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, 1986

BCI HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

1-9119	**Delaware**	**13-3327481**
(Commission File No.)	(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

BCI CONSUMER PRODUCTS CORPORATION

(Exact name of registrant as specified in its charter)

33-2229	**Delaware**	**13-3327482**
(Commission File No.)	(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

BCI U.S. FOOD CORPORATION

(Exact name of registrant as specified in its charter)

33-2229	**Delaware**	**13-3335392**
(Commission File No.)	(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

BCI INTERNATIONAL FOOD CORPORATION

(Exact name of registrant as specified in its charter)

33-2229	**Delaware**	**13-3335393**
(Commission File No.)	(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

BEATRICE COMPANIES, INC.

(Exact name of registrant as specified in its charter)

1-831	**Delaware**	**36-0783330**
(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) 782-3820

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 January 5, 1987, a total of 81,712,500 shares of BCI Holdings Corporation common stock was outstanding. All of the common stock of the remaining registrants is directly or indirectly owned by BCI Holdings Corporation.

PART I. FINANCIAL INFORMATION

Introduction

On April 17, 1986, BCI Holdings Corporation ("Holdings") completed its acquisition of Beatrice Companies, Inc. ("Beatrice"). On that date a wholly-owned, direct and indirect, subsidiary of Holdings was merged into Beatrice ("Merger"). Holdings and its other direct subsidiaries, BCI Consumer Products Corporation, BCI U.S. Food Corporation and BCI International Food Corporation (collectively, "First Tier Registrants"), were formed solely for purposes of the Merger and prior to the Merger engaged only in activities related to the Merger and its financing.

Holdings is comprised of the operations previously owned by Beatrice; however, the capitalization of Holdings is substantially different from that of Beatrice. The financial information contained herein relates to Holdings ("Successor") for the periods subsequent to the Merger and Beatrice ("Predecessor") for the periods prior to the Merger.

See Notes 1 and 6 for further information regarding the Merger and its related financing.

BCI HOLDINGS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET

(In millions)

	November 30, 1986 (Successor) (Unaudited)	February 28, 1986 (Predecessor)
ASSETS		
Current assets:		
Cash	$ 53	$ 47
Short-term investments	140	178
Receivables, less allowance for doubtful accounts of $31 and $29, respectively	860	815
Inventories	1,119	1,095
Net current assets of discontinued operations	37	233
Other current assets	279	280
Total current assets	2,488	2,648
Net noncurrent assets of discontinued operations	2,125	1,846
Property, plant and equipment, less accumulated depreciation of $123 and $805, respectively	1,785	1,481
Unallocated purchase cost	2,827	—
Intangible assets, principally goodwill	—	1,425
Other noncurrent assets	410	203
	$9,635	$7,603
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 151	$ 670
Accounts payable and accrued expenses	1,578	1,663
Current maturities of long-term debt	145	64
Total current liabilities	1,874	2,397
Long-term debt	6,615	1,232
Noncurrent and deferred income taxes	419	543
Other noncurrent liabilities	331	473
Stockholders' equity:		
Preference stock	—	100
Common stock	1	212
Additional capital	418	536
Retained earnings (deficit)	(48)	2,308
Common stock in treasury, at cost	—	(12)
Cumulative foreign currency translation adjustment	25	(186)
Total stockholders' equity	396	2,958
	$9,635	$7,603

See accompanying notes.

BCI HOLDINGS CORPORATION

CONDENSED STATEMENT OF CONSOLIDATED EARNINGS
(Unaudited)

(In millions, except per share data)

	Quarter Ended November 30,		Nine Months Ended November 30,		
			1986		
	1986	1985	From April 17	To April 16	1985
	(Successor)	(Predecessor)	(Successor)	(Predecessor)	(Predecessor)
Net sales	$2,411	$2,239	$5,669	$ 998	$6,350
Cost of sales	1,706	1,629	4,045	724	4,638
Gross earnings	705	610	1,624	274	1,712
Selling and administrative expenses	496	467	1,209	224	1,334
Operating earnings before amortization of unallocated purchase cost and intangible assets	209	143	415	50	378
Amortization of unallocated purchase cost (Successor) and intangible assets (Predecessor)	18	12	47	6	38
Operating earnings	191	131	368	44	340
Interest expense, net	(151)	(41)	(342)	(22)	(125)
Change in control expenses	—	—	—	(102)	—
Miscellaneous expense, net	(4)	(10)	(4)	—	(13)
Earnings (loss) before income taxes and discontinued operations	36	80	22	(80)	202
Income tax expense (benefit)	26	40	36	(35)	111
Earnings (loss) before discontinued operations	10	40	(14)	(45)	91
Discontinued operations	18	48	18	9	125
Net earnings (loss)	$ 28	$ 88	$ 4	$ (36)	$ 216
Preferred dividend requirements	—		(52)		
Net earnings (loss) applicable to common stockholders	$ 28		$ (48)		
Weighted average common shares outstanding	82		82		
Common share equivalents	57		—		
Total average common shares and common share equivalents	139		82		
Earnings (loss) per share:					
Before discontinued operations	$ .10		$ (.81)		
Net earnings (loss)	$ .23		$ (.59)		

See accompanying notes.

BCI HOLDINGS CORPORATION

CONDENSED STATEMENT OF CONSOLIDATED CHANGES IN FINANCIAL POSITION

(Unaudited)

(In millions)

	Nine Months Ended November 30,		
	1986		
	From April 17 (Successor)	To April 16 (Predecessor)	1985 (Predecessor)
Cash provided (used) by operations:			
Earnings (loss) before discontinued operations	$ (14)	$(45)	$ 91
Items not involving cash:			
Depreciation	123	23	122
Amortization of unallocated purchase cost (Successor) and intangible assets (Predecessor)	47	6	38
Deferred taxes and other items, net	44	(31)	32
Changes in working capital excluding short-term debt	(245)	(3)	545
Cash provided (used) by operations before discontinued operations	(45)	(50)	828
Net cash provided (used) by discontinued operations	37	(27)	56
Cash provided (used) by operations	(8)	(77)	884
Cash provided (used) by investment activities:			
Net expenditures for property, plant and equipment	(126)	(21)	(153)
Net assets of divested operations	1,255	—	293
Other items, net	(11)	(5)	57
Cash provided (used) by investment activities	1,118	(26)	197
Cash provided (used) by financing activities:			
Change in debt	(1,438)	148	(1,635)
Exchange Debentures issued upon exchange of Redeemable Preferred Stock	1,230	—	—
Redeemable Preferred Stock retired upon exchange of Exchange Debentures	(1,230)	—	—
Net proceeds from sale of Beatrice common stock	—	—	434
Common stock issued upon conversion of preference stock and debentures	—	42	13
Preference stock and debentures retired upon conversion into common stock	—	(42)	(13)
Common stock issued for exercises of stock options and stock warrants	—	21	48
Redeemable Preferred Stock issued as dividends and upon conversion of convertible securities	74	—	—
Dividends paid in Redeemable Preferred Stock	(52)	—	—
Other items, net	(192)	(14)	167
Cash provided (used) for financing activities	(1,608)	155	(986)
Effect of Merger:			
Funding	7,373	—	—
Cost of acquisition	(6,178)	—	—
Liability for untendered securities	170	—	—
Beatrice debt repaid in Merger	(898)	—	—
Cash and short-term investments at April 16, 1986	224	—	—
Cash provided by Merger	691	—	—
Cash provided before dividend payments	193	52	95
Cash dividends	—	(53)	(142)
Increase (decrease) in cash and short-term investments	193	(1)	(47)
Cash and short-term investments at beginning of period	—	225	270
Cash and short-term investments at end of period	$ 193	$224	$ 223

See accompanying notes.

BCI HOLDINGS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Acquisition of Beatrice

BCI Holdings Corporation ("Holdings") and its wholly-owned direct subsidiaries, BCI Consumer Products Corporation, BCI U.S. Food Corporation and BCI International Food Corporation (collectively, "First Tier Registrants"), were formed solely for purposes relating to the acquisition of Beatrice Companies, Inc. ("Beatrice"). The acquisition was completed on April 17, 1986, when a wholly-owned, direct and indirect, subsidiary of Holdings was merged into Beatrice ("Merger"). Prior to that date Holdings and the First Tier Registrants engaged only in activities related to the acquisition.

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 common shares 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.

As described in Note 6, each share of Redeemable Preferred Stock has since been exchanged for 15¼% Junior Subordinated Exchange Debentures Due 2002 ("Exchange Debentures"). As such, the portion of Merger Consideration which was to have been paid in Redeemable Preferred Stock will hereafter be paid in Exchange Debentures. At November 30, 1986, $8 million in such Exchange Debentures remains to be paid and is included in other noncurrent liabilities in the accompanying condensed consolidated balance sheet. The remaining amount of Merger Consideration to be paid in cash, amounting to $22 million, is included in accounts payable and accrued expenses.

Funding

The following table, in millions, summarizes the sources used to fund the Merger. Further information is contained in Note 6.

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

Holdings is accounting for the Merger as a purchase. Beatrice's net assets are included in the accompanying condensed consolidated balance sheet of Holdings at values reflecting a preliminary allocation of the purchase cost to such net assets pending, among other things, the results of asset appraisals and the disposal of certain operations (Note 4). The excess of purchase cost over net tangible assets acquired is captioned "Unallocated purchase cost" and is being amortized over forty years on the straight-line method. The preliminary allocation to Beatrice's net assets is summarized as follows, in millions:

Current assets	$3,183
Current liabilities	(3,307)
Net noncurrent tangible assets	985
Unallocated purchase cost	5,317
	$6,178

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 Holdings' results of operations, in millions, would have been as follows:

	Quarter Ended November 30,		Nine Months Ended November 30,	
	1986	1985	1986	1985
Net sales	$2,411	$2,239	$6,667	$6,250
Earnings (loss) before discontinued operations	$ 32	$ (3)	$ (34)	$ (60)
Earnings (loss) per share before discontinued operations	$ .26	$ (.04)	$ (.42)	$ (.74)

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

- The exchange of Redeemable Preferred Stock for Exchange Debentures (Note 6)
- The redemption of $800 million of Exchange Debentures (Note 6)
- The retirement of certain of Beatrice's existing debt (Note 6)
- Various Beatrice capital stock issuances and business divestitures occurring during fiscal 1986
- Reduced debt levels and interest costs, assuming the estimated net proceeds for businesses sold, under contract for sale or announced for sale had been received (Note 4)

Pro forma data 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.

2. Accounting Policies

The accounting policies described in Beatrice's Annual Report on Form 10-K for the fiscal year ended February 28, 1986 have been adopted by Holdings, as applicable.

Financial Statements. The financial information contained herein relates to Holdings ("Successor") for the periods subsequent to the Merger and Beatrice ("Predecessor") for the periods prior to the Merger. Beatrice's February 28, 1986 condensed consolidated balance sheet has been derived from the audited February 28, 1986 consolidated balance sheet. In the opinion of management, the unaudited information presented as of November 30, 1986 and for the periods ended April 16, 1986 and November 30, 1986 and 1985 reflects all adjustments, which consist only of normal recurring adjustments and, for Successor periods, purchase accounting adjustments, necessary for a fair presentation of the interim period financial information.

Reclassifications. Certain Predecessor amounts in the condensed consolidated financial statements have been reclassified to conform to the presentation used for the Successor.

Earnings (Loss) Per Share. Earnings per share are computed assuming the proceeds from the exercise of common share equivalents are applied to reduce the Term Loan, resulting in a $3 million reduction of interest expense. Common share equivalents are excluded from the computation of loss per share as the effect is anti-dilutive.

3. Inventories

Inventories, in millions, consist of the following:

	November 30, 1986	February 28, 1986
	(Successor)	(Predecessor)
Raw materials and supplies	$ 290	$ 305
Work in process	127	166
Finished goods	702	624
	$1,119	$1,095

4. Discontinued Operations

Holdings is currently reorganizing Beatrice and is identifying operations to be sold. As decisions are made, the underlying net assets and related operating results of operations identified for sale are segregated in the financial statements as discontinued operations. Any prior period financial information presented is also restated.

The tables below present summarized financial information for discontinued operations. These include specialty printing, warehousing, dairy and North American soft drink bottling operations, as well as the leasing, personal products, knitwear and Avis businesses. Included in the Successor financial data presented is a preliminary allocation of Holdings' purchase cost based upon estimated net proceeds to be received upon the sale of the underlying operations. Any difference between the estimated net proceeds and the amounts actually received may result in an adjustment to the allocation of purchase cost. The use of proceeds received is restricted under the Merger-related financing agreements (Note 6).

Summary income statement and balance sheet data, in millions, for these operations follow:

	Quarter Ended November 30,		Nine Months Ended November 30, 1986		
	1986	1985	From April 17	To April 16	1985
	(Successor)	(Predecessor)	(Successor)	(Predecessor)	(Predecessor)
Income Statement Data*:					
Net sales and operating revenues	$666	$1,126	$2,132	$547	$3,436
Costs and expenses	(567)	(1,007)	(1,893)	(508)	(3,120)
Amortization of estimated net proceeds in excess of net tangible assets (Successor) and intangible assets (Predecessor)	(9)	(8)	(28)	(4)	(20)
Allocation of corporate interest expense**	(51)	(29)	(164)	(15)	(89)
Earnings before income taxes	39	82	47	20	207
Income tax expense	21	34	29	11	82
Net earnings	$ 18	$ 48	$ 18	$ 9	$ 125

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

***Corporate interest expense has been allocated by the Successor based on the anticipated debt reductions resulting from the application of net proceeds received from the sale of discontinued operations and by the Predecessor 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.*

	November 30, 1986	February 28, 1986
	(Successor)	(Predecessor)
Balance Sheet Data:		
Current assets	$ 594	$ 634
Current liabilities	(557)	(606)
Net current assets of discontinued operations sold	—	205
Net current assets of discontinued operations	37	233
Property, plant and equipment, net	723	704
Estimated net proceeds in excess of net tangible assets (Successor) and intangible assets (Predecessor)	1,528	543
Long-term debt	(64)	(75)
Other, net	(62)	(26)
Net noncurrent assets of discontinued operations sold	—	700
Net noncurrent assets of discontinued operations	2,125	1,846
Net assets of discontinued operations	$2,162	$2,079

Through November 30, 1986, the North American soft drink bottling operations and the leasing, knitwear and Avis businesses had been sold. Net cash proceeds, aggregating $1.2 billion, were received and used to reduce Merger-related debt (Note 6). During December 1986, the sales of the personal products businesses and the specialty printing, warehousing and dairy operations were completed for aggregate net cash proceeds of $2.0 billion.

As part of the December 1986 sale of the personal products businesses to Playtex Holdings, Inc. ("Playtex"), Holdings received 4 million shares of Playtex's preferred stock. The preferred stock has an annual dividend rate of 14% and a liquidation value of $25 per share. Holdings also acquired a 20 percent common equity interest in Playtex for $2 million.

Holdings is also considering a public offering for a portion of its International Food segment.

5. Income Taxes

The impact of the Tax Reform Act of 1986 ("the Act") on the financial position of Holdings is being considered in conjunction with the allocation of purchase cost (Note 1). The provisions of the Act which are effective for fiscal 1987 did not materially affect any of the interim periods presented in the accompanying condensed statement of consolidated earnings. Holdings' effective tax rate for the periods presented differs from the U.S. Federal statutory rate of 46% primarily as a result of state income taxes and non-deductible depreciation and amortization attributable to acquisitions and, in the Successor periods, the Merger.

6. Capitalization

The following table summarizes the effect of the Merger and other transactions on the capitalization of Beatrice at February 28, 1986, and that of Holdings at November 30, 1986.

	February 28, 1986	Activity to April 16	Merger	Divestiture Proceeds	Other	November 30, 1986
	(Predecessor)	(In millions, except share data)				(Successor)
Current Debt:						
Short-term debt	$ 670	$ 393	$ (831)	$ —	$ (81)	$ 151
Current maturities of long-term debt	64	(12)	625	(625)	93	145
Total current debt	734	381	(206)	(625)	12	296
Long-Term Debt:						
Beatrice Consolidated:						
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)	—	—	—	—
11⅞% notes, due to 1995	45	(45)	—	—	—	—
All other	1,078	(16)	—	—	(31)	1,031
Merger-related:						
Bank Credit Agreement:						
Term Loan due 1987 to 1993 (9.3%*)	—	—	3,100	(1,190)	—	1,910
Revolving Loan due to 1988 (9.3%*)	—	—	200	—	(200)	—
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 (13.1%*)	—	—	150	—	—	150
Exchange Debentures	—	—	—	—	1,319	1,319
Subtotal	1,296	(234)	5,800	(1,190)	1,088	6,760
Less current maturities	64	(12)	625	(625)	93	145
Total long-term debt	1,232	(222)	5,175	(565)	995	6,615
Minority Interests	67	(3)	—	—	(3)	61
Redeemable Preferred Stock	—	—	1,156	—	(1,156)	—
Stockholders' Equity:						
Preference stock	100	(41)	(59)	—	—	—
Beatrice common stock (115,928,577 shares outstanding at Merger date)	212	2	(214)	—	—	—
Holdings common stock (authorized 200,000,000 shares, issued 81,712,500 shares)	—	—	1	—	—	1
Retained earnings and other equity	2,646	(28)	(2,202)	—	(21)	395
Total stockholders' equity	2,958	(67)	(2,474)	—	(21)	396
Total Capitalization	$4,991	$ 89	$ 3,651	$(1,190)	$ (173)	$7,368

**Percentage represents weighted average interest rate during the Successor period ended November 30, 1986.*

Current Debt

In connection with the Merger, Holdings entered into a Working Capital Facility with certain of the banks associated with the Bank Credit Agreement discussed below. The Working Capital Facility provides revolving lines of credit aggregating $600 million to April 1988 bearing interest, at Holdings' option, at a Eurodollar deposit-based rate plus 1¼%, the prime rate plus ½% or a certificate of deposit-based rate plus 1½%. These interest rates became effective October 3, 1986 and represent a reduction of 100 basis points in the rates previously in effect. Letters of credit and bankers acceptances are also available under this facility at comparable rates. Commitment fees of ½ of 1% of the unused portion of the facility are also required. After April 1988, this facility is reduced to $400 million; however, an additional $200 million may be available if there is that much unused capacity under the Revolving Loan described below. Beatrice's short-term domestic credit facilities which existed at February 28, 1986 were repaid in the Merger and subsequently cancelled. At November 30, 1986, letters of credit totaling $311 million were outstanding under the Working Capital Facility.

Beatrice Consolidated Long-Term Debt

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 pre-tax expense of $18 million (Note 7).

Merger-Related Long-Term Debt

For purposes of financing the Merger and the aforementioned debt redemptions, Holdings 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 foregoing table. Also, Holdings 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. Borrowings under the Bank Credit Agreement bear interest, at Holdings' option, at a Eurodollar deposit-based rate plus 1¼%, the prime rate plus ½% or a certificate of deposit-based rate plus 1½%. These interest rates became effective October 3, 1986 and represent a reduction of 100 basis points in the rates previously in effect. Commitment fees of ½ of 1% of the unused credit are also required.

Merger-related debt, including the Working Capital Facility, is guaranteed by the First Tier Registrants and Beatrice. (See Note 8 for guarantors' financial information). Substantially all of the assets of Holdings, Beatrice and the First Tier Registrants are pledged as collateral. The agreements require the maintenance of certain financial ratios and restrict the (a) payment of dividends, (b) incurrence of indebtedness and guarantees, (c) creation of liens and (d) types of business activities and investments.

As described in Note 4, net proceeds of approximately $3.2 billion have been received from the sales of businesses through December 31, 1986. The terms of the Merger-related debt agreements restrict use of any such net proceeds to the payment of the Term Loan and an offer to prepay the 11% senior notes. Net proceeds of up to $1 billion are allocated entirely to the Term Loan and the remainder is 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 11% senior notes is 85.366% to 14.634%. Thereafter, net proceeds are allocated 85.366% to repay the Term Loan and 14.634% to the 11% senior notes. Any amounts allocated to the 11% senior notes which are not accepted upon expiration of the offer must be applied to the Term Loan. In the event there is no outstanding Term Loan, such amounts must be applied to reduce the outstanding Revolving Loan. The amount of Revolving Loan commitment is also reduced by the amount of any such payments. Through December 31, 1986, Term Loan payments aggregating $2.6 billion have been made and $10 thousand of the 11% senior notes have been purchased. In addition, two offers, both expiring in January 1987, to purchase up to an aggregate of $451 million of the 11% senior notes have been made.

On August 1, 1986, Holdings exchanged each share of its outstanding Redeemable Preferred Stock for \$25 principal amount of Exchange Debentures. Interest of 15¼% per annum is compounded quarterly on the Exchange Debentures and may, through April 1992, be paid in cash or additional Exchange Debentures, at Holdings' option. However, the Bank Credit Agreement requires that Holdings exercise its option to pay interest in additional Exchange Debentures. On December 26, 1986, Holdings redeemed \$800 million principal amount of the outstanding Exchange Debentures at face value with borrowings under the Revolving Loan.

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. On August 1, 1986, each outstanding share of Redeemable Preferred Stock was exchanged for \$25 principal amount of 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.

Preference Stock

During August 1986, Beatrice redeemed all outstanding shares of its Series A Cumulative Convertible Preference Stock at \$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. Beatrice then issued 120 million shares of a new series of \$.01 par value common stock to the First Tier Registrants and their wholly-owned direct subsidiaries and to Holdings.

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

Holdings has reserved 16 million common shares for sales to employees and for employee stock options. As of November 30, 1986, options for 15.4 million common shares had been granted to employees at an exercise price of \$5 per share. No stock options were exercisable as of November 30, 1986.

Holdings 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.

7. Change in Control Expenses

Pre-tax change in control expenses for the Predecessor period March 1 to April 16, 1986 consist of the following, in millions:

Accelerated compensation	\$ 39
Fees and other expenses	31
Debt premiums (Note 6)	18
Employee stock option plans	14
	\$102

Beatrice's employee incentive plans and executive compensation agreements contained provisions which required the acceleration of certain compensation payments in the event of a change in the control of Beatrice. These provisions were activated by the Merger. The fees and other expenses related to investment banking and legal services, proxy costs and other expenses of Beatrice resulting from the Merger. Additionally, certain unexercised employee stock options were acquired just prior to the Merger.

8. Reorganization

On May 29, 1986, 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 Holdings and the wholly-owned subsidiaries (collectively, "Second Tier Subsidiaries") of the First Tier Registrants. Prior to being party to an exchange, the net assets of the Second Tier Subsidiaries generally consist of investments in Beatrice common stock and intercompany notes receivable from Beatrice and payable to the First Tier Registrants.

Through November 30, 1986, Beatrice received and cancelled 16.1 million shares of common stock held by certain of the Second Tier Subsidiaries. The Second Tier Subsidiaries involved also cancelled notes receivable from Beatrice aggregating $3.1 billion and received Beatrice's equity interests in various operating subsidiaries, notably those identified as discontinued operations, exclusive of the Avis business. For further information regarding discontinued operations see Note 4.

The table which follows presents consolidating financial information for Holdings. Investments in Beatrice common stock are stated at cost and eliminated in the eliminations column. Intercompany notes and related interest effects are also eliminated in the eliminations column. Exchanges between Beatrice and the Second Tier Subsidiaries are reflected as if each had occurred at the beginning of the period. Thus, the operating results of entities owned by the Second Tier Subsidiaries are consolidated with the First Tier Registrants for the full period presented while the operating results of Beatrice include only those entities which have not yet been exchanged. The common stock of Beatrice and the First Tier Registrants has a par value of $.01 and is wholly-owned, directly or indirectly, by Holdings. Beatrice has 103,889,589 common shares outstanding and each of the First Tier Registrants have 100 common shares outstanding.

BCI HOLDINGS CORPORATION
CONSOLIDATING SUMMARIZED FINANCIAL INFORMATION
(In millions)

	Beatrice	First Tier Registrants: BCI Consumer Products Corporation	First Tier Registrants: BCI U.S. Food Corporation	First Tier Registrants: BCI International Food Corporation	Holdings	Eliminations	Consolidated
INCOME STATEMENT DATA (April 17 to November 30, 1986):							
Net sales	$4,795	$ —	$ 163	$710	$ —	$ 1	$5,669
Operating expenses	4,466	—	146	686	2	1	5,301
Operating earnings	329	—	17	24	(2)	—	368
Intercompany interest income (expense), net	(234)	—	(6)	(2)	347	(105)	—
Interest expense, net	(84)	—	(1)	(1)	(420)	164	(342)
Miscellaneous expense, net	1	—	—	—	(5)	—	(4)
Earnings (loss) before income taxes and discontinued operations	12	—	10	21	(80)	59	22
Income tax expense (benefit)	33	—	5	6	(39)	31	36
Earnings (loss) before discontinued operations	(21)	—	5	15	(41)	28	(14)
Discontinued operations	2	23	21	—	—	(28)	18
Net earnings (loss)	$ (19)	$ 23	$ 26	$ 15	$ (41)	$ —	$ 4
BALANCE SHEET DATA (As of November 30, 1986):							
Assets:							
Cash and short-term investments	$ 154	$ —	$ 9	$ 29	$ 1	$ —	$ 193
Receivables, net	763	—	19	78	—	—	860
Inventories	978	—	27	114	—	—	1,119
Net current assets of discontinued operations	(2)	18	21	—	—	—	37
Other current assets	266	5	2	6	—	—	279
Total current assets	2,159	23	78	227	1	—	2,488
Investment in Beatrice (at cost) (Note A)	—	76	79	29	1,232	(1,416)	—
Investment in First Tier Registrants	—	—	—	—	404	(404)	—
Intercompany notes and interest receivable	272	1,229	1,293	426	5,236	(8,456)	—
Net noncurrent assets of discontinued operations	(55)	1,366	814	—	—	—	2,125
Property, plant and equipment, net	1,584	—	32	169	—	—	1,785
Unallocated purchase cost	2,640	95	41	51	—	—	2,827
Other noncurrent assets	234	2	12	5	157	—	410
Total assets	$6,834	$2,791	$2,349	$907	$7,030	$(10,276)	$9,635
Liabilities and Stockholders' Equity:							
Short-term debt and current maturities of long-term debt	$ 244	$ —	$ —	$ 52	$ —	$ —	$ 296
Accounts payable and accrued expenses	1,369	—	27	141	41	—	1,578
Total current liabilities	1,613	—	27	193	41	—	1,874
Intercompany notes and interest payable	2,938	2,615	2,047	584	272	(8,456)	—
Other net noncurrent intercompany amounts	(694)	18	(37)	16	697	—	—
Long-term debt	864	—	11	11	5,729	—	6,615
Noncurrent and deferred income taxes	395	(31)	78	12	(35)	—	419
Other noncurrent liabilities	306	—	—	25	—	—	331
Stockholders' equity:							
Common stock	1	—	—	—	1	(1)	1
Additional capital	1,415	166	197	41	418	(1,819)	418
Retained earnings (deficit)	(12)	23	26	8	(93)	—	(48)
Cumulative foreign currency translation adjustment	8	—	—	17	—	—	25
Total stockholders' equity	1,412	189	223	66	326	(1,820)	396
Total liabilities and stockholders' equity	$6,834	$2,791	$2,349	$907	$7,030	$(10,276)	$9,635
Note A—Percentage of Beatrice common stock owned		5.4%	5.6%	2.0%	87.0%		

BCI HOLDINGS CORPORATION
DISCUSSION OF OPERATIONS AND FINANCIAL CONDITION

The table presented below and the following discussion summarize the results of ongoing operations for the quarter and nine month periods ended November 30, 1986 and 1985. Results of operations for the nine month period ended November 30, 1986, include the results of operations for Beatrice as predecessor for the period March 1 to April 16, 1986, and Holdings as successor for the period April 17 to November 30, 1986. Results of operations for the 1985 periods presented and discussed below are solely those of the predecessor.

UNAUDITED BUSINESS SEGMENT DATA
(In millions)

	Quarter Ended November 30,				Nine Months Ended November 30,			
	Net Sales		Earnings		Net Sales		Earnings	
	1986	1985	1986	1985	1986	1985	1986	1985
U.S. Food	$1,382	$1,370	$144	$128	$3,759	$3,814	$348	$316
International Food	679	548	39	29	1,983	1,560	95	77
Consumer Durables	350	321	42	17	925	876	76	73
Ongoing segments	2,411	2,239	225	174	6,667	6,250	519	466
Businesses divested in fiscal 1986	—	—	—	—	—	100	—	1
Total segments	$2,411	$2,239	225	174	$6,667	$6,350	519	467
Unallocated expense			(16)	(31)			(54)	(89)
Operating earnings before amortization of unallocated purchase cost and intangible assets			209	143			465	378
Amortization of unallocated purchase cost and intangible assets			(18)	(12)			(53)	(38)
Operating earnings			$191	$131			$412	$340

OPERATIONS

Quarters Ended November 30, 1986 and 1985

Summary

Net sales and earnings of ongoing segments increased 8 percent and 29 percent, respectively. Favorable exchange rates in European currencies were a major factor in both the sales and earnings comparisons for ongoing segments. Decreased overhead expenses for U.S. Food operations and generally improved margins on food products also contributed to the earnings increase. Overall reductions in corporate activities and the phase-out of an automobile racing program sponsorship were responsible for the substantial decline in unallocated expenses. These factors, combined with improved segment earnings, resulted in a 46 percent increase in operating earnings before amortization of unallocated purchase cost and intangible assets. Such noncash amortization charges did not significantly affect the operating earnings comparison for the quarter.

Segment Results

U.S. Food net sales were slightly higher than the prior period. Lower selling prices, new product introductions and successful promotions caused significant volume increases in fruit juice sales. Volume improvements were also experienced in cheese, bottled water and meat sales. Lower raw material costs for oil and fruit juice products were passed on to the consumer through lower selling prices which impacted the dollar value of net sales. Segment earnings rose 12 percent due to improved margins, increased volumes and significantly lower segment overhead expenses.

Favorable exchange rates in European currencies were the primary cause for International Food's improved results. In addition, all major geographic areas reported increased sales volume which contributed to the 24 percent increase in net sales. European earnings improved, benefiting from the introduction of higher margin ice cream products. Latin America reported higher earnings as margins improved on snack foods. These factors, coupled with reduced administrative costs, resulted in a 34 percent increase in segment earnings.

Favorable exchange rates and volume increases for luggage and water treatment operations outside the U.S. were the primary reasons for the sales and earnings increases in Consumer Durables. Also contributing to the increase were improved U.S. sales volumes in the tool storage and kitchen and bath cabinet product categories. These gains were partially offset by higher production costs and both selling price and volume declines in the U.S. portable lamp market. Segment earnings for the prior period includes a provision for increased warranty costs due to the insolvency of an insurance carrier. Excluding this provision, segment earnings improved 14 percent reflecting the effects of favorable exchange rates and volume improvements.

Other Results

The capital structure of Holdings resulting from the Merger as compared to that of Beatrice before the Merger caused a significant increase in interest expense resulting in a 75 percent decline in earnings before discontinued operations. The Tax Reform Act of 1986 did not materially impact the fiscal 1987 quarterly income tax provision.

Nine Months Ended November 30, 1986 and 1985

Summary

Net sales and earnings of ongoing segments increased 7 percent and 11 percent, respectively. Favorable exchange rates in European currencies were a major factor in both the sales and earnings comparisons for ongoing segments. Decreased overhead expenses for U.S. Food operations and generally improved margins on food products also contributed to the earnings increase. Overall reductions in corporate activities and the phase-out of an automobile racing program sponsorship were responsible for the substantial decline in unallocated expenses. These factors, combined with improved segment earnings, resulted in a 23 percent increase in operating earnings before amortization of unallocated purchase cost and intangible assets. After such noncash amortization charges, operating earnings increased 21 percent.

Segment Results

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. Also, heavy promotion of grocery products in the latter part of the prior year shifted sales between fiscal years causing lower volumes early this year. Volume declines in cheese products and the exit from the fresh meat business also contributed to the sales decrease. Volume improvements for fruit juice and meat products partially offset these effects. Fruit juice sales volume was stimulated by lower selling prices, promotions and new product introductions. Segment earnings increased 10 percent, primarily due to improved fruit juice margins, lower segment overhead expenses and earnings improvements from specialty products.

Favorable exchange rates in European currencies were the primary cause for International Food's improved results. All major geographic areas reported increased sales volume which contributed to the 27 percent increase in net sales. European earnings improved, benefiting from the introduction of higher margin ice cream products. Latin America reported higher earnings as margins improved on snack foods. These factors, coupled with reduced administrative costs, resulted in a 23 percent increase in segment earnings.

Consumer Durables net sales increased 6 percent primarily due to favorable exchange rates from non-U.S. operations. Improved U.S. sales volume in the cabinet product category also contributed to the increase. These increases were partially offset by decreased volume in luggage and furniture operations and continuing weakness in water treatment service. Additionally, both lower selling prices and volume affected portable lamp sales. Although earnings remained relatively stable, the prior period includes a nonrecurring real estate gain and a charge for increased warranty costs due to the insolvency of an insurance carrier. Excluding these items, segment earnings declined 13 percent as a result of the volume declines and lower portable lamp and furniture margins.

Other Results

The capital structure of Holdings resulting from the Merger as compared to that of Beatrice before the Merger caused a significant increase in interest expense. In addition, change in control expenses associated with the Merger materially affected the comparison of the nine month periods. As a result of these factors, a loss before discontinued operations of $59 million was incurred compared to earnings of $91 million in the prior period. The Tax Reform Act of 1986 did not materially impact the income tax provision for the current period.

FINANCIAL CONDITION

Although Holdings' 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 6 of the Notes to Condensed Consolidated Financial Statements, debt incurred to finance the Merger has been substantially reduced through the application of divestiture proceeds. By December 31, 1986, the Term Loan had been reduced from $3.1 billion to $510 million. In addition, offers to purchase up to an aggregate $451 million of the 11% senior notes were outstanding.

Holdings is still considering a public offering for a portion of its International Food segment. Substantially all of its other currently anticipated divestitures had been completed by December 31, 1986. Notably these included the sales of the North American bottling operations in September 1986 for net proceeds amounting to $942 million and the personal products businesses for net proceeds of $1.1 billion in December 1986. Further information concerning divestitures is contained in Note 4 of the Notes to Condensed Consolidated Financial Statements.

During the third quarter of fiscal 1987 the Tax Reform Act of 1986 ("Act") was signed into law. The impact of the Act on the financial position of Holdings is being considered in conjunction with the allocation of Holdings' purchase cost to Beatrice's net assets.

Subsequent to the end of the third quarter of fiscal 1987, Holdings redeemed $800 million principal amount of its outstanding Exchange Debentures at face value. Also, during the second quarter of fiscal 1987, Beatrice's preference stock was redeemed and Holdings' Redeemable Preferred Stock was exchanged. These events are further described in Note 6 of the Notes to Condensed Consolidated Financial Statements.

PART II. OTHER INFORMATION

Item 6—Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K.

On December 31, 1986, Registrants filed a Current Report on Form 8-K reporting the completion of the divestitures of the personal products, dairy, specialty printing and warehousing businesses, the application of the cash proceeds from such divestitures and the redemption of $800 million of Holdings' outstanding Exchange Debentures.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this Report to be signed on their behalf by the undersigned thereunto duly authorized.

BCI HOLDINGS CORPORATION

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

BCI CONSUMER PRODUCTS CORPORATION

By /s/ ROGER T. BRIGGS
Roger T. Briggs
Vice President and Chief Financial Officer

By /s/ J. S. CORCORAN
J. S. Corcoran
Vice President and Chief Accounting Officer

BCI U.S. FOOD CORPORATION

By /s/ ROGER T. BRIGGS
Roger T. Briggs
Vice President and Chief Financial Officer

By /s/ J. S. CORCORAN
J. S. Corcoran
Vice President and Chief Accounting Officer

BCI INTERNATIONAL FOOD CORPORATION

By /s/ ROGER T. BRIGGS
Roger T. Briggs
Vice President and Chief Financial Officer

By /s/ J. S. CORCORAN
J. S. Corcoran
Vice President and Chief Accounting Officer

BEATRICE COMPANIES, INC.

By /s/ J. S. CORCORAN
J. S. Corcoran
Vice President—Financial

By /s/ MICHAEL FUNG
Michael Fung
Vice President and Controller

Date: January 14, 1987