SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter ended August 31, 1987

E-II HOLDINGS INC.

(Exact name of registrant as specified in its charter)

1-9551	Delaware	36-3511556
(Commission File No.)	(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

Two North LaSalle St. Chicago, Illinois	60602
(Address of principal executive offices)	(Zip Code)

Registrants' telephone number, including area code: (312) 558-4000

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

As of September 30, 1987, 61,846,377 shares of E-II Holdings Inc. common stock were outstanding.

PART I. FINANCIAL INFORMATION

E-II HOLDINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEET

(In thousands)

	August 31, 1987 (unaudited)	February 28, 1987 (Note 2)
ASSETS		
Current assets:		
Cash	$ 8,463	$ 7,396
Short-term investments, at cost which approximates market	1,019,856	7,506
Receivables, less allowance for doubtful accounts of $9,293 and $8,773, respectively	252,474	234,654
Inventories	232,831	212,103
Other current assets	33,170	30,049
Total current assets	1,546,794	491,708
Property, plant and equipment, net of accumulated depreciation of $56,365 and $35,116, respectively	301,629	304,344
Intangible assets, principally goodwill and unallocated purchase cost, respectively	509,641	508,972
Other noncurrent assets	82,641	51,151
	$2,440,705	$1,356,175
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 35,425	$ 40,373
Accounts payable and accrued expenses	303,731	173,610
Current maturities of long-term debt	3,551	3,661
Total current liabilities	342,707	217,644
Long-term debt	1,538,673	39,587
BCI Notes	—	800,000
Other noncurrent liabilities	33,308	29,065
Contingent liabilities	—	—
Stockholders' equity:		
Preferred stock	—	—
Common stock	618	—
Capital surplus	556,681	—
Accumulated deficit	(30,391)	—
Cumulative foreign currency adjustment	(891)	—
E-II Group equity	—	269,879
Total stockholders' equity	526,017	269,879
	$2,440,705	$1,356,175

See Notes to Condensed Consolidated Financial Statements.

E-II HOLDINGS INC.

CONDENSED CONSOLIDATED INCOME STATEMENT (Note 2)

(Unaudited)
(In thousands, except per share data)

	Periods ended August 31,			
	Quarter		Six Months	
	1987	1986	1987	1986
Net sales	$389,813	$350,041	$759,986	$681,484
Cost of sales	252,494	230,425	492,875	447,411
Gross earnings	137,319	119,616	267,111	234,073
Selling and administrative expenses	110,431	95,593	215,439	186,693
Amortization of intangible assets	3,377	3,353	6,632	5,106
Operating earnings	23,511	20,670	45,040	42,274
Interest expense	(33,056)	(1,598)	(34,586)	(3,059)
Investment income	12,471	—	12,471	—
Miscellaneous income (expense), net	(167)	794	522	1,720
BCI interest allocation	(8,000)	(22,500)	(30,500)	(33,750)
Earnings (loss) before income taxes and extraordinary item	(5,241)	(2,634)	(7,053)	7,185
Income tax expense (benefit)	3,791	(1,251)	4,974	4,550
Earnings (loss) before extraordinary item	(9,032)	(1,383)	(12,027)	2,635
Extraordinary item	(26,000)	—	(26,000)	—
Net earnings (loss)	$(35,032)	$ (1,383)	$(38,027)	$ 2,635
Weighted-average common shares outstanding	61,846	61,846	61,846	61,846
Common share equivalents	—	—	—	4,240
	61,846	61,846	61,846	66,086
Earnings (loss) per share before extraordinary item	$(.15)	$(.02)	$(.19)	$.04
Net earnings (loss) per share	$(.57)	$(.02)	$(.61)	$.04

See Notes to Condensed Consolidated Financial Statements.

E-II HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION (Note 2)

(Unaudited)
(In thousands)

	Periods ended August 31,			
	Quarter		Six Months	
	1987	1986	1987	1986
Cash provided (used) by operations:				
Earnings (loss) before extraordinary item	$ (9,032)	$(1,383)	$ (12,027)	$ 2,635
Items not involving cash:				
Depreciation and amortization	12,087	12,174	24,524	20,845
Deferred taxes and other items, net	1,512	—	1,807	—
Changes in working capital, excluding current debt	89,783	5,541	88,452	(7,147)
Cash provided by operations before extraordinary item	94,350	16,332	102,756	16,333
Net cash used by extraordinary item	—	—	—	—
Cash provided by operations	94,350	16,332	102,756	16,333
Cash used by investment activities:				
Net expenditures for property, plant and equipment	(10,487)	(11,022)	(18,829)	(18,895)
Other items, net	(8,494)	(223)	(7,689)	(3,828)
Cash used by investment activities	(18,981)	(11,245)	(26,518)	(22,723)
Cash provided (used) by financing activities:				
Change in debt, excluding Offerings	(2,939)	(1,197)	(5,972)	341
Proceeds from Offerings	1,739,772	—	1,739,772	—
Transactions with BCI:				
Repayment of BCI Notes	(800,000)	—	(800,000)	—
BCI interest allocation	8,000	22,500	30,500	33,750
Administrative cost allocation	1,667	5,000	6,667	10,000
Income tax allocation	969	(2,563)	240	756
Net cash transferred	(10,810)	(29,512)	(53,960)	(44,970)
Other items, net	4,812	2,508	19,932	7,488
Cash provided (used) by financing activities	941,471	(3,264)	937,179	7,365
Increase in cash and short-term investments	1,016,840	1,823	1,013,417	975
Cash and short-term investments at beginning of period	11,479	8,041	14,902	8,889
Cash and short-term investments at end of period	$1,028,319	$ 9,864	$1,028,319	$ 9,864

See Notes to Condensed Consolidated Financial Statements.

1. Background

Distribution:

E-II Holdings Inc. ("E-II") is a holding company formed on May 4, 1987, by Beatrice Company, formerly BCI Holdings Corporation ("BCI"). On July 2, 1987 BCI distributed its ownership in E-II to its stockholders and warrant holders (the "Distribution"). Concurrent with the Distribution BCI transferred 15 operating companies, comprising substantially all of its nonfood and food specialty businesses, to E-II in exchange for 41.1 million E-II common shares all of which were distributed in the Distribution. In addition, options to acquire 5.3 million E-II common shares were issued to BCI option holders in accordance with the anti-dilution provisions of their option agreements.

Intercompany indebtedness, aggregating $800 million and evidenced by 11.25% senior promissory notes (the "BCI Notes"), remained payable to BCI after the Distribution. All other intercompany amounts existing between the operating units and BCI on the Distribution date were capitalized or contributed to E-II.

As further described in Note 4, on July 9, 1987, E-II received net cash proceeds of approximately $1.7 billion from the issuance of common equity and debt securities (the "Offerings").

BCI Acquisition:

The operating companies transferred to E-II (the "E-II Group") were acquired by BCI in April 1986 (the "BCI Acquisition") when it acquired Beatrice Companies, Inc. ("Beatrice"). The net assets of the E-II Group included an assignment of BCI's purchase price amounting to approximately $1.1 billion consisting of $800 million of intercompany indebtedness and $268 million of equity. This assignment was determined based upon the ratio of the aggregate fair market value of the E-II Group to the aggregate fair market value of Beatrice as determined by an independent investment banking firm as of the BCI Acquisition date, after giving effect to the Beatrice businesses sold or under contract for sale as of May 1987. The assigned purchase price was preliminarily allocated to the net asset components of the E-II Group during fiscal 1987 and finalized in fiscal 1988. The final allocation increased intangible assets by $7.2 million due primarily to a decrease in the valuation of property, plant and equipment as compared to the preliminary valuation, based upon final asset appraisal reports. The final allocation is summarized, in thousands, as follows.

E-II Group equity	$ 267,542
Indebtedness to BCI	800,000
Purchase price assigned	$1,067,542
Net book value of the E-II Group prior to the BCI Acquisition	$ 505,230
Fair market value adjustments:	
Intangible assets	484,719
Property, plant and equipment	51,321
Deferred financing costs	26,000
Other, net	272
Excess of purchase price over net book value	562,312
Fair market value of net assets acquired	$1,067,542

The deferred financing costs were associated with intercompany indebtedness resulting from the BCI Acquisition. The repayment of the BCI Notes resulted in a noncash extraordinary charge to earnings of $26 million ($.42 per share) for these previously deferred financing costs.

Pro Forma Data:

Had the transactions described above occurred at the beginning of the periods presented, unaudited pro forma results of operations would have been as follows (in thousands, except per share data):

	Periods ended August 31,			
	Quarter		Six Months	
	1987	1986	1987	1986
Net sales	$389,813	$350,041	$759,986	$681,484
Operating earnings	$ 23,511	$ 20,670	$ 45,040	$ 40,341
Interest expense	(53,561)	(50,161)	(103,653)	(100,184)
Other, net	11,841	(594)	11,143	(1,055)
Loss before income taxes	(18,209)	(30,085)	(47,470)	(60,898)
Income tax expense	3,026	1,884	4,974	3,482
Loss before extraordinary item	$(21,235)	$(31,969)	$(52,444)	$(64,380)
Weighted-average common shares outstanding	61,846	61,846	61,846	61,846
Loss per share before extraordinary item	$ (.34)	$ (.52)	$ (.85)	$ (1.04)

Pro forma adjustments provide additional interest expense to reflect the issuance of $1.5 billion in debt securities; eliminate interest expense reflecting the repayment of the BCI Notes; and provide incremental amortization and depreciation expense caused by the allocation of the assigned purchase price resulting from the BCI Acquisition. Pro forma results do not assume any additional investment income on excess cash balances and do not purport to be indicative of the results that would have been obtained had these transactions actually occurred at the beginning of the periods presented. The pro forma data presented are not a projection of future results. Pro forma weighted-average shares outstanding and per share data assume the shares issued in the Distribution and the Offerings (Note 4) were outstanding throughout the periods presented.

2. Basis of Presentation

In periods prior to the Distribution, the E-II Group was comprised of both subsidiaries and divisions of BCI or its predecessor (both of which are referred to as the "Parent"). The financial statements for such periods combine the accounts of the E-II Group. The E-II Group equity account represents the Parent's investment in the operating units, net of any intercompany accounts in excess of the BCI Notes.

Weighted-average shares outstanding and per share data for periods prior to the Distribution assume the shares issued in the Distribution (Note 1) and the Offerings (Note 4) were outstanding throughout such periods.

Included in the periods prior to the Distribution are allocations of Parent expenses which are intended to reflect the costs which would have been incurred had the E-II Group been operated on a stand-alone basis. Administrative costs, aggregating $20 million on an annual basis, were allocated based upon a study conducted by BCI management estimating the administrative costs associated with managing and maintaining the portfolio of operating units which comprised the E-II Group. Interest expense was allocated based upon the BCI Notes which remained outstanding after the Distribution and U.S. federal and state unitary income tax expense was allocated as described in Note 7. In the opinion of management such allocations have been made on a reasonable basis; however, the allocations are not necessarily indicative of the actual costs which would have been incurred had the E-II Group actually operated as a separate, stand-alone entity, nor are they necessarily indicative of the costs which may be incurred in the future.

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.

Certain amounts for previous periods in the condensed consolidated financial statements have been reclassified to conform to the presentation used in the current period.

3. Working Capital

Inventories, in thousands, consist of the following:

	August 31, 1987	February 28, 1987
Raw materials and supplies	$ 76,467	$ 76,967
Work in process	47,629	37,611
Finished goods	108,735	97,525
	$232,831	$212,103

Accounts payable and accrued expenses as of August 31, 1987 includes $61 million due upon the settlement of outstanding marketable securities transactions.

4. Capitalization

The following table, in thousands, summarizes the changes in capitalization since February 28, 1987.

	February 28, 1987	Activity To July 2	Distribution (Note 1)	Offerings and Repayment of BCI Notes	Other	August 31, 1987
Long-term debt:						
12.85% Senior Subordinated Notes	$ —	$ —	$ —	$ 750,000	$ —	$ 750,000
13.05% Subordinated Debentures	—	—	—	750,000	—	750,000
Other	43,248	(673)	—	—	(351)	42,224
	43,248	(673)	—	1,500,000	(351)	1,542,224
Current maturities	(3,661)	53	—	—	57	(3,551)
Total long-term debt	39,587	(620)	—	1,500,000	(294)	1,538,673
BCI Notes	800,000	—	—	(800,000)	—	—
Stockholders' equity:						
Preferred stock	—	—	—	—	—	—
Common stock	—	—	411	207	—	618
Capital surplus	—	—	263,941	292,740	—	556,681
Accumulated deficit	—	—	—	(26,000)	(4,391)	(30,391)
Cumulative foreign currency adjustment	—	—	—	—	(891)	(891)
E-II Group equity	269,879	(5,527)	(264,352)	—	—	—
Total stockholders' equity	269,879	(5,527)	—	266,947	(5,282)	526,017
Total Capitalization	$1,109,466	$(6,147)	$ —	$ 966,947	$(5,576)	$2,064,690

Offerings and repayment of BCI Notes

On July 9, 1987 E-II received net cash proceeds aggregating $1.7 billion from the issuance of $1.5 billion principal amount of debt securities and 20.7 million shares of common stock. A portion of such proceeds were used to repay the BCI Notes as well as $1.75 million of interest accrued since the date of Distribution. The repayment of the BCI Notes resulted in a noncash extraordinary charge to earnings amounting to $26 million ($.42 per share) which is presented in the foregoing table as affecting accumulated deficit.

Long-term debt

The Senior Subordinated Notes are due on March 1, 1997 and require sinking fund payments of $250 million each on March 1, 1995 and 1996. At E-II's option the 1995 payment may be increased by up to an additional $125 million. The Subordinated Debentures are due on March 1, 1999 and require a sinking fund payment of $375 million on March 1, 1998. Both issues are redeemable at the option of E-II, in whole or in part, on or after March 1, 1992. Interest on both issues is payable semi-annually on March 1 and September 1.

Stockholders' equity

E-II's authorized capital consists of 100 million shares of preferred stock and 300 million shares of common stock both with a par value of $.01per share. No shares of preferred stock have been issued to date. In the Distribution, E-II issued 41.1 million of its common shares to BCI all of which were distributed to BCI stockholders and warrant holders on July 2, 1987. On July 9, 1987, E-II issued an additional 20.7 million common shares in an initial public offering at $14.21 net per share. Also, in the Distribution, options to acquire 5.3 million shares of E-II common stock at $3.00 per share were issued to BCI option holders in accordance with the anti-dilution provisions of their option agreements.

As described in Notes 1 and 2, E-II Group equity represents BCI's investment in the E-II Group, net of intercompany balances in excess of the BCI Notes. Activity in this account, from February 28, 1987 to the date of Distribution, is detailed below, in thousands.

Net loss	$ (7,636)
BCI interest allocation	30,500
Administrative cost allocation	6,667
Income tax allocation	240
Centralized cash management system, net	(53,960)
Cumulative foreign currency adjustment	8,209
Other, net	10,453
	$ (5,527)

5. Transactions With BCI

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

Included in receivables as of August 31, 1987 are amounts, aggregating $37 million, due from BCI for cash items which were in-transit as of the Distribution date and which have since been settled.

6. Contingent Liabilities

BCI and E-II have entered into indemnification agreements which provide for the settlement of claims or damages which may arise for periods prior to the Distribution. Neither BCI nor E-II management is aware of any significant impending liabilities that would give rise to claims under these agreements. Also, in the opinion of E-II management there are no claims or litigation pending which are expected to have a materially adverse effect on the consolidated financial condition of E-II.

7. Income Taxes

Through the date of the Distribution, the accounts of the E-II Group were included in the consolidated U.S. federal and state unitary income tax returns of the Parent and, thus, associated accruals for U.S. federal and state unitary taxes are classified as a component of the E-II Group equity. Income tax expenses and benefits have been allocated to the E-II Group as if the E-II Group filed its own income tax returns for each period presented.

The effective tax rate for the periods presented differs from the U.S. federal statutory rate primarily as a result of non-U.S. income taxes and non-deductible depreciation, amortization and deferred financing costs attributable to the BCI Acquisition.

E-II HOLDINGS INC.

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

OPERATIONS

Prior to the Distribution the E-II Group was controlled by BCI. In addition, the E-II Group was controlled by Beatrice prior to the BCI Acquisition. The following discussion addresses, and the following table includes, the results of E-II operations for periods both before and after the Distribution and the BCI Acquisition.

For periods prior to the Distribution, Unallocated expense consists of an allocation of BCI administrative costs amounting to $20 million on an annual basis. Such allocation was based on a study conducted by BCI management estimating the administrative costs associated with managing and maintaining the portfolio of operating units which comprised the E-II Group. Administrative costs incurred directly by the operating companies are reflected in their respective segment earnings throughout the periods presented.

Unaudited business segment data, in thousands, is as follows:

	Periods ended August 31,			
	Quarter		Six Months	
	1987	1986	1987	1986
Net sales:				
Consumer Products	$305,589	$268,591	$593,857	$520,720
Food Specialties	84,224	81,450	166,129	160,764
Net sales	$389,813	$350,041	$759,986	$681,484
Operating earnings:				
Consumer Products:				
Gross earnings	$115,838	$ 97,642	$222,561	$190,882
Selling and administrative expenses	(89,554)	(77,118)	(174,081)	(149,189)
Amortization of intangible assets	(2,758)	(2,538)	(5,226)	(3,871)
Segment earnings	23,526	17,986	43,254	37,822
Food Specialties:				
Gross earnings	21,481	21,974	44,550	43,191
Selling and administrative expenses	(14,985)	(13,475)	(30,466)	(27,504)
Amortization of intangible assets	(619)	(815)	(1,406)	(1,235)
Segment earnings	5,877	7,684	12,678	14,452
Unallocated expense	(5,892)	(5,000)	(10,892)	(10,000)
Operating earnings	$ 23,511	$ 20,670	$ 45,040	$ 42,274

Quarter Ended August 31, 1987 and 1986

Summary

Net sales and operating earnings improved in the quarter due to strong volume at many operating units and from favorable exchange rates affecting the results of non-U.S. operations. These improvements were aided by margin increases at certain operating units but were partially offset by increased selling and administrative costs.

Net Sales

Consumer Products net sales increased 9% due primarily to volume increases and an additional 5% due to favorable exchange rates from non-U.S. operations. Sales volume increased in all product categories except tool storage products and lamps. Sales volume was especially strong at Samsonite due to excellent dealer acceptance of new products including the Silhouette 4 and Oyster product lines. Samsonite's sales increased 35% over the prior year's quarter. Culligan's volume increased resulting from strong demand in domestic and international markets. Demand for on-site water treatment services and equipment sales at Culligan's industrial water subsidiary also improved. Home Fashions' volume increased due to increased vertical blind sales at LouverDrape and Del Mar. Home Fashions' Canadian sales also increased due to increased volume and increased market share. Additional mailings, expansion in new markets, new products and telemarketing caused volume to increase at Day-Timers.

Volume increases accounted for the increase in net sales of the Food Specialties segment. Additional private label customers were the primary cause for improvements reported by Frozen Specialties while at Martha White recently introduced products were the principal components of the volume increases. Remaining product lines reported relatively flat sales.

Operating Earnings

Consumer Products segment earnings increased 19% due to increased volume and improved margins offset partially by increased selling and administrative expenses. Segment earnings increased an additional 12% due to favorable exchange rates from non-U.S. operations.

Earnings of the Food Specialties segment declined 24% as the sales improvements discussed above were more than offset by decreased margins at Lowrey's, Pet Specialties and Food Ingredients. The largest component of the margin decrease was attributable to increased raw material costs for meat and dairy ingredients. Due to competitive factors, these cost increases could not be passed on to the consumer through increased prices. Increased selling and administrative expenses at Martha White and Food Ingredients to support new product and marketing initiatives also contributed to the decline.

Other Results

A loss before extraordinary item of $9 million was realized versus a loss of $1.4 million in the prior year's quarter. Interest expense increased $31.5 million due to the debt offerings offset by $12.5 million in investment income earned on short-term investments and $14.5 million in lower allocated BCI interest resulting from the repayment of the BCI Notes.

An extraordinary noncash charge to earnings for $26 million was also recognized during the quarter relating to deferred financing costs associated with the intercompany indebtedness resulting from the BCI Acquisition. The intercompany indebtedness was repaid during the quarter.

Six Months Ended August 31, 1987 and 1986

Summary

Net sales and operating earnings improved during the period due to strong volume at many operating units and from favorable exchange rates affecting the results of non-U.S. operations. These improvements were aided by margin increases at certain operating units but were partially offset by increased selling and administrative costs to support new product introductions and additional marketing initiatives.

Net Sales

Consumer Products net sales increased 10% due primarily to volume increases and an additional 4% from favorable exchange rates from non-U.S. operations. All units within Consumer Products reported sales that exceeded prior year performance. Sales volume was especially strong worldwide at Samsonite due to stronger promotional prices on selected products and excellent dealer acceptance of new products. Samsonite's worldwide sales increased 24% over the prior year. Increased volume at Culligan was due primarily to increased sales of domestic household water softeners and drinking water systems. Home Fashions' sales increased due to increased vertical blind volume through retail and commercial distribution channels. Day-Timers' increase resulted from additional mailings, new products, telemarketing and from expansion into new geographic markets.

Volume increases accounted for the increase in net sales of the Food Specialties segment. Additional private label customers were the primary cause for improvements reported by Frozen Specialties while at Martha White recently introduced products were the principal components of the volume increases. These increases were partially offset by decreased volume at Pet Specialties caused by a reorganization of their sales and distribution systems.

Operating Earnings

Consumer Products segment earnings increased 8% due to increased volume and improved margins. An additional 6% increase in segment earnings was due to favorable exchange rates at non-U.S. operations. These earnings gains were partially offset by increased selling and administrative expenses required to support new products and marketing initiatives. Amortization of intangible assets also increased by $1.5 million resulting from the BCI Acquisition.

Earnings of the Food Specialties segment declined 12% due to decreased margins at Lowrey's, Pet Specialties and Food Ingredients. The largest component of the margin decrease was attributable to increased raw material costs for meat and dairy ingredients. Due to competitive factors, these cost increases could not be passed on to the consumer through increased prices. Increased selling and administrative expenses at Martha White and Food Ingredients to support new product and marketing initiatives also contributed to the decline.

Other Results

A loss before extraordinary item of $12 million was realized versus earnings of $2.6 million in the prior year. Interest expense increased $31.5 million due to the debt offerings which was partially offset by $12.5 million in investment income earned on short-term investments and $3.3 million in lower allocated BCI interest resulting from the repayment of the BCI Notes.

An extraordinary noncash charge to earnings for $26 million was also realized during the period relating to deferred financing costs associated with the intercompany indebtedness resulting from the BCI Acquisition.

Financial Condition

On July 9, 1987 E-II received net cash proceeds of approximately $1.7 billion from the issuance of 20.7 million shares of common stock and $1.5 billion of debt securities. Intercompany indebtedness to BCI totaling $800 million was repaid with a portion of these proceeds. The remaining funds of $937 million were invested in various marketable securities. At August 31, 1987 approximately $1 billion was available for future acquisitions and general corporate purposes. Management has obtained commitments from banks for in excess of $1 billion to be used for future acquisition bridge financing and is in the process of preparing definitive agreements for such credit facilities. Based on its discussions with major commercial banks management believes that it will be able to obtain additional financing on commercially reasonable terms if and when needed. However, the ability to borrow in the future will depend, among other things, on then prevailing market conditions and the company's financial condition.

As a result of the issuance of 20.7 million shares of common stock and $1.5 billion of debt securities, E-II is highly leveraged. At August 31, 1987 before giving effect to any potential bank financing, E-II has a debt to total capital ratio of approximately 75%. Management believes that cash generated from existing operations plus interim investments of excess cash balances will be sufficient to meet debt service obligations and other capital requirements as they become due. Capital spending programs to upgrade production facilities and expand production capacity are continuing and are expected to improve profit margins in future periods. E-II's ability to meet its capital requirements and debt service obligations in the long term will depend upon its ability to make suitable investments through the acquisitions of businesses or otherwise, in order to realize sufficient earnings and cash flow.

PART II. OTHER INFORMATION

Item 6—Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K.

None

SIGNATURES

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

E-II HOLDINGS INC.

By /s/ ROGER T. BRIGGS

Roger T. Briggs
Executive Vice President and
Chief Financial Officer

By /s/ J.S. CORCORAN

J.S. Corcoran
Vice President—Financial

October 14, 1987