Annual Report

BEATRICE CREAMERY COMPANY
AND SUBSIDIARIES

Executive Offices: 1526 South State Street
CHICAGO, ILLINOIS

FEBRUARY 28, 1942
Meadow Gold
To the Stockholders of Beatrice Creamery Company:

Hereewith is submitted annual balance sheet and earnings report for the fiscal year ended February 28, 1942.

Earnings for the year after depreciation and Federal taxes were $1,869,787.60 which, after provision for Preferred stock dividends, is equivalent to earnings of $3.70 per share of Common stock.

The following is a three year comparison which will be of interest to stockholders:

<table>
<thead>
<tr>
<th>Years Ended</th>
<th>February 28, 1942</th>
<th>February 28, 1941</th>
<th>February 29, 1940</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dollar Sales</td>
<td>$85,184,446</td>
<td>$69,525,930</td>
<td>$63,641,412</td>
</tr>
<tr>
<td>Profits before Federal Taxes</td>
<td>2,771,437</td>
<td>2,244,598</td>
<td>2,362,939</td>
</tr>
<tr>
<td>Federal Taxes</td>
<td>601,050</td>
<td>558,200</td>
<td>406,500</td>
</tr>
<tr>
<td>Net Profits</td>
<td>1,869,787</td>
<td>1,686,308</td>
<td>1,956,439</td>
</tr>
<tr>
<td>Preferred Stock Dividends Paid</td>
<td>456,585</td>
<td>469,460</td>
<td>483,085</td>
</tr>
<tr>
<td>Common Stock Earnings</td>
<td>1,413,021</td>
<td>1,216,666</td>
<td>1,473,172</td>
</tr>
<tr>
<td>Per Share</td>
<td>$ 3.70</td>
<td>$ 3.18</td>
<td>$ 3.89</td>
</tr>
</tbody>
</table>

Sales for the year were $85,184,446, as compared with $69,525,930 the previous year, an increase of $15,658,516, or 22.52%. Total unit sales increased 4.09%.

FLUID MILK DEPARTMENT

Although the wholesale and retail unit sales of our fluid milk distributing plants increased 9.82% over the previous year, prices of farmers' milk and our operating costs increased more rapidly than selling prices, resulting in a decrease in net profits for the year. Milk consumption has increased and sales continue higher than last year.

ICE CREAM DEPARTMENT

Consumption of ice cream was higher last year than the year before and our sales and profits increased over the previous year. Increased purchasing power and favorable weather conditions were two contributing factors. At the present time, ice cream consumption is running slightly ahead of last year.

CREAMERY AND PRODUCE DEPARTMENT

Results in the creamery butter department were not satisfactory, due to unfavorable operating conditions and declining butter markets. The market decline was principally due to heavy production of butterfat, which resulted in one of the largest surpluses of butter on record. This surplus has now been decreased substantially and we hope for more favorable operating conditions this year.

Egg department profits increased materially over the previous year, due to a favorable price situation which existed throughout the year.
OTHER DEPARTMENTS

The cold storage department, for the fifth consecutive year, showed an increase in earnings. The outlook for this department continues favorable.

Sales and profits in the miscellaneous departments increased over last year, particularly in the case of butter and milk by-products. Better prices for milk solids were a contributing factor.

Frozen food sales and profits increased over the previous year. Indications are that this department will eventually produce substantial profits for the company.

FINANCIAL

Cash on hand and in banks amounted to $3,759,571.41, as compared to $4,803,877.49 last year, a decrease of $1,044,306.08. The net working capital was $10,121,483.54, representing an increase over the amount at the close of the previous fiscal year, and is the largest working capital in the company’s history. Larger sales and higher prices increased our accounts receivable and inventories. This had the effect of decreasing our cash on hand. The company had $6.20 in current assets for every dollar owing.

Local and general taxes amounted to $481,949.37. Social Security taxes were $381,878.06. State and Federal excise taxes were $122,139.16. Federal income taxes were $961,650.00. The total tax bill of your company last year was $1,887,616.59, which is equivalent to $4.94 per share of Common stock.

GENERAL

The war is necessitating many changes in our business operations. One of the important factors is the rubber rationing order which does not allow any rubber tires for home delivery service. We put into effect methods of saving rubber immediately when the order was issued and, by July first, will have substituted horse-drawn milk wagons on 55% of our retail routes. Rubber tires last two or three times as long on milk wagons as they do on motor vehicles and, by adding horse-drawn wagons, we hope to make our remaining tires on trucks and wagons last about twice as long as they normally would.

Cane and beet sugars for ice cream, orangeade, Chox, and chocolate milk have been rationed, since January first, to 80% of the amount we used the previous year. So far, by the partial use of other sugars and syrups, we have been able to take care of our trade.

The Government program last year called for larger production of cheese, evaporated and dried milk, with further increases scheduled for this year. To do its part in the program, your company has now installed or increased the capacity of cheese plants located at New Bremen, Ohio; Vincennes, Indiana; Cadillac, Michigan; Champaign and Galesburg, Illinois; Washington, Iowa; Topeka, Kansas; Lincoln, Nebraska and Greeley, Colorado. This year we will increase our production of dried milk in recently expanded drying plants located at Sandy Lake, Pennsylvania; New Bremen, Ohio and Beloit, Wisconsin.

This company is proud of the 254 men on leave of absence, who are serving in the armed services of their country.

The Officers and Directors take this opportunity to thank the employees for their loyal work during the past year and to express their appreciation to so many of our stockholders for the friendly interest taken in their company’s operations.

Respectfully submitted,

C. H. Haskell, President

Chicago, Illinois, April 7, 1942
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 28, 1942, 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. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. We visited all branch and subsidiary company accounting offices during the course of our examination and inspected the books and records of original entry.

In addition to our examination as at February 28, 1942, we examined the accounts and records of a substantial number of the branches and subsidiary companies during the year and made extensive tests of the cash transactions, the income and expense accounts and verified the quantities in the merchandise inventories.

Cash in banks was verified by reconciliation with the amounts reported to us directly by the depositaries. Cash on hand was verified by count or by its subsequent deposit in bank accounts, excepting for small change funds, which were confirmed to us by the custodians.

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. A request for verification was mailed to each debtor whose unpaid balance on open account, notes and contracts as at February 28, 1942, amounted to $100.00 or more.

Generally accepted methods were used by the companies in taking physical inventories, and, as a test, we verified by subsequent count and reconciliation, the quantities of dairy products and other finished merchandise on hand and in branch and subsidiary public cold storage warehouses, representing a value of 53% of the total as at February 28, 1942. All merchandise out on consignment or in outside public cold storage warehouses was verified by letters received directly from the consignees and warehouse companies. Materials and supplies on hand were inspected and the quantities as reported to us do not appear to be in excess of requirements. Inventories were priced at the lower of cost or market. The average processed cost or the delivered cost of the purchased items was considered as actual cost; market was determined from the quotations of commodity exchanges and, in the case of products not so quoted, from recent purchase prices.

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, provision has been made in the consolidated balance sheet as at February 28, 1942, for all known direct and contingent liabilities as at that date.

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 28, 1942, 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:
- Cash: $3,759,571.41
- Accounts receivable: $3,669,177.57
- Notes receivable: 991,332.97
- Equipment notes and contracts receivable: 658,500.21

Less—Provision for doubtful: $5,319,010.75

Inventories—at the lower of average cost or market:
- Dairy products and other merchandise: $2,091,717.73
- Materials and supplies: 1,446,947.93

Total Current Assets: $12,069,250.82

#### OTHER ASSETS:
- Investments and advances—Affiliated Companies—Less reserve: $133,208.51
- Notes and accounts receivable—Employees—Less reserve: 27,004.08
- Customers deferred receivables—Less reserve: 127,385.26
- Other notes and accounts receivable—Less reserve: 101,097.97
- Miscellaneous investments (at lower of cost or appraised values): 101,214.30

Total Other Assets: 489,910.12

#### LAND, BUILDINGS AND EQUIPMENT:
- At cost, or less as inventoried by the Company’s engineers, as at March 1, 1933, plus additions at cost:
  - Land: $2,262,709.62
  - Buildings: 10,313,656.81
  - Machinery and equipment (including cans and milk bottles): 18,075,180.55

Less—Reserve for depreciation: 18,189,468.42

REAL ESTATE FOR SALE (At cost or less): 123,696.18

#### DEFERRED CHARGES:
- Insurance unexpired, stationery, prepaid taxes, licenses, etc.: 327,239.64

TOTAL: $25,472,175.32

See notes to consolidated financial statements.
<table>
<thead>
<tr>
<th>CURRENT LIABILITIES:</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$587,337.20</td>
</tr>
<tr>
<td>Accrued wages</td>
<td>$60,515.08</td>
</tr>
<tr>
<td>Provision for State and local taxes</td>
<td>$239,466.80</td>
</tr>
<tr>
<td>Provision for social security taxes</td>
<td>$68,372.29</td>
</tr>
<tr>
<td>Provision for Federal capital stock taxes</td>
<td>$30,425.91</td>
</tr>
<tr>
<td>Provision for Federal income taxes</td>
<td>$961,650.00</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>$1,947,767.28</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DEFERRED INCOME:</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Storage and handling charges</td>
<td>$60,473.49</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MINORITY INTEREST IN CAPITAL AND SURPLUS:</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred stock</td>
<td>$2,600.00</td>
</tr>
<tr>
<td>Common stock</td>
<td>$2,816.30</td>
</tr>
<tr>
<td><strong>Total minority interest</strong></td>
<td>$5,416.30</td>
</tr>
</tbody>
</table>

(Subsidiary company dividends on minority interest in preferred stock unpaid—$2,031.90)

<table>
<thead>
<tr>
<th>NET WORTH:</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital stock:</td>
<td></td>
</tr>
<tr>
<td>$5.00 cumulative preferred, without par value:</td>
<td></td>
</tr>
<tr>
<td>Authorized—100,000 shares</td>
<td></td>
</tr>
<tr>
<td>Outstanding—91,317 shares—stated value</td>
<td>$9,131,700.00</td>
</tr>
<tr>
<td>Common—$25.00 par value:</td>
<td></td>
</tr>
<tr>
<td>Authorized—750,000 shares</td>
<td></td>
</tr>
<tr>
<td>Outstanding—381,866 shares</td>
<td>9,546,650.00</td>
</tr>
<tr>
<td><strong>Surplus:</strong></td>
<td>$18,678,350.00</td>
</tr>
<tr>
<td>Earned</td>
<td>$4,692,655.31</td>
</tr>
<tr>
<td>Capital</td>
<td>$87,512.94</td>
</tr>
<tr>
<td><strong>Total Surplus</strong></td>
<td>4,780,168.25</td>
</tr>
</tbody>
</table>

**TOTAL NET WORTH**                                | $23,458,518.25 |

**TOTAL**                                           | $25,472,175.32 |
CONSOLIDATED STATEMENT OF PROFIT AND LOSS
For the Year Ended February 28, 1942

NET SALES (Including storage earnings—excluding inter-company sales) ........................................... $85,184,446.12

Deduct:
Cost of sales .................................................. $67,851,641.95
Repairs and maintenance (including milk bottle replacements and case and can maintenance) ....... 1,773,473.24
Advertising .................................................... 646,865.61
Insurance ...................................................... 321,692.24
Rent ............................................................ 258,034.03
Taxes ............................................................ 863,827.43
Interest ......................................................... (a) 41,996.30
Retirement annuity premiums ................................ 68,370.50
Other selling and delivery expense .......................... 7,068,677.87
Other administrative expense ................................. 2,591,897.03

81,487,076.80
$ 3,697,399.32
1,170,662.48
$ 2,526,766.84
244,974.04
$ 2,771,681.78

Provision for depreciation ...................................... $ 3,697,399.32
Other income (Dividends, rents, discounts and interest) ................................................................. 244,974.04

Provision for Federal income taxes:
Normal income and surtaxes .................................... $ 856,650.00
Excess profits taxes ........................................... 45,000.00

901,650.00
$ 1,870,031.78
244,974.04
$ 2,115,005.82

Minority interest in net profits ............................... $ 1,869,787.60

CONSOLIDATED NET PROFIT FOR YEAR .......................... $ 1,869,787.60

(a) Interest received on loans to customers by public cold storage warehouse branches and subsidiaries amounting to $53,763.02 is included in "net sales" above.

CONSOLIDATED NET PROFIT FOR YEAR .......................... $ 1,869,787.60

Deduct:
Dividend requirements for year on preferred capital stock of subsidiary company held by minority interests as at February 28, 1942 $ 182.00
Dividends paid on preferred capital stock of Beatrice Creamery Company during the year .................. 456,585.00

456,767.00

BALANCE—Equivalent to profit of $3.70 per share on 381,866 shares of common capital stock of Beatrice Creamery Company as at February 28, 1942 .................................................. $ 1,413,020.60

See notes to consolidated financial statements.
CONSOLIDATED STATEMENT OF SURPLUS
For the Year Ended February 28, 1942

EARNED SURPLUS—February 28, 1941 .................. $ 4,000,434.26
Add: Net profit for the year ended February 28, 1942 $ 1,869,787.60
      Portion of reserve for loss on closed bank accounts returned to surplus 1,000.00
      Prior years Federal income tax adjustments—Net 41,750.45
                  1,912,538.05
Deduct: Dividends paid on preferred stock—$5.00 per share $ 456,758.50
      Dividends paid on common stock—$2.00 per share 763,732.00
                  1,220,317.00
EARNED SURPLUS—February 28, 1942 ................ $ 4,692,555.31
CAPITAL SURPLUS—February 28, 1941 .... $ 102,373.04
Deduct: Goodwill purchased and written off ........... 14,860.10
CAPITAL SURPLUS—February 28, 1942 ................ $ 87,512.94

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Notes receivable include notes amounting to $964,595.34 representing advances to customers by public cold storage warehouse branches and subsidiaries, secured by negotiable warehouse receipts.

(2) The Beatrice Creamery Company and its subsidiaries have adopted a “Retirement Annuity Plan” which is covered by a contract with John Hancock Mutual Life Insurance Company. The contract was effective May 1, 1941 and provides for the establishment of retirement annuities for eligible employees receiving compensation of $3,000.00 per annum or more. No retirement annuities are payable to any participating employee until he reaches his annuity accrual date.

The cost of “Future Service Retirement Annuities” is paid jointly by the Company and those eligible employees electing to participate in the plan; the Company’s share being charged to Profit and Loss as paid. The total cost of “Past Service Retirement Annuities” is paid by the Companies and is payable in installments of $3,600.00 per month over an estimated period of twenty years. This cost is charged to profit and loss as paid.

The Companies have reserved the right, upon written notice to the insurance company, to modify the amount of Past Service considerations to be paid, provided, however, that the amount to be paid in any contract year shall not exceed the greater of (I) $86,400.00 or (II) the amount required to complete the purchase of the “Past Service Annuity,” which has not already been purchased for each employee who attains his annuity accrual date during such contract year, without the consent of the insurance company.

The “Retirement Annuity Plan” may be suspended or discontinued by the Companies at any time.
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  
John T. McGreer  
Louis Nielson

OFFICERS

Clinton H. Haskell ................................... President  
Louis Nielson .................................. Vice President  
John T. McGreer .............. Vice President and General Manager  
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