SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended February 28, 1986

Commission file number: 1-831

Beatrice Companies, Inc.

Delaware (State of Incorporation)	36-0783330 (I.R.S. Employer Id. No.)
Two North LaSalle Street, Chicago, Illinois (Address of Principal Executive Offices)	60602 (Zip Code)

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

No securities are registered pursuant to Section 12(b) of the Securities Exchange Act of 1934.

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934:

Title of Class

Series A Cumulative Convertible Preference Stock

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ✓. No___.

As of April 17, 1986, all outstanding shares of the registrant's common stock were and continue to be directly and indirectly owned by BCI Holdings Corporation.

Form 10-K Annual Report

For the Fiscal Year Ended February 28, 1986

In this report, the term "Beatrice" is used to refer to Beatrice Companies, Inc., and, unless indicated otherwise or the context suggests otherwise, its subsidiaries.

PART I

ITEM 1. BUSINESS.

Beatrice, BCI Holdings Corporation ("Holdings") and BCI Merger Corporation ("Merger Sub") entered into an Agreement and Plan of Merger, dated as of November 14, 1985 and modified as of February 2, 1986 (as restated and modified, the "Merger Agreement"). The Merger Agreement was approved by Beatrice's stockholders on April 11, 1986. Pursuant to the Merger Agreement, Merger Sub merged with and into Beatrice (the "Merger") on April 17, 1986 (the "Effective Time of the Merger") with Beatrice surviving and becoming a direct and indirect wholly-owned subsidiary of Holdings.

Beatrice is a worldwide producer and marketer of food and food-related products as well as a broad range of non-food products for use in various consumer, commercial and industrial markets. Beatrice has manufacturing operations in more than 30 countries and markets products and services in more than 100 countries under a variety of well recognized brand names. All of the brand names appearing below in solid capital letters are registered trademarks or tradenames of Beatrice and/or its subsidiaries. Beatrice believes that, measured by sales, it is among the largest packaged foods companies and consumer products companies in the United States.

In June 1984, Beatrice acquired Esmark. The Esmark acquisition was part of Beatrice's strategy to focus its assets in the food and consumer products businesses. Esmark's attributes were national brands, which complemented Beatrice's regional brands, a large direct sales force, one of the most efficient distribution networks in the food industry and a leading research and development capability.

Beatrice's operations are organized into three business segments: U.S. Food, Consumer Products and International Food. Certain other operations of Beatrice, consisting primarily of the Avis vehicle rental and leasing businesses, the Jensen high fidelity business and the Danskin and Pennaco knitwear businesses, have been identified for divestiture and are not discussed herein. On April 29, 1986 Beatrice entered into an agreement in principle to sell Avis with Wesray Capital Corporation. Consummation of this agreement is subject to the preparation and execution of a definitive agreement and the satisfaction of other conditions.

U.S. Food

U.S. Food produces, distributes and sells a broad range of well-known branded food products. With more than 150 brands in 90 product categories, U.S. Food is the largest segment of Beatrice's operations. The Esmark acquisition increased the ability of U.S. Food to distribute many of its brands directly, instead of through brokers, and the resulting national presence offers U.S. Food the opportunity to distribute regional brands on a national basis.

U.S. Food is composed of eight major divisions each of which holds a significant position in the market in which it participates. In descending order by fiscal 1986 sales contribution, the eight divisions are: Grocery; Meats; Dairy; Cheese; Soft Drinks; Fruit Juices; Bottled Water; and Warehousing.

Grocery Division

The Grocery Division produces, processes and distributes packaged grocery products ranging from basic recipe ingredients, such as tomato sauce and paste, to prepared convenience foods. With sixteen distribution outlets throughout the U.S. and over 600 direct retail sales personnel and 220 food service sales personnel, Beatrice believes that it has one of the largest and most efficient distribution networks in the packaged foods industry. Distribution of products is also made through local food brokers.

Among the division's major brands are HUNT'S tomato products, including tomato sauce and paste, canned tomatoes, sloppy joe sauce, ketchup and barbeque sauce and WESSON's cooking and salad oils.

Beatrice also competes in the ethnic food market with LA CHOY canned and frozen Oriental food products nationally and ROSARITA canned Mexican refried beans and sauces in the West and Southwest.

Other brands include: PETER PAN peanut butter; SWISS MISS cocoa mixes and puddings; SOUP STARTER and STEW STARTER packaged mixes; MANWICH sloppy joe sauce and mix; LOWREY'S meat snacks; MARTHA WHITE baking mixes; AUNT NELLIE'S processed vegetables; FISHER nuts; and ORVILLE REDENBACHER'S popcorn and related products.

The Grocery Division also produces, markets and sells premium fountain toppings, syrups, sauces and related beverage products to the commercial and industrial segments of the food service industry.

Meats Division

The Meats Division features such well-known premium brand names as BUTTERBALL turkey and turkey products and SWIFT and ECKRICH processed meats. The division's products are commonly found in the refrigerated meat and delicatessen cases in supermarkets across the country. Sales are made through both a direct selling organization and a broker network. Since the acquisition of Esmark, the Meats Division has been successful in shifting an increasing percentage of its sales to its direct sales force, rather than relying on brokers.

Dairy Division

Beatrice's Dairy Division is among the largest dairy products producers in the country with over 40 processing facilities in 18 states. The division manufactures, distributes and markets milk, butter, cultured dairy products, ice cream and ice cream novelties to retail, food service, school and industrial customers in the Southeastern, Midwestern, Mid-Atlantic and Western states. Principal branded products include: MEADOW GOLD milk, cream, butter and ice cream; HOTEL BAR and KELLERS butter; VIVA low-fat products, including cottage cheese; LOUIS SHERRY ice cream; and MOUNTAIN HIGH yogurt.

Cheese Division

The Cheese Division is one of the largest cheese producers in the U.S. It produces and distributes natural cheese, cream cheese and other products principally to food manufacturing, foodservice and private label markets, as well as the retail market. The PAULY brand is primarily marketed to the foodservice industry.

While the division's business is largely devoted to serving non-retail markets, the COUNTY LINE natural cheese brand and TREASURE CAVE brand blue cheese have strong national retail markets, and an increasing portion of the division's business is represented by COUNTY LINE products. County Line offers eight varieties of cheeses and has been successful during the past year in introducing a new line of shredded cheeses. In addition, Swissrose International imports a variety of cheeses for retail and industrial sale. REDDI-WIP, a refrigerated dessert topping, is also a product of the Cheese Division.

Soft Drink Division

The Soft Drink Division is one of the largest franchised bottlers and distributors of Coca-Cola products which make up over 70 percent of the division's case volume. In addition, the division bottles and distributes Dr Pepper, Crush, Hire's Root Beer and Sunkist Orange soft drinks. The Soft Drinks Division consists of two operations, Soft Drinks West and Soft Drinks Mid-America. Soft Drinks West operates in 19 contiguous counties in southern California (including those containing Los Angeles, San Diego and Palm Springs); the southern half of Nevada (including Las Vegas); Yuma, Arizona, and four Hawaiian Islands (including Oahu). This franchise area is especially attractive due to its warm climate, high percentage of young people and population, which is increasing faster than the national average. Beatrice believes that the population concentration in this franchise area affords it superior distribution efficiency. Soft Drinks Mid-America operates in parts of Kansas, Missouri, Nebraska, Iowa, Illinois and Wisconsin.

Fruit Juices Division

Principal products of the division include TROPICANA'S PURE PREMIUM, the only national brand of orange juice not made from concentrate and TROPICANA brand frozen and ready-to-serve orange juice, now also available in a homestyle variety with added pulp. The division also markets grapefuit and apple juices made from concentrate under the TROPICANA label. TROPICANA products are distributed in most of the East and Southeast, and in portions of the Midwest, California, Texas and Arizona.

Bottled Water Division

Beatrice is the largest processor and distributor of bottled water in the country with its ARROWHEAD, OZARKA and GREAT BEAR brands. These products are marketed in California, Texas, Arizona and 11 Eastern states. The water is distributed either directly to customers or through retail outlets.

Bottled water has been the fastest-growing segment in the beverage industry. The demand for bottled water is expected to continue to grow due to increased concern over health and water quality.

Building upon its recognized brands of route-delivered water, the division has expanded its retail presence through the introduction of waters packaged for sale in grocery stores and a recently introduced line of ARROWHEAD flavored sparkling waters.

Warehouse Division

Beatrice's nationwide network of refrigerated storage facilities is the largest refrigerated warehouse network in the U.S., consisting of 46 warehouses in 16 states with a capacity of approximately 200 million cubic feet. Customers include meat and fish packers, food processors and retail stores. The Warehouse Division's services include the storage and distribution of food and other products. Beatrice believes it has the largest and most modern network of warehouse facilities in the U.S.

Consumer Products

Consumer Products produces a broad range of products for consumer use. Its two groups, Personal Products and Consumer Durables, have major operations in home products, water treatment, luggage, intimate apparel, family products, cosmetics and fragrances.

Personal Products

International Playtex, Inc. competes in three major markets: intimate apparel; family products; and cosmetics and fragrances. PLAYTEX is the intimate apparel brand leader in the U.S., United Kingdom, France and Mexico.

Playtex intimate apparel has long been marketed to the more mature segment of the consumer market with its well-established brands such as CROSS-YOUR-HEART, 18-HOUR and SUPPORT-CAN-BE-BEAUTIFUL bras. However, Playtex has begun to serve younger, more fashion conscious consumers with newer brands such as THANK-GOODNESS-IT-FITS and the WOW (WITH-OUT-WIRE) bras. The latter product also has been successfully introduced in most of Playtex's international markets.

The family products business includes such well-known products as the PLAYTEX baby nurser, which is the leading disposable infant feeding system, PLAYTEX LIVING gloves and PLAYTEX tampons. Another key family product brand is the JHIRMACK hair care line, currently being extended through the introduction of JHIRMACK Lite, designed for consumers who shampoo daily.

The cosmetic and fragrance business is comprised of three major companies: MAX FACTOR cosmetics and fragrances; ALMAY hypoallergenic cosmetics; and HALSTON fragrances for men and women.

Consumer Durables

The Consumer Durables Group includes brands that are well-known worldwide. Described below in descending order by fiscal 1986 sales contribution are the group's five divisions.

The Home Products Division consists of five independent businesses which manufacture and market a broad range of products including: SAMSONITE patio and casual furniture and VOGEL-PETERSON office furniture; STIFFEL lamps; ARISTOKRAFT kitchen and bath cabinets; Beatrice Home Specialities plumbing products; and WATERLOO tool boxes and chests. These products are sold through a combination of direct sales forces, manufacturers' representatives and distributors.

Samsonite Furniture offers a wide range of leisure and casual furniture including patio furniture, banquet tables, wardrobe products and office furniture.

One of the best known brands among the Home Products Division companies is STIFFEL, a leading name in quality lamps. Stiffel manufactures and/or markets a broad line of high-quality lamps and lighting fixtures for residential and commercial users.

Aristokraft manufactures and markets a wide variety of kitchen cabinets and bathroom vanities. Aristokraft currently supplies the building and remodeling market and is expanding into the home improvement and do-it-yourself markets.

Under the brand names CHICAGO SPECIALTIES, STEP BY STEP, DEARBORN BRASS and WRIGHTWAY, as well as under private label, Beatrice Home Specialties manufactures and/or markets a variety of plumbing specialty items to the hardware, home center and professional markets.

Waterloo manufactures and markets, under its own name as well as private label, tool boxes and tool chests. In addition, Waterloo manufactures and markets medical storage units.

Another division of Consumer Durables Group, Samsonite Luggage, is the largest manufacturer of luggage and attache cases around the world and is significantly larger than its nearest competitor. While the market for hard-sided luggage in the U.S. (Samsonite's historical base) has declined, the demand for hard-sided luggage remains strong in Europe. In addition, Samsonite has successfully expanded into the soft-sided luggage market under the SAMSONITE and LARK labels. Samsonite recently introduced the SYSTEM 4 line of hard and soft luggage in the U.S. and Canada. This new product line, which includes a garment bag designed to address consumer problems with the traditional garment bag, has innovative features and is expected to bolster Samsonite's position in the soft-sided luggage market.

The Direct Marketing Division markets diary planners and time management aids under the DAYTIMERS brand name primarily through direct mail advertising and catalogs. The Webcraft Technologies Division is a specialty printing company which prints a wide variety of products, including catalog and newspaper inserts, fragrance samples and lottery tickets. The division expects to benefit by the growth of direct mail marketing.

Consumer Durable's Culligan Water Treatment Division is a worldwide leader in water treatment filtration systems and CULLIGAN is a leading national consumer brand. Culligan produces and, through a franchise network, sells CULLIGAN water treatment systems to residential, commercial and industrial customers. The Culligan Division also services industrial customers directly through its ARROWHEAD industrial water operations. Culligan's sales have benefited from the growing consumer concern regarding water quality.

The Window Coverings Division manufactures and markets LOUVERDRAPE and DEL MAR fashion window coverings. These brands compete in four major markets—horizontal blinds, vertical blinds, pleated shades and woven wood blinds.

International Food

International Food has operations in more than 30 countries and sells products under a variety of locally well-recognized brand names. International Food businesses include five primary categories of products including: food distribution; dairy and ice cream; confectionery, snacks and baked goods; beverages and fruit juices; and processed meats.

Five operating divisions, corresponding to geographic regions, make up the International Food organization. These divisions, in order of fiscal 1986 sales, are Europe (59 percent), Canada (19 percent), Latin America (13 percent), Australia (7 percent) and Asia (2 percent). International Food represents approximately 70 percent of Beatrice's total non-U.S. sales.

European operations, the largest of the divisions, include food distribution, processed meats, ice cream and yogurt, beverages, and snacks and confectionery products. Retail and wholesale food distribution accounts for more than 50 percent of European operations. Brand names include CAMPOFRIO sausage and specialty meats, SMITH KENDON and CALLARD & BOWSER confections, and STUTE jams and fruit juices.

Latin American operations include snacks, confectionery and baked goods, and dairy and ice cream. Latin American grocery brands include: SAVOY confections; JACK'S SNACKS; WILSON specialty meats; and HOLANDA ice cream.

Beatrice's Canadian operations include BEATRICE brand milk, yogurt, ice cream and cheese products. The division produces and markets COLONIAL brand baked goods, as well as beverages and specialty products/flavorings.

Australian operations cover both Australia and New Zealand and include confectionery, juices, specialty meats and food distribution. Brands include: RED TULIP confectionery items; PATRA juices; and BARON'S TABLE specialty meats and frozen entrees.

Asian operations include dairy and ice cream, Oriental food specialities, snacks and confectionery products and beverages.

Raw Materials and Competition

Various agricultural commodities constitute the principal raw materials used by Beatrice in the manufacture of its food products. Beatrice's non-food consumer products are manufactured from a wide variety of fabrics, plastics, metals, minerals and chemicals. To the best knowledge of Beatrice, none of the raw materials for its significant products is in short supply and most are readily available from a wide variety of independent suppliers. Prices of agricultural commodities tend to fluctuate due to various seasonal, climatic and economic factors, which factors generally affect Beatrice's competitors as well.

Beatrice faces substantial competition throughout its product line from firms, both large and small, in the U.S. and in other countries, some of which market other well-known, branded products. Its food and consumer products also compete with generic products and private label products of retailers, wholesalers and cooperatives. The principal competitive factors are price, quality and brand loyalty.

Management and employees

As of February 28, 1986, Beatrice had approximately 100,000 employees, including discontinued operations. There have been no significant interruptions or curtailments of Beatrice's operations due to labor disputes and Beatrice considers its labor relations to be satisfactory.

In general, operating decisions are made at the operating management level. The decisions typically include product mix, product pricing and market selection. A significant portion of the total compensation of operating executives typically is based upon profit contributions of the activities under their supervision.

ITEM 2. PROPERTIES.

Beatrice uses various owned and leased plants, warehouses, distribution centers and other facilities in its businesses and operations. The following table sets forth information with respect to the approximate number and location of facilities operated by Beatrice by business segment as of February 28, 1986.

	Approximate Number of Facilities				
	United States		Outside United States		
	Owned	Leased	Owned	Leased	Total
U.S. Food	410	250	20	30	710
Consumer Products	60	130	30	40	260
International Food	—	—	170	250	420
Discontinued Operations/Other	20	1,040	—	690	1,750
	490	1,420	220	1,010	3,140

ITEM 3. LEGAL PROCEEDINGS.

In the opinion of management, there are no claims or litigation pending to which Beatrice is a party which are expected to have a material adverse effect on Beatrice's consolidated financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matter was submitted in the fourth quarter of the 1986 fiscal year to a vote of Beatrice stockholders.

On April 11, 1986, Beatrice's stockholders approved an Agreement and Plan of Merger among Beatrice, Holdings and Merger Sub. Beatrice's stockholders also approved a proposal to amend Beatrice's Restated Certificate of Incorporation and By-Laws to increase the par value of Beatrice Common Stock from no par value to $.01 par value per share, to delete certain provisions of the Beatrice Charter relating to certain series of preference stock that are no longer outstanding and to repeal certain provisions of the Beatrice Charter and By-Laws designed to discourage certain takeover tactics. Additional information regarding the Merger can be found in Note 2 of the Notes to Consolidated Financial Statements.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Beatrice is a direct and indirect wholly-owned subsidiary of BCI Holdings Corporation and no Beatrice common stock is publicly traded.

ITEM 6. SELECTED FINANCIAL DATA.

Information regarding selected financial data can be found in Note 19 of the Notes to Consolidated Financial Statements.

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

Operations

The table below presents the net sales and earnings for each of Beatrice's business segments. The amounts exclude the net sales and earnings of businesses that are accounted for as discontinued operations. The discontinued operations information included in Note 6 of the Notes to Consolidated Financial Statements provides additional information regarding those businesses. In addition, certain amounts have been reclassified to give effect to divestitures through February 28, 1986. The following discussion addresses the results of Beatrice's ongoing operations: U.S. Food, Consumer Products and International Food.

NET SALES AND EARNINGS BY BUSINESS SEGMENT

	1986		1985		1984	
Year ended last day of February	Net Sales	Earnings	Net Sales	Earnings	Net Sales	Earnings
			(In millions)			
U.S. Food	$ 7,040	$548	$ 6,289	$359	$4,113	$338
Consumer Products	2,337	214	1,795	189	948	133
International Food	1,919	94	1,852	96	1,732	105
	11,296	856	9,936	644	6,793	576
Businesses divested through February 28, 1986	100	1	1,922	190	2,534	228
Total segments	$11,396	857	$11,858	834	$9,327	804
Unallocated corporate expenses		(121)		(111)		(106)
Gross operating earnings		$736		$723		$698

Fiscal 1986 Compared With Fiscal 1985

Net sales, excluding businesses divested through February 28, 1986, increased 14 percent, from $9.9 billion to $11.3 billion. After including net sales of businesses divested through February 28, 1986, total net sales decreased 4 percent from $11.9 billion to $11.4 billion. Segment earnings, excluding businesses divested through February 28, 1986, increased 33 percent, from $644 million to $856 million. Total segment earnings increased from $834 million to $857 million. Segment earnings of ongoing operations increased primarily due to higher margins at U.S. Food operations. Both net sales and segment earnings of U.S. Food and Consumer Products were favorably affected by the inclusion of Esmark operations for twelve months in the current year versus only eight months in the prior year.

Earnings before discontinued operations totaled $225 million compared to $477 million in fiscal 1985. The decrease in earnings from fiscal 1985 to fiscal 1986 resulted from a number of factors including:

- a change of $220 million (after-tax) in Business Realignment income (per share: $2.40 primary; $2.18 fully diluted).
- a non-recurring $19 million non-taxable gain realized in the prior year on the debt for preference stock exchange (per share: $.20 primary; $.19 fully diluted).
- a non-recurring decrease in the income tax provision in the prior year of $17 million due to the reversal of deferred taxes related to DISC earnings (per share: $.19 primary; $.17 fully diluted).
- expenses of $17 million (pre-tax) in 1986 related to the April 1986 merger of Beatrice with a company formed by the investment firm of Kohlberg Kravis Roberts & Co. The after-tax effect of these expenses was $9 million (per share: $.08 primary and fully diluted).

Additionally, the absence of earnings from divested operations was partially offset by the additional four months of earnings contributions from Esmark operations and lower net interest expense resulting from debt reductions.

Primary and fully diluted earnings per share before discontinued operations were $2.04 and $2.03, respectively, compared to $5.04 and $4.75, respectively, last year. The changes were primarily a result of the factors mentioned in the preceeding paragraph and the increase in the number of common shares outstanding resulting from the July 1985 sale of common stock (per share effect: $.07 primary; $.06 fully diluted).

Segment Results The net sales for the U.S. Food segment were $7.0 billion in fiscal 1986 compared to $6.3 billion in fiscal 1985. The increase of 12 percent was primarily attributable to the inclusion of Esmark's grocery, meats and cheese operations for twelve months in fiscal 1986 compared to eight months in fiscal 1985. Sales volume gains resulting from new product introductions by soft drinks operations also contributed to the sales increase. These gains were somewhat offset by the exit from the fresh meats business and lower selling prices due to lower product costs at cheese and fruit juices operations.

U.S. Food segment earnings increased 53 percent from $359 million to $548 million primarily due to improved earnings at fruit juices, meats, grocery, and dairy products and the inclusion of the Esmark food operations for twelve months in the current year versus eight months in the prior year. Improved earnings were reported by fruit juices and meats primarily as a result of lower product costs and reduced operating expenditures. Grocery operations reported improved earnings as a result of lower operating expenses due to operating efficiencies. Lower product costs at dairy operations also contributed to the earnings increase. At soft drink operations, increased marketing expenditures in light of extremely competitive marketing conditions more than offset earnings from volume increases.

Consumer Products sales were $2.3 billion compared to $1.8 billion for the prior year. The increase of 30 percent over the prior year was attributed to the inclusion of Esmark's personal products operations for twelve months in fiscal 1986 as compared to eight months in fiscal 1985. Each of the segment's businesses had strong sales performances. New product offerings, market growth and increased sales promotions accounted for a significant portion of the sales increase.

Consumer Products segment earnings increased 13 percent from $189 million in fiscal 1985 to $214 million in fiscal 1986. Increased earnings are attributable to the inclusion of the Esmark operations for twelve months versus eight months in the prior year. Fiscal 1986 earnings were affected by a pre-tax charge of $25 million for increased product warranty costs as a result of the insolvency of one of Beatrice's insurance carriers. In fiscal 1985, segment earnings were reduced by a $32 million pre-tax charge arising from costs, including the costs of a product exchange program, associated with the tampon business. Volume increases at many operations and lower overhead costs at personal products operations also contributed to the earnings increase.

International Food sales increased 4 percent to $1.9 billion. All major geographical areas, except Australia, reported sales increases in local currencies. Unfavorable foreign exchange rates continued to adversely affect sales performances.

International Food segment earnings were slightly below prior year. This change is primarily due to the continued strength of the U.S. dollar against many foreign currencies during fiscal 1986. Latin America reported increased earnings due to the inclusion of a full year's earnings in fiscal 1986 for a company acquired late in fiscal 1985. Price and volume increases at dairy operations were responsible for the earnings increase in Canada. Australian earnings declined due to lower confectionery volume.

Other Results Unallocated corporate expenses increased primarily due to increased expenditures related to the sponsorship of automobile racing programs and the inclusion of postretirement medical expenses for Esmark retirees for all of fiscal 1986.

Net interest expense decreased from $325 million to $259 million due to lower debt levels in fiscal year 1986.

Miscellaneous income (expense), net in fiscal 1986 primarily consisted of expenses of $20 million relating to the phase-out of the automobile racing sponsorships and $17 million relating to the Merger. In fiscal 1985 this category included a $19 million non-taxable gain from the early retirement of a portion of Beatrice's outstanding sinking fund debentures in exchange for 1.5 million shares of a new series of convertible adjustable preference stock.

The provision for income taxes in fiscal 1985 was significantly affected by tax rate differentials related to Business Realignment and the reversal of $17 million of deferred taxes related to DISC earnings. See Note 14 of the Notes to Condensed Consolidated Financial Statements for additional information concerning the provision for income taxes.

Fiscal 1985 Compared With Fiscal 1984

Summary Net sales rose 27 percent to $11.9 billion, compared with $9.3 billion a year earlier. Earnings before discontinued operations rose 10 percent to $477 million after-tax compared with $433 million previously. Earnings before discontinued operations in both years included after-tax income from Business Realignment activity. In fiscal 1985, Business Realignment activity included pre-tax gains from the sale of various operations totaling $700 million. These gains were partially offset by a pre-tax charge of $286 million established for the anticipated costs of restructuring Beatrice's businesses following the acquisition of Esmark.

Excluding Business Realignment activity, earnings before discontinued operations were $257 million, down 23 percent from $334 million a year earlier. On a per share basis, such earnings declined at a slower rate because fewer common shares were outstanding during fiscal 1985. Related primary earnings per share before discontinued operations of $2.64 were down 18 percent from $3.23 in fiscal 1984. The declines are primarily due to the costs associated with the acquisition of Esmark, significantly higher advertising and sales promotion expenses and the absence of earnings from divested operations. These factors more than offset the earnings from the Esmark operations acquired in 1985.

Segment Results U.S. Food sales reached $6.3 billion, up 53 percent from $4.1 billion the prior year. The increase was due to the inclusion of acquired Esmark operations, increased demand in soft drinks and bottled waters, new product introductions and significantly higher selling prices in fruit juices operations.

U.S. Food segment earnings rose 6 percent due to the inclusion of acquired operations and volume gains in soft drinks and bottled waters. These factors more than offset lower margins in the grocery, cheese, meats and fruit juices operations resulting from significantly higher advertising and sales promotion expenses and higher raw material prices.

Consumer Products sales increased 89 percent to $1.8 billion compared with $948 million the prior year. The increase is due to the inclusion of Esmark personal products operations and volume gains in most consumer durables operations as a result of improved consumer demand and strong marketing efforts.

Consumer Products segment earnings increased 42 percent to $189 million compared with $133 million a year earlier due to the inclusion of Esmark operations and earnings increases in home products, window coverings, water treatment and direct marketing operations. Luggage operations experienced a decline in earnings due to lower margins as unit volume gains and selling price increases could not offset higher production costs and selling and marketing expenses. Segment earnings were reduced by a $32 million pre-tax charge arising from costs, including the costs of a product exchange program, associated with the tampon business.

International Food sales rose 7 percent to $1.9 billion, compared with $1.7 billion a year earlier. The increase in sales is primarily due to the inclusion of operations acquired during fiscal 1985 and at the end of fiscal 1984.

International Food segment earnings were $96 million, 9 percent lower than the $105 million posted the prior year. Lower foreign currency translation rates accounted for the decline. Canada and Australia reported strong increases in segment earnings due to aggressive marketing efforts which resulted in increased demand. Europe and Latin America posted earnings increases in local currencies largely due to the inclusion of earnings from acquired operations and higher selling prices which more than offset higher production costs.

Total segment sales and earnings, excluding divested businesses, increased 46 percent and 12 percent to $9.9 billion and $644 million, respectively. Total segment sales and earnings increased 27 percent and 4 percent to $11.9 billion and $834 million, respectively.

Other Results Unallocated corporate expenses increased $5 million primarily due to the addition of unallocated corporate expenses from Esmark operations.

Net interest expense increased $251 million as a result of the debt incurred to finance the acquisition of Esmark, the inclusion of Esmark's net interest expense and the financing of the December 1983 stock repurchase program.

Business Realignment activity for fiscal 1985 resulted in pre-tax income of $414 million as compared with pre-tax income of $163 million in fiscal 1984. Fiscal 1985 divestiture activities resulted in gains of $700 million (after loss provisions of $45 million) and included divestitures of Beatrice's chemical, wine and spirits, foodservice equipment, foundry, bakery and cookies, leather, agri-products, specialty apparel, graphic arts, and cryogenic businesses. Following the Esmark acquisition, businesses serving specific market groups are being integrated and restructured. A pre-tax charge of $286 million for the anticipated costs of the integration and restructuring, which pertain to food businesses owned by Beatrice prior to the acquisition of Esmark, was recorded as a reduction of Business Realignment income in fiscal 1985. For fiscal 1984, the components of Business Realignment income of $163 million pre-tax were $125 million of pre-tax gains from the sale of businesses and a $38 million pre-tax reduction of the previously established Business Realignment reserve.

Miscellaneous income (expense), net in fiscal 1985 includes a $19 million non-taxable gain from the early retirement of a portion of Beatrice's outstanding sinking fund debentures in exchange for 1.5 million shares of a new series of convertible adjustable preference stock during the second quarter.

The provision for income taxes in both years was affected by the taxes related to Business Realignment income. Fiscal 1985 income taxes were also affected by the non-taxable gain from the exchange of debentures for preference stock and by the reversal of $17 million of deferred taxes related to DISC earnings. Note 14 of the Notes to Consolidated Financial Statements provides additional information on income taxes.

Financial Condition and Inflation

Internal Funds Cash provided by operations before discontinued operations amounted to $659 million in fiscal 1986, excluding the March 1985 divestiture proceeds, $654 million in fiscal 1985 and $725 million in fiscal 1984. Other significant sources of funds during these years include proceeds from the sales of divested operations in all three years and the sale of 14.4 million shares of common stock in fiscal 1986.

During the three-year period, funds were used for capital expenditures and dividends, treasury stock purchases in fiscal 1984, the acquisition of Esmark in fiscal 1985 and in fiscal 1986 the reduction of debt incurred in the Esmark acquisition.

Working Capital At the end of fiscal 1986, current assets exceeded current liabilities by $251 million, a decrease of $360 million from the prior fiscal year-end. Among the reasons for the decrease are an increase in short-term debt used to finance the purchase of several Beatrice long-term debt issues and a decrease in the net current assets of discontinued operations.

Capital Expenditures Net capital expenditures increased in fiscal 1986 to $356 million from $251 million in fiscal 1985 and $208 million in fiscal 1984.

Leverage and Credit Availability The total debt to equity ratio decreased from 161 percent at the end of fiscal 1985 to 71 percent at the end of fiscal 1986. This ratio improved during fiscal 1986 primarily because debt was reduced through application of proceeds from the sales of divested operations and the sale of common stock.

In connection with the merger of Merger Sub into Beatrice on April 17, 1986, Beatrice has guaranteed the debt (approximately $5.8 billion of bank debt, notes and debentures at the acquisition date) of Beatrice's ultimate parent company, BCI Holdings Corporation. Beatrice also assumed $5.8 billion of intercompany debt of Merger Sub which is payable to Beatrice's immediate parent companies which are indirect wholly-owned subsidiaries of Holdings. These actions could impact future operations significantly.

Inflation Inflation in the U.S. was not as significant a concern as it was in the previous few years. However, in certain other countries where Beatrice does business, inflation is still an important issue. Management throughout the world continuously attempts to counteract the effects of inflation with various productivity improvement and cost reduction programs.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Financial statements and supplementary data filed herewith are listed in the Index to Financial Statements on page F-1. Information regarding selected quarterly financial data and the effects of changing prices can be found in the Notes to Consolidated Financial Statements.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The names, ages and present principal occupations or employments and five years employment histories of the directors and executive officers of Beatrice are set forth below. Unless otherwise indicated, each occupation set forth opposite an individual's name refers to Beatrice.

Name	Age	Present Principal Occupation or Employment and Five Year Employment History
Mary D. Allen	40	Secretary since August 1985, Vice President and Assistant General Counsel since 1983. Assistant Vice President and Senior Attorney from 1981 to 1983.
John R. Attwood	56	Senior Vice President and President, Beatrice Beverage Group since 1984. President of Soft Drink division from 1983 to 1984. Previously, President and Chief Operating Officer of Coca-Cola Bottling Company of Los Angeles.
Chance Bahadur	43	Vice President and Treasurer since 1984. Treasurer of Esmark, Inc. from 1982 to 1984. Previously, Assistant Treasurer of Esmark, Inc.
Reuben W. Berry	59	Senior Vice President—Human Resources since 1983. Senior Vice President and Director of Human Resources from 1981 to 1983.
Kevin A. Bousquette	28	Director since April 1986. Employee, Kohlberg Kravis Roberts & Co. since 1985. Investment Banker, Morgan Stanley & Co. Incorporated from 1984 to 1985. Attorney, Latham & Watkins prior to 1984.

Name	Age	Present Principal Occupation or Employment and Five Year Employment History
Roger T. Briggs	57	Director, Executive Vice President and Chief Financial Officer since April 1986. Partner, Kelly, Briggs & Associates, Inc. since June 1984. Vice Chairman and Chief Financial Officer of Esmark, Inc. prior to June 1984.
Donald P. Kelly	64	Chairman of the Board and Chief Executive Officer since April 1986. Partner, Kelly, Briggs & Associates, Inc. since June 1984. Chairman of the Board, President and Chief Executive Officer of Esmark, Inc. from November 1982 to June 1984. President and Chief Executive Officer of Esmark, Inc. prior to November 1982.
Jerome Kohlberg, Jr.	60	Director since April 1986. Partner, Kohlberg Kravis Roberts & Co.
Henry R. Kravis	42	Director since April 1986. Partner, Kohlberg Kravis Roberts & Co.
William S. Mowry, Jr.	46	Executive Vice President and President, Beatrice International Food segment since August 1984. Director from August 1984 to April 1986. Senior Vice President (International Food Group) from April 1984 to August 1984. Vice President from March 1984 to April 1984. Director, Administration/Organization (Grocery Group) from November 1983 to March 1984. President of Institutional Food division from June 1983 to November 1983. Director of Operations for Dairy, Agri-Products, Warehouse, Soft Drink & Bottled Water and Wine & Spirit divisions from 1982 to 1983. Previously, President of Soft Drink division.
Richard J. Pigott	46	Executive Vice President and Chief Administrative Officer. Director from February 1984 to April 1986.
Paul E. Raether	39	Director since April 1986. Employee, Kohlberg Kravis Roberts & Co.
William E. Reidy	54	Senior Vice President—Planning and Strategy since April 1986. Consultant from July 1985 to April 1986. Senior Vice President (Corporate Strategy) from 1982 to July 1985. Senior Vice President, Corporate Strategy and Development, Dart & Kraft, Inc. prior to 1982.

Name	Age	Present Principal Occupation or Employment and Five Year Employment History
Frederick B. Rentschler	46	Director and Executive Vice President since April 1986. Consultant from June 1984 to April 1986. President and Chief Executive Officer, Swift/Hunt-Wesson Foods, Inc. from September 1983 to June 1984. President and Chief Executive Officer, Hunt-Wesson Foods, Inc. prior to 1983.
George R. Roberts	42	Director since April 1986. Partner, Kohlberg Kravis Roberts & Co.
Joel E. Smilow	52	Director and Executive Vice President since April 1986. Consultant from October 1984 to April 1986. Director and Executive Vice President from August 1984 to October 1984. President of Beatrice's Consumer Products segment from June 1984 to October 1984. Chairman and Chief Executive Officer of International Playtex, Inc. prior to June 1984.
Hercules P. Sotos	52	Senior Vice President. Vice Chairman of International Playtex, Inc. since April 1986. President, International Playtex, Inc. from February 1985 to April 1986. Previously, Chief Financial Officer of Beatrice Consumer Products segment and Executive Vice President (Finance and Administration) of International Playtex, Inc.
John A. Stevens	40	Vice President since 1982 and Controller since 1980.
Michael T. Tokarz	36	Director since April 1986. Employee, KKR since 1985. Vice President and Manager, New York office, Continental Illinois National Bank and Trust Company of Chicago, ("Continental Bank") from 1984 to 1985. Vice President and Manager, Miami office, Continental Bank prior to 1984.
Richard F. Vitkus	46	Senior Vice President and General Counsel since 1981.

Messrs. Kohlberg, Kravis and Roberts are directors of Amstar Corporation, L.B. Foster Company, Lily-Tulip, Inc., P.T. Components, Inc., Child World, Inc., SCI Holdings, Inc., Union Texas Petroleum Holdings, Inc. and CNC Holding Corporation. Mr. Briggs is a director of Midcon Corp. and the Institutional Liquid Assets group of mutual funds. Mr. Kelly is a director of General Dynamics Corporation and Inland Steel Co. Mr. Raether is a director of P.T. Components, Inc., Child World, Inc., SCI Holdings, Inc. and CNC Holding Corporation. Mr. Smilow is a director of Stride-Rite Corp., Hyponex Corporation, Reeves Communications Corp. and All-American Gourmet Company.

Messrs. Kravis and Roberts are first cousins.

ITEMS 11 AND 13. EXECUTIVE COMPENSATION AND CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Executive Compensation

The following table sets forth information covering all compensation paid by Beatrice and its subsidiaries for services rendered in all capacities during the fiscal year ended February 28, 1986 to (i) each of the five most highly compensated executive officers of Beatrice, and (ii) executive officers of Beatrice as a group. William W. Granger, Frank E. Grzelecki, Anthony Luiso and David E. Lipson were removed as executive officers of Beatrice in April 1986, shortly after the Effective Time of the Merger. No information is included in the table for the portion of any period during which an individual was not an executive officer of Beatrice.

Name of Individuals or Number in Group	Capacities in Which Served	Compensation*
William W. Granger	Chairman of the Board, Chief Executive Officer	$ 903,529
Frank E. Grzelecki	Executive Vice President; President Consumer Products Segment	622,685
Anthony Luiso	Executive Vice President; President, U.S. Food Segment	699,736
David E. Lipson	Executive Vice President, Chief Financial Officer	739,334
Richard J. Pigott	Executive Vice President, Chief Administrative Officer	606,136
Executive officers as a group (20 persons, including those listed above)		$8,172,853

*Includes the following:

(i) Bonuses including those paid under bonus plans which provide annual cash bonuses to corporate administrative and operating officers. Bonuses to officers for the 1986 fiscal year were made in amounts up to 95% of salary;

(ii) Personal benefits relating to the personal use of Beatrice automobiles, expenses associated with the relocation of certain officers, certain life insurance premiums and financial counseling, the amount of the employees' salary deferrals under the Beatrice Employee Savings Trust and the Supplemental Employee Savings Trust, and Company contributions on behalf of the employees to the Beatrice Employee Savings Trust and the Supplemental Employee Savings Trust; and

(iii) Dividend equivalents accrued under various Beatrice incentive programs.

Executive Employment Agreements, Certain Transactions and the Modifications

On August 3, 1985, James L. Dutt resigned as Chairman of the Board and Chief Executive Officer of Beatrice, and William W. Granger, Jr. was elected as Chairman of the Board and Chief Executive Officer of Beatrice.

Mr. Dutt had an employment agreement with Beatrice dated September 1, 1981, which provided for his full-time services from September 1, 1981, to February 28, 1987. His salary at the time of his termination was $750,000 per annum plus bonus. Additionally, Mr. Dutt's employment agreement provided for a ten year period after full-time employment during which he would provide consulting services to Beatrice in exchange for an annual consulting fee equal to 10% of his salary plus bonus for the last full fiscal year preceding the consulting period.

Under the terms of a financial settlement reached in connection with his resignation, Mr. Dutt will receive $102,088 per month he was entitled to through February 28, 1987 under the pre-existing employment contract and $10,208 per month under the ten-year pre-existing consulting agreement. He will also receive a supplemental payment of $6,459 per month under the same consulting agreement and retirement benefits due him under employee health, insurance and pension plans. Mr. Dutt also received a pro-rated bonus payment of $197,938 and will receive, in February 1987, a payment of $195,360 to offset benefits forfeited under one of Beatrice's long-term incentive plans.

Mr. William G. Karnes, a director from August 3, 1985 to April 17, 1986, has a consulting agreement with Beatrice dated August 1, 1985 which provides him $20,833 per month from August 1, 1985 through May 31, 1987 unless terminated earlier by the Compensation and Benefits Committee of the Board of Directors of Beatrice (the "Committee"). During the period of his consulting agreement and while a director, Mr. Karnes was not entitled to receive director emeritus fees for previous service on the Board of Directors. On August 20, 1985, Beatrice granted a non-qualified stock option to Mr. Karnes, for 20,000 shares at an option price of $33.625 per share. Pursuant to the Merger Agreement, Mr. Karnes was paid a sum equal to the difference between $47.23 and the option price per share times the number of shares subject to the option held by him.

Mr. Cedric E. Ritchie, a director from 1980 to April 17, 1986, is the Chairman and Chief Executive Officer of The Bank of Nova Scotia ("BNS"). On December 19, 1985, BNS, subject to certain conditions, offered to make substantial funds available to Holdings as part of the financing relating to the Merger (the "Financing") and, in connection therewith, to act as a co-manager as part of the syndicate of lenders providing term and revolving credit loans (the "Bank Credit Agreement") (pursuant to which BNS would receive a fee) which was part of such Financing. Pursuant to the Bank Credit Agreement, as executed, BNS is co-manager of the syndicate of lenders under the Bank Credit Agreement and BNS's outstanding credit commitments to Beatrice, its subsidiaries and affiliates are approximately $568 million (U.S), $23.1 million (Canadian) and $3.1 million (Jamaican).

Each non-employee member of the Board of Directors of Beatrice during the last fiscal year was entitled to receive payments pursuant to a standard arrangement. Under the arrangement, non-employee directors were entitled to receive (i) $20,000 per annum, (ii) $2,500 annually for serving as chairman of any of the Board of Directors' committees, and (iii) $1,000 for attendance at each meeting of the Board or a committee of the Board. Some directors elected to defer receipt of such compensation as permitted under the arrangement. Upon consummation of the Merger, all of the then directors of Beatrice left the Board and all but two of the non-management directors became directors emeritus. Directors emeritus are entitled to receive an annual consulting fee for life equal to the annual director's fee. Mr. Karnes was not entitled to such fee during the period from August 1985 to April 1986 pursuant to his consulting agreement with Beatrice referred to above. No arrangement exist at the present time for the payment of fees to the current directors of Beatrice.

Effective as of August 9, 1985, Beatrice entered into Employment and Consulting Agreements (collectively the "Agreements") with William W. Granger, Jr.; Frank E. Grzelecki; David E. Lipson; Anthony Luiso; William S. Mowry, Jr.; and Richard J. Pigott. Each of such persons was an executive officer and also a director of Beatrice during the last fiscal year, and such persons are sometimes herein collectively referred to as the "Senior Executives." The Agreements with Messrs. Lipson, Pigott and Grzelecki replaced earlier agreements dated March 11, 1985, September 1, 1981 and October 25, 1984, respectively. None of such persons continues to be a director of Beatrice and none of such persons continues to be an officer of Beatrice except Messrs. Mowry and Pigott.

Each of the Agreements provided for an initial three-year employment term. Minimum annual base pay and minimum annual guaranteed bonus as a percentage of base pay under the Agreements for each of the Senior Executives were as follows: Mr. Granger—$750,000, 63.34%; Mr. Grzelecki—$330,000, 56.67%; Mr. Lipson—$375,000, 56.67%; Mr. Luiso—$400,000, 56.67%; Mr. Mowry—$250,000, 56.67%; and Mr. Pigott—$320,000, 56.67%. Following the employment period, each of the Agreements provided for a ten-year consulting period with annual compensation to be approximately 10% of final annual base pay plus bonus as an employee. Each Agreement provided that the Senior Executive could terminate his employment if, among other things, his duties or responsibilities were substantially reduced or he was assigned duties materially inconsistent with his position at August 9, 1985 (and, in the case of Mr. Granger, if Beatrice selected his successor and Mr. Granger was satisfied that Beatrice no longer needed his continued services), in which event he would be entitled to receive, among other things, base pay and the minimum guaranteed bonus, and continued benefits, for the balance of the employment period and to commence consulting status.

The Agreement with Mr. Lipson incorporated provisions included in his prior employment agreement pursuant to which he received on June 5, 1985 an interest free loan from Beatrice in the amount of $330,000 to purchase 10,000 shares of Beatrice Common Stock and was entitled to a lifetime annuity of $150,000 per annum commencing in 1995. Mr. Lipson's prior employment agreement provided, and his Agreement provided, that the loan may, at the discretion of the Chairman of the Board of Beatrice, be forgiven in increments of one-third of the original principal balance on March 1 of each of 1986, 1987 and 1988.

In connection with the Merger, Beatrice has settled the Agreements, has modified the severance agreements with the Key Executives (as defined herein), and has modified certain Beatrice employee benefit and incentive plans. The following discussion describes the modifications (the "Modifications").

Pursuant to the Modifications, upon consummation of the Merger, the Senior Executives were relieved of their obligations (other than certain confidentiality obligations) under the Agreements and relinquished (except for Mr. Granger, whose relinquishment had already occurred) all of their rights to compensation under the Agreements and, subject to certain exceptions in an aggregate amount of $1,078,058, all of their rights to benefits under each of the following Beatrice employee benefit and incentive plans: the Management Incentive Plan, the 1970 Management Incentive Deferred Compensation Plan, the 1973 Management Incentive Deferred Compensation Plan, the 1985 Performance Unit Plan, the 1982 Performance Unit Plan, the 1977 Restricted Stock Performance Plan, the 1977 Phantom Book Unit Plan in Conjunction With Phantom Stock Plan, the Beatrice Foods Company Supplemental Retirement Income Plan, the Beatrice Supplemental Employees Savings Trust, and Beatrice's accumulated vacation pay policy. Subject to certain exceptions in the case of Mr. Granger, all other employee benefits to which the Senior Executives were entitled under their Agreements were to continue in full force and effect.

In consideration of surrendering rights under the Agreements and the above-mentioned plans, each Senior Executive became entitled to receive, at the times referred to below, payments approximating (i) the total amounts he would have received under his Agreement if his employment terminated at the Effective Time of the Merger under circumstances entitling him to a continuation of salary and bonus and to consulting fees (*e.g.,* assignment of duties materially inconsistent with his position at August 9, 1985 or a substantial reduction in responsibilities), and (ii) the rights surrendered under such plans, reduced pursuant to certain then pending litigation. The payments are as follows: William W. Granger, Jr. ($6,400,000); Frank E. Grzelecki ($2,608,594); David E. Lipson ($4,303,998) (which includes the cost of the annuity contract ($558,225), and the amount of a note evidencing the $330,000 loan to Mr. Lipson by Beatrice, referred to above); Anthony Luiso ($3,489,436); William S. Mowry, Jr. ($2,393,940); and Richard J. Pigott ($3,084,951). None of these payments is included in the renumeration table above except for the portion thereof that reflects fiscal 1986 bonuses.

Mr. Granger received all of his payment of $6,400,000, and Mr. Lipson received $1,300,000 of his payment, in cash, and Mr. Lipson's trust received the annuity contract, on December 27, 1985. Mr. Grzelecki received $1,750,000 of his payment, in cash, on December 30, 1985. The balance of the payment to Mr. Grzelecki was made, in cash, at the Effective Time of the Merger. The balance of the payment to Mr. Lipson (including the note referred to above) and the payments to the other three Senior Executives were placed in a separate trust for each of them at the Effective Time of the Merger and will be paid to each of them, together with the pre-tax income from the investment thereof, in 1987.

As set forth below, at or immediately prior to the Effective Time of the Merger, all outstanding stock options and stock appreciation rights, including those held by the Senior Executives, were cancelled in exchange for a cash payment based on the difference between the exercise price thereof and $47.23 per share, except that Mr. Granger relinquished, without compensation to him, options and rights (including rights to dividend equivalents for the third and fourth quarters of fiscal 1986 under the Non-Qualified Stock Option Plan) with a value (on such basis) of $1,845,758. However, if, as a result of the Merger, notwithstanding his relinquishing of the options and rights, Mr. Granger is required to pay a federal excise tax on any amount he received as a result of the transactions contemplated by the Merger Agreement, whether under the Modifications or under any other Beatrice benefit plan or program or otherwise, Beatrice will pay him the $1,845,758 he relinquished, together with interest thereon from the Effective Time of the Merger.

During August 1985, Beatrice entered into severance agreements with ten other executive officers and forty-four employees (collectively, the "Key Executives") providing for the payment to each Key Executive, if his employment is terminated other than for "good cause," or on account of death, disability or normal retirement, within two years after a "change in control" of Beatrice, as such terms are defined in the respective severance agreements, of three times the sum of (i) such Key Executive's average total compensation (excluding bonus) for the three preceding fiscal years and (ii) such Key Executive's current targeted bonus. Any payment to a Key Executive is, however, subject to the limitation that the maximum amounts payable to such Key Executive under such agreements, together with any other amounts payable in respect of a "change in control," would not result in an excise tax under the Internal Revenue Code.

In connection with the Modifications, the severance agreements entered into during August 1985 were amended (i) to provide for severance payments of three times the sum of (a) the Key Executive's annual salary at the rate in effect at the time of the "change in control" and (b) the Key Executive's targeted bonus as set forth in the FY86 Management Incentive Plan, (ii) to eliminate the limitation on the maximum amounts payable to those Key Executives whose after-tax benefit would increase as a result of such elimination and (iii) to provide that each Key Executive will be entitled to his severance payment if he terminates his employment within two years after a "change in control" of Beatrice because, among other things, without his express written consent, (a) he is assigned duties materially inconsistent with his present position, duties, responsibilities and status with Beatrice, (b) Beatrice reduces his aggregate compensation and incentive and benefit package as in effect at the time of a "change in control" or (c) Beatrice requires him to perform his duties of employment beyond a fifty-mile radius from the location of his employment immediately prior to a "change in control" and, in each such instance, he terminates his employment in writing within 120 days after the first occurrence of such event, and (iv) to provide each of the Key Executives with medical, dental and life insurance until the earlier of twelve months following termination of employment or the time such person becomes a participant in the group insurance programs of a new employer.

Pursuant to the Modifications, the following actions were also taken:

(i) The 1985 Performance Unit Plan, which had limited payments to participants in the event a federal excise tax was due thereon, was amended to permit full payments to participants even though they would be subject to such a tax as a result of such payments, so long as the participant's after-tax benefit will increase as a result thereof.

(ii) The term "full value" when applied to Performance Units awarded pursuant to the 1985 Performance Unit Plan was defined to mean the targeted amount of $1,000 per Performance Unit.

(iii) It was agreed that Beatrice's severance policies as they existed on November 12, 1985, with subsequent amendments mutually agreed to, would apply to all employees not covered by an employment agreement.

(iv) The 1982 Non-Qualified Option Plan was amended to provide that non-officers who exercise any option granted under such plan will receive stock appreciation rights ("SARs") upon such exercise without regard to whether such option was outstanding for at least six months, or whether such option was exercised during a specific window period. This provision permits non-officers who are not subject to

Section 16(b) of the Securities Exchange Act of 1934 to exercise their SARs without regard to window periods.

(v) The 1970 Management Incentive Deferred Compensation Plan and the 1973 Management Incentive Deferred Compensation Plan were amended to permit each participant to "freeze" the value of his account upon a "change in control" (based upon the then existing value of the Beatrice Common Stock reflected in such account), to the extent such value had not previously been frozen.

(vi) The Beatrice Retirement Income Plan was amended to provide (a) that the definition of the term "final average monthly earnings" for purposes of that plan includes earnings through the last month preceding termination, (b) that the reduction factors for early retired and deferred pensions will be 6% for each year between ages 55 and 60 and (c) that no reduction factor will apply above age 60.

(vii) The Management Incentive Plan was amended to make the definition of the term "change of control" consistent with the definition of that term as used in the 1985 Performance Unit Plan.

Beatrice Employee Benefit Plans

Retirement Plans of Beatrice. Officers of Beatrice and most other salaried employees are covered by the Beatrice Retirement Income Plan (the "Retirement Plan"), which is designed to qualify under Section 401(a) of the Internal Revenue Code of 1954, as amended (the "Code"), and which provides a monthly retirement benefit at age 65 equal to (i) 1% of final average monthly earnings multiplied by years of benefit service plus (ii) .5% of final average monthly earnings multiplied by years of benefit service less 1.5% of monthly social security benefit multiplied by years of benefit service up to 33⅓ years. Pursuant to the Modifications, "Final average monthly earnings" as used herein means average monthly cash compensation (excluding payments under long-term incentive plans and expense reimbursements) over the highest 60 consecutive months during a participant's last 120 months of employment, or the five calendar years during a participant's last fifteen calendar years of employment, if greater, during which average cash compensation was highest. The Retirement Plan also provides early retirement benefits and a surviving spouse benefit if a participant dies after satisfying certain requirements. As of the Effective Time of the Merger, the Retirement Plan was amended to reduce the period of service required for vesting from 10 to 7 years for a participant whose employment is terminated other than for cause.

The Code imposes a limitation on the benefit which may be paid under the Retirement Plan. Beatrice has a non-qualified Supplemental Retirement Income Plan to provide benefits which participants would have been entitled to receive under the Retirement Plan were it not for the limitation. In the event of a "change of control" of Beatrice, such as the Merger, a corporate officer or key executive terminating employment prior to vesting of his Retirement Plan benefits is entitled to receive an equivalent benefit under the Supplemental Retirement Income Plan. As a result of the Merger, a total of 9 executive officers as a group became entitled to retirement benefits under the Supplemental Retirement Income Plan if their employment terminates prior to vesting of their Retirement Plan benefits.

Mr. Granger received a lump sum distribution of his rights under the Retirement Plan upon his retirement from Beatrice in 1984 after 38 years of service and he is not receiving additional pension benefits for his period of reemployment by Beatrice from August 1985 until his resignation on April 17, 1986. Messrs. Grzelecki and Lipson, at the time of their removal as executive officers in April 1986, were not vested in the Retirement Plan and they relinquished their rights under the Supplemental Retirement Income Plan as described above. Mr. Luiso, at the time of his resignation on April 17, 1986, had approximately 15 years of service and had average annual earnings at that date of $303,420. Mr. Pigott continues as an executive officer of Beatrice and for purposes of determining his pension benefits payable under the Retirement Plan and the Supplemental Retirement Income Plan he will have approximately 28 years of service at his normal retirement date and his final average annual earnings as of calendar year 1985 was $308,348. The normal form of payment under the Retirement Plan is a straight life annuity if the participant is unmarried, or a 50%

joint and survivorship annuity, if married. There are, however, optional forms of payment available, including other joint and survivor annuities, and a life annuity with a guaranteed payment period of up to fifteen years. Based on estimated social security benefit levels, the table below reflects annual benefit payment to participants at specified salary levels and with specified lengths of service.

Average Annual Covered Earnings	Years of Benefits Service at Retirement			
	10	20	30	40
$ 200,000	$ 28,735	$ 57,469	$ 86,204	$115,782
300,000	43,735	87,469	131,204	175,782
400,000	58,735	117,469	176,204	235,782
500,000	73,735	147,469	221,204	295,782
600,000	88,735	177,469	266,204	355,782
700,000	103,735	207,469	311,204	415,782
800,000	118,735	237,469	356,204	475,782
900,000	133,735	267,469	401,204	535,782
1,000,000	148,735	297,469	446,204	595,782

Beatrice's Employees' Stock Ownership Plan. Since 1976 Beatrice has maintained a tax credit employee stock ownership plan which is designed to qualify under Sections 401(a) and 409 of the Code, and under which various employees of Beatrice who have completed one year of service are eligible to participate. After the end of each fiscal year, Beatrice may contribute cash equal in value of up to one-half percent of the compensation paid during the year to covered employees and for which Beatrice becomes entitled to a tax credit in an equivalent amount. The contributions are allocated among employees on a per capita basis. Cash contributions and dividends were, prior to the Effective Time of the Merger, invested in shares of Beatrice Common Stock. All amounts allocated to a participant are fully vested and held in trust until distributed in a lump sum upon termination of employment. The plan has been amended, effective as of the Effective Time of the Merger, to provide for distributions only in cash, and has been terminated contingent upon a favorable ruling from the Internal Revenue Service. There was no allocation to employees in this plan during fiscal year 1986.

Beatrice's Employee Savings Trust. During the 1985 fiscal year, the Board of Directors approved establishment of the Beatrice Employee Savings Trust ("BEST") which is designed to qualify under Section 401(a) and 401(k) of the Code as a profit sharing plan. BEST allows employees to defer up to 17% of their eligible compensation. Beatrice and participating subsidiaries make matching contributions of up to 50% of the amount of salary deferral contributions (up to 6% of compensation) which a participant elects. Amounts contributed for a participant are held in trust until distributed either in a lump sum, of installments, pursuant to the provisions of the plan. All employee contributions are 100% vested. Fifty percent of the employer's contribution vests after three years of employment and 100% is vested after five years of employment. Prior to the Effective Time of the Merger, all employer matching contributions were invested in shares of Beatrice Common Stock. The BEST has been amended, effective as of the Effective Time of the Merger, to provide for investment of employer matching contributions in the same manner as employee contributions, and for distributions only in cash. Employee contributions are invested, at the employee's discretion, in investments alternatives offered by BEST.

During the 1985 fiscal year, the Board of Directors also approved the establishment of a non-qualified supplemental Beatrice Employee Savings Trust. The Supplemental BEST provides benefits which participants would have been entitled to receive under the Savings Plan were it not for the limitation on contributions imposed by the Internal Revenue Code. As of the Effective Time of the Merger, employer contributions in the Supplemental BEST became 100% vested. On March 1, 1986, there were 25 active participants in the Supplemental BEST.

Beatrice's Group Term Life Insurance. Certain officers and employees of Beatrice are covered by group term life insurance providing a pre-retirement death benefit equal to twice their compensation for the most recent calendar year and a maximum post-retirement death benefit equal to 50% of such life insurance in effect immediately prior to retirement. Upon retirement, such officers and employees are entitled to purchase additional insurance equal to their base salary plus bonus during the year preceding retirement. The death benefit is based on calendar year compensation, excluding payments under any long-term incentive plan and expense reimbursements and allowances for services outside the United States. Beatrice has provided such group term life insurance since 1981.

Beatrice's Financial Counseling Plans. All corporate officers and certain other key executives of Beatrice are covered by a plan providing financial counseling services. Each participant is entitled to annual services having a value of $3,000 to $10,000 depending on his or her office, and certain senior officers are entitled to an additional $5,000 for an estate review in each fifth year of participation and the year of retirement, provided the participant has paid a specified amount each year. The financial counseling services include tax and estate planning, tax return preparation assistance and personal financial management advice.

Beatrice's 1985 Performance Unit Plan. On April 22, 1985, the Board of Directors of Beatrice adopted the 1985 Performance Unit Plan (the "Performance Plan") which became effective in fiscal 1986. The purpose of the Performance Plan is to provide Beatrice a means of attracting, retaining and motivating executive personnel of outstanding ability by offering them performance related incentives. During fiscal 1986 Messrs. Granger, Grzelecki, Lipson, Luiso, Pigott and executive officers as a group were granted 429, 142, 161.5, 172.5, 138 and 1,894 units, respectively. As a result of the Merger active employees who are due benefits under the Plan have had their account balances frozen and are entitled to receive interest in the future.

Beatrice's 1982 Incentive Stock Option Plan and 1982 Non-Qualified Stock Option Plan. The 1982 Incentive Stock Option Plan (the "Incentive Stock Option Plan") and the 1982 Non-Qualified Stock Option Plan (the "Non-Qualified Stock Option Plan") (collectively, the "Stock Option Plans") provided for the grant of options to purchase shares of Beatrice Common Stock to such officers and other key employees of Beatrice and its subsidiaries and, in the case of the Non-Qualified Stock Option Plan, its affiliates, as the Committee may from time to time select. The 1982 Non-Qualified Stock Option Plan allows for the granting of stock appreciation rights.

The following table sets forth, as to the named individuals and executive officers as a group, information covering options granted under Beatrice's Non-Qualified and Incentive Stock Option Plans, the average exercise price per share of such options and the net value of securities realized for the fiscal year ended February 28, 1986:

	Incentive Stock Options			**Non-Qualified Stock Options**		
	Options Granted	**Average Exercise Price Per Share**	**Net Value of Securities Realized**	**Options Granted**	**Average Exercise Price Per Share**	**Net Value of Securities Realized**
William W. Granger	—	$ —	$ —	78,650	$33.13	$152,250
Frank E. Grzelecki	—	—	—	26,080	33.50	—
David E. Lipson	—	—	—	29,635	33.50	—
Anthony Luiso	—	—	—	31,615	33.50	—
Richard J. Pigott	—	—	26,425	25,290	33.50	—
Executive officers, as a group	—	—	110,112	346,850	33.41	152,250

At or immediately prior to the Effective Time of the Merger, each holder of a then outstanding option (an "Option") to purchase shares of Beatrice Common Stock granted under an employee stock option or compensation plan or arrangement of Beatrice, whether or not the Option was then exercisable, received in settlement thereof a cash payment from Beatrice in an amount equal to the difference between $47.23 and the per share exercise price of the Option, multiplied by the number of shares of Beatrice Common Stock covered by the Option (the "Option Settlement Amount"). Such Options were cancelled upon the payment of the Options Settlement Amount and such cancellation was considered to be an exercise thereof entitling the holder to payment of all amounts due in respect of any related stock appreciation rights.

As a result of the Merger, the Stock Option Plans were discontinued in April 1986. At that time Messrs. Grzelecki, Lipson, Luiso, Pigott and Executive Officers as a group were entitled to have all outstanding stock options and stock appreciation rights cancelled in exchange for a cash payment as discussed previously.

Beatrice's 1970 and 1973 Management Incentive Deferred Compensation Plans. The 1970 and 1973 Management Incentive Deferred Compensation Plans (the "1970-1973 Plans") provided benefits directly related to the market appreciation of shares of Beatrice Common Stock, and dividends thereon, to a limited group of principal administrative and managerial employees of Beatrice and its subsidiaries. The 1970 Plan was terminated in 1973, except as to stock units previously granted to participating employees. The 1973 Plan was terminated in 1977, except as to stock units previously granted.

An amendment to the 1970-1973 Plans gave each participant who was an active employee on May 31, 1985 a one-time option to fix the value of each stock unit in his account at the difference between the market price of a share of Beatrice Common Stock (determined pursuant to a plan formula) at the end of the preceding fiscal quarter and the value of the stock unit on the award date. Participants who elected to fix the value of vested units in their accounts in the preceding manner are not entitled to benefit from any appreciation of the stock price, but are entitled to have interest credited to the balances in their accounts at the prime rate of interest in effect from time to time at the First National Bank of Chicago. Such participants shall be entitled to receive the principal amount of their account balances in cash installments upon termination of employment. The interest so credited may, at the election of the participant, either be deferred or be paid currently.

Management Incentive Plan. Beatrice's Management Incentive Plan for fiscal 1986 (the "Plan") provided annual bonuses to employees based upon financial performance and personal goals. Maximum bonuses ranged from 30% to 95% of base salary. The Plan called for a maximum payment for the fiscal year in which a "change of control" as defined in the Plan occured.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Beatrice Series A Convertible Preference Stock

To the knowledge of Beatrice, there is no person who may be deemed to own beneficially more than 5% of the outstanding shares of Beatrice Series A Convertible Preference Stock.

Beatrice Common Stock

All of the outstanding shares of Beatrice's Common Stock are directly and indirectly owned by Holdings.

BCI Holdings Corporation Equity Securities

Beatrice's parent, Holdings, has two classes of equity securities: Common and nonvoting Preferred Stock.

The following table sets forth the beneficial ownership of Holdings Common Stock as of the Effective Time of the Merger for each director of Beatrice and for all directors and officers of Beatrice as a group. At the Effective Time of the Merger, none of the Beatrice directors were deemed to own beneficially, directly or indirectly, any Holdings Preferred Stock and all directors and officers of Beatrice, as a group, were deemed to own beneficially, directly and indirectly, a total of 32,532 shares of Holdings Preferred Stock which was .07% of the shares to be issued in the Merger.

			Fully diluted(1)	
Name and Address	Number of Shares	%	Number of Shares	%
KKR Associates(2) 9 West 57th Street, Suite 4170 New York, NY 10019	60,000,000	73.7%	66,260,869(3)	47.6%
BCI Partners, L.P.(4) 9 West 57th Street, Suite 4170 New York, NY 10019	20,000,000	24.6%	55,478,262(5)	39.9%
Beatrice Management(6)	1,425,000	1.7%	17,391,304	12.5%
	81,425,000	100.0%	139,130,435	100.0%

(1) The fully diluted information assumes the exercise of all warrants to purchase Holdings Common Stock (the "Holdings Warrants") and all authorized options to purchase Holdings Common Stock (the "Holdings Options").

(2) KKR Associates is a limited partnership of which Messrs. Kohlberg, Kravis and Roberts are general partners. Shares shown as owned by KKR Associates are owned of record by three limited partnerships of which KKR Associates is the sole general partner and as to which it possesses sole voting and investment power. Messrs. Kohlberg, Kravis and Roberts, as general partners of KKR Associates, may be deemed to share beneficial ownership of the shares shown as beneficially owned by KKR Associates.

(3) Includes shares issuable on the exercise of Holdings Warrants held by two limited partnerships of which KKR Associates is the general partner.

(4) BCI Partners, L.P. is a limited partnership of which Messrs. Kohlberg, Kravis and Roberts are general partners. Shares shown as owned by BCI Partners, L.P. are owned of record by two limited partnerships of which BCI Partners, L.P. is the sole general partner and as to which it possesses sole voting and investment power. Messrs. Kohlberg, Kravis and Roberts as general partners of BCI Partners, L.P., may be deemed to share beneficial ownership of the shares shown as beneficially owned by BCI Partners, L.P.

(5) Includes shares issuable on the exercise of the Holdings Warrants held by BCI Equity Associates, L.P. and an additional limited partnership of which BCI Partners, L.P. is the general partner.

(6) Messrs. Kelly, Rentschler, Smilow and Briggs own 1,040,000; 140,000; 140,000 and 105,000 shares of Holdings Common Stock respectively which constitute 1.3%, .17%, .17% and .13% respectively of Holdings outstanding Common Stock. Messrs. Kelly, Rentschler, Smilow and Briggs also have the right to acquire 9,360,000; 1,260,000; 1,260,000; and 945,000 shares of Holdings Common Stock respectively upon the exercise of Holdings Options which, with their present shares, would constitute 7.5%, 1.0%, 1.0% and .75% respectively of Holdings Common Stock on a fully diluted basis. No other officers of Beatrice beneficially own any Holdings Common Stock. The remaining Holdings Options have been reserved for issuance to Beatrice Management in the future.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) List of documents filed as part of this Report:

(1) The financial statements listed in the Index to Financial Statements on page F-1 are filed as part of this Report.

(2) The financial statement schedules listed in the Index to Financial Statements on page F-1 are filed as part of this Report.

(b) Reports on Form 8-K:

(1) There were no reports on Form 8-K during the last quarter of fiscal 1986.

(c) Exhibits:

Exhibit Number	Description of Exhibits
2.1	Restated and Modified Agreement and Plan of Merger dated as of February 2, 1986 among Beatrice Companies, Inc., BCI Holdings Corporation and BCI Merger Corporation.
3.1	Restated Certificate of Incorporation of Beatrice Companies, Inc.
3.2	Bylaws of Beatrice Companies, Inc., as amended.

Exhibit Number	Description of Exhibits
4	Beatrice Companies, Inc. agrees to furnish to the Securities and Exchange Commission upon its request a copy of any instrument which defines the rights of holders of long-term debt of Beatrice Companies, Inc. No such instrument authorizes a total amount of securities in excess of 10% of the total assets of Beatrice Companies, Inc. and its subsidiaries on a consolidated basis.
10.1	Guaranty Agreement dated April 17, 1986 entered into by the Guarantors named therein.
10.2	Guaranty and Assumption Agreement dated April 17, 1986 by and among BCI Merger Corporation, Beatrice Companies, Inc. and Bankers Trust Company, as agent for the parties named therein.
10.3	Pledge Agreement dated April 17, 1986 between Beatrice Companies, Inc. and Bankers Trust Company, as collateral agent for the parties named therein.
10.4	Merger Agreement dated May 24, 1984 by and among Beatrice Companies, Inc., LA Acquisition Corporation and Esmark, Inc. (incorporated herein by reference to Exhibit 2.3 to the Form 8-K dated June 14, 1984 of Beatrice Companies, Inc.)
11	Computation of Earnings per Share.
12.1	Computation of Ratio of Earnings Before Fixed Charges to Fixed Charges.
12.2	Computation of Ratio of Earnings Before Fixed Charge to Fixed Charges and Preference Dividends.
22	Subsidiaries of Beatrice.
25	Powers of Attorney.

(d) Financial statements of 50% or less owned companies and other unconsolidated subsidiaries of Beatrice have been omitted since all such companies considered in the aggregate do not constitute a significant subsidiary of Beatrice.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BEATRICE COMPANIES, INC.

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

May 29, 1986

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Title	
KEVIN A. BOUSQUETTE	Director	
ROGER T. BRIGGS	Executive Vice President, Chief Financial Officer and Director	
J. S. CORCORAN	Vice President	
DONALD P. KELLY	Chairman of the Board, Chief Executive Officer and Director	
JEROME KOHLBERG, JR.	Director	
HENRY R. KRAVIS	Director	By /s/ ROGER T. BRIGGS Roger T. Briggs Attorney-in-fact May 29, 1986
PAUL E. RAETHER	Director	
FREDERICK B. RENTSCHLER	Executive Vice President and Director	
GEORGE R. ROBERTS	Director	
JOHN A. STEVENS	Vice President and Controller	
JOEL E. SMILOW	Executive Vice President and Director	
MICHAEL T. TOKARZ	Director	

BEATRICE COMPANIES, INC.

INDEX TO FINANCIAL STATEMENTS

Note:

All other financial statement schedules are omitted as not applicable or because the information required is included in the financial statements or the notes thereto.

AUDITORS' REPORT

The Board of Directors and Stockholders
Beatrice Companies, Inc.

We have examined the consolidated balance sheet of Beatrice Companies, Inc. and subsidiaries as of February 28, 1986 and 1985 and the related statements of consolidated earnings, stockholders' equity and changes in financial position for each of the years in the three-year period ended February 28, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In connection with our examinations of the consolidated financial statements, we also examined the financial statement schedules as listed in the accompanying index.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Beatrice Companies, Inc. and subsidiaries at February 28, 1986 and 1985 and the results of their operations and changes in their financial position for each of the years in the three-year period ended February 28, 1986, in conformity with generally accepted accounting principles applied on a consistent basis. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

PEAT, MARWICK, MITCHELL & CO.

Chicago, Illinois
April 14, 1986

BEATRICE COMPANIES, INC.

CONSOLIDATED BALANCE SHEET

(In millions)

	As of February 28, 1986	1985
ASSETS		
Current assets:		
Cash	$ 63	$ 84
Short-term investments, at cost which approximates market	194	208
Divestiture proceeds received in March 1985	—	855
Receivables, less allowance for doubtful accounts of $42 (1985—$41)	1,140	1,060
Inventories	1,326	1,371
Other current assets	514	611
Total current assets	3,237	4,189
Investments in affiliated companies	114	175
Net property, plant and equipment	2,300	2,048
Consumer franchises, including brands, trademarks, tradenames, distribution systems, workforces, patents and other intangible assets	2,505	683
Other noncurrent assets	186	159
Unallocated purchase cost	—	1,924
	$8,342	$9,178
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt and current maturities of long-term debt	$ 788	$1,529
Accounts payable	1,000	937
Accrued expenses	1,198	1,112
Total current liabilities	2,986	3,578
Long-term debt	1,305	2,290
Other noncurrent liabilities	433	477
Noncurrent and deferred income taxes	588	390
Minority interests	73	75
Stockholders' equity:		
Preference stock (at stated values)	100	243
Common stock (at stated value)	212	189
Additional capital	536	180
Retained earnings	2,308	2,304
Common stock in treasury, at cost	(12)	(344)
Cumulative foreign currency translation adjustment	(187)	(204)
Total stockholders' equity	2,957	2,368
	$8,342	$9,178

See Notes to Consolidated Financial Statements.

BEATRICE COMPANIES, INC.

STATEMENT OF CONSOLIDATED EARNINGS

(In millions except per share data)

	Year ended last day of February		
	1986	**1985**	**1984**
Net sales	$11,396	$11,858	$9,327
Operating expenses:			
Cost of sales	7,931	8,456	6,797
Selling and administrative expenses	2,729	2,679	1,832
Total operating expenses	10,660	11,135	8,629
Gross operating earnings	736	723	698
Other income (expense):			
Interest income	41	52	39
Interest expense	(300)	(377)	(113)
Business Realignment	—	414	163
Miscellaneous, net	(35)	20	6
Total other income (expense)	(294)	109	95
Earnings before income taxes and discontinued operations	442	832	793
Provision for income taxes	217	355	360
Earnings before discontinued operations	225	477	433
Discontinued operations, net of income tax expense of $4 million in 1986 and income tax benefits of $6 million in 1985	7	2	—
Net earnings	$ 232	$ 479	$ 433
Earnings per share:			
Before discontinued operations:			
Primary	$ 2.04	$ 5.04	$ 4.23
Fully diluted	$ 2.03	$ 4.75	$ 3.99
Net earnings:			
Primary	$ 2.11	$ 5.06	$ 4.23
Fully diluted	$ 2.09	$ 4.77	$ 3.99

See Notes to Consolidated Financial Statements.

BEATRICE COMPANIES, INC.

STATEMENT OF CONSOLIDATED STOCKHOLDERS' EQUITY

	Year ended last day of February 1986, 1985 and 1984								
	NUMBER OF SHARES*			STOCKHOLDERS' EQUITY					
	Preference stock	Issued common stock	Common stock in treasury	Preference stock	Issued common stock	Additional capital	Retained earnings	Common stock in treasury	Cumulative foreign currency translation adjustment
	(In thousands)			(In millions)					
Balance, February 28, 1983	4,897	101,635	(2,551)	$254	$188	$161	$1,751	$ (50)	$ (89)
Net earnings	—	—	—	—	—	—	433	—	—
Conversion of preference stock	(1,164)	—	2,239	(60)	—	5	—	55	—
Conversion of debentures	—	—	811	—	—	(1)	(1)	21	—
Exercise of stock options	—	—	757	—	—	(3)	(3)	21	—
Stock contributed to employee stock benefit plans (forfeitures shown as treasury stock)	—	6	94	—	—	—	—	3	—
Purchase of treasury stock	—	—	(12,169)	—	—	—	—	(403)	—
Stock issued for assets of purchased companies	—	618	—	—	1	16	—	—	—
Dividends paid on:									
Common stock	—	—	—	—	—	—	(159)	—	—
Preference stock	—	—	—	—	—	—	(16)	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(96)
Redemption of preference stock	(5)	—	—	—	—	—	—	—	—
Balance, February 29, 1984	3,728	102,259	(10,819)	194	189	178	2,005	(353)	(185)
Net earnings	—	—	—	—	—	—	479	—	—
Conversion of preference stock	(505)	—	941	(26)	—	(1)	(5)	32	—
Conversion of debentures	—	—	287	—	—	—	(2)	10	—
Exercise of stock options	—	—	203	—	—	—	(3)	7	—
Stock contributed to employee stock benefit plans (forfeitures shown as treasury stock)	—	—	51	—	—	(1)	—	2	—
Purchase of treasury stock	—	—	(1,393)	—	—	—	—	(46)	—
Dividends paid on:									
Common stock	—	—	—	—	—	—	(155)	—	—
Preference stock	—	—	—	—	—	—	(15)	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(19)
Preference stock issued to retire outstanding debt	1,500	—	—	75	—	—	—	—	—
Debt redemption	—	—	126	—	—	(1)	—	4	—
Common stock warrants issued	—	—	—	—	—	5	—	—	—
Balance, February 28, 1985	4,723	102,259	(10,604)	243	189	180	2,304	(344)	(204)
Net earnings	—	—	—	—	—	—	232	—	—
Sale of common stock	—	4,738	9,662	—	9	134	(30)	321	—
Conversion of preference stock	(2,787)	4,516	150	(143)	9	130	(1)	5	—
Conversion of debentures	—	556	9	—	1	14	—	—	—
Exercise of stock options	—	231	154	—	1	4	(2)	5	—
Exercise of common stock warrants	—	2,200	—	—	3	73	—	—	—
Stock contributed to employee stock benefit plans (net of forfeitures)	—	17	(1)	—	—	1	—	1	—
Dividends paid on:									
Common stock	—	—	—	—	—	—	(181)	—	—
Preference stock	—	—	—	—	—	—	(14)	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	17
Balance, February 28, 1986	1,936	114,517	(630)	$100	$212	$536	$2,308	$ (12)	$(187)

**Preference shares authorized on last day of February: fiscal 1986 and 1985—50 million, fiscal 1984—20 million.*
Common shares authorized on last day of February: fiscal 1986 and 1985—300 million, fiscal 1984—200 million.

See Notes to Consolidated Financial Statements.

BEATRICE COMPANIES, INC.

STATEMENT OF CONSOLIDATED CHANGES IN FINANCIAL POSITION

(In millions)

	Year ended last day of February		
	1986	1985	1984
Cash provided (used) by operations:			
Earnings before discontinued operations	$ 225	$ 477	$ 433
Items not involving cash:			
Depreciation and amortization of intangible assets and debt discounts	335	299	237
Net charges (credits) due to Business Realignment asset write-downs and reserve changes	—	364	(38)
Deferred taxes and other items, net	130	298	62
Changes in working capital:			
Divestiture proceeds received in March 1985	855	(855)	—
Receivables	(46)	176	(49)
Inventories	82	95	14
Other current assets	10	(179)	21
Accounts payable and other current liabilities	(77)	(21)	45
Cash provided by operations before discontinued operations	1,514	654	725
Cash provided (used) by investment activities:			
Net expenditures for property, plant and equipment	(356)	(251)	(208)
Noncurrent assets of purchased businesses, other than Esmark	(25)	(169)	(109)
Investments in affiliated companies	(30)	(7)	(22)
Net noncurrent assets of divested operations, less associated reduction of Business Realignment reserve	158	200	79
Other items, net	27	90	(41)
Cash used by investment activities	(226)	(137)	(301)
Net cash used by discontinued operations	(8)	(18)	—
Cash provided (used) by financing activities, excluding Esmark acquisition:			
Change in debt	(1,779)	(482)	(28)
Proceeds from sale of common stock	434	—	—
Refund of income taxes	176	—	—
Common stock issued upon conversion of preference stock and debentures	157	34	79
Preference stock and debentures retired upon conversion into common stock	(157)	(34)	(79)
Issuance of preference stock	—	75	—
Purchase of treasury stock	—	(46)	(403)
Common stock issued for exercises of stock options and stock warrants	85	4	15
Other items, net	(36)	18	34
Cash used by financing activities	(1,120)	(431)	(382)
Acquisition of Esmark:			
Debt issued	—	2,708	—
Value assigned to noncurrent liabilities	(25)	885	—
Cost assigned to:			
Working capital, excluding cash and short-term investments	215	(444)	—
Noncurrent tangible assets	(243)	(929)	—
Intangible assets	(1,905)	—	—
Unallocated purchase cost	1,958	(1,958)	—
Esmark cash and short-term investments at acquisition	—	262	—
Cash provided before dividend payments	160	330	42
Cash dividends paid	(195)	(170)	(175)
Increase (decrease) in cash and short-term investments	(35)	160	(133)
Cash and short-term investments at beginning of year	292	132	265
Cash and short-term investments at end of year	$ 257	$ 292	$ 132

See Notes to Consolidated Financial Statements.

1. Summary of Significant Accounting Policies

Principles of Consolidation The consolidated financial statements include Beatrice and its significant subsidiaries. A leasing subsidiary and 20 percent to 50 percent owned companies are carried on the equity method.

Fiscal Year The fiscal year of Beatrice ends on the last day of February. Many non-U.S. subsidiaries have fiscal years that end on December 31 and certain other subsidiaries have fiscal years ending on the last Saturday in February.

Inventories Inventories are valued at the lower of cost or market. The last-in, first-out (LIFO) cost basis was used to determine 28 percent of inventories at the end of fiscal 1986 and 33 percent of inventories at the end of fiscal 1985. The first-in, first-out (FIFO) cost basis is generally used for other inventories. Had all inventories been valued on a FIFO basis, inventories would have been greater by $28 million and $77 million at the end of fiscal 1986 and 1985, respectively. The decrease in the difference between the FIFO and LIFO valuations of these inventories resulted primarily from declines in certain commodity prices. In addition, the quantities of certain of these inventories were reduced, resulting in higher cost of sales and a decrease in net earnings of approximately $5 million.

Net Property, Plant and Equipment Depreciation is provided principally on the straight-line method for financial reporting purposes and on accelerated methods for income tax purposes where possible. Amortization of capitalized leases and capitalized interest costs is included with depreciation expense. Depreciation expense amounted to $247 million, $251 million and $194 million in fiscal 1986, 1985 and 1984, respectively. The amount of interest capitalized was not material in any year.

Intangible Assets Intangible assets are amortized using the straight-line method over periods not in excess of 40 years. Amortized amounts are not accumulated but are deducted directly from the related asset.

Income Taxes Income taxes include deferred income taxes which result from reporting certain items of income and expense in different periods for income tax purposes than for financial reporting purposes. Investment tax credit is recognized on the flow-through method.

Calculation of Earnings Per Share Primary earnings per share is computed by adjusting net earnings for preference stock dividends and dividing that amount by the weighted average number of shares of common stock and common stock equivalents (stock options) outstanding during the period. Fully diluted earnings per share is computed by adjusting net earnings for the after-tax interest expense on convertible debentures and dividing that amount by the sum of the weighted average number of shares of common stock and shares issuable for stock options and for the assumed full conversion of preference stock and convertible debentures.

Pension and Postretirement Plans Pension costs for the majority of Beatrice's U.S. pension plans are funded on a current basis. Substantially all prior service costs are amortized to expense over periods not exceeding 30 years.

Approximately 78 percent of Beatrice's U.S. postretirement health care expense is determined by an actuarial cost method which accrues expense over employees' service lives. The remaining U.S. postretirement health care expense is recognized as claims are incurred under the company's self-insured programs and by expensing premiums paid to outside carriers over the policy period. Substantially all of Beatrice's U.S. postretirement health care is funded when claims are paid by the company. The effect on earnings of postretirement life insurance and non-U.S. postretirement health care is immaterial.

Reclassification Certain amounts for previous years in the consolidated financial statements have been reclassified to conform to the presentation used for fiscal 1986.

2. Agreement and Plan of Merger

BCI Holdings Corporation ("Holdings") and BCI Merger Corporation ("Merger Sub"), a wholly-owned direct and indirect subsidiary of Holdings, entities recently formed by Kohlberg Kravis Roberts & Co., and Beatrice have entered into an Agreement and Plan of Merger dated as of November 14, 1985 as modified February 2, 1986 (as restated and modified, the "Merger Agreement"). The Merger Agreement, which was approved by Beatrice's stockholders on April 11, 1986 and is subject to certain other conditions, provides that Merger Sub will be merged into Beatrice ("Merger"). As a result of the Merger, all the common stock of Beatrice will be directly and indirectly owned by Holdings. Under the Merger Agreement, at the time of the Merger, each of Beatrice's then outstanding common shares will be converted into the right to receive $40 cash and 10/25 of a share of Holdings Cumulative Exchangeable Preferred Stock ("Preferred Stock") with a liquidation preference of $25 per share ("Merger Consideration"). The Merger Agreement provides that the holders of Preferred Stock will be entitled to receive cumulative dividends at the annual rate of 15.25% per share. (Such dividends shall be payable quarterly and dividends for the first six years following the Merger may be made, in the sole discretion of Holdings, in cash or by issuing additional shares of Preferred Stock). In addition, Beatrice's then outstanding convertible preference stock, convertible debt securities and stock warrants will be 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. Holdings will also have the right, at any time, subject in certain circumstances to approval by certain financing sources, to exchange subordinated debentures for Preferred Stock. The subordinated debentures, if issued, would have an interest rate equal to the dividend rate of the Preferred Stock and other terms would be the same as the Preferred Stock. Both the Preferred Stock and the subordinated debentures, if issued, will be retired on the first dividend or interest payment date following the 16th anniversary of the Merger.

In connection with financial advisory and investment banking services, Beatrice has agreed to pay its investment bankers fees in the amount of $16 million plus expenses for services through October 1986, with a provision that the total becomes due immediately in full, to the extent of unpaid amounts, if and when the Merger or a similar transaction is completed. In addition, Beatrice will incur legal, printing, filing and miscellaneous fees and expenses totaling approximately $22 million (pre-tax) associated with the Merger regardless of whether the Merger is completed. Through February 28, 1986, $17 million (pre-tax) of such investment banking and other fees and expenses have been recorded as expense by Beatrice.

If the Merger is completed, Beatrice will incur additional expenses of approximately $57 million (pre-tax) to satisfy the "change of control" provisions in certain of Beatrice's employee incentive plans and executive employment agreements, and to acquire outstanding stock options and outstanding stock appreciation rights. Beatrice may also incur expenses in connection with the possible severance of employees, the amounts of which are not presently determinable. Also, Holdings is expected to incur approximately $6 billion of new debt financing, which will be used to acquire Beatrice common shares, retire approximately $750 million of Beatrice debt outstanding at February 28, 1986, pay certain fees and expenses associated with the Merger and debt financing, and provide additional working capital. Upon completion of the Merger, Beatrice will guarantee Holdings' debt.

The Merger Agreement provides that in the event the Merger Agreement or the transactions contemplated thereby are terminated or abandoned, except under certain limited circumstances, Beatrice would reimburse Holdings, Merger Sub and their affiliates for all reasonable out-of-pocket expenses incurred by them or on their behalf. The Merger Agreement also provides that, in the event of such termination or abandonment, if certain other conditions are met, Beatrice would pay Holdings a cancellation fee of approximately $18 million in addition to the reimbursement of expenses described above.

Unless otherwise stated, the information contained in the consolidated financial statements and notes thereto does not reflect any effects of the Merger.

3. Balance Sheet Components

The components of certain balance sheet accounts are as follows:

	1986	1985
	(In millions)	
INVENTORIES		
Raw materials and supplies	$ 386	$ 405
Work in process	184	226
Finished goods	756	740
Total	$1,326	$1,371
OTHER CURRENT ASSETS		
Deferred income tax charges	$ 221	$ 251
Net current assets of discontinued operations	190	268
Other	103	92
Total	$ 514	$ 611
NET PROPERTY, PLANT AND EQUIPMENT		
Land	$ 255	$ 221
Buildings	1,136	1,039
Machinery and equipment	1,993	1,722
	3,384	2,982
Less accumulated depreciation	1,084	934
Net	$2,300	$2,048
OTHER NONCURRENT ASSETS		
Receivables	$ 63	$ 81
Net noncurrent assets of discontinued operations	37	—
Investments	32	30
Other	54	48
Total	$ 186	$ 159
ACCOUNTS PAYABLE		
Outstanding drafts and checks and other in-transit cash items	$ 166	$ 120
Trade and other	834	817
Total	$1,000	$ 937
ACCRUED EXPENSES		
Employee compensation and benefits	$ 308	$ 272
Business Realignment reserve	108	242
Income taxes	162	93
Taxes, other than income taxes	41	43
Other accruals	579	462
Total	$1,198	$1,112
OTHER NONCURRENT LIABILITIES		
Postretirement health care and pensions	$ 244	$ 263
Deferred credits	39	28
Other	150	186
Total	$ 433	$ 477

4. Investments in Affiliated Companies

Included in Investments in affiliated companies is an investment in a wholly-owned leasing subsidiary which is accounted for on the equity method in Beatrice's consolidated financial statements. Summary financial information for this subsidiary is as follows:

	1986	1985
	(In millions)	
Assets:		
Investment in equipment leased under operating leases, net	$ 41	$ 19
Investment in leveraged leases, net	171	87
Other	1	13
Total assets	213	119
Less liabilities:		
Notes payable	(90)	(76)
Deferred income taxes	(71)	(22)
Other liabilities	(3)	(1)
Beatrice's investment in the leasing subsidiary	$ 49	$ 20

The investment in equipment leased under operating leases, net represents vehicle leases with companies included in the consolidated group. The investment in leveraged leases, net is comprised of:

	1986	1985
	(In millions)	
Net rentals receivable	$ 235	$ 128
Estimated residual value of equipment	33	13
Less—Unearned income	(81)	(46)
Deferred investment tax credits	(16)	(8)
Investment in leveraged leases, net	$ 171	$ 87

Unearned income associated with leveraged leases is recognized over the terms of the leases at a constant after-tax rate applied to the unrecovered investment.

Net earnings of the leasing subsidiary for fiscal 1986 and 1985 were $6 million and $2 million, respectively.

The notes payable of the leasing subsidiary are not guaranteed by Beatrice or its consolidated subsidiaries, but there is an operating agreement which provides for the leasing subsidiary to maintain a specified financial ratio. In the event this ratio is not maintained, Beatrice is required to make payments to the leasing subsidiary in amounts sufficient to meet the ratio. Additionally, the operating agreement requires Beatrice to maintain and continue its ownership of the leasing subsidiary as necessary to permit Beatrice to consolidate the taxable income or losses of the leasing subsidiary in the Federal income tax return of Beatrice. Pursuant to a tax sharing agreement, any resultant Federal income tax benefits or expenses, regardless of Beatrice's ability to utilize the benefits currently, are transferred between Beatrice and this subsidiary. Therefore, the leasing subsidiary has recorded current income tax benefits which are greater than if they had been computed on a separate return basis.

5. Business Realignment

During the past few years, Beatrice has undergone a Business Realignment program to organize its operations along marketing lines. This program has included acquisitions and divestitures of businesses, a corporate identity marketing program, and reorganizations of management and corporate structures.

Acquisitions. Effective June 1984, Beatrice acquired Esmark, Inc. ("Esmark") in a purchase transaction for cash of approximately $2.7 billion, including related expenses. The allocation of purchase cost to Esmark's net assets reflected in Beatrice's consolidated balance sheet at February 28, 1986 has been revised from the preliminary allocation reflected at February 28, 1985 primarily to reflect final appraisals of property, plant and equipment and values associated with the sales of certain former Esmark businesses. The remaining purchase cost, amounting to $1.9 billion, was allocated to consumer franchises, including brands, trademarks, tradenames, distribution systems, workforces, patents and other intangible assets. Results of Esmark operations are included in the statement of consolidated earnings for all of fiscal 1986 and for the last eight months of fiscal 1985.

In fiscal 1986, 1985 and 1984 Beatrice acquired certain other businesses, the revenues and net earnings of which did not significantly affect consolidated results.

Divestitures and Other Realignment Activities. Business Realignment income (expense) in fiscal 1985 and 1984 is summarized as follows:

	1985	1984
	(In millions)	
Divestiture activities	$ 700	$ 163
Integration and restructuring costs	(286)	—
	$ 414	$ 163

During fiscal 1986, Beatrice sold various businesses which it acquired as part of the Esmark acquisition. In the final allocation of purchase cost to Esmark's net assets, these businesses were valued at net sale proceeds; thus no gain or loss was recognized in net earnings upon sale. Also during fiscal 1986, Beatrice identified certain other businesses for divestiture which are being accounted for as discontinued operations (see Note 6).

During fiscal 1985, following the acquisition of Esmark, Beatrice reorganized its business segments. Businesses serving specific market groups are being integrated and restructured to better utilize combined resources for more efficient operations and effective marketing. The charge to earnings for the anticipated cost of this integration and restructuring, which pertains to the food businesses owned by Beatrice prior to the acquisition of Esmark, totaled $286 million ($166 million after-tax) and was reflected as a reduction of Business Realignment income. This charge resulted from the planned elimination of duplicate and/or inefficient production facilities and distribution and administrative functions and included asset write-downs and reserves for costs incurred in connection with the restructuring.

Also during fiscal 1985, Beatrice identified certain businesses for divestiture. Net pre-tax gains amounting to $700 million were recognized in Business Realignment income as a result of these divestiture activities, the most significant of which was the divestiture of Beatrice's chemical business. The net after-tax gain from divestitures totaled approximately $386 million. Certain of these divestitures, which resulted in proceeds of $158 million and after-tax gains of $18 million and were completed in March 1985, are reflected as fiscal 1985 transactions in the accompanying financial statements. Also in fiscal 1985, costs associated with the corporate identity marketing program, amounting to $14 million ($8 million after-tax), were charged against the Business Realignment reserve.

During fiscal 1984, several businesses were divested, notably the domestic candy operations, John Sexton & Co., and the Shedd's margarine business. Gains amounting to $125 million ($76 million after-tax) were realized as Business Realignment income on certain of these divestitures, while losses of $56 million ($30 million after-tax) were incurred on the remainder. The losses were charged against the portion of the Business Realignment reserve established for these losses during fiscal 1983. The reserve was further reduced due to better than anticipated results on planned divestitures, resulting in additional Business Realignment income of $38 million ($23 million after-tax). In addition, a new corporate identity marketing program was introduced. Costs associated with these activities of $18 million ($10 million after-tax) were charged against the Business Realignment reserve.

6. Discontinued Operations

In October 1985, Beatrice announced its intention to sell the Avis vehicle rental and leasing business and certain other Esmark businesses. In addition, Esmark's fertilizer and phosphate business had been previously identified as a discontinued operation. Beatrice's consolidated financial statements present the net assets and operating results of these businesses as discontinued operations. These businesses had net sales and operating revenues of $1.5 billion for fiscal 1986 and $896 million for the eight months of fiscal 1985 following the Esmark acquisition. The net tangible assets of these businesses and Prime Vehicle Trust as of February 28, 1986 and 1985, are as follows:

	1986	1985
	(In millions)	
Rental vehicles, net of accumulated amortization	$1,015	$846
Short-term debt and current maturities of long-term debt of Prime Vehicle Trust	(760)	(538)
Other short-term debt and current maturities of long-term debt	(50)	(43)
Other current assets, net of current liabilities	(15)	3
Net current assets*	190	268
Investment in leasing subsidiaries**	70	60
Property, plant and equipment, net	186	192
Long-term debt of Prime Vehicle Trust	(171)	(271)
Other long-term debt	(37)	(30)
Other noncurrent assets, net of noncurrent liabilities	(11)	38
Net noncurrent assets (liabilities)*	37	(11)
Net tangible assets of discontinued operations	$ 227	$257

**Net current assets and net noncurrent assets (liabilities) of discontinued operations are included in Other current assets and Other noncurrent assets or liabilities, respectively, in Beatrice's consolidated balance sheet.*

***The leasing subsidiaries have third party indebtedness of $209 million and $251 million at February 28, 1986 and 1985, respectively.*

Rental vehicles are generally held for approximately one year and, accordingly, are classified as current assets. Amortization of the original cost reflects the estimated reduction in market value during the period the vehicles are used. When vehicles are sold, gains or losses are recorded as adjustments to amortization expense.

Most of the vehicles used in the Avis vehicle rental business are owned by a U.S. trust and substantially equivalent non-U.S. entities ("Prime Vehicle Trust") and are leased to Avis. These vehicles secure the associated debt of the Prime Vehicle Trust. Avis may terminate the leases by purchasing the vehicles at an amount sufficient to repay the underlying debt or by paying a fee not in excess of 25 percent of the unamortized value of the vehicles. The obligation to pay such fee also secures repayment of the Prime Vehicle Trust debt. A subsidiary of Beatrice is obligated to assure the performance of Avis under the leases; however, all of the Prime Vehicle Trust debt is without recourse to Beatrice and its subsidiaries. An escrow account is maintained which may be used to pay a portion of the lease termination fee or to meet other contingent payment obligations.

The debt of Prime Vehicle Trust at February 28, 1986 and 1985 is comprised of:

	1986	1985
	(In millions)	
Notes payable, weighted average 8.8% in 1986 and 9.8% in 1985	$432	$342
Current maturities of long-term debt	328	196
Short-term debt and current maturities of long-term debt of Prime Vehicle Trust	$760	$538
13.75% due 1997	$ 59	$ 65
12.45% due 1988	25	25
9.75% due 1988	38	—
Other, individually less than $20 million in 1986, weighted average 11.6% in 1986 and 14.6% in 1985	49	181
Long-term debt of Prime Vehicle Trust*	$171	$271

**Aggregate annual maturities of long-term debt of Prime Vehicle Trust for fiscal 1988 through 1991 are $94 million, $21 million, $16 million and $6 million, respectively.*

Available lines of credit for Prime Vehicle Trust at February 28, 1986 amounted to $1.4 billion ($945 million unused) which had virtually no compensating balance or commitment fee requirements at the end of fiscal 1986. Subsequent to February 28, 1986, approximately $1.0 billion of these lines were formally committed with commitment fee requirements of ¼ to ½ of 1 percent of the unused credit.

7. Leases

Property under capital leases is included in net property, plant and equipment and is comprised of:

	1986	1985
	(In millions)	
Real property	$105	$115
Machinery and equipment	46	43
	151	158
Less accumulated amortization	51	52
Net	$100	$106

Future minimum rentals under capital subleases as of the end of fiscal 1986 are $8 million. Contingent rent under capital leases was immaterial in fiscal 1986, 1985 and 1984.

Future minimum payments under non-cancellable leases for fiscal years after fiscal 1986 are:

	Capital leases	Operating leases
	(In millions)	
1987	$ 23	$ 35
1988	19	29
1989	15	24
1990	11	18
1991	9	14
Later years	82	83
Total minimum lease payments	159	$203
Less estimated executory costs	1	
Net minimum lease payments	158	
Less amount representing interest	64	
Present value of net minimum lease payments	$ 94	

Future minimum rental receipts under non-cancellable operating subleases as of the end of fiscal 1986 are $13 million.

Rent expense for operating leases for fiscal 1986, 1985 and 1984 was:

	1986	1985	1984
	(In millions)		
Minimum rent	$60	$60	$55
Contingent rent	4	5	4
	64	65	59
Less sublease rentals	5	6	2
Net	$59	$59	$57

8. Short-Term Debt

Short-term debt is comprised of:

	1986	1985	1984
	(Dollars in millions)		
U.S. borrowings	$516	$1,321*	$ 57
Non-U.S. borrowings	200	119	88
Current maturities of long-term debt	72	89	67
Total short-term debt and current maturities of long-term debt at year-end	$788	$1,529	$212
Weighted average interest rate of short-term debt at year-end	9.3%	9.8%	11.0%

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

U.S. borrowings principally comprised commercial paper in fiscal 1986 and 1985 and demand notes in fiscal 1984. Non-U.S. borrowings are primarily bank related debt.

Information regarding short-term debt activities during the respective fiscal years follows:

	1986	1985	1984
	(Dollars in millions)		
Maximum amount outstanding	$1,440	$2,703	$304
Average amount outstanding	$ 730	$1,429	$212
Weighted average interest rate	12.1%	11.0%	11.6%

Average short-term debt amounts are calculated based on month-end balances during each fiscal year. The associated weighted average interest rates are exclusive of the cost of maintaining certain compensating balances. These average rates represent short-term interest expense divided by the average balances outstanding.

Beatrice periodically reviews its financing needs and adjusts its formal credit facilities accordingly. Beatrice has a $1.2 billion Note Placement and Swing Line Facility ("Credit Facility") which expires in April 1988. The Credit Facility enables Beatrice to borrow funds in the Eurodollar market by issuing notes of up to six months maturity. The eleven underwriting banks ensure that the rate will not exceed ⅕ of 1 percent over London interbank offered rates (LIBOR) at the time the notes are issued.

In addition to the Credit Facility, Beatrice has $740 million committed lines of credit under revolving credit agreements and $401 million informal lines of credit with U.S. and non-U.S. banks as of the end of fiscal 1986. Commitment fees for these credit lines are ¼ of 1 percent of the unused credit. Compensating balance requirements are not significant. Borrowings under lines of credit are at prime interest rates or, at Beatrice's option, may instead be priced at rates based upon LIBOR or certificate of deposit rates. As of the end of fiscal 1986, the revolving credit agreements are available to Beatrice for periods of 2½ and 4½ years.

Beatrice's informal lines of credit as of the end of fiscal 1986 and 1985 are:

	1986	1985
	(In millions)	
Maximum lines of credit:		
U.S.	$ 15	$ 38
Non-U.S.	386	223
Borrowings under lines of credit:		
Non-U.S.	$119	$ 93

Upon consummation of the Merger the aforementioned Credit Facility and committed lines of credit facilities are expected to be terminated and Beatrice will utilize the credit facilities of BCI Holdings Corporation. The effect of the Merger upon the informal lines of credit is not determinable. U.S. short-term debt is anticipated to be retired in connection with the Merger.

9. Long-Term Debt

Long-term debt is comprised of:

	1986	1985
	(In millions)	
Sinking fund debentures:		
7.7%, $17 million due to 1996**	$ 14	$ 14
9½%, $37 million due to 1999**	32	34
9¼%, due to 2000**	41*	38
8½% due 1989 to 2008	34*	34
10⅞% due 1991 to 2010	98*	98
Other debt:		
12.85% due 1987	100	100
12% due 1989	100	20
8¼% due 1989 (*denominated in Dutch Guilders*)	38	27
12⅛% due 1991	51	—
10¼% due 1992 (*denominated in European Currency Units*)	46	—
7¾% notes due 1994 (*denominated in Deutsche Marks*)	55	40
10½% due 1994	120	200
11⅞%, due to 1995**	45*	49
8.3%, $75 million due 1997**	67	72
13%, $25 million due 1998**	26	26
9⅞%, $112 million due to 2004**	103	108
Commercial paper borrowings classified as long-term debt****	—	980
Zero coupon note payments due:		
1992—$250 million (14.6%***)	111	97
2014—$114 million (12.2%***)	4	4
Industrial revenue bonds, due various dates through 2014 (8.4%***)	58	62
Miscellaneous, individually less than $10 million in 1986, due various dates through 2006 (9.1%***)	140	275
Capitalized lease obligations (10.7%***)	94	101
	1,377	2,379
Less current maturities	72	89
Total long-term debt	$1,305	$2,290

**Anticipated to be retired in connection with the Merger.*

***Balances discounted to an effective rate of 12.5% in conjunction with the acquisition of Esmark.*

****Percentages represent weighted average effective rates.*

*****At February 28, 1985 Beatrice intended to refinance commercial paper borrowings, classified as long-term debt, with long-term debt or to continuously refinance such borrowings with short-term instruments over a period in excess of one year. The Credit Facility (Note 8) gave Beatrice the ability at February 28, 1985 to continuously refinance these borrowings for up to three years.*

Before giving effect to debt anticipated to be retired in connection with the Merger, aggregate annual maturities and sinking fund requirements of long-term debt, including capitalized lease obligations, for fiscal 1988 through 1991 are $158 million, $50 million, $182 million and $45 million, respectively.

10. Stockholders' Equity

Preference Stock As of the end of fiscal 1986 and 1985, the components of outstanding preference stock are as follows:

	1986	1985
	(In millions)	
Series A Cumulative Convertible—1,935,665 shares in 1986 and 3,222,509 shares in 1985	$100	$168
Convertible Adjustable—1,500,000 shares in 1985	—	75
Total	$100	$243

Series A preference shares are convertible into common stock at a conversion price of $27.957 based upon the stated value of $52. The annual dividend rate is $3.38 per share. The Series A stock may be redeemed at Beatrice's option, at $53 per share through August 7, 1986, only if the dividends paid on the underlying common stock during the 12 months preceding the redemption total at least 105 percent of the Series A dividends paid. After August 7, 1986, it may be redeemed at $52 per share. In the event of a voluntary liquidation, Series A shares have a preferred claim to assets over common shares in an amount equal to the then current redemption price. Upon involuntary liquidation, Series A shares have a preference value equal to $52 per share.

In fiscal 1985, Beatrice issued 1.5 million shares of a newly authorized series of convertible adjustable preference stock to retire outstanding sinking fund debentures with an aggregate principal amount of $93 million. These shares were converted into 2.3 million shares of common stock during fiscal 1986.

Common Stock The stated value of Beatrice common stock at February 28, 1986 and 1985 is $1.85 per share with no par value. On April 11, 1986, Beatrice shareholders approved an increase in the par value to $.01 per share. In July 1985, Beatrice sold 14.4 million shares of its common stock for net proceeds of $434 million. As of the end of fiscal 1986 and 1985, shares of Beatrice common stock were reserved for issuance as follows:

	1986	1985
Exercise of stock options	3,642,109	1,019,976
Conversion of preference stock	3,600,335	11,618,864
Conversion of debentures	280,204	845,630
Exercise of warrants	3,261,163	5,460,800
Incentive deferred compensation plans	72,847	190,673
Total	10,856,658	19,135,943

At Beatrice's Annual Meeting in June 1985, the shareholders approved an amendment to the 1982 Stock Option Plans authorizing the issuance of 3 million additional shares of common stock upon exercise of options under the plans. Beatrice has since granted options to purchase 1.3 million common shares at option prices not exceeding $34.25 per share under these plans.

Activity in shares under option during the fiscal years is as follows:

	1986	1985
Beginning of year	778,976	813,309
Options granted	1,395,145	193,600
Options exercised	(397,867)	(222,933)
Options cancelled	(194,355)	(5,000)
End of year	1,581,899	778,976

The total option price of exercised options was $8 million during fiscal 1986 and $4 million during fiscal 1985. The total option price of options outstanding as of the end of fiscal 1986 and 1985 was $50 million and $18 million, respectively. As of the end of fiscal 1986, 340,209 stock options were currently exercisable at a total option price of $8 million. In connection with the proposed Merger, 402,300 stock options were made immediately exercisable as of March 1986 at a total option price of $13 million, even though by their original terms they would not have been exercisable until later.

Warrants to purchase common stock were issued in fiscal 1985 in connection with the issuance of $200 million of 10½ percent notes due in fiscal 1995. Each $1,000 note was issued with a warrant to purchase 27.3 shares of common stock at a price of $36⅝ per share. The warrants may be exercised through fiscal 1995. As of February 28, 1986, warrants had been exercised and converted into 2,199,613 shares of common stock in exchange for $80 million of 10½% notes.

Retained Earnings Retained earnings include approximately $49 million and $42 million as of the end of fiscal 1986 and 1985, respectively, representing undistributed earnings of affiliated companies.

There are currency controls over the remittance of dividends from certain non-U.S. operations. The effect of these restrictions on the payment of dividends is not significant to Beatrice's consolidated operations.

11. Operations Outside the United States

Selected financial information relating to Beatrice's operations outside the United States is as follows:

	1986	1985
	(In millions)	
Current assets	$ 905	$ 763
Net property, plant and equipment	480	417
Investments in affiliated companies	40	30
Intangible assets and other noncurrent assets	265	120
	1,690	1,330
Less:		
Current liabilities	705	515
Other liabilities	118	126
Minority interests	69	71
	892	712
Beatrice's equity in net assets	$ 798	$ 618

Beatrice's equity in net earnings before discontinued operations was $60 million, $88 million and $71 million for fiscal 1986, 1985 and 1984, respectively (after amortization and write-downs of intangibles of $6 million, $3 million and $4 million, respectively). Foreign currency adjustments, after the effect of hedging transactions, resulted in losses of $11 million for fiscal 1986, $13 million for fiscal 1985 and $9 million for fiscal 1984.

The above information excludes certain non-U.S. subsidiaries, whose purpose is to obtain financing outside the United States, and operations in Puerto Rico. Beatrice's equity in net earnings excludes Business Realignment income related to divestiture activities.

The foreign currency translation adjustment included in stockholders' equity as of the end of fiscal 1986 and 1985 was comprised of:

	1986	1985
	(In millions)	
Beginning of year	$204	$185
Translation adjustments	(32)	40
Divested businesses	—	(18)
Hedging transactions, net of applicable income taxes of $13 in 1986 and $3 in 1985	15	(3)
End of year	$187	$204

12. Contingent Liabilities

In the opinion of management, there are no claims or litigation pending at the end of fiscal 1986 to which Beatrice is a party which are expected to have a material adverse effect on Beatrice's consolidated financial condition. However, upon completion of the Merger, Beatrice will guarantee the debt of BCI Holdings Corporation. The guarantee will result in significant credit constraints for Beatrice and may affect the way it does business in the future.

13. Miscellaneous Income (Expense), Net

Miscellaneous income (expense), net in fiscal 1986 includes a $20 million charge ($10 million after-tax) related to Beatrice's phase-out of its sponsorship of automobile racing programs and $17 million of expenses ($9 million after-tax) for investment banking, legal and other costs related to the Merger. Miscellaneous income (expense), net in fiscal 1985 includes a $19 million non-taxable gain from the early retirement of a portion of Beatrice's outstanding sinking fund debentures in exchange for 1.5 million shares of convertible adjustable preference stock.

14. Income Taxes

The provision for income taxes is comprised of:

	1986	1985	1984
	(In millions)		
Current taxes:			
U.S. Federal	$ (5)	$ (7)	$188
Non-U.S.	72	70	64
U.S. state and local	13	12	25
	80	75	277
Deferred and noncurrent taxes:			
U.S. Federal:			
Accelerated tax depreciation	41	26	17
Zero coupon note interest	2	32	—
Warranties	(15)	—	—
Changes in Business Realignment and other reserves	102	184	45
Other	(11)	(12)	2
Non-U.S.	2	8	3
U.S. state and local:			
Changes in Business Realignment and other reserves	13	33	—
Other	3	9	16
	137	280	83
Total	$217	$355	$360

Earnings before income taxes and discontinued operations are:

	1986	1985	1984
	(In millions)		
U.S.	$318	$671	$656
Non-U.S.	124	161	137
Total	$442	$832	$793

Following is a reconciliation of the difference between the U.S. statutory rate and the effective tax rate:

	1986	1985	1984
U.S. statutory rate	46.0%	46.0%	46.0%
Amortization and write-downs of intangible assets, Unallocated purchase cost and non-deductible depreciation	8.0	2.2	1.3
Reversal of $17 million deferred taxes on DISC	—	(2.0)	—
U.S. state and local income taxes, net of U.S. federal income tax benefits	3.6	3.5	2.7
Rate differential on Business Realignment activity	—	(3.6)	(2.3)
Non-U.S. tax rate differential	(.8)	(1.5)	(1.5)
Investment tax credit	(3.0)	(1.5)	(1.0)
Tax exempt earnings of Puerto Rican subsidiaries	(3.9)	(1.4)	—
Other, net	(.8)	.9	(.3)
Effective tax rate	49.1%	42.6%	44.9%

Beatrice has provided for deferred taxes on that portion of the undistributed earnings of its non-U.S. subsidiaries which is not considered to be permanently invested. The accumulated earnings that are considered permanently invested in these operations aggregate approximately $450 million at the end of fiscal 1986.

15. Pension, Postretirement and Long-Term Compensation Plans

Beatrice has pension plans which cover a majority of U.S. salaried employees and certain hourly-paid employees. Beatrice also contributes to other plans jointly administered by industry and union representatives.

The amounts charged to earnings for Beatrice's U.S. and non-U.S. pension plans, including plans jointly administered by industry and union representatives, totaled $49 million, $51 million and $41 million for fiscal 1986, 1985 and 1984, respectively. Beatrice's acquisition of Esmark was the primary reason for the increase in expense for fiscal 1985 compared to fiscal 1984. Accumulated plan benefit information and plan net assets, including amounts accrued but not yet funded, for Beatrice's U.S. defined benefit plans are as follows:

	1986	1985
	(In millions)	
Actuarial present value of accumulated plan benefits:		
Vested	$424	$438
Nonvested	31	34
	$455	$472
Net assets available for benefits	$597	$589

The preceding accumulated plan benefit and plan net asset information are based primarily on valuation dates which are at the beginning of each fiscal year. The information in the table excludes amounts for plans jointly administered by industry and union representatives because the information is not readily available from the plans' trustees. Beatrice does not determine the actuarial present value of accumulated plan benefits or net assets available for benefits for its non-U.S. pension plans.

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8 percent in both years, except that the rate used to value the benefits of a certain group of retirees was 12.3 percent, which is the rate of return on a dedicated bond portfolio established to fund such benefits.

Beatrice provides company-sponsored postretirement health care benefits to certain groups of U.S. retirees. Approximately 46 percent of all U.S. personnel may become eligible for company-sponsored postretirement health care if they were to retire from the company. The cost of providing company-sponsored postretirement health care benefits for U.S. retirees was $18 million in fiscal 1986 and $13 million in fiscal 1985. Only eight months of Esmark postretirement health care expense is included in fiscal 1985 compared with a full year's expense for fiscal 1986.

In the first quarter of fiscal 1986, the Board of Directors adopted the 1985 Performance Unit Plan ("1985 Plan"). The 1985 Plan provides for the payment of a cash award at the end of the three year performance period based on the achievement of certain financial performance goals established by the compensation and benefits committee of the Board of Directors. Since the 1985 Plan's adoption, 4,990 performance units, which carry maximum values of $1,500 per unit assuming no change of control ($1,000 per unit in the event of a change of control), were granted to certain key employees under this plan. During fiscal 1986, $5 million (pre-tax) was charged to expense for this plan. In March 1985, the committee awarded $9 million to the participants of the 1983 Performance Unit Plan ("1983 Plan") which was approved by the shareholders in fiscal 1983. The award recognized achievement of certain performance goals established under the 1983 Plan. The total award had been expensed over the previous three-year performance period.

16. Information by Business Segment and Geographic Location

The following tables contain certain financial information by business segment and geographic location. Intersegment and intergeographic sales to affiliates are not significant to the net sales of any business segment or geographic location. Sales to any single customer were not material. Export sales to unaffiliated customers are an immaterial percentage of net sales. Earnings by geographic location and business segment represent gross operating earnings excluding net unallocated corporate expenses. Identifiable segment assets are those assets used in the operations of the segment. Corporate and other assets are cash, short-term investments, investments in affiliated companies, certain corporate receivables and other assets, and net assets of discontinued operations.

Business segment information for fiscal 1986, 1985 and 1984 is as follows:

	Year ended last day of February					
	Net Sales			Earnings		
	1986	1985	1984	1986	1985	1984
	(In millions)					
Business Segment						
U.S. Food	$ 7,040	$ 6,289	$4,113	$548	$359	$338
Consumer Products	2,337	1,795	948	214	189	133
International Food	1,919	1,852	1,732	94	96	105
	11,296	9,936	6,793	856	644	576
Businesses divested through February 28, 1986	100	1,922	2,534	1	190	228
Total segments	$11,396	$11,858	$9,327	857	834	804
Unallocated corporate expenses				(121)	(111)	(106)
Gross operating earnings				$736	$723	$698

	Identifiable assets			Net property, plant and equipment additions			Depreciation and amortization of intangible assets		
	1986	1985	1984	1986	1985	1984	1986	1985	1984
	(In millions)								
Business Segment									
U.S. Food	$4,150	$2,995	$1,974	$272	$520	$ 84	$194	$144	$109
Consumer Products	1,936	1,139	507	154	298	28	69	41	21
International Food	984	823	801	70	119	115	47	45	38
	7,070	4,957	3,282	496	937	227	310	230	168
Businesses divested through February 28, 1986	—	226	755	(65)	(107)	(91)	2	33	42
Total segments	7,070	5,183	4,037	431	830	136	312	263	210
Corporate and other	1,272	2,071	427	24	34	5	7	40	1
Total	$8,342	$7,254*	$4,464	$455	$864	$141	$319	$303	$211

*Excludes Unallocated purchase cost.

Information by geographic location is as follows:

	Net sales	Segment earnings	Identifiable assets: Segment	Identifiable assets: Corporate and other	Identifiable assets: Total
			(In millions)		
GEOGRAPHIC LOCATION					
United States					
1986	$ 8,662	$704	$5,590	$1,062	$6,652
1985	9,262	644	4,097	1,827	5,924
1984	7,270	655	3,082	274	3,356
Europe					
1986	1,653	84	877	131	1,008
1985	1,564	96	561	136	697
1984	1,243	83	589	81	670
Canada					
1986	491	35	194	21	215
1985	475	42	158	33	191
1984	390	29	122	22	144
Central and South America					
1986	277	18	217	31	248
1985	263	24	184	58	242
1984	204	24	123	38	161
Other					
1986	313	16	192	27	219
1985	294	28	183	17	200
1984	220	13	121	12	133
Consolidated					
1986	$11,396	$857	$7,070	$1,272	$8,342
1985	11,858	834	5,183	2,071	7,254*
1984	9,327	804	4,037	427	4,464

*Excludes Unallocated purchase cost.

17. Inflation Accounting (Unaudited)

Introduction Financial statements prepared in accordance with generally accepted accounting principles present historical costs stated in dollars of varying purchasing power, which may not adequately measure the impact of inflation. The following supplemental schedules, prepared in accordance with the Financial Accounting Standards Board requirements, attempt to reflect the effects of changing prices on Beatrice's operations.

The objective of reporting inflation-adjusted data is to reflect the current costs of the resources actually used in the operations, rather than the historical costs expended to acquire them. Because the development of inflation-adjusted data requires the use of estimation techniques and assumptions, which may also vary among companies, caution should be exercised when using the inflation-adjusted financial data presented herein. The inflation-adjusted data reflect the estimated current costs of fixed assets in their present condition, and do not indicate actual amounts for which those assets could be sold, nor reflect how Beatrice would actually replace existing assets. Technological changes, which significantly influence decisions regarding fixed asset replacement, are not considered in calculating the current cost of fixed assets. Also, financial information adjusted for general inflation in the United States based on the U.S. Consumer Price Index for all Urban Consumers (CPI-U) can result in distortions of data for a company such as Beatrice with operations in foreign countries which may have different rates of inflation.

In preparing these schedules, historical amounts were translated into U.S. dollars and then restated to reflect changes in specific prices during the periods being measured. Under the current cost method, property, plant and equipment, depreciation expense, inventories and cost of sales are required to be adjusted for specific price changes. The effect of general inflation on the resulting current cost and net monetary liabilities is based on the CPI-U. Other revenues and expenses are assumed to have occurred proportionately throughout the year in relation to changing prices and are considered to be stated in average fiscal 1986 dollars.

Current cost disclosures in this note for property, plant and equipment, depreciation expense, inventories and cost of sales were derived as follows:

> Property, plant and equipment and depreciation expense—The current costs of property, plant and equipment were determined by the use of indices issued by the United States and foreign governments for the class of assets being measured. The adjusted values of plant and equipment were then used to compute the related depreciation expense.
>
> Inventories and cost of sales—The current cost of inventories and cost of sales and operating revenues were generally determined by valuing year-end inventories on a first-in, first-out (FIFO) basis and applying specific indices to these amounts on the basis of inventory turnover.

At the end of fiscal 1986, the current cost values of net property, plant and equipment and inventories were $2.7 billion and $1.4 billion, respectively.

1986 Historical and Current Cost Statement of Consolidated Earnings Following is a comparison of the historical and current cost fiscal 1986 Statement of Consolidated Earnings. Current cost amounts represent historical values after current cost adjustments have been applied to cost of sales and depreciation expense.

Since the provision for income taxes is not adjusted for current cost, the effective tax rate is increased from the historical financial statements.

	Historical	Current cost
	(In millions except per share data)	
Net sales	$11,396	$11,396
Operating expenses:		
Cost of sales, excluding depreciation	7,767	7,780
Selling and administrative expenses, excluding depreciation	2,646	2,646
Depreciation	247	311
Total operating expenses	10,660	10,737
Gross operating earnings	736	659
Other expense, net	(294)	(294)
Earnings before income taxes and discontinued operations	442	365
Provision for income taxes	217	217
Earnings before discontinued operations	$ 225	$ 148
Primary earnings per share before discontinued operations	$ 2.04	$ 1.30

Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices In the following chart, the current cost information is presented in the current costs of each year adjusted to average fiscal 1986 dollars for comparability measured by the CPI-U.

	1986	1985	1984	1983	1982
	(Dollars in millions except per share data)				
Net sales	$11,396	$12,283	$10,060	$10,187	$10,598
Historical cost information adjusted to estimated current costs:					
Earnings before discontinued operations and other items	$ 148	$ 429	$ 354	$ (59)	$ 266*
Primary earnings per share before discontinued operations and other items	$ 1.30	$ 4.51	$ 3.42	$ (.79)	$ 2.54*
Net assets at year-end before discontinued operations (stockholders' equity)	$ 3,178	$ 2,838	$ 2,802	$ 3,254	$ 3,638
Change in specific prices over (under) increase in general price level	$ (127)	$ (53)	$ (1)	$ 186	$ (19)
Foreign currency translation adjustment	$ 26	$ (31)	$ (137)	$ (66)	$ —
Unrealized gain from decline in purchasing power of net amounts owed	$ 121	$ 84	$ 53	$ 36	$ 59
Cash dividends declared per common share	$ 1.80	$ 1.76	$ 1.73	$ 1.67	$ 1.65
Market price per common share at year-end	$ 46.63	$ 31.73	$ 36.40	$ 26.62	$ 21.60
Average consumer price index	324.1	312.9	300.5	290.8	275.9

**Before the effect of other items which include the net gain on the sale of the Dannon business and the cumulative effect of change in accounting principle for investment tax credit.*

Explanations of selected captions are as follows:

Net assets at year-end (stockholders' equity)—The value of net assets (stockholders' equity) stated at current cost was determined by adding to historical stockholders' equity the difference between historical and inflation-adjusted values for inventories, net property, plant and equipment and net monetary liabilities.

Increase in specific prices over (under) the increase in the general price level—This compares the change in specific prices of inventories and property with the change in general price levels. The effects of foreign currency translation are included for years prior to fiscal 1983.

Foreign currency translation adjustment—This reflects the effect of exchange rate changes on net assets, adjusted to current cost. Translation adjustment amounts prior to fiscal 1983 have not been separately disclosed.

Unrealized gain from decline in purchasing power of net amounts owed—This represents the unrealized gain in purchasing power that holders of monetary liabilities derive in periods of inflation because liabilities are repaid in dollars of diminished purchasing power.

18. Quarterly Results of Operations (Unaudited)

The following is a summary of the unaudited quarterly results of operations for fiscal 1986 and 1985:

1986*	First	Second	Third	Fourth
	(In millions except per share data)			
Net sales	$2,797	$2,826	$3,024	$2,749
Cost of sales	$1,969	$1,981	$2,095	$1,886
Earnings before discontinued operations	$ 54	$ 57	$ 83	$ 31
Net earnings	$ 58	$ 70	$ 88	$ 16
Earnings per share:				
Before discontinued operations:				
Primary	$ .55	$ .53	$ .74	$ .22
Fully diluted	$ .54	$ .52	$ .73	$ .22
Net earnings:				
Primary	$ .59	$ .66	$ .79	$ .07
Fully diluted	$ .57	$ .65	$ .77	$ .07

1985**	First	Second	Third	Fourth
Net sales	$2,207	$3,022	$3,458	$3,171
Cost of sales	$1,593	$2,211	$2,431	$2,221
Earnings before discontinued operations	$ 72	$ 93	$ 127	$ 185
Net earnings	$ 72	$ 101	$ 127	$ 179
Earnings per share:				
Before discontinued operations:				
Primary	$ .76	$ .97	$ 1.34	$ 1.97
Fully diluted	$ .73	$ .92	$ 1.26	$ 1.84
Net earnings:				
Primary	$ .76	$ 1.06	$ 1.34	$ 1.90
Fully diluted	$ .73	$ 1.01	$ 1.26	$ 1.77

**In the third quarter of fiscal 1986, earnings before discontinued operations and net earnings included charges of $3 million (per share effect: $.03 primary and fully diluted) for expenses related to the Merger. Fourth quarter earnings before discontinued operations and net earnings included charges of $6 million (per share effect: $.05 primary and fully diluted) for expenses related to the Merger and $10 million (per share effect: $.10 primary; $.09 fully diluted) related to Beatrice's phase-out of its sponsorship of automobile racing programs. Also, fourth quarter fully diluted earnings per share are anti-dilutive and are therefore the same as primary earnings per share.*

***In the second quarter of fiscal 1985, earnings before discontinued operations and net earnings included a non-taxable gain from a debt/equity exchange of $19 million (per share effect: $.20 primary; $.19 fully diluted); the reversal of deferred taxes on DISC earnings of $17 million (per share effect: $.19 primary; $.17 fully diluted) and gains from the divestiture of businesses of $4 million (per share effect: $.04 primary and fully diluted). Third quarter earnings before discontinued operations and net earnings included a gain of $39 million (per share effect: $.43 primary; $.39 fully diluted) from the divestiture of businesses. Fourth quarter earnings before discontinued operations and net earnings included additional gains from the divestiture of businesses of $343 million (per share effect: $3.74 primary; $3.40 fully diluted) and reduction of net earnings for costs associated with the integration and restructuring of Beatrice's businesses of $166 million (per share effect: $1.81 primary; $1.65 fully diluted).*

19. Selected Financial Data (Unaudited)

The following is a summary of selected financial data for each of the years in the five-year period ended February 28, 1986:

	1986	1985	1984	1983	1982
		(In millions, except per share data)			
Net sales	$11,396	$11,858	$9,327	$9,139	$9,021
Earnings before discontinued operations	$ 225	$ 477	$ 433	$ 43	$ 390
Primary earnings per share before discontinued operations	$ 2.04	$ 5.04	$ 4.23	$ .27	$ 3.80
Dividends per common share	$ 1.80	$ 1.70	$ 1.60	$ 1.50	$ 1.40
Total assets	$ 8,342	$ 9,178	$4,464	$4,732	$4,744
Long-term debt	$ 1,305	$ 2,290	$ 779	$ 772	$ 759

Fiscal 1985, 1984 and 1983 were affected by special actions, primarily related to the Business Realignment program. These actions included gains and losses from divestiture activites (fiscal 1985 gains—$700 million pre-tax, $386 million after-tax; fiscal 1984 gains—$163 million pre-tax, $99 million after-tax; fiscal 1983 losses—$140 million pre-tax, $84 million after-tax) and other charges (fiscal 1985—$286 million pre-tax, $166 million after-tax for integration and restructuring of businesses; fiscal 1983—$30 million pre-tax, $15 million after-tax for a voluntary early retirement program). In 1983 special actions included charges of $188 million for goodwill write-down. Fiscal 1982 included an after-tax gain of $45 million on the sale of the Dannon business and the cumulative effect of accounting change for investment tax credit of $32 million.

20. Subsequent Events (Unaudited)

On April 16, 1986, Beatrice called the following publicly held debt securities for redemption on May 22, 1986:

Sinking fund debenture	Balance outstanding as of February 28, 1986
	(In millions)
8½% due 2008	$ 34
10⅞% due 2010	98
9¼% due 2000	41
7⅞% due 1994	1
	$174

On April 17, 1986, the merger of BCI Merger Corporation into Beatrice was completed and Beatrice became a wholly-owned direct and indirect subsidiary of BCI Holdings Corporation.

BEATRICE COMPANIES, INC.

PROPERTY, PLANT AND EQUIPMENT

Three Years Ended February 28, 1986
(In millions)

	Balance at Beginning of Period	Additions At Cost (A)	Disposals(B)	Elimination of Fully Depreciated Assets	Other(C)	Balance at End of Period
Year ended February 29, 1984						
Land	$ 130	$ 18	$ 17	$ —	$ (3)	$ 128
Buildings	920	65	111	—	(27)	847
Machinery and equipment	1,466	225	181	24	(64)	1,422
	$2,516	$ 308	$309	$ 24	$ (94)	$2,397
Year ended February 28, 1985						
Land	$ 128	$ 114	$ 18	$ —	$ (3)	$ 221
Buildings	847	357	142	—	(23)	1,039
Machinery and equipment	1,422	700	335	26	(39)	1,722
	$2,397	$1,171	$495	$ 26	$ (65)	$2,982
Year ended February 28, 1986						
Land	$ 221	$ 50	$ 21	$ —	$ 5	$ 255
Buildings	1,039	154	88	—	31	1,136
Machinery and equipment	1,722	417	160	21	35	1,993
	$2,982	$ 621	$269	$ 21	$ 71	$3,384

(A) Includes $810 million in fiscal 1985 and $211 million in fiscal 1986 relating to acquired companies, principally Esmark.

(B) Includes amounts relating to divested businesses.

(C) Represents foreign currency translation adjustments.

(D) The cost of plant and equipment sold or otherwise disposed of and the accumulated depreciation thereon are eliminated from the asset and accumulated depreciation accounts and any resulting profit or loss is included in the statement of consolidated earnings.

BEATRICE COMPANIES, INC.

ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

Three Years Ended February 28, 1986
(In millions)

	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Disposals(A)	Elimination of Fully Depreciated Assets	Other(B)	Balance at End of Period
Year ended February 29, 1984						
Buildings	$254	$ 39	$ 43	$ —	$ (6)	$ 244
Machinery and equipment	598	155	103	24	(32)	594
	$852	$194	$146	$ 24	$(38)	$ 838
Year ended February 28, 1985						
Buildings	$244	$ 50	$ 44	$ —	$ 29	$ 279
Machinery and equipment	594	201	152	26	38	655
	$838	$251	$196	$ 26	$ 67	$ 934
Year ended February 28, 1986						
Buildings	$279	$ 52	$ 19	$ —	$ 9	$ 321
Machinery and equipment	655	195	84	21	18	763
	$934	$247	$103	$ 21	$ 27	$1,084

(A) Includes amounts relating to divested businesses.

(B) Represents increases (decreases) of $(41) million, $(27) million and $27 million due to foreign currency translation adjustments in fiscal 1984, 1985 and 1986, net of $3 million and $7 million of additions applicable to acquired non-U.S. companies in fiscal 1984 and 1985, respectively. Also includes in fiscal 1985 an addition of $87 million, reflected in the statement of consolidated earnings, to record the write-down of certain Beatrice assets in connection with the integration and restructuring of operations following the acquisition of Esmark.

(C) The following summarizes the annual rates of depreciation currently in use:

Buildings	2% to 10%
Machinery and equipment	7% to 50%

BEATRICE COMPANIES, INC.

VALUATION AND QUALIFYING ACCOUNTS

Three Years Ended February 28, 1986
(In millions)

Description	Balance At Beginning Of Period	Additions: Charged To Costs And Expenses	Additions: Recoveries	Deductions	Balance At End Of Period
Allowance for doubtful accounts:					
Year ended February 29, 1984	$ 27	$ 17	$ 1	$ 15(A)	$ 30
Year ended February 28, 1985	$ 30	$ 19	$ 3	$ 11(A)	$ 41
Year ended February 28, 1986	$ 41	$ 23	$ 2	$ 24(A)	$ 42
Business Realignment reserve:					
Year ended February 29, 1984	$167	$ —	$ —	$112(B)	$ 55
Year ended February 28, 1985	$ 55	$262(C)	$ —	$ 68(D)	$249(E)
Year ended February 28, 1986	$249	$ 16	$ —	$157(F)	$108

(A) Includes accounts charged off as uncollectible and amounts associated with divested companies.

(B) Includes $56 million of realized losses and other costs associated with companies divested, a $38 million reserve reduction credited to earnings as a result of better than anticipated selling prices for divested companies and $18 million of other corporate identity and business realignment costs.

(C) Includes $192 million for business integration and restructuring costs, $46 million for costs associated with divested businesses and $24 million for losses on planned divestitures.

(D) Includes $27 million of realized losses and other costs associated with divested operations, $14 million related to the corporate identity marketing program and $27 million of costs due to business integration, restructuring and other realignment activities.

(E) Includes $242 million and $7 million classified as accrued expenses and other noncurrent liabilities, respectively.

(F) Includes $115 million for costs associated with business integration and restructuring, $28 million for costs associated with divested businesses and a $14 million reserve reduction credited to earnings as a result of lower than anticipated costs associated with divested businesses.

BEATRICE COMPANIES, INC.

SUPPLEMENTARY INCOME STATEMENT INFORMATION

Three Years Ended February 28, 1986
(In millions)

Description	Charged to Costs and Expenses Years Ended Last Day of February		
	1986	1985	1984
Maintenance and repairs	$159	$133	$127
Advertising costs (A)	$684	$577	$288

(A) Represents costs of media and cooperative advertising and sales promotions.

Beatrice Companies, Inc.

Index to Exhibits

Exhibit Number	Descriptions of Exhibits	Page
2.1	Restated and Modified Agreement and Plan of Merger dated as of February 2, 1986 among Beatrice Companies, Inc., BCI Holdings Corporation and BCI Merger Corporation.	
3.1	Restated Certificate of Incorporation of Beatrice Companies, Inc.	
3.2	Bylaws of Beatrice Companies, Inc., as amended.	
4	Beatrice Companies, Inc. agrees to furnish to the Securities and Exchange Commission upon its request a copy of any instrument which defines the rights of holders of long-term debt of Beatrice Companies, Inc. No such instrument authorizes a total amount of securities in excess of 10% of the total assets of Beatrice Companies, Inc. and its subsidiaries on a consolidated basis.	
10.1	Guaranty Agreement dated April 17, 1986 entered into by the Guarantors named therein.	
10.2	Guaranty and Assumption Agreement dated April 17, 1986 by and among BCI Merger Corporation, Beatrice Companies, Inc. and Bankers Trust Company, as agent for the parties named therein.	
10.3	Pledge Agreement dated April 17, 1986 between Beatrice Companies, Inc. and Bankers Trust Company, as collateral agent for the parties named therein.	
10.4	Merger Agreement dated May 24, 1984 by and among Beatrice Companies, Inc., LA Acquisition Corporation and Esmark, Inc. (incorporated herein by reference to Exhibit 2.3 to the Form 8-K dated June 14, 1984 of Beatrice Companies, Inc.).	
11	Computation of Earnings per Share.	
12.1	Computation of Ratio of Earnings Before Fixed Charges to Fixed Charges.	
12.2	Computation of Ratio of Earnings Before Fixed Charge to Fixed Charges and Preference Dividends.	
22	Subsidiaries of Beatrice.	
25	Powers of Attorney.	

EXHIBIT 11

BEATRICE COMPANIES, INC.

COMPUTATION OF EARNINGS PER SHARE

Three Years Ended February 28, 1986
(In millions except per share data)

	Year Ended Last Day of February		
	1986	1985	1984
Primary earnings per share			
Earnings before discontinued operations	$ 225	$ 477(A)	$ 433(B)
Less dividends on preference stock	(13)	(16)	(16)
Earnings before discontinued operations applicable to common shares and common share equivalents	212	461(A)	417(B)
Earnings from discontinued operations	7	2	—
Net earnings applicable to common shares and common share equivalents	$ 219	$ 463(A)	$ 417(B)
Average common shares outstanding during the year	103	91	98
Common share equivalents—stock options	1	1	1
Total average common shares and common share equivalents	104	92	99
Primary earnings per share:			
Before discontinued operations	$2.04	$5.04(A)	$4.23(B)
From discontinued operations	.07	.02	—
Net earnings	$2.11	$5.06(A)	$4.23(B)
Fully diluted earnings per share			
Earnings before discontinued operations	$ 225	$ 477(A)	$ 433(B)
Add interest paid on convertible debentures—net of income taxes	—	—	1
Earnings before discontinued operations applicable to common shares, common share equivalents and other dilutive securities	225	477(A)	434(B)
Earnings from discontinued operations	7	2	—
Net earnings applicable to common shares, common share equivalents and other dilutive securities	$ 232	$ 479(A)	$ 434(B)
Average common shares outstanding during the year	103	91	98
Common share equivalents and other dilutive securities:			
Stock options	1	1	1
Shares issuable upon conversion of debentures	1	1	2
Shares issuable upon conversion of preference stock	6	8	8
Total fully diluted shares	111	101	109
Fully diluted earnings per share:			
Before discontinued operations	$2.03	$4.75(A)	$3.99(B)
From discontinued operations	.06	.02	—
Net earnings	$2.09	$4.77(A)	$3.99(B)

(A) Earnings before discontinued operations and net earnings for fiscal 1985 include the following special actions: gains from the divestiture of businesses of $386 million (per share effect: $4.21 primary; $3.83 fully diluted); and a provision for the integration and restructuring of Beatrice's operations of $166 million (per share effect $1.81 primary; $1.65 fully diluted).

(B) Earnings before discontinued operations and net earnings for fiscal 1984 include the following special actions: gains from the divestiture of businesses of $76 million (per share effect: $.77 primary; $.70 fully diluted); and a reduction of the Business Realignment reserve credited to earnings totaling $23 million (per share effect: $.23 primary; $.21 fully diluted).

EXHIBIT 12.1

BEATRICE COMPANIES, INC.

COMPUTATION OF RATIO OF EARNINGS BEFORE FIXED CHARGES TO FIXED CHARGES

Five Years Ended February 28, 1986
(Unaudited)

(Dollars in millions)

	Year Ended Last Day of February				
	1986	1985	1984	1983	1982
Earnings before discontinued operations	$225	$ 477	$433	$ 43	$313(D)
Add (deduct):					
Provision for income taxes	217	355	360	216	299
Income taxes of unconsolidated subsidiaries	4	3	—	—	—
Portion of rents representative of interest factor	25	20	19	18	18
Interest expense	300	377	113	114	90
Interest expense of unconsolidated subsidiaries	10	6	—	—	—
Amortization of debt issuance costs	1	2	1	1	1
Minority interests	6	10	10	13	13
Undistributed earnings of affiliated companies	(7)	2	(12)	(3)	(1)
Earnings as adjusted before fixed charges	$781	$1,252(A)	$924(B)	$402(C)	$733
Fixed charges:					
Portion of rents representative of interest factor	$ 25	$ 20	$ 19	$ 18	$ 18
Interest expense	300	377	113	114	90
Interest expense of unconsolidated subsidiaries	10	6	—	—	—
Amortization of debt issuance costs	1	2	1	1	1
Capitalized interest	4	2	—	1	1
Total fixed charges	$340	$ 407	$133	$134	$110
Ratio of earnings before fixed charges to fixed charges	2.30	3.07(A)	6.96(B)	3.00(C)	6.67

(A) Earnings before fixed charges for fiscal 1985 include pre-tax gains from the divestiture of businesses of $700 million and pre-tax charges of $286 million for the integration and restructuring of Beatrice's operations. The ratio of earnings before fixed charges to fixed charges would be 2.06 if these items were not included in pre-tax earnings.

(B) Earnings before fixed charges for fiscal 1984 include pre-tax gains from the divestiture of businesses of $125 million and a reduction of the Business Realignment reserve totaling $38 million pre-tax. The ratio of earnings before fixed charges to fixed charges would be 5.73 if these items were not included in pre-tax earnings.

(C) Earnings before fixed charges for fiscal 1983 are after pre-tax charges of $358 million ($188 million of goodwill write-downs and a provision of $170 million for Business Realignment costs). The ratio of earnings before fixed charges to fixed charges would be 5.67 if these charges were not deducted from pre-tax earnings.

(D) Net earnings for fiscal 1982 exclude a $45 million after-tax gain ($68 million pre-tax) from the sale of the Dannon business and $32 million of income from the cumulative effect of change in accounting principle for investment tax credit.

BEATRICE COMPANIES, INC.

COMPUTATION OF RATIO OF EARNINGS BEFORE FIXED CHARGES TO FIXED CHARGES AND PREFERENCE DIVIDENDS

Five Years Ended February 28, 1986
(Unaudited)
(Dollars in millions)

	Year Ended Last Day of February				
	1986	1985	1984	1983	1982
Earnings before special items in 1982 and discontinued operations	$225	$ 477	$433	$ 43	$313(E)
Add (deduct):					
Provision for income taxes	217	355	360	216	299
Income taxes of unconsolidated subsidiaries	4	3	—	—	—
Portion of rents representative of interest factor	25	20	19	18	18
Interest expense	300	377	113	114	90
Interest expense of unconsolidated subsidiaries	10	6	—	—	—
Amortization of debt issuance costs	1	2	1	1	1
Minority interests	6	10	10	13	13
Undistributed earnings of affiliated companies	(7)	2	(12)	(3)	(1)
Earnings before fixed charges	$781	$1,252(A)	$924(B)	$402(C)	$733
Fixed charges and preference dividends:					
Fixed charges:					
Portion of rents representative of interest factor	$ 25	$ 20	$ 19	$ 18	$ 18
Interest expense	300	377	113	114	90
Interest expense of unconsolidated subsidiaries	10	6	—	—	—
Amortization of debt issuance costs	1	2	1	1	1
Capitalized interest	4	2	—	1	1
Fixed charges	340	407	133	134	110
Preference dividends requirements:					
Preference dividends	13	16	16	17	17
Ratio of earnings before provision for income taxes to earnings	1.97	1.74	1.83	1.94(D)	1.95
Preference dividends factor on a pre-tax basis	25	27	29	33	33
Fixed charges and preference dividends	$365	$ 434	$162	$167	$143
Ratio of earnings before fixed charges to fixed charges and preference dividends	2.14	2.88(A)	5.70(B)	2.41(C)	5.13

(A) Earnings before fixed charges for fiscal 1985 include pre-tax gains from the divestiture of businesses of $700 million and pre-tax charges of $286 million for the integration and restructuring of Beatrice's operations. The ratio of earnings before fixed charges to fixed charges and preference dividends would be 1.94 if these items were not included in pre-tax earnings.

(B) Earnings before fixed charges for fiscal 1984 include pre-tax gains from the divestiture of businesses of $125 million and a reduction of the Business Realignment reserve totaling $38 million pre-tax. The ratio of earnings before fixed charges to fixed charges and preference dividends would be 4.67 if these items were not included in pre-tax earnings.

(C) Earnings before fixed charges for fiscal 1983 are after pre-tax charges of $358 million ($188 million of goodwill write-downs and a provision of $170 million of Business Realignment costs). The ratio of earnings before fixed charges to fixed charges and preference dividends would be 4.56 if these charges were not deducted from pre-tax earnings.

(D) The $188 million write-down of goodwill in fiscal 1983 was excluded from earnings for purposes of computing this ratio in order to present a more meaningful preference dividends factor on a pre-tax basis.

(E) Net earnings for fiscal 1982 exclude a $45 million after-tax gain ($68 million pre-tax) from the sale of the Dannon business and $32 million of income from the cumulative effect of change in accounting principle for investment tax credit. The ratio would be higher if these items were left in the computation of the ratio.

Exhibit 22

BEATRICE COMPANIES, INC.

SUBSIDIARIES AS OF FEBRUARY 28, 1986

Corporate Name	State or Country of Incorporation
Alimentos del Istmo, S.A. (100% owned)	Panama
Anchor Japan Company Limited (75% owned)	Japan
Artic S.A. (58.29% owned)	Belgium
(also 41.71% owned by Beatrice Foods Overseas Finance N.V.)	
Artic France S.A.R.L. (100% owned)	France
Creme Glacee Cyriel N. V. (83.33% owned)	Belgium
Comelco S.V.M.S.C. (0.40% owned)	Belgium
(also 10% owned by Maison May Mondt & Depraet)	
Comelco N.V. (7.90% owned)	Belgium
Maison May Mondt & Depraet (100% owned)	Belgium
D'Lac N.V. (100% owned)	Belgium
Lacsoons N.V. (52% owned)	Belgium
(also 20% owned by Ste. Marie N.V.)	
Lactovita N.V. (100% owned)	Belgium
Ste. Marie N.V. (9.60% owned)	Belgium
Lacsoons N.V. (20% owned)	Belgium
(also 52% owned by Comelco N.V.)	
Kaasmakerij Passendale N.V. (9.60% owned)	Belgium
B. F. Finanziaria S.p.A. (100% owned)	Italy
Gelati Sanson S.p.A. (12.35% owned)	Italy
BFC Corporation (100% owned)	Delaware
BFC Industria e Comercio Ltda (100% owned)	Brazil
Adams International Do Brazil (100% owned)	Brazil
Ailiram S.A. Productos Alimenticios (100% owned)	Brazil
Cerealista Cristal Comercial (100% owned)	Brazil
Comabra Companhia (50.10% owned)	Brazil
Comabra Hens Ind. (50.1% owned)	Brazil
Comabra Hens Agro (100% owned)	Brazil
Jack's Amazonia Industrias de Ali. (51% owned)	Brazil
Samsonite Industrial y Comercial Ltda (100% owned)	Brazil
BFC Tennis Club Corporation (100% owned)	Illinois
BIFCO, Inc. (100% owned)	Delaware
BPS (Delaware), Inc. (100% owned)	Delaware
BCI Aviation, Inc. (100% owned)	Delaware
FRC Holding Inc., II (100% owned)	Delaware
FRC Holding Inc., III (100% owned)	Delaware
Beans (Hong Kong) Ltd. (50.50% owned)	Hong Kong
Beatrice Australia Limited (94% owned)	Australia
The Baron's Table Specialty Meats Pty. Ltd. (100% owned)	Australia
Beatrice Foods Australia Pty. Ltd. (100% owned)	Australia
Beatrico Foods (New Zealand) Ltd. (100% owned)	New Zealand
Europe Strength Food Co. Ltd. (100% owned)	New Zealand
Van Camp Chocolates Ltd. (100% owned)	New Zealand
Europe Strength Food Co. Pty. Ltd. (100% owned)	Australia
Manassen Fine Foods Pty. Ltd. (100% owned)	Australia

Corporate Name	State or Country of Incorporation
(Beatrice Australia Limited subsidiaries continued)	
Patra Holdings Pty. Ltd. (100% owned)	Australia
Jaypel Manufacturing Pty. Ltd. (100% owned)	Australia
Patra Investments Pty. Ltd. (100% owned)	Australia
Patra Sales Pty. Ltd. (100% owned)	Australia
Waipat Juices Pty. Ltd. (51% owned)	Australia
Red Tulip Chocolates Pty. Ltd. (100% owned)	Australia
Unicorp Pty. Ltd. (75% owned)	Australia
Pacific Liquor Dist. Pty. Ltd. (100% owned)	Australia
Starks Chocolates Dist. Services Pty. (100% owned)	Australia
Unicorp Pty. Ltd. (25% owned)	Australia
Beatrice China Ltd. (100% owned)	Delaware
Beatrice Consumer Products, Inc. (100% owned)	Delaware
Beatrice Consumer Durables, Inc. (100% owned)	Delaware
Beatrice Home Products, Inc. (100% owned)	Delaware
Aristokraft, Inc. (100% owned)	Delaware
Beatrice Home Specialties, Inc. (100% owned)	Delaware
Samsonite Furniture Co. (100% owned)	Delaware
The Stiffel Company (100% owned)	Delaware
Waterloo Industries, Inc. (100% owned)	Iowa
Beatrice Window Coverings, Inc. (100% owned)	California
LouverDrape of New York, Inc. (100% owned)	California
L. D. Holding Company (100% owned)	Delaware
LouverDrape International, Inc. (100% owned)	California
LouverDrape of Canada Limited (100% owned)	Canada
LouverDrape of Canada (1978) Limited (100% owned)	Canada
Culligan International Company (100% owned)	Delaware
Arrowhead Industrial Water, Inc. (100% owned)	Delaware
CWC, Inc. (100% owned)	New Jersey
CWC Finance Corp. (100% owned)	Illinois
Culligan Dayton, Inc. (100% owned)	Ohio
Culligan DesPlaines Valley Water Conditioning, Inc. (100% owned)	Illinois
Culligan Distribution Services, Inc. (100% owned)	Iowa
Culligan Dutchess-Putnam Water Conditioning, Inc. (100% owned)	New York
Culligan Peninsula Industrial Water Conditioning Company (100% owned)	California
Culligan Soft Water Service of Santa Barbara, Inc. (100% owned)	California
Culligan Soft Water Service Of Whittier, Inc. (100% owned)	California
Culligan Water Conditioning of Battle Creek, Inc. (100% owned)	Michigan
Culligan Water Conditioning of Butler, Inc. (100% owned)	Pennsylvania
Culligan Water Conditioning of Greater Detroit, Inc. (100% owned)	Michigan
Culligan Water Conditioning of Greater Pittsburgh, Inc. (100% owned)	Pennsylvania
Culligan Water Conditioning of Houston, Inc. (100% owned)	Texas
Culligan Water Conditioning of the Inland Empire (100% owned)	California
Culligan Water Conditioning of Orange County (100% owned)	California
Culligan Water Conditioning of South Bend, Inc. (100% owned)	Indiana
Culligan Water Conditioning of Tippecanoe County, Inc. (100% owned)	Indiana
Culligan Water Conditioning, Inc. (100% owned)	Wisconsin
Everpure, Inc. (100% owned)	Nevada
Everpure GmbH (100% owned)	West Germany
Everpure Japan, Inc. (100% owned)	Japan

Corporate Name	State or Country of Incorporation
(Culligan International Company subsidiaries continued)	
Everpure Limited (100% owned)	Ireland
Greater Chicago Culligan Water Conditioning, Inc. (100% owned)	Illinois
Greater Kansas City Culligan Water Conditioning, Inc. (100% owned)	Kansas
Indiana Soft Water Service, Inc. (100% owned)	Indiana
St. Louis Soft Water Service, Inc. (100% owned)	Missouri
Culligan N.V. (100% owned)	Belgium
Culligan of Canada, Ltd. (100% owned)	Canada
Culligan Water Conditioning (Ontario) Ltd. (100% owned)	Canada
Water Conditioning Finance Ltd. (100% owned)	Canada
Culligan Espana-Impex, S.A. (90% owned)	Spain
Culligan France S.A. (100% owned)	France
Culligan Val de Loire S.A. (20% owned)	France
Culligan Flanders S.A. (20% owned)	France
Culligan Lorraine S.A. (23.3% owned)	France
Culligan (Switzerland) S.A. (100% owned)	Switzerland
Culligan International Ltd. (100% owned)	United Kingdom
Culligan Italiana S.p.A. (90% owned)	Italy
Day-Timers, Inc. (100% owned)	Delaware
Sax Arts and Crafts, Inc. (100% owned)	Delaware
Samsonite Corporation (100% owned)	Colorado
Samsonite Domestic International Sales Corporation (100% owned)	Colorado
Samsonite Finanziaria, S.r.l. (100% owned)	Italy
Samsonite Italia S.r.l. (60% owned)	Italy
Samsonite Gmbh (100% owned)	Germany
Samsonite International Sales Corp. (100% owned)	Colorado
Samsonite, N.V. (100% owned)	Belgium
VIP (Bermuda) Ltd. (100% owned)	Bermuda
Samsonite, S.A. (100% owned)	France
Samson S.A. de C.V. (100% owned)	Mexico
Tauro S.A. (100% owned)	Spain
Altro S.A. de C.V. (49% owned)	Mexico
Peraltro S.A. de C.V. (49% owned)	Mexico
Envases Cuantitlan S.A., de C.V. (49% owned)	Mexico
Beatrice Consumer Products Canada, Inc. (100% owned)	Canada
Beatrice Credit Corp (100% owned)	Delaware
Beatrice Deutschland GmbH (100% owned)	West Germany
Adam Titz Vertrieb GmbH & Co. Kg (80% owned)	West Germany
Adam Titz Vertrieb GmbH (80% owned)	West Germany
Artigel GmbH (70% owned)	West Germany
Artigel GmbH & Co. Kg (70% owned)	West Germany
Culligan Wassertechnik GmbH (100% owned)	West Germany
Dietetic Products GmbH (80% owned)	West Germany
Dietetic Products GmbH & Co. Kg (80% owned)	West Germany
H. B. Sohne GmbH & Co. Kg (80% owned)	West Germany
Jacobi—Scherbening GmbH & Co. Kg (80% owned)	West Germany
K-S-K Technische Betrieb. GmbH (80% owned)	West Germany
K-S-K Technische Betrieb. GmbH & Co. Kg (80% owned)	West Germany
Paderborner Kuhlhaus GmbH & Co. Kg (80% owned)	West Germany
Paderborner Kuhlhaus Beteil. GmbH (80% owned)	West Germany

Corporate Name	State or Country of Incorporation
(Beatrice Deutschland GmbH subsidiaries continued)	
Schwab. Kons. Vert. GmbH (80% owned)	West Germany
Schwikkard GmbH & Co. Kg (80% owned)	West Germany
Stute Bautrager und Bet. GmbH & Co. Kg (80% owned)	West Germany
Stute Geschaftsfuhrungs GmbH (80% owned)	West Germany
Stute GmbH & Co. Kg (80% owned)	West Germany
Stute Konserven GmbH & Co. Kg (80% owned)	West Germany
Stute Konserven GmbH (80% owned)	West Germany
Stute Nahrung. GmbH & Co. Kg (80% owned)	West Germany
Stute Verwaltungs GmbH (80% owned)	West Germany
Thur. Art. Schindler GmbH & Co. Kg (80% owned)	West Germany
Willy L. Ahrens GmbH & Co. Kg (80% owned)	West Germany
West. Nahrung. Prod. und Vert. GmbH (80% owned)	West Germany
Wilh. Kirberg GmbH & Co. Kg (80% owned)	West Germany
Beatrice Finance N.V. (100% owned)	Neth. Antilles
Beatrice Financial Services, Inc. (100% owned)	Delaware
Beatrice Foods Canada Ltd. (100% owned)	Canada
Aliments Beatrice Quebec Inc. (100% owned)	Quebec
Beatrice Foods, Inc. (100% owned)	Canada
Les Fromages Crescent Ltee. (100% owned)	Quebec
Beatrice Consumer Products (Canada), Inc. (100% owned)	Ontario
Food Producers (Canada) Ltd. (100% owned)	Ontario
Goodwill Bottling Ltd. (75% owned)	Canada
Goodwill Bottling North Ltd. (75% owned)	Canada
77690 Ontario Ltd. (100% owned)	Ontario
Beatrice Foods Co. (100% owned)	Delaware
Beatrice Foods Co. & Dr. Suwelack GmbH (70% owned)	West Germany
Beatrice Foods Co. (Middle East) Limited (100% owned)	Jersey, Channel Is.
Al Rostamani Beatrice Middle East (49% owned)	Dubai
Beatrice Foods International Company (100% owned)	Delaware
Beatrice Foods Overseas Finance N.V. (100% owned)	Neth. Antilles
Artic S.A. (41.71% owned)	Belgium
Beatrice Foods (S) Pte. Ltd. (50% owned)	Singapore
Unigate Pte. Ltd. (50% owned)	Singapore
Beatrice Foods S.D.N. Berhard (50% owned)	Malaya
Beatrice Foods (U.K.) Ltd. (96.99% owned)	United Kingdom
Smith Kendon Limited (100% owned)	United Kingdom
Callard and Bowser Nuttall Ltd. (100% owned)	United Kingdom
Callard and Bowser Ltd. (100% owned)	United Kingdom
Nuttall-Riley Limited (100% owned)	United Kingdom
Callard and Bowser (U.S.A.) Inc. (100% owned)	New York
Assoc. Dist. Services Limited (25.01% owned)	United Kingdom
Beatrice S.A. (100% owned)	Uraguay
Beatrice Scientific Co. (100% owned)	Delaware
Beatrice Worldwide, Inc. (100% owned)	Delaware
Beatrice Foods Co. (Hong Kong) Limited (100% owned)	Hong Kong
Winner Food Products Limited (74% owned)	Hong Kong
Beans (Hong Kong) Ltd. (20.74% owned)	Hong Kong
Chun Chun Kitchen Ltd. (100% owned)	Hong Kong
Falowon Investment Ltd. (100% owned)	Hong Kong

Corporate Name	State or Country of Incorporation
(Winner Food Products Limited subsidiaries continued)	
Fanyo Food Products Ltd. (100% owned)	Hong Kong
Wintai Food Manufactures Ltd. (8.8% owned)	Hong Kong
(also 91.20% owned by Winner Food Products Limited)	
Griffiths Laboratories (H.K.) Ltd. (33.30% owned)	Hong Kong
International Food Franchise Ltd. (100% owned)	Hong Kong
J&W Research & Development Ltd. (100% owned)	Hong Kong
Vecorn Food Products Ltd. (100% owned)	Hong Kong
Winston Noodle Products Ltd. (60% owned)	Hong Kong
Winston Oriental Foods Inc. (50% owned)	United States
Wintai Food Manufactures Ltd. (91.20% owned)	Hong Kong
Beatrice Nederland B.V. (100% owned)	Netherlands
Hannah Beheer B.V. (100% owned)	Netherlands
Ten Doesschate B.V. (100% owned)	Netherlands
Caron B.V. (100% owned)	Netherlands
Euroma Van Olphen B.V. (100% owned)	Netherlands
Olischlager N.V. (50% owned)	Netherlands
Haco N.V. (100% owned)	Belgium
Tendo Haco Farmacie B.V. (100% owned)	Netherlands
Frisdranken Industrie Winters B.V. (24% owned)	Netherlands
Atlantik GmbH (100% owned)	West Germany
Bronwater Import Kantoor Eindhov (100% owned)	Netherlands
Handelsmaats Winters B. V. (100% owned)	Netherlands
Seven-Up Bottling Company Het Zu (100% owned)	Netherlands
BFC International Limited (100% owned)	Delaware
BFC International—Hong Kong (100% owned)	Hong Kong
Guangmei Foods Co. Ltd. (50% owned)	China
Choky S.A. (74% owned)	France
I.D.A.L.A., S.A. (100% owned)	Uraguay
Novibras Comercio E Importacao (100% owned)	Brazil
Intercamp Inc. (100% owned)	Delaware
Consevera Campofrio, S.A. (50% owned)	Spain
La Industrial Tocinera S.A. (100% owned)	Spain
Internacional De Alimentacion Y, (50% owned)	Spain
Abella E Hijos (50% owned)	Spain
Camposierra S.A. (100% owned)	Spain
Commercializacion De Prod. Agri. (100% owned)	Spain
Embutidos Ibericos S.A. (100% owned)	Spain
Industrias Abella (50% owned)	Spain
Proteines Grasa Y Aceites Animal (100% owned)	Spain
International Foods (France) S.A. (100% owned)	France
Gecoma S.C.S. (74% owned)	France
Minimarche Essone (74% owned)	France
Minimarche Hauts de Seine S.A.R.L. (74% owned)	France
Minimarche Marne S.A.R.L. (74% owned)	France
Minimarche Paris S.A.R.L. (74% owned)	France
Minimarche Seine et Marne S.A.R.L. (74% owned)	France
Minimarche Seine St. Denis S.A.R.L. (74% owned)	France
Minimarche Val D'Oise S.A.R.L. (74% owned)	France
Minimarche Val De Marne S.A.R.L. (74% owned)	France

Corporate Name	State or Country of Incorporation
(International Foods (France) S.A., subsidiaries continued)	
Minimarche Yvelines S.A.R.L. (74% owned)	France
Paris Libre Service S.A.R.L. (74% owned)	France
Soc. De Dist. D'Ile S.A.R.L. (74% owned)	France
Soc. De Dist. Parisienne S.A.R.L. (74% owned)	France
Soc. De Gest. de Supermarches S.A.R.L. (74% owned)	France
Soc. Super. Moulin Chenne. S.A.R.L. (74% owned)	France
Superette Ile de France S.A.R.L. (74% owned)	France
Superette Paris S.A.R.L. (74% owned)	France
Superette Seine et Marne S.A.R.L. (74% owned)	France
Superette Seine St. Denis S.A.R.L. (74% owned)	France
Superette Yvelines S.A.R.L. (74% owned)	France
International Foods (Paris) S.A. (100% owned)	France
Gecoma S.C.S. (.33% owned)	France
Maxime Delrue S.A. (80% owned)	France
Minimarche Essone (.33% owned)	France
Minimarche Hauts de Seine S.A.R.L. (.33% owned)	France
Minimarche Marne S.A.R.L. (.33% owned)	France
Minimarche Paris S.A.R.L. (.33% owned)	France
Minimarche Seine et Marne S.A.R.L. (.33% owned)	France
Minimarche Seine St. Denis S.A.R.L. (.33% owned)	France
Minimarche Val D'Oise S.A.R.L. (.33% owned)	France
Minimarche Val De Marne S.A.R.L. (.33% owned)	France
Minimarche Yvelines S.A.R.L. (.33% owned)	France
Paris Libre Service S.A.R.L. (.33% owned)	France
Soc. De Dist. D'Ile S.A.R.L. (.33% owned)	France
Soc. De Dist. Parisienne S.A.R.L. (.33% owned)	France
Soc. De Gest. de Supermarches S.A.R.L. (.33% owned)	France
Soc. Super. Moulin Chenne. S.A.R.L. (.33% owned)	France
Superette Ile de France S.A.R.L. (.33% owned)	France
Superette Paris S.A.R.L. (.33% owned)	France
Superette Seine et Marne S.A.R.L. (.33% owned)	France
Superette Seine St. Denis S.A.R.L. (.33% owned)	France
Superette Yvelines S.A.R.L. (.33% owned)	France
Knightsbridge (Bermuda), Ltd. (100% owned)	Bermuda
Fenchurch (Bermuda), Ltd. (100% owned)	Bermuda
S.A. Choky (74% owned)	Belgium
Softjam Holding GMBH (100% owned)	West Germany
Sunco N.V. (80% owned)	Belgium
Threadneedle (Bermuda) Ltd. (100% owned through a trust arrangement)	Bermuda
Chesham (Panama) Inc. (86.5% owned)	Panama
Southfield (Bermuda) Ltd. (100% owned through a trust arrangement)	Bermuda
Vimex (Panama) Ltd. (100% owned)	Panama
BEFCO International Services, Inc. (100% owned)	Delaware
Bireley's Calif. Orange (Thail.) Co. (87.90% owned)	Thailand
Boquitas Fiestas S.A. de C.V. (60% owned)	Honduras
Candy International S.A., Inc. (100% owned)	Delaware
Gecoma S.C.S. (.33% owned)	France
Minimarche Essone (.33% owned)	France
Minimarche Hauts de Seine S.A.R.L. (.33% owned)	France

Corporate Name	State or Country of Incorporation
(Candy International S.A., Inc., subsidiaries continued)	
Minimarche Marne S.A.R.L. (.33% owned)	France
Minimarche Paris S.A.R.L. (.33% owned)	France
Minimarche Seine et Marne S.A.R.L. (.33% owned)	France
Minimarche Seine St. Denis S.A.R.L. (.33% owned)	France
Minimarche Val D'Oise S.A.R.L. (.33% owned)	France
Minimarche Val De Marne S.A.R.L. (.33% owned)	France
Minimarche Yvelines S.A.R.L. (.33% owned)	France
Paris Libre Service S.A.R.L. (.33% owned)	France
Soc. De Dist. D'Ile S.A.R.L. (.33% owned)	France
Soc. De Dist. Parisienne S.A.R.L. (.33% owned)	France
Soc. De Gest. de Supermarches S.A.R.L. (.33% owned)	France
Soc. Super. Moulin Chenne. S.A.R.L. (.33% owned)	France
Superette Ile de France S.A.R.L. (.33% owned)	France
Superette Paris S.A.R.L. (.33% owned)	France
Superette Seine et Marne S.A.R.L. (.33% owned)	France
Superette Seine St. Denis S.A.R.L. (.33% owned)	France
Superette Yvelines S.A.R.L. (.33% owned)	France
Certified Transportation Co., Inc. (100% owned)	California
Chicago Specialty Mfg. of Canada Ltd. (100% owned)	Canada
Chitos International, Inc. (100% owned)	Illinois
Chitos International Y Cia Ltda. (100% owned)	Guatemala
Chocolates, S.A. (59.4% owned)	Honduras
Cremo Limited (65% owned)	Jamaica
Cremo Sales Ltd. (100% owned)	Jamaica
North Shore Dairies Ltd. (100% owned)	Jamaica
Dairy Brix Manufacturing Limited (40% owned)	Trinidad
Day-Timers of Canada, Ltd. (100% owned)	Canada
De Forenede Isvaerker A/S (75% owned)	Denmark
Premier Glass A.B. (75% owned)	Sweden
Premier Is A/S Glostrup (98.6% owned)	Denmark
Delaware Rainbo Leasing Corporation (100% owned)	Delaware
Drugs International S.A., Inc. (100% owned)	Delaware
Ecudal S.A. (49% owned)	Ecuador
Elite Sounds, Inc. (100% owned)	New York
Etablissements Baud S.A. (97% owned)	France
Etablissements Boizet S.A., (74% owned)	France
Finance Corporation of Jamaica Ltd. (65% owned)	Jamaica
Goody Sales Limited (Voting) (100% owned)	Jamaica
Flakall Corporation (100% owned)	Illinois
Gecoma S.C.S. (.33% owned)	France
Minimarche Essone (.33% owned)	France
Minimarche Hauts de Seine S.A.R.L. (.33% owned)	France
Minimarche Marne S.A.R.L. (.33% owned)	France
Minimarche Paris S.A.R.L. (.33% owned)	France
Minimarche Seine et Marne S.A.R.L. (.33% owned)	France
Minimarche Seine St. Denis S.A.R.L. (.33% owned)	France
Minimarche Val D'Oise S.A.R.L. (.33% owned)	France
Minimarche Val De Marne S.A.R.L. (.33% owned)	France
Minimarche Yvelines S.A.R.L. (.33% owned)	France

Corporate Name	State or Country of Incorporation
(Flakall Corporation subsidiaries continued)	
Paris Libre Service S.A.R.L. (.33% owned)	France
Soc. De Dist. D'Ile S.A.R.L. (.33% owned)	France
Soc. De Dist. Parisienne S.A.R.L. (.33% owned)	France
Soc. De Gest. de Supermarches S.A.R.L. (.33% owned)	France
Soc. Super. Moulin Chenne. S.A.R.L. (.33% owned)	France
Superette Ile de France S.A.R.L. (.33% owned)	France
Superette Paris S.A.R.L. (.33% owned)	France
Superette Seine et Marne S.A.R.L. (.33% owned)	France
Superette Seine St. Denis S.A.R.L. (.33% owned)	France
Superette Yvelines S.A.R.L. (.33% owned)	France
Foods and Services S.A. (100% owned)	Switzerland
Dairyworld S.A. (100% owned)	Switzerland
Primalp S.A. (100% owned)	Switzerland
Fruit International, Inc. (100% owned)	Delaware
Gecoma S.C.S. (.33% owned)	France
Minimarche Essone (.33% owned)	France
Minimarche Hauts de Seine S.A.R.L. (.33% owned)	France
Minimarche Marne S.A.R.L. (.33% owned)	France
Minimarche Paris S.A.R.L. (.33% owned)	France
Minimarche Seine et Marne S.A.R.L. (.33% owned)	France
Minimarche Seine St. Denis S.A.R.L. (.33% owned)	France
Minimarche Val D'Oise S.A.R.L. (.33% owned)	France
Minimarche Val De Marne S.A.R.L. (.33% owned)	France
Minimarche Yvelines S.A.R.L. (.33% owned)	France
Paris Libre Service S.A.R.L. (.33% owned)	France
Soc. De Dist. D'Ile S.A.R.L. (.33% owned)	France
Soc. De Dist. Parisienne S.A.R.L. (.33% owned)	France
Soc. De Gest. de Supermarches S.A.R.L. (.33% owned)	France
Soc. Super. Moulin Chenne. S.A.R.L. (.33% owned)	France
Superette Ile de France S.A.R.L. (.33% owned)	France
Superette Paris S.A.R.L. (.33% owned)	France
Superette Seine et Marne S.A.R.L. (.33% owned)	France
Superette Seine St. Denis S.A.R.L. (.33% owned)	France
Superette Yvelines S.A.R.L. (.33% owned)	France
Gelati Sanson S.p.A. (57.65% owned)	Italy
Gum International S.A., Inc. (100% owned)	Delaware
Gecoma S.C.S. (.33% owned)	France
Minimarche Essone (.33% owned)	France
Minimarche Hauts de Seine S.A.R.L. (.33% owned)	France
Minimarche Marne S.A.R.L. (.33% owned)	France
Minimarche Paris S.A.R.L. (.33% owned)	France
Minimarche Seine et Marne S.A.R.L. (.33% owned)	France
Minimarche Seine St. Denis S.A.R.L. (.33% owned)	France
Minimarche Val D'Oise S.A.R.L. (.33% owned)	France
Minimarche Val De Marne S.A.R.L. (.33% owned)	France
Minimarche Yvelines S.A.R.L. (.33% owned)	France
Paris Libre Service S.A.R.L. (.33% owned)	France
Soc. De Dist. D'Ile S.A.R.L. (.33% owned)	France
Soc. De Dist. Parisienne S.A.R.L. (.33% owned)	France

Corporate Name	State or Country of Incorporation
(Gum International S.A., Inc., subsidiaries continued)	
Soc. De Gest. de Supermarches S.A.R.L. (.33% owned)	France
Soc. Super. Moulin Chenne. S.A.R.L. (.33% owned)	France
Superette Ile de France S.A.R.L. (.33% owned)	France
Superette Paris S.A.R.L. (.33% owned)	France
Superette Seine et Marne S.A.R.L. (.33% owned)	France
Superette Seine St. Denis S.A.R.L. (.33% owned)	France
Superette Yvelines S.A.R.L. (.33% owned)	France
Helacasa (60% owned)	Spain
Industrias Gran Colombia, S.A. (100% owned)	Colombia
Industrias Savoy C.A. (85% owned)	Venezuela
Associated Brands Limited (13.10% owned)	Trinidad
Charles Candy Co. Ltd. (100% owned)	Trinidad
Dairy Brix Manufacturing Limited (60% owned)	Trinidad
Sunshine Snacks Ltd. (100% owned)	Trinidad
Industrias Anita C.A. (100% owned)	Venezuela
Granos De Oriente C.A. (20% owned)	Venezuela
Bebidas Savoy C.A. (85% owned)	Venezuela
C.A. Savoy Candy (100% owned)	Venezuela
Caramelos Royal S.A. (66.40% owned)	Venezuela
Distribudora Marsanita C.A. (75% owned)	Venezuela
Granos De Oriente C.A. (20% owned)	Venezuela
Industrias Benco C.A. (60% owned)	Venezuela
Marlon C.A. (100% owned)	Venezuela
Associated Brands Limited (7% owned)	Trinidad
Granos De Oriente C.A. (20% owned)	Venezuela
Distribudora Marsanita C.A. (25% owned)	Venezuela
Interglas S.A. (77.40% owned)	Spain
LA Acquisition Corporation (100% owned)	Delaware
BEK II Inc. (100% owned)	Delaware
BEK IV Inc. (100% owned)	Delaware
BEK VII Inc. (100% owned)	Delaware
BEK VIII Inc. (100% owned)	Delaware
BEK IX Inc. (100% owned)	Delaware
BEK X Inc. (100% owned)	Delaware
BEK XI Inc. (100% owned)	Delaware
BEK XII Inc. (100% owned)	Delaware
BEK XIII Inc. (100% owned)	Delaware
BEK XIV Inc. (100% owned)	Delaware
Esmark, Inc. (100% owned by BEK II, IV, VII, VIII & IX Inc.)	Delaware
Beatrice U.S. Food Corp. (100% owned)	Delaware
Beatrice Cheese, Inc. (100% owned)	Delaware
A. de Cardi Cheese Corporation (100% owned)	New Jersey
Agrico, Incorporated (100% owned)	New Jersey
Eurofoods, Inc. (100% owned)	New Jersey
Swissrose International, Inc. (100% owned)	New Jersey
L.L. Cheese Co., Inc. (100% owned)	Delaware
Beatrice Dairy Products, Inc. (100% owned)	Delaware
Community Creamery (100% owned)	Montana
Skyline Dairy, Inc. (100% owned)	Montana
Beatrice Distribution, Inc. (100% owned)	Delaware

Corporate Name	State or Country of Incorporation
(Beatrice U.S. Food Corp., subsidiaries continued)	
Beatrice Foodservice & Ingredients, Inc. (formerly Cal-Compack Foods, Inc.) (100% owned)	Delaware
Beatrice Meats, Inc. (formerly Swift & Company) (100% owned)	Delaware
Blue Coach Foods, Inc. (100% owned)	Delaware
Commercial Research Foundation (100% owned)	Illinois
Eschem Canada Inc. (100% owned)	Canada
PAD Company (100% owned)	Delaware
Swift & Company (KY) (100% owned)	Kentucky
Swift & Company (NJ) (100% owned)	New Jersey
Swift & Company Packers (100% owned)	Nevada
Beatrice Public Refrigerated Services Inc. (100% owned)	Oregon
James J. Gallery, Inc. (100% owned)	Massachusetts
Beatrice Refrigerated Foodservice Co. (100% owned)	Delaware
Farmbelt Industries, Inc. (100% owned)	Delaware
Berliner & Marx, Inc. (100% owned)	New York
Jan-U-Wine Foods, Inc. (name holding company) (100% owned)	California
Beatrice Specialty Products, Inc. (100% owned)	Delaware
SI Dairy Products Company, Inc. (100% owned)	New York
Beatrice U.S. Food International Sales Corp. (100% owned)	Virgin Islands
Beatrice Food Ingredients, Inc. (100% owned)	Delaware
Bryco, Inc. (100% owned)	Delaware
County Line Cheese Co., Inc. (100% owned)	Delaware
Swift & Company (name holding company) (100% owned)	Delaware
Tropicana Products, Inc. (100% owned)	Delaware
B & H Projects, Inc. (100% owned)	Florida
Progress Service, Inc. (100% owned)	Florida
Tropicana Products Sales, Inc. (100% owned)	Delaware
Tropicana Transportation Corp. (100% owned)	Delaware
Tropicana Products (Europe) GmbH (100% owned)	Germany
Beatrice Beverage Holding Co. (100% owned)	Delaware
Aloha Broadcasting Company, Inc. (100% owned)	Delaware
Arizona Sparkling Bottled Water, Inc. (100% owned)	Delaware
Arrowhead Water Company (100% owned)	Arizona
Arrowhead Drinking Water Co. (100% owned)	Delaware
Arrowhead Puritas Waters, Inc. (100% owned)	California
Ozarka Drinking Water Co. (100% owned)	Delaware
Ozarka Leasing Company (100% owned)	California
The Coca-Cola Bottling Company of Mid-America, Inc. (100% owned)	Delaware
CCMA Leasing Company (100% owned)	Delaware
Coca-Cola Bottling Company of Los Angeles (100% owned)	Delaware
CCLA Leasing Company (100% owned)	California
Diamond Head Beverages, Inc. (100% owned)	Hawaii
Kaaawa Farms, Ltd. (100% owned)	Hawaii
Lorden, Inc. (100% owned)	California
Quality Beverages, Inc. (100% owned)	California
Scotsman Distributors, Inc. (100% owned)	California
Coca-Cola Bottling Co. of San Diego, Inc. (100% owned)	California
Coca-Cola Bottling Co. of the Valley (100% owned)	California
Dr. Pepper Bottling Co. of Southern California(100% owned)	California

Corporate Name	State or Country of Incorporation
(Beatrice Beverage Holding Co., subsidiaries continued)	
Hartman Imports (100% owned)	California
National Drinks Bottling Co., Inc. (100% owned)	California
National Drinks Leasing Co., Inc. (100% owned)	California
Diamond Head Beverages, Inc. (100% owned)	Delaware
Great Bear Spring Company (100% owned)	Delaware
Great Bear Leasing Company (100% owned)	New York
Kaaawa Farms, Ltd. (100% owned)	Delaware
Mid-America Container Corporation (100% owned)	Delaware
Quality Beverages, Inc. (100% owned)	Delaware
Norton Simon, Inc. (100% owned)	Delaware
American Industries Insurance Co. Ltd. (100% owned)	Bermuda
Avis, Inc. (100% owned)	Delaware
Avis Holdings, Inc. (100% owned)	Delaware
Gordon Investment, S.A. (100% owned)	Panama
I.T.S. Drive Yourself Ltd. (100% owned)	Israel
Avis International, Ltd. (100% owned)	Delaware
Avis de Guatemala, S.A. (100% owned)	Guatemala
AIL Holdings, Inc. (100% owned)	United Kingdom
Avis Rent A Car Limited (100% owned)	United Kingdom
Avis Pension Trustees, Ltd. (100% owned)	United Kingdom
Avis Truck Leasing Limited (100% owned)	United Kingdom
Avis Car Leasing Limited (50% owned)	United Kingdom
Davestem Limited (100% owned)	United Kingdom
Gala Cosmetic & Fragrances Ltd. (100% owned)	United Kingdom
Gala Cosmetics & Fragrances Internat'l Ltd. (100% owned)	United Kingdom
Max Factor Limited (100% owned)	United Kingdom
Girl Cosmetics, Ltd. (100% owned)	United Kingdom
Mary Quant Cosmetics Ltd. (100% owned)	United Kingdom
Miners Make-Up Ltd. (100% owned)	United Kingdom
Ann Russ Cosmetics Ltd. (100% owned)	United Kingdom
Gala Cosmetics International, Ltd. (100% owned)	United Kingdom
Missoni Profumi, Ltd. (100% owned)	United Kingdom
Gala of London Ltd. (100% owned)	United Kingdom
Orlane Cosmetics (U.K.) Ltd. (100% owned)	United Kingdom
Avis Alquile Un Coche, S.A. (100% owned)	Spain
Avis Automoveis de Aluguel Ltda. (100% owned)	Brazil
Avis Autonoleggio S.p.A (100% owned)	Italy
Avis Autovermietung GmbH (75% owned)	West Germany
Avis Auto Service GmbH (100% owned)	West Germany
Avis Autovermietung A.G. (100% owned)	Switzerland
Garep AG (100% owned)	Switzerland
Avis Biludlejning A/S (100% owned)	Denmark
Avis Leasing A/S (100% owned)	Denmark
Avis Bilutleie A/S (100% owned)	Norway
Avis Bruktbil A/S (100% owned)	Norway
Avis Langlidsleie A/S (100% owned)	Norway
Avis Leasing International, Ltd. (100% owned)	Delaware
Avis Leasing de Puerto Rico, Inc. (100% owned)	Delaware
Avis Location de Voitures, S.A. (100% owned)	Luxembourg

Corporate Name	State or Country of Incorporation
(Avis International, Ltd., subsidiaries continued)	
Avis Management Pty. Limited (100% owned)	Australia
Avis Air Charter Pty. Ltd. (100% owned)	Australia
Chaconne Pty. Limited (50% owned)	Australia
W.T.H. Pty. Limited (100% owned)	Australia
Nationwide Rent A Car Pty. Ltd. (10% owned)	Papua, New Guinea
We Try Harder Pty. Ltd. (100% owned)	Australia
We Try Harder Car Rentals Pty. Ltd. (100% owned)	Australia
W.T.H. Fleet Leasing Pty. Ltd. (100% owned)	Australia
Avis Management Services, Ltd. (100% owned)	Delaware
Avis Rent A Car (Ireland) Ltd. (100% owned)	Ireland
Visa Assurances, Ltd. (100% owned)	Bermuda
International Car Rental B.V. (33% owned)	Holland
Kenya Rent A Car Ltd. (50% owned)	Kenya
Locadif S.A. (33% owned)	Belgium
Dit Rent A Truck, S.A. (100% owned)	Belgium
Olympic Commercial & Tourist Enterprises, SA (40% owned)	Greece
Olympic-Crete Commercial & Tourist Enterprises S.A. (50% owned)	Greece
Manessi Bros-Olympic Commercial & Tourist Enterprises Ltd. (40% owned)	Greece
Sovial Sociedade de Viaturas de Alugar Lda. (33% owned)	Portugal
Sogen-Avis (50% owned)	France
Assistance Sogen-Avis (100% owned)	France
Tourism Promotion Services (Kenya) Ltd. (13% owned)	Kenya
Safari Lodge Properties of Kenya, Inc. (100% owned)	Kenya
West Indies Car Rental Limited (49% owned)	Jamaica
Wincent Limited (100% owned)	Jamaica
Avis Leasing Corporation (100% owned)	Delaware
WTH Canada, Inc. (100% owned)	Canada
Aviscar, Inc. (100% owned)	Canada
Avis Rent A Car System, Inc. (100% owned)	Delaware
Avis Autovermietung GmbH (100% owned)	Austria
Avis Leasing GmbH (100% owned)	Austria
Avis Location de Voitures, S.A. (100% owned)	France
Avis de Mexico, S.A. de C.V. (100% owned)	Mexico
Inmobiliaria Litorales, S.A. de C.V. (100% owned)	Mexico
Algo, S.A. de C.V. (49% owned)	Mexico
Avis Rent A Car (Hong Kong) Ltd. (100% owned)	Hong Kong
National Car Rentals (Private) Limited (29% owned)	Singapore
Sistem Sewa Kereta Malaysia Sdn. Bhd. (40% owned)	Malaysia
Avis Rent A Car de Puerto Rico, Inc. (100% owned)	Puerto Rico
Avis Rent A Car System (Private) Ltd. (100% owned)	Zimbabwe
Avis Renta Carro, C.A. (100% owned)	Venezuela
Avis Rent A Car Ltd. (100% owned)	Fiji
Avis India Private Ltd. (100% owned)	India
Avis Rent-A-Car Sdn. Bhd. (100% owned)	Malaysia
Avis Rent-A-Car Sdn. Bhd. (100% owned)	Singapore
Avis Rent A Car Ltd. (100% owned)	Vanuatu

Corporate Name	State or Country of Incorporation
(Avis Rent A Car System, Inc., subsidiaries continued)	
Centre Brisiende De Sequires Auto (100% owned)	France
Virgin Islands Enterprises, Inc. (100% owned)	Virgin Islands
Car Rentals Pacific Limited (33% owned)	Fiji
Mutual Rental Holdings Limited (15% owned)	New Zealand
Gam Fashions, Inc. (100% owned)	Delaware
Georgeland Corporation (100% owned)	Maryland
Hunt Foods and Industries, Inc. (100% owned)	Delaware
Beatrice Grocery Group, Inc. (100% owned)	Delaware
Hunt-Wesson Foods International, Ltd. (100% owned)	Delaware
Valencia Advertising Co. (100% owned)	Delaware
Winters Canning Company (100% owned)	California
Rossbay, Inc. (100% owned)	Ohio
T.H.C. Inc. (100% owned)	California
Norton Simon Canada, Inc. (67% owned) (also 33% owned by Max Factor & Co.)	Canada
Hunt-Universal Robina Corp. (50% owned)	Philippines
Nippon B-K Foods, Ltd. (50% owned)	Japan
McCall Corporation (100% owned)	Delaware
Delaware Dry Goods Co. (100% owned)	Delaware
Inman Enterprises, Inc. (100% owned)	Delaware
NSGCP, Inc. (100% owned)	Delaware
Peninsula Lithograph Co., Inc. (100% owned)	Delaware
Norton Simon International Sales Corp. (100% owned)	Delaware
Norton Simon Properties, Inc. (100% owned)	Delaware
Overseas Industries Insurance Co., Ltd. (100% owned)	Bermuda
Scoco, Inc. (100% owned)	Delaware
Tansi Productions, Inc. (100% owned)	Delaware
Verglass Corporation (100% owned)	Delaware
Estronics, Inc. (100% owned)	Delaware
Comark, Inc. (100% owned)	Oklahoma
International Jensen Incorporated (100% owned)	Delaware
International Audio Sales Corporation (100% owned)	Missouri
Jensen Sound Laboratories-International, Inc. (100% owned)	Delaware
FujiCone, Inc. (50% owned)	Delaware
Pemcor International, Inc. (100% owned)	Delaware
Estech, Inc. (100% owned)	Delaware
Es-Gen Phosphate Corporation (100% owned)	Delaware
Estech of Japan, Inc. (100% owned)	Japan
Weskem, Inc. (100% owned)	Nebraska
Yong Nam Chemical Company, Ltd. (25% owned)	Korea
Estech Investments, Inc. (100% owned)	Delaware
ESE, Inc. (100% owned)	Delaware
Radial Credit Services, Inc. (100% owned)	Delaware
Esmark Investments, Inc. (100% owned)	Delaware
Esmark One, Inc. (100% owned)	Delaware
Esmark Two, Inc. (100% owned)	Delaware
Esmark Three, Inc. (100% owned)	Delaware
Esmark Four, Inc. (100% owned)	Delaware
Esmark Five, Inc. (100% owned)	Delaware
Esmark Six, Inc. (100% owned)	Delaware

Corporate Name	State or Country of Incorporation
(Esmark, Inc., subsidiaries continued)	
Esmark Seven, Inc. (100% owned)	Delaware
Esmark Eight, Inc. (100% owned)	Delaware
Esmark Nine, Inc. (100% owned)	Delaware
Esmark Ten, Inc. (100% owned)	Delaware
Esmark International, Inc. (100% owned)	Delaware
Hansil Limited (100% owned)	United Kingdom
Playtex Limited (100% owned)	United Kingdom
Halston (U.K.) Limited (100% owned)	United Kingdom
Parfums Halston Ltd. (100% owned)	United Kingdom
Swift and Company Limited (100% owned)	United Kingdom
Double-S Poultry Ltd. (50% owned)	United Kingdom
Hinton Poultry Limited (100% owned)	United Kingdom
Hinton Chicken Limited (100% owned)	United Kingdom
DRE Interstate Aviation, Inc. (100% owned)	Delaware
Georgetown Interstate Aviation, Inc. (100% owned)	Delaware
International Playtex, Inc. (100% owned)	Delaware
Almay, Inc. (100% owned)	Delaware
Almay Cosmetics Ltd, (100% owned)	Canada
BG Marketing Corp. (100% owned)	Delaware
Danskin Florida, Inc. (100% owned)	Delaware
Ecole d' Esthetique Carita S.A.R.L. (100% owned)	France
Danskin Texas, Inc. (100% owned)	Delaware
Grupo Industrial PEMSA, S.A. de C.V. (49% owned)	Mexico
Halston Enterprises, Inc. (100% owned)	Delaware
Halston Fragrances Ltd. (100% owned)	United Kingdom
IPC Barbados Limited (100% owned)	Barbados
Playtex Texas, Inc. (100% owned)	Delaware
Max Factor & Co. (100% owned)	Delaware
Mary Quant Cosmetics, Inc. (100% owned)	Delaware
Max Factor Aktiebolag (100% owned)	Sweden
Max Factor & Co. GmbH (100% owned)	West Germany
Max Factor & Co. (U.K.) Ltd. (100% owned)	Bermuda
Max Factor & Co. Ltd. (100% owned)	Bermuda
Max Factor de Centro America S.A. (100% owned)	Guatemala
Max Factor Distributors S.p.A. (100% owned)	Italy
Max Factor France S.A. (100% owned)	France
Max Factor France S.A.R.L. (100% owned)	France
Max Factor (H.K.) Ltd. (100% owned)	Hong Kong
Max Factor Kabushiki Kaisha (100% owned)	Japan
Kansai Max Hanbai K.K. (100% owned)	Japan
American Cosmetics Kabushiki Kaisha (18% owned)	Japan
Max Factor Nishi Nihon Hanbai K.K. (100% owned)	Japan
American Cosmetics Kabushiki Kaisha (9% owned)	Japan
American Cosmetics Kabushiki Kaisha (50% owned)	Japan
Max Factor Mexicana S.A. de C.V. (100% owned)	Mexico
Max Factor Nederland B.V. (100% owned)	Netherlands
Max Factor Produtos Cosmeticos Ltda. (100% owned)	Brazil
Max Factor Distribuidora Ltda. (100% owned)	Brazil
Max Factor Oxford Properties Co. (100% owned)	Delaware
Max Factor (Services) Pty. Limited (100% owned)	Australia

Corporate Name	State or Country of Incorporation
(Max Factor & Co., subsidiaries continued)	
Missoni Profumi S.A.R.L. (100% owned)	France
Missoni Profumi S.N.C. (100% owned)	France
MSPA, Inc. (100% owned)	Delaware
Norton Simon Canada, Inc. (33% owned) (also 67% owned by Winters Canning Company)	Canada
Orlane Belgique, S.A. (100% owned)	Hong Kong
Orlane (H.K.) Ltd. (100% owned)	Hong Kong
Orlane Nederland B.V. (100% owned)	Netherlands
Orlane (South Africa) Pty. Ltd. (100% owned)	South Africa
Ortran Kosmetikvertrieb, GmbH (100% owned)	West Germany
Orlane Japon Kabushiki Kaisha (100% owned)	Japan
Ortran S.A. (100% owned)	France
Parfums Halston S.A.R.L. & Cie (100% owned)	France
Milky Way Products Company	Delaware
Parfums Halston S.A.R.L. (100% owned)	France
Parfums Halston S.N.C. (100% owned)	France
PEC, Inc. (100% owned)	Virgin Islands
Playtex Africa (Pty.) Limited (100% owned)	South Africa
Playtex Properties (Pty.) Ltd. (100% owned)	South Africa
Playtex A.G. (100% owned)	Switzerland
Playtex Barceloneta Corporation (100% owned)	Delaware
Playtex B.V. (100% owned)	Netherlands
Playtex Corozal Corporation (100% owned)	Delaware
Playtex de Mexico, S.A. (100% owned)	Mexico
Playtex Dorado Corporation (100% owned)	Delaware
Playtex Espana, S.A. (100% owned)	Spain
Playtex France, S.A. (100% owned)	France
Playtex GmbH (100% owned)	West Germany
Playtex Holdings, Inc. (100% owned)	Delaware
Playtex Italia S.p.A. (100% owned)	Italy
Playtex Ltd. (100% owned)	Canada
Playtex Manati Corporation (100% owned)	Delaware
Playtex (Pty.) Limited (100% owned)	Australia
Playtex, S.A. (100% owned)	Belgium
Prestige Fragrances, Ltd. (100% owned)	Delaware
S.A. Max Factor Belgium N.V. (100% owned)	Belgium
S.E.F.A.O., S.A. (100% owned)	Spain
Tailby—Nason Company, Inc. (100% owned)	Delaware
Texzeta, S.A. de C.V. (25% owned)	Mexico
Grupo Industrial PEMSA, S.A. de C.V. (51% owned)	Mexico
Wesan Overseas Company (100% owned)	Connecticut
MKC Corp. (100% owned)	Georgia
Market Forge (Canada) Ltd. (100% owned)	Canada
Mantecados Payco, Inc. (100% owned)	Delaware
Modernas Applicaciones de la Refrigeracion Industrial S.A. (98.40% owned)	Spain
Nergico-Belgique S.A. (100% owned)	Belgium
Poultry Foods Industries, Inc. (50% owned)	Arkansas
Premier Milk (Malaya) Sdn. Bhd. (25% owned)	Malaya
Premier Milk (Sing) Pte. Ltd. (25% owned)	Singapore

Corporate Name	State or Country of Incorporation
Productos Alimenticios Rene S.A. (100% owned)	Guatemala
Chitos De Honduras S de R.L. (100% owned)	Honduras
Productos Chipy S.A. (93% owned)	Peru
Empac S.A. (6% owned)	Peru
Quan, S.A. de C.V. (100% owned)	Mexico
Holanda S.A. de C.V. (49% owned)	Mexico
Alimentarios Y Tecni S.A. de C.V. (40% owned)	Mexico
Gomas Vegetales de Mexico, S.A. (100% owned)	Mexico
Alimentos Futura, S.A. de C.V. (100% owned)	Mexico
Distribuidora y Procesadora De Lacteos S.A. (100% owned)	Mexico
Rusty Jones, Inc. (100% owned)	Delaware
Salem International Sales, Inc. (100% owned)	Delaware
Sandt Printing Company Limited (100% owned)	Canada
Sedipro S.A. (97% owned)	France
Snacks Research Corp. (100% owned)	Illinois
Societe Europeene de Supermarche S.A. (SES) (89.6% owned)	France
Cafeteria de Molsheim S.R.L. (100% owned)	France
Soc. De Cafe. Taubenhof S.A.R.L. (100% owned)	France
Socadip S.A. (5.60% owned)	France
Societe Commerciale de Haguenau Est (100% owned)	France
Sodeca S.A.R.L. (100% owned)	France
Sodial S.A. (100% owned)	France
Alirest S.A. (100% owned)	France
Tayto Ltd. (92.42% owned)	Ireland
Eurosnax International Ltd. (100% owned)	Ireland
King Foods Ltd. (100% owned)	Ireland
King Foods Export Ltd. (100% owned)	Ireland
King Kandy Ltd. (100% owned)	Ireland
Potato Distributors Ltd. (100% owned)	Ireland
Threaders, Inc. (100% owned)	Delaware
W. J. Dwan & Sons Ltd. (74% owned)	Ireland
Dwan Export Ltd. (100% owned)	Ireland
Dwan Manufacturing Ltd. (100% owned)	Ireland
W. J. Dwan & Sons (Athlone) Ltd. (100% owned)	Ireland
Webcraft Technologies, Inc. (80% owned)	Delaware
Chalfont Properties, Inc. (100% owned)	Pennsylvania
K.B.V., Inc. (100% owned)	New Jersey
KSS Transportation Corp. (100% owned)	New Jersey
V.B.K., Inc. (100% owned)	New Jersey
Webcraft Chemicals, Inc. (100% owned)	New Jersey
Webcraft Games, Inc. (100% owned)	New Jersey
Webcraft Mail Systems, Inc. (100% owned)	Pennsylvania
Webcraft Marketing System, Inc. (100% owned)	New Jersey

Note: The percentage of ownership indicated after the subsidiary represents the percentage of ownership of the immediate parent subsidiary.