Annual Report

BEATRICE CREAMERY COMPANY

and Subsidiaries

February 29, 1940

MeadowGold

EXECUTIVE OFFICES • 1526 SO. STATE ST. • CHICAGO, ILLINOIS
ANNUAL REPORT BEATRICE CREAMERY COMPANY

To the Stockholders of Beatrice Creamery Company:

Herewith is submitted annual balance sheet and earnings report for the fiscal year ended February 29, 1940.

Earnings for the year after depreciation and Federal taxes were $1,956,439.80, which, after provision for Preferred stock dividends is equivalent to earnings of $3.89 per share of Common stock.

The three year comparison which follows will be of interest to stockholders:

<table>
<thead>
<tr>
<th>Years Ended</th>
<th>February 29,</th>
<th>February 28,</th>
<th>February 28,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1940</td>
<td>1939</td>
<td>1938</td>
</tr>
<tr>
<td>Dollar Sales</td>
<td>$63,641,412</td>
<td>$59,324,236</td>
<td>$64,223,669</td>
</tr>
<tr>
<td>Profits Before Federal Taxes</td>
<td>2,362,939</td>
<td>1,887,370</td>
<td>1,647,409</td>
</tr>
<tr>
<td>Federal Taxes</td>
<td>406,500</td>
<td>264,230</td>
<td>202,594</td>
</tr>
<tr>
<td>Net Profits</td>
<td>1,956,439</td>
<td>1,623,140</td>
<td>1,444,815</td>
</tr>
<tr>
<td>Preferred Stock Dividends Paid</td>
<td>483,085</td>
<td>483,085</td>
<td>486,651</td>
</tr>
<tr>
<td>Common Stock Earnings</td>
<td>1,473,172</td>
<td>1,139,873</td>
<td>957,982</td>
</tr>
<tr>
<td>Common Stock Earnings Per Share</td>
<td>$ 3.89</td>
<td>$ 3.01</td>
<td>$ 2.53</td>
</tr>
</tbody>
</table>

Sales for the year were $63,641,412, as compared with $59,324,236 the previous year, an increase of $4,317,176, or 7.28%. Total unit sales increased 10.17%.

**Fluid Milk Department**

Our wholesale and retail sales at milk distributing plants increased over the preceding year. While this department made a profit, the net profit was 25% less than the previous year because of increased expenses and higher paying prices to farmers.

**Ice Cream Department**

There was a small increase in sales in the ice cream department over the previous year, and net profits for the year were about the same as last year. All indications are that if the weather is normal we can look forward to a good volume of business in this department the coming season.

**Creamery and Produce Departments**

Profit in the creamery butter department increased substantially over the previous year, which was due to favorable market conditions during the fall and early winter. All butter sold during the year averaged 273/4c per pound, which is approximately the same as in the previous year.

Egg sales were less than in the previous year and operating conditions were very unsatisfactory during most of the year. This department made a profit, but it was less than last year.

**Other Departments**

The profits in the cold storage department increased substantially over the previous year. This is the third consecutive year in which this department has had good earnings. The tonnage on hand in the cold storage warehouses is more than last year, and we look forward to another favorable year in this department.

Sales and profits in the miscellaneous departments were favorable as compared with the previous year. Due to the higher prices for milk solids, profits were at a more normal level.

Frozen foods, our newest department, while representing only a small percentage of the Company's earnings, had a substantial increase in sales, and profits were satisfactory.
Cash on hand and in banks amounted to $5,060,436.53, as compared with $5,461,354.70 last year, a decrease of $400,918.17. The principal reason for less cash on hand is because of merchandise purchased to the amount of $614,000, which was bought for the purpose of increasing the revenue of our cold storage warehouses. This merchandise is held in our warehouses and has been contracted for future delivery.

The Company has $7.89 in current assets for every dollar owing. Net working capital is $9,588,011.72, an increase of $270,651.32 over the previous fiscal year.

Surplus inventories of dairy products were liquidated prior to February 29th, and inventories on hand of these commodities represent about the minimum necessary to transact business. Inventory of merchandise was priced at cost or market, whichever was lower.

Incident to the conduct of our business it is necessary for us to enter into future commitments for the purchase and sale of materials and finished products, and at times it is necessary for the Company to conduct substantial spreading or hedging operations for the purpose of having commodities to sell during the periods of short supply, and for increasing the tonnage in our warehouses. The commitments on the future boards as at February 29, 1940, reflected $30,323.40 credit to the Company's account.

This report gives full effect to the twelve months operation of Blue Valley plants which were acquired as at March 1, 1939. Sales of plants and equipment were made which reduced the original investment, but your Company is operating Blue Valley plants at Grand Rapids, Michigan; Pittsburgh, Pennsylvania; Louisville, Kentucky; Columbus, Ohio; Clinton and Springfield, Illinois; St. Joseph, Missouri; and Parsons, Kansas. Profits of the Blue Valley business were satisfactory in the past year.

In November 1938 two prosecutions under the Sherman Act were filed in the Chicago Federal Courts against many companies and individuals engaged in the milk and ice cream business. Your Company is not a defendant in the milk case, nor is it engaged in the milk or ice cream business in Chicago. The ice cream case charged that the International Association of Ice Cream Manufacturers, certain of its members and officers, including your Company and one of its subsidiaries, had conspired to restrict the sale of counter ice cream freezers. This case was quashed by the court in November 1939 by sustaining the demurrers of the defendants.

Local and general taxes amounted to $442,855, social security taxes $352,073, State and Federal excise taxes $152,423, Federal income taxes $406,500. All of these taxes make the total tax expense of your Company last year $1,353,851, which is equivalent to $3.58 per share on our Common stock.

Your Company has 7,366 stockholders, as compared with 7,282 last year. The average holdings are 31 shares of the Preferred stock and 91 shares of the Common stock. Also of interest is the fact that 55% of our Preferred stockholders and 39% of our Common stockholders are women.

We regret the loss during the year of one of the original directors of the Company, Mr. Morris Friend, of Lincoln, Nebraska, who died on June 10, 1939. Mr. Friend was a valued member of the Board of Directors and had served the Company continuously as a Director since 1898. At the time of his death he was the oldest man in point of service on the Board.

Respectfully submitted,

C. H. HASKELL, President.
To the Board of Directors,
Beatrice Creamery Company:

We have examined the balance sheet of the Beatrice Creamery Company and Subsidiary Companies consolidated as at February 29, 1940, and the consolidated statements of profit and loss and surplus, for the fiscal year then ended; have reviewed the system of internal control and the accounting procedures of the companies, and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. We visited all branch and subsidiary company accounting offices during the course of our examination and inspected the books and records of original entry.

Cash was verified by count or by reconciliation with the amounts shown in certificates received directly from the depositaries.

A request for verification was mailed to each customer whose unpaid billing on open account, notes and contracts as at February 29, 1940, amounted to $100.00 or more, and all replies received confirmed the amounts owing excepting a few minor differences usually encountered in such procedure. All customers' accounts, notes and contracts were inspected and inquiry was made as to the collectibility of the receivables. A reserve has been provided against losses that may reasonably be anticipated.

Inventories were certified by the management as to quantities and condition, and we satisfied ourselves that the prices used were the lower of cost or market. As a test, we verified by count, the quantities of dairy products and other finished merchandise on hand and in branch and subsidiary public cold storage warehouses, representing a value in excess of 39% of the total as at February 29, 1940. Materials and supplies on hand were inspected and the quantities as reported to us do not appear to be in excess of normal requirements. All merchandise out on consignment or in outside public cold storage warehouses was verified by letters mailed directly to and replies received directly from the depositaries.

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Investment securities were examined and there being no quoted market, they have been valued at cost or less by officers of the Company.

Only proper capital charges have been included as additions to the land, buildings and equipment accounts, and all retirements have been correctly recorded. Depreciation has been provided at the rates used during the preceding year and the amount, in our opinion, is adequate.

Statements of liabilities were requested from a representative number of trade creditors and all banks with whom the companies' funds were deposited, and based upon the information received and the records examined, it is our opinion that all liabilities have been included in the balance sheet.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of the Beatrice Creamery Company and subsidiary companies consolidated as at February 29, 1940, and the results of their operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

J. H. GREENHALGH & COMPANY,
Certified Public Accountants.
# BEATRICE CREAMERY COMPANY

## CONSOLIDATED BALANCE SHEET

### ASSETS

#### CURRENT ASSETS:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$ 5,060,436.53</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>$ 2,883,376.00</td>
</tr>
<tr>
<td>Notes receivable</td>
<td>$ 608,276.53</td>
</tr>
<tr>
<td>Notes and accounts receivable—Ice cream equipment</td>
<td>$ 475,921.60</td>
</tr>
<tr>
<td><strong>Less—Provision for doubtful</strong></td>
<td><strong>$ 417,701.29</strong></td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td><strong>$10,978,986.87</strong></td>
</tr>
</tbody>
</table>

#### OTHER ASSETS:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments and advances—Affiliated Companies—less reserve</td>
<td>$ 165,098.77</td>
</tr>
<tr>
<td>Advances to officer</td>
<td>$ 3,674.05</td>
</tr>
<tr>
<td>Notes and accounts receivable, employees—less reserve</td>
<td>$ 43,802.84</td>
</tr>
<tr>
<td>Customers' deferred receivables—less reserve</td>
<td>$ 173,021.47</td>
</tr>
<tr>
<td>Other notes and accounts receivable—less reserve</td>
<td>$ 152,646.22</td>
</tr>
<tr>
<td>Miscellaneous investments (at lower of cost or appraised values)</td>
<td>$ 124,094.53</td>
</tr>
<tr>
<td><strong>Total Other Assets</strong></td>
<td><strong>$24,254,702.47</strong></td>
</tr>
</tbody>
</table>

#### LAND, BUILDINGS AND EQUIPMENT:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$ 2,319,828.10</td>
</tr>
<tr>
<td>Buildings</td>
<td>$10,206,684.77</td>
</tr>
<tr>
<td>Machinery and equipment (including cans and milk bottles)</td>
<td>$17,856,937.26</td>
</tr>
<tr>
<td><strong>Less—Reserve for depreciation</strong></td>
<td><strong>$30,383,450.13</strong></td>
</tr>
<tr>
<td><strong>Total Real Estate For Sale</strong></td>
<td><strong>$12,293,379.05</strong></td>
</tr>
</tbody>
</table>

#### REAL ESTATE FOR SALE (at cost or less)                                   | $136,947.50     |

#### DEFERRED CHARGES:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance unexpired, stationery, prepaid taxes, licenses, etc.</td>
<td>$ 183,051.17</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$24,254,702.47</strong></td>
</tr>
</tbody>
</table>

**NOTE:** Notes receivable include notes amounting to $358,406.81 representing advances to customers by public cold storage warehouse branches and subsidiaries, secured by negotiable warehouse receipts.
AND SUBSIDIARY COMPANIES

AS AT FEBRUARY 29, 1940

LIABILITIES

CURRENT LIABILITIES:

Accounts payable ........................................... $ 484,873.41
Accrued wages ............................................. 35,330.06
Provision for State and local taxes ....................... 218,608.65
Provision for social security taxes ....................... 55,642.08
Provision for Federal income and capital stock taxes .... 596,520.95

Total Current Liabilities ................................. $ 1,390,975.15

DEFERRED INCOME:

Storage and handling charges ............................... 47,437.61

MINORITY INTEREST IN CAPITAL AND SURPLUS OF SUBSIDIARY COMPANIES:

Preferred stock ........................................... $ 2,600.00
Common stock .............................................. 2,815.79

(Subsidiary company dividends on minority interest in preferred stock unpaid—$1,667.90)

NET WORTH:

Capital stock:
$5.00 cumulative preferred, without par value:
Authorized—100,000 shares
Outstanding—96,617 shares—stated value... $ 9,661,700.00

Common—$25.00 par value:
Authorized—750,000 shares
Outstanding—378,141 shares .......................... 9,453,525.00

$19,115,225.00

Surplus:
Earned ............................................... $3,558,102.86
Capital ................................................. 137,546.06

3,695,648.92

TOTAL NET WORTH ........................................ 22,810,873.92

TOTAL ..................................................... $24,254,702.47

NOTE: There were outstanding, common stock purchase warrants entitling the holders to purchase 98,673 shares of common capital stock at $27.50 per share, if exercised on or before July 1, 1941.
### CONSOLIDATED STATEMENT OF PROFIT AND LOSS

*For the Year Ended February 29, 1940*

**NET SALES** (including storage earnings—excluding inter-company sales) ........................................... $63,641,412.09

Deduct:
- **Cost of sales** ........................................... $48,485,438.65
- **Repairs and maintenance (including milk bottle replacements and case and can maintenance)** ..... 1,679,578.10
- **Advertising** ........................................... 720,627.59
- **Insurance** ............................................. 368,840.73
- **Rent** .................................................. 289,752.29
- **Taxes** .................................................. 794,928.94
- **Interest** ................................................ 9,369.65
- **Other selling and delivery expense** .................. 5,487,227.64
- **Other administrative expense** ...................... 2,525,607.40

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for depreciation</td>
<td>$ 3,280,041.10</td>
</tr>
<tr>
<td></td>
<td>1,118,123.09</td>
</tr>
<tr>
<td>Other income (Dividends, rents, discounts and interest)</td>
<td>$ 2,161,918.01</td>
</tr>
<tr>
<td></td>
<td>201,223.05</td>
</tr>
<tr>
<td>Provision for Federal income tax</td>
<td>$ 2,363,141.06</td>
</tr>
<tr>
<td></td>
<td>406,500.00</td>
</tr>
<tr>
<td>Minority interest in net profits</td>
<td>$ 1,956,641.06</td>
</tr>
<tr>
<td></td>
<td>201.26</td>
</tr>
</tbody>
</table>

**CONSOLIDATED NET PROFIT FOR YEAR** ........................................... $ 1,956,439.80

(a) Interest received on loans to customers by public cold storage warehouse branches and subsidiaries amounting to $33,082.70 is included in “Net Sales” above.

**CONSOLIDATED NET PROFIT FOR YEAR** ........................................... $ 1,956,439.80

Deduct:
- **Dividend requirements for year on preferred capital stock of subsidiary company held by minority interests as at February 29, 1940** ........................................... $ 182.00
- **Dividends paid on preferred capital stock of Beatrice Creamery Company during the year** .................. 483,085.00

<table>
<thead>
<tr>
<th>Dividends Paid</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>483,267.00</td>
</tr>
</tbody>
</table>

**BALANCE**—Equivalent to profit of $3.89 per share on 378,141 shares of common capital stock of Beatrice Creamery Company outstanding as at February 29, 1940 ........................................... $ 1,473,172.80
CONSOLIDATED STATEMENT OF SURPLUS

For the Year Ended February 29, 1940

EARNED SURPLUS—February 28, 1939 .......................... $2,838,616.18

Add:
Net profit for the year ended February 29, 1940. $1,956,433.80
Portion of reserve for loss on closed bank accounts returned to surplus. 11,000.00

1,967,439.80

Deduct:
Dividends paid on preferred capital stock............. $483,085.00
Dividends paid on common capital stock........... 756,089.00

$1,239,174.00

Prior years Federal income tax adjustments—net 8,779.12

1,247,953.12

EARNED SURPLUS—February 29, 1940 .......................... $3,558,102.86

CAPITAL SURPLUS—February 28, 1939 .......................... $137,293.56

Add:
Premium on common capital stock sold ....................... 252.50

CAPITAL SURPLUS—February 29, 1940 .......................... $137,546.06
DIRECTORS

Thomas S. Allen
H. Brown Cannon
Paul W. Cleveland
Omer N. Custer
Ernest H. Daniel

Nelson A. Emmertz
Clinton H. Haskell
Clyde T. Hays
Charles S. Hutchinson

John H. Lambrecht
Arthur T. McClintock
John T. McGuire
Kenneth L. Murray
Louis Nielson

OFFICERS

Clinton H. Haskell ............................................. President
Louis Nielson .............................................. Vice President
John T. McGuire .............................................. Vice President and General Manager
Arthur T. McClintock ....................................... Vice President
Frederick A. Jorgensen ...................................... Vice President
Charles S. Hutchinson ...................................... Vice President
Clyde T. Hays ...................................... Secretary and Treasurer

REGISTRARS OF STOCK

The Chase National Bank of the City of New York
New York

City National Bank and Trust Company of Chicago
Chicago

STOCK TRANSFER AGENTS

Guaranty Trust Company of New York
New York

Continental Illinois National Bank and Trust Company of Chicago
Chicago