agreement bear interest, at BCI's option, at the prime rate plus ¼%, a certificate of deposit based rate plus 1¼%, a Eurodollar deposit based rate plus 1% or at a negotiated rate. Commitment fees of ⅜ of 1% of the unused credit are also required.

10. Redeemable Preferred Stock

In the Merger, approximately 48.5 million shares of Redeemable Preferred Stock were reserved for issuance as a portion of the Merger Consideration. In August 1986, the Redeemable Preferred Stock was exchanged for Exchange Debentures. Approximately 49.2 million shares were exchanged, including shares issued in payment of the dividend for the period April 17 to July 31, 1986.

11. Stockholders' Equity

Preferred Stock

BCI has 250 million shares of authorized and unissued preferred stock with a par value of $.01 per share.

Preference Stock

In August 1986, any shares of Beatrice's Series A Cumulative Convertible Preference Stock which remained outstanding after the Merger were redeemed for $52.845 per share.

Common Stock

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

BCI common stock, with a par value of $.01 per share, is owned primarily by entities formed by Kohlberg Kravis Roberts & Co. for purposes of effecting the acquisition of Beatrice. The remaining shares are held by certain present or former executive employees of Holdings or its subsidiaries. The Merger-related debt agreements (Note 9) restrict payment of dividends to common stockholders.

At the end of fiscal 1987, 17.6 million common shares were reserved for sale to employees and for employee stock options. As of February 28, 1987, 15.9 million stock options had been granted to employees at an exercise price of $5 per share. No stock options were exercisable as of February 28, 1987.

BCI has also reserved 41.7 million shares of common stock for warrants sold in connection with the Merger ("Warrants"). The Warrants are exercisable at any time through April 17, 2001, and have an exercise price of $5 per share, subject to certain anti-dilution adjustments.

Retained Earnings (Deficit)

As of February 28, 1987, had the Distribution described in Note 3 occurred, retained earnings (deficit) would have been reduced by $335 million.

Retained earnings (deficit) includes $1 million and $49 million at February 28, 1987 and 1986, respectively, representing undistributed earnings of affiliated companies. Currency controls over the remittance of dividends from certain non-U.S. subsidiaries are not significant. As previously stated, Merger-related debt agreements restrict the payment of cash dividends on common stock. As of February 28, 1987, there were no retained earnings available for cash dividends on common stock.

12. Contingent Liabilities

In the opinion of management, there are no claims or litigation pending at the end of fiscal 1987 to which BCI is a party which are expected to have a materially adverse effect on its consolidated financial condition.

13. Change in Control Expenses

Change in control expenses, in millions, for the Predecessor periods consist of:

	1987	1986
Accelerated compensation	$39	$ —
Fees and other expenses	31	17
Employee stock option plans	14	—
	$84	$ 17

Accelerated compensation resulted from provisions contained in employee incentive plans and executive compensation agreements concerning any changes in the control of Beatrice which were activated by the Merger. Fees and other expenses relate to investment banking and legal fees, proxy costs and other expenses incurred by Beatrice in connection with the Merger. In addition, certain unexercised employee stock options were acquired prior to the Merger.

14. Miscellaneous Income (Expense), Net

Miscellaneous income (expense), net includes expense in fiscal 1986 of $20 million relating to the phase-out of automobile racing sponsorships and income in fiscal 1985 of $19 million from the non-taxable exchange of sinking fund debentures for 1.5 million shares of convertible adjustable preference stock.

15. Income Taxes

In connection with the preliminary allocation of purchase cost (Note 2), deferred income tax benefits in excess of those expected to be realized were not recognized as tax assets. To the extent deferred income tax benefits and net operating loss carryforwards exist to reduce future income taxes, deferred income tax liabilities have been reduced.

Substantially all ongoing operations are subject only to U.S. taxes. A portion of the fiscal 1987 losses are allocable to Beatrice and available for carryback to prior years' U.S. federal income tax returns. The remainder, amounting to approximately $129 million, is available to BCI to carryforward to future U.S. federal income tax returns. This carryforward expires in fiscal 2002. State income tax benefits are generally not expected to be realized on a significant portion of these losses.

Income tax expense (benefit), in millions, consists of:

	1987	1986	1985
Currently payable provision:			
U.S. federal	$ (18)	$(71)	$(15)
U.S. state and local	18	(11)	(3)
Non-U.S.	3	11	18
	3	(71)	—
Deferred provision:			
U.S. federal:			
Accelerated depreciation	—	14	1
Debt related	—	2	32
Reserves and accruals	—	85	195
Other	—	2	(11)
U.S. state and local	1	19	41
Non-U.S.	1	(1)	—
	2	121	258
	$ 5	$50	$258

The following is a reconciliation of the income tax expense (benefit) from that computed at the U.S. statutory rate of 46%, in millions:

	1987	1986	1985
Income tax expense (benefit) at 46%	$ (46)	$35	$283
Effect of:			
Non-deductible amortization and depreciation	43	24	12
Rate differential on non-U.S. earnings	(5)	(1)	(11)
State taxes, net of U.S. federal benefit	10	4	20
Non-deductible compensation	4	—	—
Investment tax credit	—	(5)	(6)
Rate differential on divestiture gains and integration and restructuring	—	—	(37)
Other	(1)	(7)	(3)
Income tax expense	$ 5	$50	$258

16. Extraordinary Items

In connection with the Bank Credit Agreement described in Note 9, BCI incurred financing fees that were to be amortized to expense over the term of the Bank Credit Agreement. By February 28, 1987, the initial borrowings under the agreement had been repaid through the application of the net cash proceeds received from the disposal of various businesses (Note 3). As a result, unamortized costs amounting to $68 million pre-tax were charged to earnings as an extraordinary expense in the statement of consolidated earnings.

Immediately prior to the Merger, Beatrice redeemed or repaid certain debt issues at prices in excess of the stated values through direct redemptions or payments to trustee escrow accounts. The excess amount paid resulted in a pre-tax charge of $18 million.

17. Pension and Postretirement Plans

In fiscal 1987, BCI adopted Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions ("SFAS No. 87") and Statement of Financial Accounting Standards No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits.

Pension Plans

In conjunction with the adoption of SFAS No. 87 for U.S. defined benefit pension plans, BCI's purchase cost allocation included the recognition of an asset for plans which had plan assets in excess of the projected benefit obligation and the recognition of a liability for plans which had a projected benefit obligation in excess of plan assets.

U.S. defined benefit pension plans

BCI has defined benefit pension plans which cover substantially all U.S. salaried employees and certain groups of U.S. hourly-paid employees. Plans covering salaried employees generally provide pension benefits to employees who complete ten or more years of service. Pension benefits are generally based upon years of service and compensation during the final years of employment. Plans covering hourly-paid employees generally provide pension benefits of fixed amounts for each year of service.

Fiscal 1987 net periodic pension cost under SFAS No. 87 for U.S. defined benefit plans was $15 million. Pension expense in fiscal 1986 and fiscal 1985 was $18 million and $17 million, respectively. SFAS No. 87 does not permit the restatement of expense in years prior to the adoption of SFAS No. 87.

Net periodic pension cost, in millions, for fiscal 1987 consists of the following components:

Service cost—benefits earned during the period	$ 15
Interest cost on the projected benefit obligation	25
Actual return on plan assets	(75)
Net deferral due to higher than expected returns on plan assets	50
Net periodic pension cost	$ 15

The following table sets forth the U.S. defined benefit pension plans' funded status and amounts recognized in the consolidated balance sheet, in millions:

	At February 28, 1987	
	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Actuarial present value of benefit obligations:		
Vested benefit obligation	$(339)	$(26)
Nonvested benefit obligation	(18)	(1)
Accumulated benefit obligation	(357)	(27)
Value of future pay increases	(43)	(4)
Projected benefit obligation	(400)	(31)
Plan assets at fair value	444	11
Projected benefit obligation (in excess of) or less than plan assets	44	(20)
Unrecognized net gain from past experience different from that assumed	(50)	(2)
Prepaid (accrued) pension cost	$ (6)	$(22)
Prepaid (accrued) pension cost classified as:		
Other noncurrent assets	$ 7	$ —
Accrued expenses	(6)	(3)
Other noncurrent liabilities	(7)	(19)
	$ (6)	$(22)

The valuation of the projected benefit obligation at February 28, 1987, assumed an 8.1% weighted-average discount rate and a 5.8% weighted-average rate of increase in the compensation level. Net periodic pension cost in fiscal 1987 assumed an 8.5% expected long-term rate of return on assets.

Plan assets are primarily invested in equity securities and fixed income instruments. The plans do not have significant liabilities other than benefit obligations. BCI's funding policy is to contribute amounts equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974.

U.S. defined contribution pension plans

BCI sponsors a defined contribution pension plan, the Beatrice Employee Savings Trust ("BEST"). BEST is qualified under Section 401(a) and 401(k) of the Internal Revenue Code and is offered to salaried employees and certain groups of hourly-paid employees of substantially all U.S. operations. BEST allows employees to defer up to 17% of their eligible compensation. BCI and participating operations provide matching contributions of up to 50% of the amount of employee salary deferral contributions (up to 6% of compensation). Employees are partially vested in the matching company contributions after three years of service and are fully vested after five years of service. Expense for employer-sponsored U.S. defined contribution pension plans was $6 million, $5 million and $8 million in fiscal 1987, 1986 and 1985, respectively.

U.S. multiemployer pension plans

BCI contributes to several multiemployer pension plans. These plans generally provide pension benefits to certain groups of U.S. hourly-paid employees not covered by an employer-sponsored defined benefit pension plan. Expense amounted to $5 million in fiscals 1987 and 1986 and $7 million in fiscal 1985.

Postretirement Plans

BCI provides postretirement health care benefits to certain groups of U.S. retirees. Approximately 58% of all current U.S. personnel may become eligible for such benefits if they were to retire from BCI. The cost of providing these benefits in fiscal 1987, 1986 and 1985 was $14 million, $16 million and $12 million, respectively. The effect on earnings of postretirement life insurance and non-U.S. postretirement health care is immaterial.

18. Information by Business Segment

Subsequent to the Distribution and the sales of businesses as described in Note 3, BCI will operate primarily in one industry—food products. The Corporate and other segment includes BCI's remaining nonfood businesses as well as unallocated corporate expense. Substantially all of the activities of BCI are conducted in the United States. Business segment information for net sales and operating earnings is contained in Item 7. Sales to any single customer are not material. Export sales to unaffiliated customers are an immaterial percentage of net sales. Corporate and other assets are cash, short-term investments, investments in affiliated companies and other corporate assets. Corporate and other assets in fiscal 1985 also include $855 million of divestiture proceeds received in March 1985.

Information by business segment, in millions, for fiscal years ended and as of February 28, 1987, 1986 and 1985 is as follows:

	Identifiable assets			Net property, plant and equipment additions*			Depreciation and amortization of intangible assets*		
	1987	1986	1985	1987	1986	1985	1987	1986	1985
U.S. Food	$4,383	$2,857	$2,882	$150	$194	$439	$145	$114	$ 90
Corporate and other	640	571	1,811	21	23	38	12	13	15
E-II, discontinued and divested operations	1,901	3,466	3,357	—	(65)	(107)	—	2	34
Total	$6,924	$6,894	$8,050	$171	$152	$370	$157	$129	$139

**Includes preliminary purchase cost allocation in fiscal 1987 for property, plant and equipment.*

19. Reorganization

Subsequent to the Merger, Beatrice's Board of Directors approved a Plan of Complete Liquidation and Dissolution ("Plan") for Beatrice. The Plan involves Beatrice exchanging substantially all of its net assets in return for Beatrice common stock and the cancellation of notes receivable from Beatrice held by BCI and the wholly-owned subsidiaries (collectively, "Second Tier Subsidiaries") of the First Tier Subsidiaries. Prior to being party to an exchange, the net assets of the Second Tier Subsidiaries generally consisted of investments in Beatrice common stock and intercompany notes receivable from Beatrice and payable to the First Tier Subsidiaries. The Plan is expected to be completed during fiscal 1988.

The condensed consolidating income statement for fiscal 1987 (including both Predecessor and Successor periods) and balance sheet as of February 28, 1987 present the following:

- Condensed consolidated income statements and balance sheets for the First Tier Subsidiaries, Norton Simon Inc. ("NSI") and Swift-Eckrich, Inc. ("Swift-Eckrich") (once the Plan is complete both NSI and Swift-Eckrich will be directly owned by BCI);
- Condensed income statement and balance sheet for the parent company only (BCI), with its investments in its wholly-owned subsidiaries accounted for under the equity method;
- Eliminations necessary to consolidate the subsidiaries and the parent company, including the allocation of corporate net interest to discontinued operations and to operating companies transferred to E-II (see Note 3); and
- Condensed consolidated income statement and balance sheet for BCI.

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

BCI HOLDINGS CORPORATION

CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

(In millions)

	NSI	Swift-Eckrich	Beatrice U.S. Food	BCI Products	BCI International	Parent Company (BCI)	Eliminations	BCI Consolidated
CONDENSED CONSOLIDATING INCOME STATEMENT (Fiscal 1987):								
Net sales	$1,712	$1,318	$1,467	$ 115	$ —	$ —	$ (24)	$4,588
Operating expenses	1,498	1,204	1,348	102	—	156	(24)	4,284
Operating earnings	214	114	119	13	—	(156)	—	304
Intercompany interest income (expense), net	(46)	(31)	(23)	(19)	—	256	(137)	—
Interest expense	(25)	(1)	(67)	(41)	—	(572)	375	(331)
Other income (expense)	5	—	11	3	—	168	(260)	(73)
Earnings (loss) before income taxes and other items	148	82	40	(44)	—	(304)	(22)	(100)
Income tax expense (benefit)	83	43	22	(19)	—	(239)	115	5
Earnings (loss) before other items	65	39	18	(25)	—	(65)	(137)	(105)
Earnings (loss) from E-II and discontinued operations	4	—	51	61	47	6	(123)	46
Extraordinary items	—	—	—	—	—	(46)	—	(46)
Net earnings (loss)	$ 69	$ 39	$ 69	$ 36	$ 47	$ (105)	$(260)	$ (105)

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	NSI	Swift-Eckrich	Beatrice U.S. Food	BCI Products	BCI International	Parent Company (BCI)	Eliminations	BCI Consolidated
CONDENSED CONSOLIDATING BALANCE SHEET (As of February 28, 1987):								
Assets:								
Cash and short-term investments	$ 7	$ 1	$ 18	$ 2	$ —	$ 18	$ —	$ 46
Receivables, net	167	59	101	23	—	34	—	384
Inventories	353	101	148	15	—	—	—	617
Net current assets of E-II and discontinued operations	—	—	19	233	157	—	—	409
Other current assets	42	1	12	2	—	72	—	129
Total current assets	569	162	298	275	157	124	—	1,585
Property, plant and equipment, net	432	208	153	16	—	54	—	863
Intangible assets, principally unallocated purchase cost	—	—	—	—	—	2,636	—	2,636
Net noncurrent assets of E-II and discontinued operations	—	—	556	672	264	—	—	1,492
Other noncurrent assets	18	1	81	71	—	177	—	348
Total assets	$1,019	$ 371	$1,088	$1,034	$ 421	$2,991	$ —	$6,924
Liabilities and Stockholders' Equity:								
Short-term debt and current maturities of long-term debt	$ 15	$ —	$ 4	$ 2	$ —	$ 108	$ —	$ 129
Accounts payable and accrued expenses	306	163	280	41	—	311	—	1,101
Total current liabilities	321	163	284	43	—	419	—	1,230
Long-term debt	228	5	23	5	—	3,983	—	4,244
Noncurrent and deferred income taxes	90	—	(1)	—	—	370	—	459
Other noncurrent liabilities	37	4	10	88	—	544	—	683
Net intercompany investments and advances	343	199	772	898	421	(2,633)	—	—
Stockholders' equity:								
Common stock	—	—	—	—	—	1	—	1
Additional capital	—	—	—	—	—	418	—	418
Retained earnings (deficit)	—	—	—	—	—	(121)	—	(121)
Cumulative foreign currency translation adjustment	—	—	—	—	—	10	—	10
Total stockholders' equity	—	—	—	—	—	308	—	308
Total liabilities and stockholders' equity	$1,019	$ 371	$1,088	$1,034	$ 421	$2,991	$ —	$6,924

20. Quarterly Results of Operations (Unaudited)

The following is a summary, in millions except per share data, of the unaudited quarterly results of operations for fiscal 1987 and 1986:

1987*	First	Second	Third	Fourth
Net sales	$1,058	$1,103	$1,264	$1,163
Cost of sales	$ 765	$ 789	$ 897	$ 805
Earnings (loss) before other items	$ (43)	$ (23)	$ (2)	$ (37)
Net earnings (loss)	$ (51)	$ (9)	$ 28	$ (73)
Earnings (loss) per share (Successor)**:				
Before other items	$ (.31)	$ (.65)	$ .01	$ (.45)
Net earnings (loss)	$ (.45)	$ (.48)	$ .23	$ (.89)

1986***	First	Second	Third	Fourth
Net sales	$1,222	$1,121	$1,255	$1,154
Cost of sales	$ 911	$ 822	$ 938	$ 765
Earnings (loss) before other items	$ 13	$ (2)	$ 5	$ 9
Net earnings	$ 58	$ 70	$ 88	$ 16

**In the first quarter of fiscal 1987, loss before other items and net loss included after-tax change in control expenses of $45 million (Note 13). Net loss in the first quarter also included a charge for an extraordinary item, net of income taxes, of $10 million for costs incurred in the redemption or repayment of Beatrice debt immediately prior to the Merger (Note 16).*

In the fourth quarter of fiscal 1987, loss before other items and net loss included additional amortization of intangibles of $10 million due to changes in the allocation of BCI's purchase cost, and also included the effects of a reduction in state income tax benefits in the provision for income taxes. Net loss in the fourth quarter also included a charge of $36 million for an extraordinary item, net of income taxes, primarily related to financing fees which were incurred in connection with the Bank Credit Agreement (Note 16).

***The sum of the quarterly earnings (loss) per share for the Successor period is more than the loss per share shown for the Successor period on the statement of consolidated earnings because the assumed conversion of the stock options and Warrants (Note 11) is dilutive in the third quarter, but is anti-dilutive in the first, second and fourth quarters, as well as the full Successor period. This anti-dilutive effect results from a loss before other items and a net loss in the Successor period, as well as the first, second and fourth quarters.*

****In the third quarter of fiscal 1986, earnings before other items and net earnings included charges, net of income taxes, of $3 million for expenses related to the change in control (Note 13). Fourth quarter earnings before other items and net earnings included charges, net of income taxes, of $6 million for expenses related to the change in control (Note 13) and $10 million related to Beatrice's phase-out of its sponsorship of automobile racing programs (Note 14).*

BCI HOLDINGS CORPORATION

SUPPLEMENTARY INCOME STATEMENT INFORMATION

Three Years Ended February 28, 1987
(In millions)

Description	1987	1986	1985
Maintenance and repairs	$ 73	$ 64	$ 62
Advertising costs	$259	$324	$322