SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarter ended November 30, 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 registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ✓. No __.

As of January 11, 1988, 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 millions)

	November 30, 1987 (unaudited)	February 28, 1987 (Note 2)
ASSETS		
Current assets:		
Cash	$ 13.1	$ 7.4
Short-term investments, less valuation allowance of $147.5 and nil, respectively	831.6	7.5
Receivables, less allowance for doubtful accounts of $9.8 and $8.8, respectively	272.1	234.7
Inventories	238.3	212.1
Other current assets	31.0	30.0
Total current assets	1,386.1	491.7
Property, plant and equipment, net of accumulated depreciation of $69.4 and $35.1, respectively	319.4	304.3
Intangible assets, principally goodwill and unallocated purchase cost, respectively	507.9	509.0
Other noncurrent assets	81.1	51.2
	$2,294.5	$1,356.2
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 37.6	$ 40.3
Accounts payable and accrued expenses	290.6	173.6
Current maturities of long-term debt	3.3	3.7
Total current liabilities	331.5	217.6
Long-term debt	1,537.6	39.6
BCI Notes	—	800.0
Other noncurrent liabilities	30.4	29.1
Contingent liabilities	—	—
Stockholders' equity:		
Preferred stock	—	—
Common stock	.6	—
Capital surplus	556.7	—
Accumulated deficit	(162.3)	—
E-II Group equity	—	269.9
Total stockholders' equity	395.0	269.9
	$2,294.5	$1,356.2

See Notes to Condensed Consolidated Financial Statements.

E-II HOLDINGS INC.

CONDENSED CONSOLIDATED INCOME STATEMENT (Note 2)

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

	Periods ended November 30,			
	Quarter		Nine Months	
	1987	1986	1987	1986
Net sales	$ 463.9	$415.1	$1,223.9	$1,096.5
Cost of sales	293.5	264.9	786.4	712.3
Gross earnings	170.4	150.2	437.5	384.2
Selling and administrative expenses	115.4	101.4	330.8	288.1
Amortization of intangible assets	3.3	3.4	9.9	8.5
Operating earnings	51.7	45.4	96.8	87.6
Interest expense	(50.9)	(1.6)	(85.5)	(4.6)
BCI interest allocation	—	(22.5)	(30.5)	(56.3)
Investment losses, net	(126.1)	—	(113.7)	—
Miscellaneous income (expense), net	(.4)	.3	.1	2.1
Earnings (loss) before income taxes and extraordinary item	(125.7)	21.6	(132.8)	28.8
Income tax expense	6.2	12.8	11.2	17.4
Earnings (loss) before extraordinary item	(131.9)	8.8	(144.0)	11.4
Extraordinary item	—	—	(26.0)	—
Net earnings (loss)	$(131.9)	$ 8.8	$ (170.0)	$ 11.4
Weighted-average common shares outstanding	61.8	61.8	61.8	61.8
Common share equivalents	—	4.3	—	4.3
	61.8	66.1	61.8	66.1
Earnings (loss) per share:				
Before extraordinary item	$(2.13)	$ .13	$(2.33)	$ .17
Net earnings (loss)	$(2.13)	$ .13	$(2.75)	$ .17

See Notes to Condensed Consolidated Financial Statements.

E-II HOLDINGS INC.

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

(Unaudited)
(In millions)

	Periods ended November 30,			
	Quarter		Nine Months	
	1987	1986	1987	1986
Cash provided (used) by operations:				
Earnings (loss) before extraordinary item	$ (131.9)	$ 8.8	$ (144.0)	$ 11.4
Items not involving cash:				
Depreciation and amortization	12.4	11.6	36.9	32.5
Deferred taxes and other items, net	1.5	—	3.4	—
Changes in working capital, excluding cash, short-term investments and current debt	(36.2)	(17.1)	52.3	(24.3)
Cash provided (used) by operations before extraordinary item	(154.2)	3.3	(51.4)	19.6
Net cash used by extraordinary item	—	—	—	—
Cash provided (used) by operations	(154.2)	3.3	(51.4)	19.6
Cash used by investment activities:				
Net expenditures for property, plant and equipment	(27.7)	(7.7)	(46.6)	(26.6)
Other items, net	(.5)	(8.5)	(8.2)	(12.3)
Cash used by investment activities	(28.2)	(16.2)	(54.8)	(38.9)
Cash provided (used) by financing activities:				
Change in debt, excluding Offerings	.9	6.6	(5.1)	6.9
Proceeds from Offerings	—	—	1,739.8	—
Transactions with BCI:				
Repayment of BCI Notes	—	—	(800.0)	—
BCI interest allocation	—	22.5	30.5	56.3
Administrative cost allocation	—	5.0	6.7	15.0
Income tax allocation	—	10.5	.2	11.2
Net cash transferred	—	(41.6)	(54.0)	(86.6)
Other items, net	(2.1)	12.1	17.9	19.7
Cash provided (used) by financing activities	(1.2)	15.1	936.0	22.5
Increase (decrease) in cash and short-term investments	(183.6)	2.2	829.8	3.2
Cash and short-term investments at beginning of period	1,028.3	9.9	14.9	8.9
Cash and short-term investments at end of period	$ 844.7	$ 12.1	$ 844.7	$ 12.1

See Notes to Condensed Consolidated Financial Statements.

E-II HOLDINGS INC.

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 5, 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 millions, as follows.

E-II Group equity	$ 267.5
Indebtedness to BCI	800.0
Purchase price assigned	$1,067.5
Net book value of the E-II Group prior to the BCI Acquisition	$ 505.2
Fair market value adjustments:	
Intangible assets	484.7
Property, plant and equipment	51.3
Deferred financing costs	26.0
Other, net	.3
Excess of purchase price over net book value	562.3
Fair market value of net assets acquired	$1,067.5

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 millions, except per share data):

	Periods ended November 30,			
	Quarter		Nine Months	
	1987	1986	1987	1986
Net sales	$ 463.9	$415.1	$1,223.9	$1,096.5
Operating earnings	$ 51.7	$ 45.6	$ 96.8	$ 85.9
Interest expense	(50.9)	(50.1)	(153.4)	(150.3)
Other, net	(126.5)	(1.1)	(115.4)	(2.1)
Loss before income taxes	(125.7)	(5.6)	(172.0)	(66.5)
Income tax expense	6.2	6.0	11.2	9.5
Loss before extraordinary item	$(131.9)	$(11.6)	$ (183.2)	$ (76.0)
Weighted-average common shares outstanding	61.8	61.8	61.8	61.8
Loss per share before extraordinary item	$ (2.13)	$ (.19)	$ (2.96)	$ (1.23)

Pro forma adjustments provide additional interest expense reflecting 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 5) 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 exclusive 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 5) 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. U.S. federal and state unitary income tax expense was allocated as described in Note 8. 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. Short-term Investments

Short-term investments are carried at the lower of cost or market. Unrealized market losses are aggregated in the valuation allowance. Investment losses, net, in the accompanying condensed consolidated income statement, include changes in the valuation allowance, realized gains on the liquidation of positions in certain investments and dividend and interest income. Investment earnings (losses) for the quarter and nine months ended November 30, 1987 were as follows, in millions:

	Quarter	Nine Months
Dividend and interest income	$ 20.0	$ 28.5
Realized gains	1.4	5.3
Changes in valuation allowance	(147.5)	(147.5)
	$(126.1)	$(113.7)

The valuation allowance of $147.5 million at November 30, 1987 has decreased by $59.9 million, to $87.6 million, on January 11, 1988 and the investments held have not changed materially.

4. Inventories

Inventories, in millions, consist of the following:

	November 30, 1987	February 28, 1987
Raw materials and supplies	$ 77.0	$ 77.0
Work in process	53.4	37.6
Finished goods	107.9	97.5
	$238.3	$212.1

5. **Capitalization**

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

	February 28, 1987	Activity To July 2	Distribution (Note 1)	Offerings and Repayments of BCI Notes	Other	November 30, 1987
Long-term debt:						
12.85% Senior Subordinated Notes	$ —	$—	$ —	$ 750.0	$ —	$ 750.0
13.05% Subordinated Debentures	—	—	—	750.0	—	750.0
Other	43.3	(.7)	—	—	(1.7)	40.9
	43.3	(.7)	—	1,500.0	(1.7)	1,540.9
Current maturities	(3.7)	.1	—	—	.3	(3.3)
Total long-term debt	39.6	(.6)	—	1,500.0	(1.4)	1,537.6
BCI Notes	800.0	—	—	(800.0)	—	—
Stockholders' equity:						
Preferred stock	—	—	—	—	—	—
Common stock	—	—	.4	.2	—	.6
Capital surplus	—	—	264.0	292.7	—	556.7
Accumulated deficit	—	—	—	(26.0)	(136.3)	(162.3)
E-II Group equity	269.9	(5.5)	(264.4)	—	—	—
Total stockholders' equity	269.9	(5.5)	—	266.9	(136.3)	395.0
Total capitalization	$1,109.5	$ (6.1)	$ —	$ 966.9	$(137.7)	$1,932.6

Revolving credit agreements

E-II has entered into agreements with several banks providing an aggregate of $650 million of revolving credit facilities available for acquisitions. The agreements are for a term of approximately three years and contain minimum net worth requirements and dividend, borrowing, leverage and interest coverage restrictions. At each bank's option, payment of any borrowings may be required 120 days following the completion of the subject acquisition. In the event Mr. Kelly ceases to function actively as the chief executive officer of E-II each bank also has the option of terminating the unused portion of its commitment. Borrowings under the agreements bear annual interest, at E-II's option, at the prime rate plus ¼%, a Eurodollar deposit based rate plus 1%, a certificate of deposit based rate plus 1¼% or a negotiated rate increasing, under certain circumstances, to a maximum of 2% over such rates. Commitment fees are ¼% to ½% per annum of the unused credit. Additional fees of up to 1% of the amounts borrowed are also required.

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 $.01 per 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 exclusive of the BCI Notes. Activity in this account, from February 28, 1987 to the date of Distribution, is detailed below, in millions.

Net loss	$ (7.6)
BCI interest allocation	30.5
Administrative cost allocation	6.7
Income tax allocation	.2
Centralized cash management system, net	(54.0)
Cumulative foreign currency adjustment	8.2
Other, net	10.5
	$ (5.5)

6. Transactions With BCI

In connection with the Distribution, BCI and E-II entered into various agreements under which BCI utilizes the services of certain E-II personnel and 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.

7. 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.

8. 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.

Due to the uncertainty of realizing income tax benefits by utilizing E-II's fiscal 1988 taxable losses to reduce taxable income in future years, U.S. income tax benefits have not been provided in periods subsequent to the Distribution. For periods prior to the Distribution, the effective tax rate differs from the U.S. federal statutory rate primarily as a result of non-U.S. income taxes and non-deductible depreciation and amortization attributable to the BCI Acquisition.

9. Acquisitions

During the third quarter, one of E-II's operating units acquired a brass fittings firm at a cost of approximately $3 million. Several other operating units are in the process of completing certain acquisitions aimed at complementing their existing businesses.

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
Periods ended November 30,
(in millions)

	Quarter		Nine Months	
	1987	1986	1987	1986
Net sales:				
Consumer Products	$356.9	$316.5	$ 950.8	$ 837.2
Food Specialties	107.0	98.6	273.1	259.3
Net sales	$463.9	$415.1	$1,223.9	$1,096.5
Operating earnings:				
Consumer Products:				
Gross earnings	$140.7	$122.3	$ 363.3	$ 313.2
Selling and administrative expenses	(92.2)	(80.7)	(266.3)	(229.9)
Amortization of intangible assets	(2.6)	(2.6)	(7.8)	(6.5)
Segment earnings	45.9	39.0	89.2	76.8
Food Specialties:				
Gross earnings	29.7	27.9	74.2	71.0
Selling and administrative expenses	(17.5)	(15.7)	(47.7)	(43.2)
Amortization of intangible assets	(.7)	(.8)	(2.1)	(2.0)
Segment earnings	11.5	11.4	24.4	25.8
Unallocated expense	(5.7)	(5.0)	(16.8)	(15.0)
Operating earnings	$ 51.7	$ 45.4	$ 96.8	$ 87.6

Nine Months Ended November 30, 1987 and 1986

Operating earnings for the nine months ended November 30, 1987 were $96.8 million, an 11% increase over the comparable period a year ago. Net sales rose 12%, to $1,223.9 million from $1,096.5 million posted last year. Primarily as a result of increased interest expense and unrealized investment losses, E-II reported a loss of $144 million before extraordinary item, compared to earnings of $11.4 million a year ago. During the second quarter of fiscal 1988, E-II was required to report a one-time, noncash extraordinary charge of $26 million which represented previously deferred financing fees related to the BCI Notes which were repaid in July 1987, resulting in a net loss of $170 million for the nine months ended November 30, 1987.

Consumer Products

The Consumer Products segment includes nine companies that market products largely found in and around the home. For the fiscal 1988 nine month period, this segment represents 78% of E-II's net sales and 79% of its total segment earnings. For the nine-month period, Consumer Products reported net sales of $950.8 million, a gain of 14% compared to $837.2 million reported last year. Volume improvements accounted for 72% of the increase while price increases accounted for 8% and favorable exchange rates which benefit non-U.S. operating results of Samsonite and Culligan provided 20%. Segment earnings increased 16%, from $76.8 million last year to $89.2 million this year principally attributable to volume and margin improvements and favorable exchange rates.

With the exception of the Home Products operations, all Consumer Products businesses reported increased sales and earnings when compared to the fiscal 1987 period. Sales volume at Samsonite luggage was particularly strong due to the excellent trade reception of two new luggage lines—Oyster and Silhouette 4—which began shipment during the second quarter. Also contributing to the volume increase were promotional prices on certain of Samsonite's existing products. At Culligan, significant volume and margin improvements were reported for domestic household water softeners and drinking water systems. At Home Fashions improved efficiencies in both the retail and commercial distribution channels for vertical blinds which generated volume and margin increases reflected the initial benefits of recent management changes and the completion of a restructuring of the Canadian operation. The Keeping in Touch personalized message system introduced in the second quarter and significant volume increases in sales of the Senior Size Pocket Loose Leaf Calendar contributed to the strong performance reported by Day-Timers. Volume increases for existing Day-Timers products are attributable to mailings in new geographic markets and expansion into telemarketing. These advances more than offset shortfalls reported by the Home Products operations where difficult market conditions affected profit margins. Home Products operations consist of Waterloo tool storage cabinets, Aristokraft kitchen cabinets and bath vanities, Samsonite Furniture, Twentieth Century plumbing and repair products and Stiffel lamps. Also partially offsetting improved earnings levels were increased expenditures to support the introduction of new products and to improve marketing incentives, as well as increased amortization of intangible assets attributable to the BCI acquisition.

Food Specialties

The Food Specialties segment consists of six companies that either have strong regional brands or occupy specialized niches in the food industry. This segment accounts for 22% of E-II's year-to-date net sales and 21% of its year-to-date segment earnings. Net sales of $273.1 million for the fiscal 1988 nine month period exceed the prior year level of $259.3 million by 5% while earnings of $24.4 million trailed last year's level of $25.8 million by 5%. The earnings decline is due primarily to increased raw material costs, with meat and dairy ingredients up significantly. Selective price increases which took effect in the third quarter have partially offset these costs.

Frozen Specialties, which manufactures and markets pizza, reported a strong sales and earnings performance reflecting volume gains from improved distribution and a strong response to new promotion programs. Volume increases were also reported by Martha White, Lowery's and Beatreme Food Ingredients. At these three companies, however, higher raw material prices and other operating costs resulted in an earnings shortfall offset in part by price increases implemented in the third quarter. Increased amortization of intangible assets attributable to the BCI acquisition also contributed to the decline.

Other Results

Outside interest expense has increased dramatically due to the debt securities issued last July in the Offerings, offset in part by the reduction in BCI allocated interest as a result of repaying the BCI Notes. During the third quarter of fiscal 1988, E-II recognized unrealized market losses of $147.5 million as a result of the significant downturn in securities markets, particularly in securities of companies thought to be acquisition candidates. These unrealized market losses more than offset the dividend and interest income earned and gains realized on its short-term investment portfolio.

Quarter Ended November 30, 1987 and 1986

Despite a 12% increase in sales and a 14% increase in operating earnings compared to the prior year, E-II reported a net loss of $131.9 million for the third quarter ended November 30, 1987. The loss was caused primarily by unrealized market losses of $147.5 million on the short-term investment portfolio reflecting the significant downturn in securities markets around the world. An increase in interest expense from $24.1 million, including both outside and BCI allocated interest, for last year's third quarter to $50.9 million this year also contributed to the net loss and reflects the effect of the July 1987 issuance of $1.5 billion of subordinated debt securities.

Consumer Products

Consumer Products reported net sales increases of 13%. Sales for the segment were $356.9 million versus $316.5 million a year ago. Volume improvements accounted for 79% of the increase while price increases accounted for 9% and favorable exchange rates which benefit non-U.S. operating results of Samsonite and Culligan provided 12%. After amortization of intangibles of $2.6 million, segment earnings increased to $45.9 million, a gain of nearly 18% above last year's figure of $39 million.

Samsonite luggage contributed 36% of the total segment sales increase as sales of its new Oyster and Silhouette 4 luggage lines continued strong and certain price increases took effect. Culligan reported volume and margin improvements for domestic household water softeners and drinking water systems, contributing to its overall sales and earnings gains. Home Fashions continued to benefit from initiatives by new management, increased operating efficiencies and the recent restructuring of the Canadian operations. Day-Timers continued to perform well during the quarter, strengthened by its recently introduced Keeping in Touch personalized message system. The expansion cf Day-Timers into telemarketing and new geographic markets is fueling the growth of existing product lines. Operating earnings at Home Products declined as difficult market conditions continued to affect profit margins.

Food Specialties

Net sales of $107 million for Food Specialties exceeded the prior year level of $98.6 million by 9%. Segment earnings increased slightly from $11.4 million last year to $11.5 million.

Frozen Specialties continued its strong performance. Plant capacity was added during the quarter to accommodate increased demand. Sales increases were also generated by Martha White, Lowrey's and Beatreme Food Ingredients with Martha White accounting for 67% of the total segment sales increase. The earnings shortfall for these three particular companies, however, continued due to higher raw material prices only partially offset by price increases.

Financial Condition

E-II commenced operations in July 1987 when E-II and its fifteen operating units were distributed to the shareholders of its former parent, BCI. Shortly thereafter, E-II received net cash proceeds approximating $1.7 billion from an initial public offering of 20.7 million of its common shares and $1.5 billion of debt securities (the "Offerings"). BCI shareholders also sold 7.3 million of E-II's common shares in the Offerings. A portion of the proceeds received by E-II were used to repay the BCI Notes, aggregating $800 million, which had been assumed by E-II in connection with its formation. The remaining proceeds were invested in a portfolio of short-term debt and equity securities. Management continually monitors the portfolio, evaluating a number of the underlying public companies as potential acquisition or restructuring candidates while managing the short-term return on the overall portfolio. After further investigation, certain equity positions were liquidated as it was concluded that continued investment in the underlying companies was not likely to provide E-II with sufficient long-term returns. Other investments which had significant price increases were also liquidated and still other investments are being held for further evaluation. Since July, the portfolio has earned $28.6 million in dividend and interest income ($20 million in the third quarter) and $5.3 million in gains realized on securities transactions ($1.3 million in the third quarter). During the third quarter, E-II recognized $147.5 million of unrealized market losses on its portfolio holdings reflecting the dramatic price adjustment which occurred in securities markets around the world. By January 11, 1988 such unrealized losses had been reduced by $59.9 million while the holdings in the portfolio had not changed materially.

E-II has entered into definitive revolving credit agreements with several banks providing an aggregate $650 million in bank financing, supplementing E-II's internal funds, to fund future acquisitions. Based on discussions with certain other banks, management believes additional financing for specific acquisitions will be available as such acquisitions are identified.

During the third quarter, Twentieth Century, one of the Home Products operations, acquired a manufacturer of fittings for the plumbing and industrial markets. Shortly after the end of the quarter, Martha White completed its acquisition of Zatarain's a marketer of Cajun and Creole style foods. Certain other operating units are in the process of completing acquisitions aimed at complementing their existing businesses. The cost of these acquisitions will be temporarily funded internally with the expectation that a substantial portion of the financing will be obtained externally, secured only by the acquired operations. Capital spending programs to upgrade production facilities at various operating units continue and are expected to improve profit margins in future periods.

Although E-II is highly leveraged, with a debt to total capital ratio of 80% at November 30, 1987, management believes that cash generated by its operations, coupled with the interim investment of excess cash balances, is sufficient to meet debt service and other obligations, as well as other capital requirements, as they become due. However, in the long term, this may depend on E-II's ability to realize sufficient earnings and cash flow through acquisitions of businesses or other investment strategies.

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

January 12, 1988