

Table of Contents

	<u>Page</u>
NOTICE OF MEETING	2
ELECTION OF DIRECTORS (PROPOSAL NO. 1)	5
OWNERSHIP OF COMMON STOCK	19
EXECUTIVE COMPENSATION	20
APPOINTMENT OF INDEPENDENT AUDITORS (PROPOSAL NO. 2)	41
PROPOSED RESTRICTED STOCK PLAN FOR NON-EMPLOYEE DIRECTORS (PROPOSAL NO. 3)	42
PROPOSED LONG TERM INCENTIVE COMPENSATION PLAN OF 1987 (PROPOSAL NO. 4)	44
PROPOSED INDEMNIFICATION AGREEMENTS FOR DIRECTORS AND OFFICERS (PROPOSAL NO. 5)	53
ADDITIONAL INFORMATION	61

How to Listen to the Annual Meeting by Telephone

Once again this year stockholders who are unable to attend the Annual Meeting in person may listen to the proceedings live by calling the following number between 2:00 p.m. and 3:00 p.m. C.D.T. on Thursday, September 10, 1987: 1-900-410-3663. (Persons calling from the Minneapolis-Saint Paul metropolitan area must dial the full eleven digit number.) This is not a toll-free number. Persons using this service (including those in the Minneapolis-Saint Paul metropolitan area) will be charged \$.50 for the first minute and \$.35 for each additional minute. (For example, 15 minutes will cost \$5.40; 30 minutes will cost \$10.65; and 60 minutes will cost \$21.15.) This service is a one-way communication system. Callers can listen but cannot be heard. As usual, voting must be done by proxy or in person. All calls must be dialed direct and cannot be made from coin phones or hotel/motel phones.

THE PILLSBURY COMPANY

Pillsbury Center
200 South Sixth Street
Minneapolis, Minnesota 55402

Dear Stockholder:

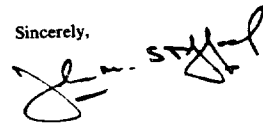
You are cordially invited to attend the 118th Annual Meeting of Stockholders to be held on Thursday, September 10, 1987, at 2:00 p.m. This year's Annual Meeting will be held at a new location—the Ordway Music Theatre, 345 Washington Street, Saint Paul, Minnesota. A map showing the location of the Ordway has been included on the inside back cover of the proxy statement. You may attend in person or be represented by proxy. If you attend in person, there will be limited parking available at no charge in the Civic Center Ramp, 145 West Kellogg Boulevard. If you plan to attend the Meeting, please so advise us by completing and returning the enclosed attendance card along with your proxy. No admission ticket will be sent.

Once again this year stockholders will be able to listen to the Annual Meeting proceedings by telephone in the comfort of their own homes and offices. This service is described on the preceding page.

All holders of record of the Company's outstanding shares of Common Stock as of July 20, 1987 will be entitled to vote at the Meeting. It is important that your shares be represented at the Meeting. Accordingly, we request that you promptly sign, date and return the enclosed proxy card regardless of the number of shares you hold. Management strongly supports the recommendation of the Board of Directors that you vote FOR all of the proposals described in the proxy statement.

A report on the current status of our business will be presented at the Meeting and stockholders will have an opportunity to ask questions or make comments. A report of the Meeting will be contained in the fiscal year 1988 First Quarter Report mailed to all stockholders in October.

Sincerely,



Chairman of the Board, President
and Chief Executive Officer

August 7, 1987

**BEST COPY
AVAILABLE**

THE PILLSBURY COMPANY

Pillsbury Center
200 South Sixth Street
Minneapolis, Minnesota 55402

Please sign, date and promptly return the enclosed proxy card in the reply envelope provided. Every stockholder's vote is important.

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
SEPTEMBER 10, 1987**

Charles H. Gauck
CHARLES H. GAUCK
Secretary

August 7, 1987

The Annual Meeting of Stockholders of The Pillsbury Company will be held at the Ordway Music Theatre, 345 Washington Street, Saint Paul, Minnesota, on September 10, 1987, at 2:00 p.m. for the following purposes:

- 1) To elect five directors for a term of three years.
- 2) To approve Touche Ross & Co. as independent auditors for the year ending May 31, 1988.
- 3) To approve a proposed Restricted Stock Plan for Non-Employee Directors.
- 4) To approve a proposed Long Term Incentive Compensation Plan of 1987.
- 5) To approve proposed Indemnification Agreements for Directors and Officers.
- 6) To transact any other business which may properly come before the Meeting.

Only stockholders of record at the close of business on July 20, 1987 will be entitled to vote at the Meeting and any adjournment thereof. A list of such stockholders will be available for examination by any stockholder for any appropriate purpose relating to the Meeting at the offices of the Company for ten days prior to September 10, 1987.

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS SEPTEMBER 10, 1987

This proxy statement, which is first being mailed to stockholders on or about August 7, 1987, is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of The Pillsbury Company ("Pillsbury" or the "Company"), Pillsbury Center, 200 South Sixth Street, Minneapolis, Minnesota 55402, for the Annual Meeting of Stockholders to be held at the Ordway Music Theatre, 345 Washington Street, Saint Paul, Minnesota, on September 10, 1987, at 2:00 p.m., and for all adjournments thereof.

Stockholders are urged to specify the way they wish to vote their shares by marking the appropriate boxes on the enclosed proxy card. Shares represented by proxies which are properly executed and returned will be voted at the Meeting as specified on the proxy. If no choice is specified, the shares will be voted FOR Proposals 1, 2, 3, 4 and 5 described in this proxy statement. Proxies in the enclosed form will confer discretionary voting authority regarding any other matters which may properly come before the Meeting on the individuals specified in the enclosed proxy card. A stockholder may revoke a proxy at any time before it is exercised by filing with the Secretary of the Company a document revoking it, by submitting a duly executed proxy bearing a later date, or by attending the Meeting and voting in person.

Stockholders of record at the close of business on July 20, 1987 will be entitled to cast one vote per share at the Meeting and any adjournment thereof.

Expenses in connection with the solicitation of proxies will be borne by the Company. Proxies are being solicited principally by mail. Morrow & Co., Inc., has been retained by the Company to act as proxy solicitor. It is anticipated that the fee for such solicitation will be approximately \$6,000. In addition, directors, officers and regular employees of the

Company may solicit proxies personally, by telephone, telegraph or special letter. The Company will also reimburse brokerage firms and others for their expenses in forwarding proxy materials to beneficial owners of Common Stock.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

The Certificate of Incorporation of the Company provides for a Board of Directors of not less than eleven nor more than nineteen members, as determined from time to time by resolution of the Board of Directors, divided into three classes. Directors of one class are elected each year for a term of three years. The Board of Directors currently consists of fourteen members, five of whom are Class I directors whose term expires at the 1988 Annual Meeting; four of whom are Class II directors whose term expires at the 1989 Annual Meeting; and five of whom are Class III directors whose term expires at this year's Annual Meeting.

Shares represented by the enclosed proxy are intended to be voted, unless authority is withheld, for the election of five nominees to serve as Class III directors for a three year term expiring in 1990, and until their successors are elected and qualify. The five nominees of the Board of Directors are James W. McLamore, Willys H. Monroe, John H. Perkins, George S. Pillsbury and William H. Spoor. If any nominee should be unable to serve, shares represented by proxies are intended to be voted, unless authority is withheld, for an alternate or alternates, if any, designated by the Board of Directors. The Board of Directors has no reason to believe that any nominee will be unable to serve as a director.

The nominees and the directors whose terms of office continue after this year's Annual Meeting are listed on the following pages with brief statements setting forth their present principal occupations and other information, including directorships in other public companies. All of the nominees are now directors; and all of the present directors

were elected to the Board of Directors by the stockholders. Unless otherwise stated, each of the nominees and other directors has held his or her present occupation as set forth below, or has been an officer of the Company, or of the organization indicated, for the past five years.



W. MICHAEL BLUMENTHAL
(Class II; term expires in 1989)
Director since 1979
400 shares

Member: Finance Committee
Nominating Committee

Mr. Blumenthal, age 61, is Chairman of the Board, Chief Executive Officer and a director of Unisys Corporation, an information systems company. He is a former U.S. Secretary of the Treasury (1977-1979). He is a director of Chemical New York Corporation, Chemical Bank and Tenneco, Inc.



DONALD F. CRAIB, JR.
(Class I; term expires in 1988)
Director since 1983
2,000 shares

Member: Executive Compensation Committee
(Chairman)
Finance Committee
Nominating Committee

Mr. Craib, age 62, is retired Chairman of the Board and Chief Executive Officer of Allstate Insurance Group, a property/casualty and life insurer which he served in that capacity until his retirement in 1986. He is a member of the Board of Trustees of the U.C.L.A. Foundation, the Board of Visitors of the U.C.L.A. Graduate School of Management, and the Board of Governors of the Ford Theater, Washington, D.C.



ALLEN F. JACOBSON
 (Class II; term expires in 1989)
 Director since 1985
 800 shares

Member: Executive Committee
 Finance Committee (Chairman)
 Nominating Committee

Mr. Jacobson, age 60, is Chairman of the Board, Chief Executive Officer and a director of Minnesota Mining and Manufacturing Company (3M), a manufacturer of coated abrasives, pressure sensitive tapes, magnetic recording media, imaging and printing materials, health care products and other diversified products and services. He is a director of Northern States Power Company, U.S. West Inc. and Valmont Industries, Inc.



CARO E. LUHRS, M.D.
 (Class II; term expires in 1989)
 Director since 1973
 1,200 shares

Member: Audit Committee
 Nominating Committee
 Public Responsibilities Committee

Dr. Luhrs, age 52, is a physician and a consultant on health and medical affairs.



KENNETH A. MACKE
 (Class I; term expires in 1988)
 Director since 1985
 1,000 shares

Member: Executive Committee
 Executive Compensation Committee
 Nominating Committee (Chairman)

Mr. Macke, age 48, is Chairman of the Board, Chief Executive Officer and a director of Dayton Hudson Corporation, a national diversified retail company. He is a director of First Bank System, Inc. He is also a director of the National Retail Merchants Association, and a trustee of Drake University.



JAMES W. McLAMORE
 (Class III; nominee for 3-year term
 expiring in 1990)
 Director since 1967
 152,080 shares (1)

Member: Audit Committee (Chairman)
 Nominating Committee
 Public Responsibilities Committee

Mr. McLamore, age 61, is Chairman Emeritus of Burger King Corporation, a wholly-owned subsidiary of the Company. He is a director of Southeast Banking Corporation, Southeast Bank N.A. and Ryder System, Inc. He is also Chairman of the Board of Trustees of the University of Miami.



WILLYS H. MONROE
 (Class III; nominee for 3-year term
 expiring in 1990)
 Director since 1966
 4,984 shares

Member: Executive Compensation Committee
 Nominating Committee
 Public Responsibilities Committee

Mr. Monroe, age 63, is President of Willys H. Monroe, Inc., a management consulting firm. He is also Chairman of the Board of Trustees of George Williams College. He is a former Senior Vice President of Booz, Allen & Hamilton, Inc., a management consulting firm (1952-1981). He is a director of Harris Bank of Hinsdale, N.A. He is also a Director of the Yale Club of Chicago, the Yale Club of Chicago Foundation, and Music of Baroque (Chicago), and a member of the Advisory Board of LFC Publishing, Inc.



JOHN H. PERKINS
 (Class III; nominee for 3-year term
 expiring in 1990)
 Director since 1969
 8,000 shares

Member: Audit Committee
 Nominating Committee
 Public Responsibilities Committee
 (Chairman)

Mr. Perkins, age 65, is retired President of Continental Illinois Corporation and Continental Illinois National Bank and Trust Company of Chicago, both of which he served in that capacity until shortly before his retirement in 1984. He is a director of the Midwest Stock Exchange and Midwest Securities Trust Company. He is also a trustee of Underwriters Laboratories, Inc., Northwestern University and various civic, cultural and charitable organizations.



GEORGE S. PILLSBURY
 (Class III; nominee for 3-year term
 expiring in 1990)
 Director since 1964
 242,898 shares (2)

Member: Audit Committee
 Executive Committee
 Nominating Committee

Mr. Pillsbury, age 66, is President and a director of Sargent Management Company, an investment advisory company. He is a former State Senator of Minnesota (1971-1983). He is also a member of the advisory Boards of Save the Children and the Hubert H. Humphrey Institute of Public Affairs, University of Minnesota.



ROBERT A. SCHOELLHORN
 (Class I; term expires in 1988)
 Director since 1981
 1,200 shares

Member: Executive Compensation Committee
 Finance Committee
 Nominating Committee

Mr. Schoellhorn, age 58, is Chairman of the Board, Chief Executive Officer and a director of Abbott Laboratories, a health care products manufacturing company. He is a director of ITT Corporation. He is also a director of the Pharmaceutical Manufacturers Association, the Health Industry Manufacturers Association, the Rehabilitation Institute of Chicago, the US-USSR Trade Council, the Chicago Council on Foreign Relations, the National Committee for Quality Health Care and the Grocery Manufacturers of America.



GEORGE J. SELLA, JR.
(Class I; term expires in 1988)
Director since 1982
400 shares

Member: Executive Compensation Committee
Finance Committee
Nominating Committee

Mr. Sella, age 58, is Chairman of the Board, President, Chief Executive Officer and a director of American Cyanamid Company, a manufacturer of a highly diversified line of agricultural, chemical, consumer and medical products. He is a director of The Equitable Life Assurance Society of the United States and Union Camp Corporation. He is also a director of the Multiple Sclerosis Society and the Pharmaceutical Manufacturers Association.



WILLIAM H. SPOOR
(Class III; nominee for 3-year term
expiring in 1990)
Director since 1973
33,218 shares (3)

Member: Executive Committee
Finance Committee
Nominating Committee

Mr. Spoor, age 64, is Chairman Emeritus of the Company. He is retired Chairman of the Board and Chief Executive Officer of the Company, where he served in those capacities from 1973 to 1985. He is a director of Piper, Jaffray Incorporated and Berkley and Company, Incorporated. He is also a member of the Board of Trustees of The Minneapolis Foundation.



JOHN M. STAFFORD
(Class I; term expires in 1988)
Director since 1983
85,336 shares (4)

Member: Executive Committee (Chairman)
Finance Committee

Mr. Stafford, age 50, is Chairman of the Board, President and Chief Executive Officer of the Company. He is a director of Cooper Industries, Inc. and Minnetonka, Inc. He is also a director of Grocery Manufacturers of America and a member of the University of Minnesota School of Management's Board of Overseers.



PETER G. WRAY
(Class II; term expires in 1989)
Director since 1976
4,800 shares

Member: Audit Committee
Nominating Committee

Mr. Wray, age 53, is Chairman of the Board and a director of The Victorio Company and is involved in ranching, farming and related agribusiness activities, commercial real estate, commodity clearing and manufacturing. He is a member of the Board of Consultants, Princeton/Montrose Partners.

- (1) Includes 36,000 shares held by Mr. McLamore's wife, in which shares Mr. McLamore disclaims any beneficial interest.
- (2) Includes 23,600 shares held by Mr. Pillsbury's wife, in which shares Mr. Pillsbury disclaims any beneficial interest, and 129,840 shares held in trusts with respect to which Mr. Pillsbury has shared voting and investment power; but excludes 7,040 shares held in trusts with respect to which Mr. Pillsbury has the right to income only, but has no voting or investment power or other beneficial interest.
- (3) Includes 8,000 shares held by Mr. Spoor's wife, in which shares Mr. Spoor disclaims any beneficial interest.
- (4) Includes 33,662 shares issuable under options exercisable within 60 days by Mr. Stafford, and 200 shares held by Mr. Stafford's son, in which shares Mr. Stafford disclaims any beneficial interest.

COMPENSATION OF DIRECTORS

Directors who are not employees of the Company or its subsidiaries receive an annual cash retainer of \$25,000 plus a fee of \$1,000 per Board meeting attended or Committee meeting attended if such Committee meeting is held on a day other than that of a Board meeting. If the proposed Restricted Stock Plan for Non-Employee Directors is approved (see "Proposal No. 3" below) the annual cash retainer will be reduced from \$25,000 to \$20,000, effective September 1, 1987, and non-employee directors will receive \$5,000 of their annual compensation in the form of restricted stock. Non-employee directors who chair Board Committees receive an additional annual cash retainer of \$5,000. Non-employee directors receive complimentary meals at certain restaurants operated by subsidiaries of the Company. The Company reimburses all directors for travel and other expenses incurred in the performance of their duties. If a non-employee director dies while serving on the Board, an annual fee equal to the annual compensation paid to active directors of the Company at the time of such director's death will be paid to the director's beneficiary or estate for a term equal to the lesser of ten years or the total number of years of such director's service as a director of the Company. In addition, the Company provides travel accidental death insurance for each non-employee director in the amount of \$100,000. See "Proposal No. 5" below for information on the directors' and officers' liability insurance maintained by the Company, and proposed Indemnification Agreements for directors and officers.

The Board of Directors has adopted a policy which provides that a non-employee director upon leaving the Board will be designated as a consultant director. A consultant director serves for a term equal to the lesser of the total number of years of such director's service as a director of the Company or ten years, and receives as an annual fee the annual compensation paid to active directors of the Company at the time such consultant director retires from the Board. A consultant director is required to provide consulting services

to the Company at its request and must refrain from becoming affiliated with any competitor of the Company while serving in such capacity. If a consultant director dies before expiration or termination of the consultant director's term, the annual fee for the remainder of the term will be paid to the consultant director's beneficiary or estate.

The Company's Deferred Compensation Plan for Active Non-Employee Directors and Consultant Directors permits any non-employee director or consultant director to defer all or part of the director's base compensation and meeting fees. Amounts so deferred are, at the participant's election, credited to them in either a dollar amount ("Cash Account") or its defined equivalent in shares ("Units") of the Company's Common Stock ("Share Account"). Cash Accounts earn interest quarterly at a rate equal to the effective rate paid by the Company on its most recent sale of commercial paper prior to the date interest is to be credited. Share Accounts are credited with additional Units when dividends are paid on Pillsbury Common Stock. Payments are always made in cash (based upon the defined value of Pillsbury Common Stock in the case of Share Accounts). Payments are made, at the election of the director, either in a lump sum, payable within fifteen years after termination as an active or consultant director of the Company, or in up to fifteen annual installments, with the last installment to be payable no later than fifteen years following termination as an active or consultant director.

MEETINGS OF DIRECTORS

The Board of Directors held six regularly scheduled meetings and one special meeting during the fiscal year ended May 31, 1987. The number of meetings held by the committees of the Board of Directors is set forth below.

Each director of the Company attended at least 75% of the aggregate number of meetings held by the Board and by the committees on which the director served except for Mr. Wray, who attended 69% of such meetings.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has established six standing committees, the principal duties of which are as follows:

Audit Committee (composed entirely of non-employee directors): Monitors the adequacy and effectiveness of the internal and external audit functions, control systems, financial accounting and reporting, and adherence to applicable legal, ethical and regulatory requirements. Also, makes recommendations concerning the selection of independent accountants; confers with the independent accountants on various matters, including the scope of the audit; authorizes special reviews or audits; reviews internal auditing procedures and the adequacy of internal controls; and reviews policies and practices regarding compliance with laws and conflicts of interest. The Audit Committee reports to the Board at least once each year regarding matters for which it is responsible. The Audit Committee held three meetings during the fiscal year ended May 31, 1987.

Executive Compensation Committee (composed entirely of non-employee directors): Develops compensation policies and programs; approves executive salaries and awards under executive compensation programs; establishes guidelines for the administration of all compensation programs; and reviews employee benefit programs and recommends changes to such programs to the Board. The Executive Compensation Committee held six meetings during the fiscal year ended May 31, 1987.

Nominating Committee (composed entirely of non-employee directors): Reviews the size and composition of the Board, including evaluating candidates for election to the Board; recommends a slate of directors for nomination by the Board; reviews compensation actions affecting employee directors; approves the committees of the Board; reviews the qualifications of candidates for election to corporate officerships; and advises Company management concerning key manpower planning. The Nominating Committee held six meetings during the fiscal year ended May 31, 1987.

The Nominating Committee considers nominees recommended by stockholders. Recommendations by stockholders should be forwarded to the Secretary of the Company and should identify the nominee by name and provide pertinent information concerning his or her background and experience.

Executive Committee: Exercises all powers and authority of the Board between Board meetings, except those powers specifically reserved to the Board by Delaware law or by the By-Laws of the Company. The Executive Committee held three meetings during the fiscal year ended May 31, 1987.

Finance Committee: Reviews the Company's sources and uses of funds, financing requirements and capital structure; approves major financing strategies and programs; reviews dividend policies; reviews investment guidelines with respect to the Company's benefit plans; and makes appropriate recommendations to the Board. The Finance Committee held three meetings during the fiscal year ended May 31, 1987.

Public Responsibilities Committee: Assesses the Company's policies and programs from the viewpoint of public interest and social responsibility; reviews the Company's contributions policy and budget; and makes appropriate recommendations to the Board. The Public Responsibilities Committee held two meetings during the fiscal year ended May 31, 1987.

OWNERSHIP OF COMMON STOCK

At the close of business on July 20, 1987, the Company had outstanding 86,020,340 shares of Common Stock (excluding shares held in the Company's treasury). No person owns beneficially (as defined by the Securities and Exchange Commission) more than 5% of the outstanding shares of the Company's Common Stock.

Information regarding shares of the Company's Common Stock owned beneficially by all directors and director nominees as of June 30, 1987, is shown in each individual's biography set forth on pages 7 to 13 and the footnotes thereto. As of June 30, 1987, no director or director nominee held more than 1% of the outstanding shares of the Company's Common Stock. See "Proposal No. 3" below for information regarding additional shares of Common Stock that will be awarded to non-employee directors if the proposed Restricted Stock Plan for Non-Employee Directors is approved.

As of June 30, 1987, all directors and officers of the Company as a group owned beneficially 1,897,716 shares (including 638,452 shares which may be acquired by them within 60 days pursuant to the exercise of options; and 190,696 shares held in their accounts under the Pillsbury Savings Plan and Employee Stock Ownership Plan described below), representing 2.2% of the outstanding shares of the Company's Common Stock.

EXECUTIVE COMPENSATION

CASH COMPENSATION

The following table sets forth all cash compensation paid by the Company and its subsidiaries for the fiscal year ended May 31, 1987, to all executive officers of the Company as a group and to each of the five most highly compensated executive officers of the Company:

Name of Individual or Number in Group (1)	Capacities in Which Served	Cash Compensation (2)
All executive officers as a group (16 persons)		\$5,100,532
John M. Stafford	Chairman of the Board, President and Chief Executive Officer	763,220
J. Jeffrey Campbell	Executive Vice President, and Chairman of the Board and Chief Executive Officer, Burger King Corporation (3)	439,422
Roger L. Headrick	Executive Vice President and Chief Financial Officer	401,858
Thomas R. McBurney	Executive Vice President, and Chairman, U.S. Foods (4)	368,093
Edward C. Stringer	Executive Vice President, General Counsel and Chief Administrative Officer (5)	356,427

- (1) This table includes base salary data for only that portion of the fiscal year during which an individual was an executive officer.

- (2) Includes (a) base salary and amounts paid for the fiscal year ended May 31, 1987 under the Company's Management Incentive Plan (including amounts deferred under the plans described below), and (b) cash payments to executive officers to cover certain financial counseling fees.
- (3) Effective June 1, 1987, Mr. Campbell became Chairman, Restaurants Group.
- (4) Mr. McBurney was elected an Executive Vice President March 3, 1987. He previously was a Vice President.
- (5) Mr. Stringer also served as Secretary until May 5, 1987.

MANAGEMENT INCENTIVE PLAN

The Company's Management Incentive Plan is designed to provide incentive compensation to those employees of the Company who hold a sufficient measure of responsibility and accountability to impact on business profitability and corporate or divisional goals. Participation in the Management Incentive Plan is limited to employees above a specified salary grade level who are recommended by their major corporate department heads or their division/subdivision general managers, subject to the approval of the Senior Vice President of Human Resources. The Management Incentive Plan is administered by the Executive Compensation Committee of the Board of Directors.

The incentive compensation earned by an employee for any fiscal year is based on a formula related to the achievement by the Company or its appropriate subdivision, such as the individual business unit or group, of its predetermined financial goals for such fiscal year, as well as to the employee's level of responsibility in the Company and attainment of predetermined objectives. Incentive compensation payments for any fiscal year are made as soon as possible following the fiscal year end, but in no event later than

September 1st. Approximately 700 of the employees of the Company and its subsidiaries participated in the Management Incentive Plan for fiscal year 1987.

Pursuant to the Management Incentive Plans for each of the three fiscal years 1985 through 1987, an aggregate of \$780,610 was earned by Mr. Stafford; \$419,383 by Mr. Campbell; \$393,445 by Mr. Headrick; \$326,748 by Mr. McBurney; and \$342,933 by Mr. Stringer; \$4,352,152 by all current executive officers as a group; \$6,120,910 by all other current officers and directors who are not executive officers as a group; and \$36,349,794 by all employees as a group.

A Management Incentive Plan participant may elect to defer a portion of the incentive earned by participating in the Pillsbury Savings Plan and the Nonqualified Deferral Plan described below. Certain participants may also elect to defer additional portions of the incentive earned by participating in the Nonqualified Deferred Compensation Plan described below.

EXECUTIVE INCOME CONTINUATION PLAN

The Company does not have employment contracts with its executive officers. As an alternative to the use of such contracts, on March 4, 1986, the Board of Directors adopted The Pillsbury Company Executive Income Continuation Plan (the "Income Continuation Plan"). Participants are designated by the Executive Compensation Committee of the Board of Directors from among the officers of the Company and its subsidiaries. All executive officers of the Company are participants in the Income Continuation Plan. In the event a participant's employment is terminated by the Company other than "for cause," or a participant voluntarily terminates employment for "good reason," the participant's compensation (salary plus incentive or bonus) will be continued for up to 24 months, depending upon the participant's years of service and position with the Company. With

respect to the executive officers named in the compensation table above, such number of months would be as follows: Mr. Stafford, 24; Mr. Campbell, 24; Mr. Headrick, 18; Mr. McBurney, 24; and Mr. Stringer, 18. During the period of income continuation, participants are entitled to a continuation of certain benefits and perquisites. The income continuation payments and other benefits referred to above continue for a minimum of six months, but cease at any time thereafter that the participant secures employment for substantially the same or greater compensation. Benefits remaining to be paid upon the death of a participant are payable to the participant's beneficiary or spouse.

Participants who are terminated within 24 months of a "change in control" of the Company will, if they then have more than five but less than ten years service with the Company, also receive payment under the Income Continuation Plan of the present value of the retirement benefits payable had they been vested under the Retirement Plan described below. All of the executive officers named in the compensation table above have at least ten years of service except Mr. Headrick, who has five years of service, and Mr. Stringer, who has seven years of service. Under certain circumstances, the Company will pay legal expenses incurred by a participant to collect benefits. The Income Continuation Plan may not be amended or terminated for 36 months following a "change in control" of the Company. The terms "for cause," "good reason" and "change in control" are defined in the Income Continuation Plan

QUALIFIED STOCK AND PROFIT SHARING PLANS

Pillsbury Savings Plan

The Pillsbury Savings Plan (the "Savings Plan") is a qualified defined contribution plan that is the successor to the Pillsbury Deferred Incentive Plan (the "Deferred Incentive Plan") and the Pillsbury Stock Purchase and Investment Plan (the "Stock Purchase Plan"). Effective June 1, 1987, the

Deferred Incentive Plan was merged into the Stock Purchase Plan as the successor plan. The successor plan was renamed the Pillsbury Savings Plan. The Savings Plan, as currently in effect, is described in this section; and the Deferred Incentive Plan, as in effect prior to June 1, 1987, is described below.

Salaried and hourly employees of Pillsbury and certain of its subsidiaries are eligible to participate in the Savings Plan if they are not covered by a collective bargaining agreement. Prior to June 1, 1987, however, executive officers of the Company were not eligible to participate in the Savings Plan (then known as the Stock Purchase Plan) because they participated in the Deferred Incentive Plan. Since June 1, 1987, all executive officers of the Company have been eligible to participate in the Savings Plan. As of June 1, 1987, 11,927 of the approximately 19,000 eligible employees of the Company and its participating subsidiaries were participating in the Savings Plan.

Under the Savings Plan, a participating employee may contribute up to 10% (4% in the case of a participant in the Management Incentive Plan described above) of pay (base pay, overtime, sick leave, vacation and holiday pay, and incentive plan pay) to the Savings Plan. These contributions may be invested by employees in any of several different investment funds. In addition, the Company makes a matching contribution equal to 50% of the first 4% of pay contributed for each participant. These matching contributions are invested in Pillsbury Common Stock.

Certain limitations are imposed by the Internal Revenue Code of 1986 (the "Code") on the maximum contributions that may be made to the Savings Plan on behalf of certain highly compensated participants, including all executive officers. Such maximum contribution (excluding the Company's matching portion) was equal to 10% of pay for fiscal year 1987, and will be equal to 4% of pay for fiscal year 1988. In no event, however, may the contribution for calendar year 1987 or 1988 exceed \$7,000 per year (excluding the Company's matching portion).

For the three fiscal years 1985 through 1987, no contributions were made to the Savings Plan on behalf of any executive officers; and aggregate contributions (including the Company's matching portion) to the Savings Plan were \$30,078 on behalf of all other current officers and directors who are not executive officers as a group; and \$57,551,000 on behalf of all employees as a group.

Deferred Incentive Plan

The Deferred Incentive Plan was a qualified defined contribution plan that was available to employees of the Company and certain of its subsidiaries who participated in certain Company group incentive compensation plans. As of the date the Deferred Incentive Plan was merged into the Stock Purchase Plan to form the Savings Plan, 1,320 of the approximately 1,550 eligible employees of the Company and its participating subsidiaries were participating in the Deferred Incentive Plan.

Under the Deferred Incentive Plan a participating employee could contribute up to 10% of the employee's pay to the Deferred Incentive Plan. The amount contributed was deducted from any incentive compensation earned by the individual before the remainder of such incentive compensation, if any, was paid in cash to the participant. If a participant's incentive compensation was less than the full contribution amount elected by the participant, the Company nevertheless contributed the full contribution amount. The first 4% of pay contributed to the Deferred Incentive Plan was initially invested solely in Pillsbury Common Stock. The balance of the contribution (over the first 4% of pay) was invested by the employee in any of several different investment funds. In addition, the Company made matching contributions equal to 50% of the first 4% of pay contributed for each participant. This matching contribution was invested in Pillsbury Common Stock.

The Code contribution limitations referred to above were applicable to a portion of fiscal year 1987. For fiscal

years 1985 and 1986, similar limitations resulted in maximum contributions (including the Company's matching portion) of \$30,000. For the three fiscal years 1985 through 1987, aggregate contributions (including the Company's matching portion) to the Deferred Incentive Plan were as follows: for the executive officers named in the compensation table above, Mr. Stafford, \$90,000; Mr. Campbell, \$90,000; Mr. Headrick, \$88,900; Mr. McBurney, \$90,000; and Mr. Stringer, \$87,100; for all current executive officers as a group, \$1,022,993; for all other current officers and directors who are not executive officers as a group, \$2,314,796; and for all employees as a group, \$27,863,000.

Employee Stock Ownership Plan

The Company has adopted a payroll based tax credit employee stock ownership plan ("ESOP"), commonly referred to as a "PAYSOP," in which substantially all regular full-time employees of the Company participate. The ESOP is intended to provide supplemental retirement benefits for, and to increase ownership of Pillsbury Common Stock by, participating employees.

The Company's contributions to the ESOP are allocated equally among all participating employees, including executive officers, of the Company, and invested in Pillsbury Common Stock. The ESOP account balances are fully vested and nonforfeitable at all times, and are distributed to participating employees upon retirement or other termination of employment.

The Company makes annual contributions to the ESOP to the maximum extent that such contributions entitle the Company to credits in equal amounts against its federal income tax liability. For fiscal year 1987 such maximum contribution will be in an amount equal to .5% of participating employees' "covered compensation" (as generally defined in the retirement plans covering participating employees) for the period June 1, 1986 through December 31, 1986. This contribution will not be made until approximately February

1, 1988. During the fiscal years 1985 through 1987 the Company made contributions (in each case with respect to the preceding fiscal year) to the account of each participant, including executive officers, in the aggregate amount of \$410. During the same period, aggregate contributions to the ESOP were as follows: for all current executive officers as a group, \$5,740; for all other current officers and directors who are not executive officers as a group, \$20,432; and for all employees as a group, \$6,352,000. Participating employees do not make contributions to the ESOP.

Under the Code, the Company will no longer be entitled to credits against its federal tax liability for the amount of its contributions to the ESOP with respect to covered compensation earned after December 31, 1986. As a result, the Company currently expects that its contribution for fiscal year 1987 will be its last contribution to the ESOP.

General

Under both the Savings Plan and the ESOP, each participant may direct the trustee how to vote shares of the Company's Common Stock allocated to the participant's account. The Savings Plan requires that the trustee must vote unallocated shares and shares for which no participant direction is received in the same manner and proportion as it votes shares for which it receives directions from participants. Shares held by the ESOP for which no participant direction is received may not be voted.

Both plans require that, in the event of a tender offer for the Company's Common Stock, each participant in the plans may direct the trustee whether to tender shares allocated to the participant's account. The trustee may not tender shares for which no participant direction is received.

NONQUALIFIED DEFERRED COMPENSATION PLANS

Deferral Plan

The Pillsbury Company Nonqualified Deferral Plan (the "Deferral Plan") was established May 6, 1987, effective for

fiscal years beginning on or after June 1, 1987. Participation in the Deferral Plan is limited to employees who (a) either participate in the Management Incentive Plan or are officers of major operating subsidiaries, and (b) participate in the Savings Plan to the maximum extent permitted by the Code, as described above. Participants may elect, prior to any fiscal year, to defer a percentage of their compensation (base salary plus incentive) up to an amount (generally 6%) that equals the difference between 10% and the maximum percentage (generally 4%) of compensation they may contribute to the Savings Plan.

If a participant in the Savings Plan elects to contribute 4% of compensation to the Savings Plan, but the \$7,000 per year contribution limitation imposed by the Code results in less than 4% of the participant's compensation being contributed to the Savings Plan, the Company will make a matching contribution to the Deferral Plan equal to the amount by which 2% of the participant's compensation exceeds the Company's matching contribution to the Savings Plan. As a result, participants affected by the above contribution limitation who contribute a total of at least 4% of their compensation to the Savings Plan and the Deferral Plan will receive aggregate Company matching contributions to the Savings Plan and the Deferral Plan equal to the matching contribution that would have been made to the Savings Plan in the absence of such contribution limitation.

Deferred Compensation Plan

The Pillsbury Company Nonqualified Deferred Compensation Plan for Officers (the "Deferred Compensation Plan") was established November 13, 1984, effective for fiscal year 1986, and is available to officers and key employees of the Company and its subsidiaries designated by the Executive Compensation Committee of the Board of Directors. Participants may elect, prior to any fiscal year, to defer all or a percentage (in multiples of 25%) of their incentive compensation under the Management Incentive Plan (less the amount

thereof contributed to the Savings Plan and the Deferral Plan) for such next fiscal year.

General

Under both of the above plans, amounts deferred are, at the participant's election, credited to either a Cash Account or (in the case of the Deferral Plan, only if authorized by the Company's Benefits Committee) a Share Account. Cash Accounts earn interest quarterly at an annual rate equal to the Company's short-term borrowing rate. Share Accounts are currently not available under the Deferral Plan.

Distributions to participants are made upon the retirement, resignation, dismissal, disability or death of a participant or upon the occurrence of a hardship affecting a participant. Distributions are always made in cash (based upon the defined value of Pillsbury Common Stock in the case of Share Accounts), and are paid in a lump sum or in up to ten annual installments as elected by the participant.

LONG TERM INCENTIVE PLANS

Performance Unit Plan

On September 9, 1980, the stockholders of the Company approved the Performance Unit Plan of 1981 (the "1981 Plan"). All unit and share information set forth below has been adjusted to reflect stock splits as appropriate. The maximum aggregate number of performance units available for awards, which may be awarded only through fiscal year 1988 (for an award period ending May 31, 1991), is 2,400,000, subject to adjustment in the case of a stock split, stock dividend or other similar change in the Company's capital structure. As of May 31, 1987, 560,771 of the total performance units available had been awarded (and were either outstanding or had been paid). No performance units have been awarded since June 1, 1986; and if the proposed Long Term Incentive Compensation Plan of 1987 (Proposal No. 4 below) is approved, no further awards will be made under the 1981 Plan.

Performance units may be awarded to officers and key employees of the Company and its subsidiaries. Performance units have a value at the time of award and at the time of payment equal to the fair market value, at such times, of an equivalent number of shares of Pillsbury Common Stock, subject to the limitation that the fair market value of a performance unit at the time of payment may not exceed by more than 100% its value at the time of award. (See "Proposal No. 4" below for information regarding the possible replacement of outstanding 1981 Plan awards with substitute awards that are not subject to this limitation.) Participants do not make any payments or contributions toward the acquisition of performance units or shares issuable thereunder. Performance units are normally payable one-half in cash and one-half in shares of Pillsbury Common Stock.

The payment of a performance unit depends upon the Company's cumulative annual growth in earnings per share during a designated four-year award period. Under the 1981 Plan, the total number of performance units is payable in full only if such growth in earnings per share, compared to a designated base period, is equal to or exceeds a target growth in earnings per share determined by the Executive Compensation Committee of the Board of Directors, which administers the 1981 Plan. The relationship of the amount of such payments to a growth percentage less than such target is governed by the terms of the 1981 Plan, with no performance units payable if the Company's growth in earnings is less than 6% (or such higher level as may be determined by the Executive Compensation Committee). In the event of a "change in control" (as defined in the 1981 Plan) of the Company, outstanding performance units would vest and become payable to the participants. However, if the "change in control" is approved by the Board of Directors of the Company, such performance units would vest and become payable only if authorized by the Executive Compensation Committee of the Board. Payments would be prorated based

upon the number of full months of the award period that have elapsed, and based upon a cumulative annual growth in earnings per share equal to the target applicable to the award.

The Chairman of the Executive Compensation Committee, in his discretion, may approve the request of a participant to defer payment of performance units, subject to the terms and conditions of a separate agreement between the Company and the participant relating to such deferral. Such agreements currently provide that participants may elect, prior to any fiscal year, to defer all or a percentage (in multiples of 25%) of their performance unit payment for such next fiscal year. Amounts deferred are, at the participant's election, credited to either a Cash Account or a Share Account. Cash Accounts earn interest quarterly at an annual rate equal to the prime rate. Distributions to participants are made upon the retirement, resignation, dismissal, disability or death of a participant or, if and to the extent approved by the Executive Compensation Committee, upon the occurrence of a hardship affecting a participant. Distributions are always made in cash (based upon the defined value of Pillsbury Common Stock in the case of Share Accounts), normally in ten annual installments following the earlier of termination of employment, death or disability.

16

The following table sets forth, for the three fiscal years 1985 through 1987, with respect to the executive officers named in the compensation table above, all current executive officers as a group and all other current officers and directors who are not executive officers as a group, (a) the aggregate number of performance units awarded, (b) the aggregate net value of performance units for which payment was made upon the maturity of performance units awarded in previous years, and (c) the number of performance units outstanding as of May 31, 1987:

	J. M. Stafford	J. J. Campbell	R. L. Headrick	T. R. McCurry	E. C. Stringer	All Current Executive Officers As A Group	All Other Current Officers & Directors As A Group
Performance Units Awarded During Three- Year Period(1)	48,000	32,000	12,800	23,000	18,000	215,000	15,125
Net Value of Performance Units Awards Paid During Three-Year Period(2)	\$685,278	0-	\$463,580	\$135,888	\$299,809	\$3,848,454(3)	\$1,174,723
Performance Units Out- standing (1)	48,000	32,000	12,800	23,000	18,000	215,000	15,125

- (1) The numbers of performance units stated correspond to the numbers of shares to which they relate. Figures for Mr. Headrick do not include 18,342 units credited as of May 31, 1987 to a special Deferred Consideration Agreement account established upon commencement of his employment in February 1982. Each such unit equals one share of Pillsbury Common Stock, and additional units (1,498 for the three fiscal years 1985 through 1987) are credited to his account when dividends are paid on Pillsbury Common Stock. Payments from his account will be made in either cash or Pillsbury Common Stock in ten annual installments following his termination of employment.
- (2) Aggregate fair market value of performance unit payments. These figures include the payments made in June

1987 for the performance units awarded in fiscal year 1984 because such payments were fully earned in fiscal year 1987.

- (3) This figure excludes, for such three fiscal years, (a) an aggregate of 15,524 matured performance units (with a net value of \$526,184 at the time of deferral) credited to the deferred compensation accounts of all current executive officers as a group, and (b) an aggregate of 290 additional Units (with a net value at the time of accrual of \$58,467) credited to the deferred compensation accounts of all current executive officers as a group.

During the three fiscal years 1985 through 1987, the aggregate number of performance units awarded to all employees as a group was 239,604; and the aggregate net value of performance units paid to all employees as a group was \$5,415,940. The number of performance units outstanding as of May 31, 1987 was 239,604. The foregoing figures exclude, for such three fiscal years, (a) an aggregate of 31,589 matured performance units (with a net value of \$1,244,476 at the time of deferral) credited to the deferred compensation accounts of all employees as a group and (b) an aggregate of 1,016 additional Units (with a net value at the time of accrual of \$264,063) and \$458,308 of interest credited to the deferred compensation accounts of all employees as a group.

See "Proposal No. 4" below for information regarding contingent performance unit awards that have been made, subject to stockholder approval of the Long Term Incentive Compensation Plan of 1987.

Strategic Performance Plan

Under The Pillsbury Company Strategic Performance Plan (the "Strategic Performance Plan"), the Executive Compensation Committee of the Board of Directors can make awards in units to officers and key full-time employees of the Company and its subsidiaries. Awards under the Strategic Performance Plan and the 1981 Plan are normally not made to the same person in the same fiscal year.

The value of a unit depends upon attainment of performance goals, as measured in profit before tax and return on invested capital for each business or subsidiary in which a participant is employed and in overall corporate earnings per share, during the three consecutive fiscal years beginning with the start of the fiscal year in which an award was made (an "Award Period"). At the end of an Award Period, a composite Award Period performance ratio is calculated by averaging the performance percentages (calculated as an average of the percentage of the above three performance goals actually achieved) for each of the three years in the Award Period. Generally, a composite Award Period performance ratio of 90% results in a value of \$75 per unit, while 130% results in a maximum award of \$175 per unit. Units are valueless if less than a 90% composite Award Period performance ratio is achieved. Alternative minimum and maximum unit values and corresponding performance ratios may be determined by the Executive Compensation Committee.

Units are payable in cash as soon as is practicable following receipt of audited results of operations for the last year in an Award Period; provided that a participant must be employed by the Company on the first day of September following termination of an Award Period, except in the event of death, disability or retirement in which case awards will be prorated to reflect the participant's period of active employment. The Chairman of the Executive Compensation Committee, in his discretion, may approve the request of a participant to defer payment of units, subject to the terms and conditions of a separate agreement between the Company and the participant relating to such deferral. Such agreements contain the same provisions as the deferral agreements described above under "Performance Unit Plan."

Awards of units under the Strategic Performance Plan in fiscal years 1985 through 1987 were as follows: for the executive officers named in the compensation table above,

none; for all current executive officers as a group, 4,000; for all other current officers and directors who are not executive officers as a group, 19,850; and for all employees as a group, 77,910. During fiscal year 1987 (the first year of payments), awards were paid as follows: for the executive officers named in the compensation table above, Mr. Campbell, \$350,000; and Mr. McBurney, \$72,975; for all current executive officers as a group, \$611,000; for all other current officers and directors who are not executive officers as a group, \$274,031; and for all employees as a group, \$1,190,082. As of May 31, 1987, the following previously awarded units were outstanding: the executive officers named in the compensation table above, none; all current executive officers as a group, 4,000; all other current officers and directors who are not executive officers as a group, 19,850; and all employees as a group, 77,910. No awards may be made for Award Periods ending after fiscal year 1997.

Under a previous arrangement similar to the Strategic Performance Plan, but applicable only to certain of the Company's businesses, units were awarded during fiscal years 1981 through 1983 (the final year of such awards). During fiscal years 1985 and 1986 (the final year of award payments), awards under this arrangement were paid as follows: for the executive officers named in the compensation table above, Mr. Campbell, \$378,406; for all current executive officers as a group, \$486,381; for all other current officers and directors who are not executive officers as a group, none; and for all employees as a group, \$1,584,004.

Stock Option Plans

The Company currently has outstanding stock options granted under three stock option plans. Stock options may currently be granted under only one of these three plans. Information regarding these stock options and plans is set forth below. All share information has been adjusted to reflect stock splits, as appropriate.

Stock options may currently be granted only under The Pillsbury Company Stock Option Plan of 1982 (the "1982

Plan"), which was approved by the stockholders of the Company on September 14, 1982. Under the 1982 Plan, stock options covering an aggregate of 3,000,000 shares of Pillsbury Common Stock may be granted to key employees of the Company and its subsidiaries prior to September 15, 1987. As of May 31, 1987, 1,215,582 shares were available for option grants. No grants have been made since May 4, 1987; and if the proposed Long Term Incentive Compensation Plan of 1987 (Proposal No. 4 below) is approved, no further grants will be made under the 1982 plan.

Options under the 1982 Plan are granted at no less than 100% of fair market value at the date of grant and must be exercised within ten years from the date of grant (or such other prior date determined by the Committee of the Board of Directors administering the 1982 Plan). Such Committee, in its sole discretion, may designate whether an option granted is to be considered an "incentive stock option" qualified under Section 422A of the Internal Revenue Code (the "Code"), or a "non-qualified stock option" (that is, any option which is not considered an incentive stock option).

Stock options are also outstanding under the Company's Nonqualified Stock Option Plan (the "1976 Plan") and the Green Giant Company 1974 Stock Option Plan (the "1974 Plan").

The Company adopted the 1974 Plan as a result of the acquisition of Green Giant Company in March 1979. In connection with such adoption, the Company granted, in substitution for each outstanding option or stock appreciation right under the 1974 Plan, an option to purchase shares of Pillsbury Common Stock or a stock appreciation right with respect to shares of Pillsbury Common Stock. As a result of such adoption, the holders of such options received options with stock appreciation rights covering an aggregate of 359,484 shares of Pillsbury Common Stock, and options without stock appreciation rights covering an aggregate of 73,656 shares of Pillsbury Common Stock.

Under the 1976 Plan and the 1982 Plan, in the event of a "change in control" (as defined in the plans) of the Company not approved by the Company's Board of Directors, the Executive Compensation Committee of the Board, at its discretion, may accelerate outstanding unexercisable options and make them fully exercisable.

The following table sets forth, for the three fiscal years 1985 through 1987, information regarding stock options under all of the foregoing stock option plans with respect to the executive officers named in the compensation table above, all current executive officers as a group and all other current officers and directors who are not executive officers as a group, indicating (a) the number of options granted (all of which were granted without tandem stock appreciation rights), and the average per share option price; and (b) the net value of shares or cash realized upon the exercise of stock options or stock appreciation rights:

	J. M. Stafford	J. J. Campbell	R. L. Hendrick	T. R. McBurney	E. C. Stranger	All Current Executive Officers As A Group	All Other Current Officers & Directors As A Group
<i>Options Granted:</i>							
Number of Shares	34,800	16,400	11,000	14,400	10,600	178,400	319,150
<i>Average exercise price per share:</i>							
	\$26.20	\$26.68	\$30.62	\$29.90	\$26.58	\$28.90	\$29.17
<i>Options Exercised:</i>							
Net value realized in shares or cash(1)	\$332,456	\$189,754	-0-	\$65,212	-0-	\$1,226,600	\$4,375,627

(1) Market value on date of exercise less option exercise price.

During the three fiscal years 1985 through 1987, all employees as a group were granted options covering an aggregate of 1,443,700 shares at an average exercise price of \$29.07.

At June 30, 1987, options to purchase an aggregate of 1,386,102 shares were outstanding under all of the foregoing stock option plans. Of such number, 1,368,530 were options without tandem rights at an average exercise price per share of \$26.15, with expiration dates ranging from June 6, 1988 to May 4, 1997; and 17,572 were options with tandem rights at an exercise price of \$5.80, and an expiration date of May 26, 1988.

At June 30, 1987, 396 of the approximately 450 eligible employees were participating in the 1982 Plan; 55 employees were participating in the 1976 Plan; and four employees were participating in the 1974 Plan.

See "Proposal No. 4" below for information regarding contingent stock option grants that have been made, subject to stockholder approval of the Long Term Incentive Compensation Plan of 1987.

RETIREMENT PLAN

The Pillsbury Retirement Plan for Salaried Employees (the "Retirement Plan") provides non-contributory benefits based on final average compensation, including certain incentive compensation, and years of credited service. Final average compensation means the higher of the employee's average pensionable earnings (wages plus certain earned incentives) during either (a) the last 60 consecutive calendar months immediately preceding separation from employment, or (b) those five consecutive calendar years within the ten consecutive calendar years immediately preceding separation from employment in which the employee had the highest amount of pensionable earnings. Because benefits are related to future pay, a precise projection of benefits is impracticable. The following table is a reasonable estimate of the annual benefits payable to employees, including executive officers, under the Pillsbury Retirement Plan upon normal retirement (age 65) before the Social Security offset discussed below. Such estimate is based on final average compensation and

years of credited service as indicated, and is computed based on straight life annuity amounts.

Final Average Compensation	Years of Service				
	10	15	20	25	30
\$100,000	\$ 16,667	\$ 25,000	\$ 33,334	\$ 41,667	\$ 50,000
300,000	50,001	75,001	100,002	125,002	150,000
500,000	83,335	125,002	166,670	208,337	250,000
600,000	100,000	150,003	200,004	250,005	300,000
700,000	116,669	175,003	233,338	291,672	350,000
800,000	133,336	200,004	266,672	333,340	400,000
900,000	150,003	225,004	300,006	375,007	450,000

The Retirement Plan provides that retirement benefits paid under the Plan will equal 1 $\frac{3}{4}$ % of the final average compensation multiplied by the number of years of the employee's credited service (not to exceed 30 years), less 1 $\frac{3}{4}$ % of the primary Social Security benefits payable to the employee multiplied by an equal number of years of credited service. Payments under the Retirement Plan are made monthly from retirement date to death.

The Retirement Plan provides that if the plan is terminated or merged with another plan within three years of a "change in control" (as defined in the plan) of the Company, any excess assets (assets remaining after provision is made to satisfy all liabilities to participants and beneficiaries) must be applied to increase the benefits of participants and beneficiaries.

The full years of service currently accrued by the executive officers named in the compensation table above are: Mr. Stafford, 12 years; Mr. Campbell, 16 years; Mr. Headrick, 5 years; Mr. McBurney, 19 years; and Mr. Stringer, 7 years. Current compensation covered by the Retirement Plan for such named executive officers is substantially similar to the amount attributable to each individual as stated in the compensation table.

The Code places certain limitations on pensions that may be paid under tax qualified plans. Amounts set forth above which exceed such limitations will be paid outside the

qualified plan on an unfunded basis. Supplemental accruals have been made by the Company to maintain total benefits upon retirement at approximately the levels shown in the table.

Mr. Spoor retired in 1985 at age 62. Pursuant to a supplemental, unfunded retirement benefit approved by the Board of Directors prior to his retirement, the Company will pay Mr. Spoor an additional \$45,079 per year for life, which represents the difference between the benefit he would have received under the Retirement Plan had he retired at age 65 (without regard to the Code benefit limitations referred to above) and the monthly benefit he actually receives. Upon his retirement, Mr. Spoor received his Company automobile and became entitled to other miscellaneous benefits, including office space and secretarial service for ten years. He is also entitled to a Company-paid club membership while he serves as a director of the Company. During fiscal year 1987, the cost to the Company of these other benefits was approximately \$102,000.

Certain key executives of the Company, including all the executive officers named in the compensation table above and substantially all other current executive officers, will, if they retire at or after age 62, become eligible for coverage under an unfunded Company plan that generally provides for payment (normally to a designated beneficiary) of a post-retirement death benefit equal to the executive's annual salary at the time of retirement (age 62 or later) plus the average of the employee's last three annual incentive payments (including any deferred portion), subject to certain maximum benefits ranging from \$500,000 to \$1,000,000. Upon his retirement, Mr. Spoor became eligible for coverage under this plan in the amount of \$871,100. In the event of a "change in control" (as defined in the plan) of the Company not approved by the Company's Board of Directors, the executives become eligible for benefits upon retirement at or after age 55, instead of age 62. None of the executive officers named in the compensation table above is over age 55.

OTHER COMPENSATION

Information concerning certain other non-cash compensation, including miscellaneous incidental personal benefits provided to executive officers of the Company, is omitted from this proxy statement because the amount of such other compensation is less than the amount above which disclosure is required by the applicable rules of the Securities and Exchange Commission.

CERTAIN TRANSACTIONS

During the fiscal year ended May 31, 1987, the Company and its subsidiaries, in the ordinary course of business, had business relationships with firms of which certain of Pillsbury's directors are an executive officer. The transactions involved in these business relationships, which may continue in the future, are not material to either Pillsbury or the other parties to the transactions.

PROPOSAL NO. 2

APPOINTMENT OF INDEPENDENT AUDITORS

Subject to ratification by the stockholders, the Board of Directors, upon the Audit Committee's recommendation, has appointed Touche Ross & Co. as independent auditors of the accounts of the Company and its subsidiaries for the fiscal year ending May 31, 1988. Touche Ross & Co. has performed this function for the Company on an annual basis since the Company's incorporation.

A representative of Touche Ross & Co. will be present at the Annual Meeting and will have the opportunity to make a statement and to respond to appropriate questions.

The Board of Directors recommends a vote FOR approval of Touche Ross & Co. as independent auditors (Proposal No. 2).

PROPOSAL NO. 3

PROPOSED RESTRICTED STOCK PLAN FOR NON-EMPLOYEE DIRECTORS

The Company's Board of Directors has adopted, contingent upon stockholder approval, and recommends to the stockholders for their approval, The Pillsbury Company Restricted Stock Plan for Non-Employee Directors (the "Restricted Stock Plan").

PRINCIPAL FEATURES

The principal features of the Restricted Stock Plan are summarized below. This summary is qualified in its entirety by reference to the full text of the Restricted Stock Plan, which is attached to this proxy statement as Exhibit A.

The purpose of the Restricted Stock Plan is to supplement the cash fees paid to non-employee directors by granting each of them awards of Pillsbury Common Stock ("Stock") that will increase their proprietary interest in the Company and their identification with the interests of stockholders. The Company's Board of Directors currently consists of 14 members, 13 of whom are not employees of the Company and would qualify to participate in the Restricted Stock Plan.

If the Plan is approved by the stockholders, non-employee directors elected or reelected to three year terms (expiring in 1990) at this year's Annual Meeting will receive an award of stock having a market value of \$15,000. In addition, at the same time, non-employee directors whose terms expire at the 1988 Annual Meeting will receive a stock award valued at \$5,000, and non-employee directors whose terms expire at the 1989 Annual Meeting will receive a stock award valued at \$10,000. Individuals subsequently elected or reelected as non-employee directors for three year terms will receive stock awards valued at \$15,000. Individuals subsequently elected or reelected as non-employee directors for shorter terms will receive proportionally smaller awards. The

number of shares of Stock covered by each award will be determined by dividing the dollar amount of the award by the market value of the Stock at the time the award is granted.

Stock issued under the Restricted Stock Plan would come from the Company's treasury, and would entitle the director to all of the rights of a stockholder, including the right to vote the Stock and receive cash dividends. All Stock would, however, be subject to certain restrictions against sale or transfer until (a) the director's retirement, death or disability, (b) the director is not reelected to the Board, or (c) the occurrence of a change in control of the Company not approved by the Board. If a director leaves the Board for any other reason, the director would forfeit all rights in all Stock awarded under the Plan (unless the Board of Directors, in its sole and absolute discretion, waives forfeiture as to some or all of such Stock).

The Restricted Stock Plan would be administered by a committee of the Board of Directors (currently the Nominating Committee, which consists of all non-employee members of the Board); but the committee's administrative functions would be essentially ministerial in view of the Plan's explicit provisions, including those relating to the eligibility for awards and the fixed formula for determining the amount of Stock to be awarded to each director. The Restricted Stock Plan could be amended or terminated by the Board, but no such action would, without a director's consent, affect a previously granted award; and stockholder approval would be required for any amendment that would increase the size of awards or modify the requirements as to eligibility for participation.

As noted under "Election of Directors—Compensation of Directors" above, if the Restricted Stock Plan is approved, the annual cash retainer paid to each non-employee director will be reduced from \$25,000 to \$20,000.

FEDERAL INCOME TAX CONSEQUENCES

The grant of an award will not result in income for the director or in a deduction for the Company for federal income tax purposes. A director will generally realize taxable compensation income when the restrictions on the Stock lapse. The amount of such income will be the value of the Stock on that date. Dividends paid on the Stock during the restricted period would also be taxable compensation income to the director. In all cases, the Company will be entitled to a tax deduction to the extent that, and at the time that, the director realizes compensation income. Income tax withholding would be required.

OTHER INFORMATION

Although stockholder approval of the Restricted Stock Plan is not required, it is being requested because such approval will exempt awards of Stock from being considered purchases under the short-swing trading provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended. Approval of the Restricted Stock Plan requires the affirmative vote of the holders of a majority of the shares of Stock present, or represented, and entitled to vote at the Annual Meeting.

The Board of Directors recommends a vote **FOR** approval of the Restricted Stock Plan (Proposal No. 3).

PROPOSAL NO. 4

PROPOSED LONG TERM INCENTIVE COMPENSATION PLAN OF 1987

The Company's Board of Directors has adopted, contingent upon stockholder approval, and recommends to the stockholders for their approval, The Pillsbury Company Long Term Incentive Compensation Plan of 1987 (the "1987 Plan"). The 1987 Plan is intended to replace the 1981 Plan and the 1982 Plan described above. If the 1987 Plan is

approved, no further awards will be made under the 1981 Plan or the 1982 Plan.

PRINCIPAL FEATURES

The principal features of the 1987 Plan are summarized below. This summary is qualified in its entirety by reference to the full text of the 1987 Plan, which is attached to this proxy statement as Exhibit B.

General

The purpose of the 1987 Plan is to motivate and reward performance on the part of employees, to assist in attracting and retaining employees of superior ability, and to provide additional opportunities for Stock ownership by employees in order to increase their proprietary interest in the Company and their identification with the interests of stockholders.

The 1987 Plan authorizes the granting of awards in the form of stock options, performance units, stock appreciation rights and restricted stock. The maximum number of shares of Stock available under the 1987 Plan for such awards is 4,200,000 (subject to adjustment in the event of stock splits or other similar changes in the Stock). In this connection, each performance unit awarded is counted as one share of Stock. Shares of Stock covered by expired or terminated stock options, unpaid performance units, and forfeited shares of restricted stock may be used for subsequent awards under the 1987 Plan. Shares of Stock awarded under the 1987 Plan may be either authorized and unissued shares or shares held in the Company's treasury.

Participants in the 1987 Plan will be designated from among the key employees of the Company and its subsidiaries and affiliates by a committee of non-employee directors, initially the Executive Compensation Committee (the "Committee"). The 1987 Plan does not limit the aggregate number of shares that may be covered by awards granted to any one participant. It is anticipated that approximately 500 employ-

ees (including all executive officers of the Company) will be eligible to participate in the Plan. Of this number, 460 employees have been granted one or more contingent awards (described below), subject to stockholder approval of the 1987 Plan.

No awards may be granted under the 1987 Plan after its termination date, which will be September 10, 1992 unless extended by the Company's Board of Directors. The termination date may not be extended beyond September 10, 1997 without stockholder approval. The Board may also amend the other provisions of the 1987 Plan, but stockholder approval is required for any amendment that would alter the group of persons eligible to become participants, or increase the maximum number of shares of Stock available for awards.

The 1987 Plan will be administered by the Committee, which will have the power to make awards, determine the terms and conditions of such awards, interpret the 1987 Plan, and adopt rules, regulations and procedures with respect to the administration of the 1987 Plan. The Committee may delegate to one or more of its members such of its powers as it deems appropriate.

Stock Options

The Committee may grant stock options that either qualify as "incentive stock options" or are "non-qualified stock options." The term of an incentive stock option may not exceed the maximum term for incentive stock options under the Code (currently 10 years). The term of a non-qualified stock option may not exceed such maximum term for an incentive stock option plus one month. The stock option purchase price may not be less than the fair market value of the Stock on the date the stock option is granted. The purchase price may be paid by tendering cash, Stock, or a combination of both. The Committee may authorize participants to pay any required withholding taxes in whole or in part by having the Company withhold shares of Stock

(having a fair market value up to the amount of the taxes due) from the shares otherwise issuable upon the exercise of a stock option.

Stock options may be exercised during varying periods of time after a participant's termination of employment, depending upon the reason for the termination of employment and whether the stock option is an incentive stock option. All stock options may be exercised for up to twelve months following death or total disability. Incentive stock options may be exercised for up to three months following any other termination of employment. Non-qualified stock options may be exercised for up to twenty-four months following retirement, and for up to three months following any other termination of employment. The Committee may extend such periods in all cases involving non-qualified stock options, and in cases involving incentive stock options if the termination of employment results from death or total disability. Stock options may only be exercised to the extent that they were exercisable at the date of termination of employment, and in no event may a stock option be exercised after the expiration of its term.

Performance Units

The Committee may grant performance units, which are contingent rights to receive future payments based upon the achievement of performance objectives (for the Company and/or an operating division or subsidiary) established by the Committee. The amount paid will be based upon the extent to which such performance objectives are achieved over a performance period established by the Committee. The amount paid will depend upon how many performance units have been deemed earned. Each performance unit earned will be valued at the fair market value of one share of Stock at the time of payment. Payments may be made in cash, shares of Stock or a combination of both, in the discretion of the Committee. Participants may defer payment of earned performance units in the manner describe above for the 1981 Plan.

In the event of a participant's termination of employment because of death, total disability, retirement or under special circumstances approved by the Committee, the Committee may authorize a partial payment of the performance unit award, prorated for the portion of the performance period preceding termination of employment. In the event of termination of employment for any other reason during a performance period, the participant's performance unit award shall terminate unless the Committee shall otherwise determine.

The Committee may grant awards ("Substitute Awards") that are in substitution for and replace outstanding awards ("Prior Awards") under the 1981 Plan. A Substitute Award would be deemed to have been granted on the date the Prior Award was granted, and would be subject to the same performance objectives and performance period as the Prior Award, but the Substitute Award would not be subject to the limitations on payment described above for the 1981 Plan. The Committee has neither granted any Substitute Awards nor made a determination whether or not it will do so in the future, or to whom Substitute Awards might be granted.

Stock Appreciation Rights

The Committee may grant stock appreciation rights ("SARs") in connection with all or part of any stock option, either at the time of the stock option grant, or later during the term of the stock option. SARs entitle the participant to receive from the Company the same economic value that would have been derived from the exercise of an underlying stock option and the immediate sale of the shares of Stock. Such value is paid by the Company in cash, shares of Stock, or a combination of both, in the discretion of the Committee. If an SAR is exercised, the underlying stock option is terminated as to the number of shares covered by the SAR exercise. SARs may not be exercised after a participant's termination of employment.

Restricted Stock

The Committee may grant restricted stock awards that result in shares of Stock being issued to a participant subject to restrictions against disposition during a restricted period established by the Committee. The Committee may provide that the restrictions lapse as to all shares at the end of the restricted period, or as to a portion of the shares in installments during the restricted period. The Committee shall determine whether or not any payment is required by a participant upon the lapse of such restrictions and the release of the shares to the participant. During the restricted period, a participant has the right to vote the shares of restricted stock and to receive dividends and distributions unless the Committee requires such dividends and distributions to be held by the Company subject to the same restrictions as the restricted stock. The Committee may authorize the payment of interest on amounts so withheld.

If a participant terminates employment during the restricted period, all shares still subject to the award's restrictions will be forfeited and returned to the Company, subject to the right of the Committee to waive such restrictions in the event of a participant's death, total disability, retirement, or under special circumstances approved by the Committee.

Other Provisions

The 1987 Plan provides protection of the intended economic benefits for participants in the event of a "change in control" (as defined in the 1987 Plan) of the Company. The provisions for stock options (and related SARs) and performance units are substantially identical to the "change in control" provisions under the 1982 Plan and the 1981 Plan described above. In the event of a "change in control" not approved by the Company's Board of Directors, the Committee may waive all restrictions applicable to restricted stock.

FEDERAL INCOME TAX CONSEQUENCES

Stock Options

The grant of an incentive stock option or a non-qualified stock option would not result in income for the participant or in a deduction for the Company. The exercise of a non-qualified stock option would generally result in compensation income for the participant and a deduction for the Company, in each case measured by the difference between the purchase price and the fair market value of the shares at the time of exercise. Income tax withholding would be required.

The exercise of an incentive stock option would not result in income for the participant if the participant (a) does not dispose of the shares within two years after the date of grant or one year after exercise and (b) is an employee of the Company or a subsidiary of the Company from the date of grant until three months before the exercise. If these requirements are met, the basis of the shares upon later disposition would be the purchase price. Any gain would be taxed to the participant as long term capital gain and the Company would not be entitled to a deduction. The excess of the market value on the exercise date over the purchase price is an item of tax preference, potentially subject to the alternative minimum tax. If the participant disposes of the shares prior to the expiration of either of the holding periods, the participant would recognize compensation income and the Company would be entitled to a deduction equal to the lesser of (i) the fair market value of the shares on the exercise date minus the purchase price or (ii) the amount realized on disposition minus the purchase price. Any gain in excess of the compensation income portion would be treated as long term or short term capital gain.

Performance Units and SARs

The grant of a performance unit or an SAR would not result in income for the participant or in a deduction for the

Company. Upon the receipt of shares or cash under a performance unit award or the exercise of an SAR, the participant would generally recognize compensation income and the Company would be entitled to a deduction measured by the fair market value of the shares plus any cash received. Income tax withholding would be required.

Restricted Stock

The grant of restricted stock should not result in income for the participant or in a deduction for the Company for federal income tax purposes, assuming the shares are subject to restrictions resulting in a "substantial risk of forfeiture" as intended by the Company. If there are no such restrictions, the participant would recognize compensation income upon receipt of the shares. Otherwise, a participant will generally realize taxable compensation income when the restrictions lapse. The amount of such income will be the value of the Stock on that date (less any amount paid by the participant). Dividends paid on the Stock and received by the participant during the restricted period would also be taxable compensation income to the participant. In all cases, the Company will be entitled to a tax deduction to the extent that, and at the time that, the participant realizes compensation income. Income tax withholding would be required.

AWARDS CONTINGENT UPON STOCKHOLDER APPROVAL

On June 1, 1987, the Committee granted contingent awards, described below, subject to stockholder approval of the 1987 Plan.

Contingent stock options were granted for the following number of shares to the persons or groups indicated: to the executive officers named in the compensation table above, Mr. Stafford, 12,500; Mr. Campbell, 7,600; Mr. Headrick, 5,900; Mr. McBurney, 5,600; Mr. Stringer, 5,100; to all executive officers as a group, 74,400; to all other current

officers and directors who are not executive officers as a group, 94,800; and to all employees as a group, 469,500. All such options were granted at a per share option price of \$38.625, and without tandem stock appreciation rights.

Contingent performance unit awards were granted for the following number of units to the persons or groups indicated: to the executive officers named in the compensation table above, Mr. Stafford, 5,200; Mr. Campbell, 3,100; Mr. Headrick, 7,200; Mr. McBurney, 2,300; and Mr. Stringer, 2,100; to all executive officers as a group, 50,500; to all other current officers and directors who are not executive officers as a group, 5,500; and to all employees as a group, 56,000. All such awards were for a four year performance period beginning with fiscal year 1988, and are based upon performance objectives tied to growth in the Company's earnings per share over a base period, and average return on equity. Payment of the performance units covered by the above awards will depend upon the extent to which these performance objectives are achieved. If minimum performance objectives are not achieved, no performance units will be paid. If target performance objectives are achieved, 100% of the performance units will be paid. Proportionately smaller payments will be made if the target performance objectives are not fully achieved.

On July 30, 1987, the closing price for the Stock reported on the New York Stock Exchange Composite Transactions was \$47.25 per share.

Except for the above contingent awards, no determination has been made as to who may be granted other awards under the 1987 Plan, or the terms and provisions of any such awards.

If stockholders do not approve the 1987 Plan, the above contingent awards will be void, and the Committee will be able to grant awards under the 1981 Plan and the 1982 Plan until they expire as described above.

OTHER INFORMATION

The effective date of the 1987 Plan is June 1, 1987, subject to stockholder approval at the Annual Meeting. Approval of the 1987 Plan requires the affirmative vote of the holders of a majority of the shares of Stock present, or represented, and entitled to vote at the Annual Meeting.

The Board of Directors recommends a vote FOR approval of the 1987 Plan (Proposal No. 4).

PROPOSAL NO. 5

PROPOSED INDEMNIFICATION AGREEMENTS FOR DIRECTORS AND OFFICERS

The Company's Board of Directors has approved, and authorized the Company to enter into, indemnification agreements in substantially the form attached to this proxy statement as Exhibit C (the "Indemnification Agreements") with its current and future directors and officers. The Board of Directors has also directed that a proposal to authorize the Company to enter into the Indemnification Agreements be submitted to the stockholders for their approval.

PURPOSE OF THE INDEMNIFICATION AGREEMENTS

The Board of Directors believes that the Indemnification Agreements are in the best interests of the Company and its stockholders. The Board believes that the Indemnification Agreements, in conjunction with the limitation on personal liability of directors provided for by the Company's Certificate of Incorporation and the indemnification rights provided by the Company's By-Laws, will enhance the Company's ability to continue to attract and retain individuals of the highest quality and ability to serve as its directors and officers. Among other things, the Indemnification Agreements would provide the Company's directors and officers with a specific

contractual assurance that they will be indemnified to the fullest extent permitted by law, regardless of any amendment to or repeal of the indemnification provisions in the Company's By-Laws or any change in the composition of the Board of Directors as might occur following an acquisition or "change in control" of the Company. Unlike the indemnification provisions in the By-Laws, the Indemnification Agreements would not be subject to unilateral revision or repeal by the Company's Board of Directors or stockholders.

CURRENT INDEMNIFICATION PROVISIONS

The General Corporation Law of the State of Delaware (the "Delaware Statute") provides for indemnification of directors and officers of corporations in certain situations. Section 145 of the Delaware Statute requires indemnification in cases where a director or officer of a corporation has been successful in defending any claim or proceeding and permits indemnification, even if a director or officer has not been successful, in cases where the director or officer acted in good faith and in a manner that he or she reasonably believed was in, or not opposed to, the best interest of the corporation. To be indemnified with respect to criminal proceedings, the director or officer must also have had no reasonable cause to believe that his or her conduct was unlawful. In the case of a claim by a third party (*i.e.*, a party other than the corporation), the Delaware Statute permits indemnification for judgments, fines and amounts paid in settlement, as well as expenses. In the case of a claim by or in the right of the corporation (including stockholder derivative suits), indemnification under the Delaware Statute is limited to expenses, but does not cover judgments or amounts paid in settlement, and no indemnification of expenses is permitted if the director or officer is adjudged liable to the corporation, unless a court determines that, despite such adjudication but in view of all the circumstances, such indemnification is nonetheless proper. The Delaware Statute also permits the advancement

of expenses to directors and officers upon receipt of an undertaking to repay all amounts so advanced if it is ultimately determined that the director or officer has not met the applicable standard of conduct and is, therefore, not entitled to be indemnified.

The Company's By-Laws currently provide that the Company shall indemnify its directors and officers to the fullest extent permitted by the Delaware Statute. Both the Delaware Statute and the Company's By-Laws specifically state that their indemnification provisions shall not be deemed exclusive of any other rights to indemnification that a director or officer may have, including rights under an indemnification agreement with the Company.

In addition, following stockholder approval at the 1986 Annual Meeting, a new Article SIXTEENTH was added to the Company's Certificate of Incorporation in order to assist the Company in continuing to attract and retain highly qualified directors. Article SIXTEENTH, in essence, eliminates the personal liability of directors to the Company or its stockholders for monetary damages for breaches of the directors' fiduciary duty of care.

SUMMARY OF INDEMNIFICATION AGREEMENTS

The principal provisions of the Indemnification Agreements are summarized below. This summary is qualified in its entirety by reference to the full text of the form of Indemnification Agreement attached to this proxy statement as Exhibit C.

The Indemnification Agreements provide for indemnification of directors and officers to the fullest extent permitted by law. They cover any and all expenses (including attorneys' fees), judgments, fines, penalties and amounts paid in settlement (including interest and other charges) incurred in connection with investigating, defending, being a witness or participating in (including on appeal), any threatened,

pending or completed action, suit or proceeding, or any inquiry or investigation, whether civil, criminal, administrative or otherwise (a "Proceeding"), related to a person's service as a director, officer, employee, agent or fiduciary of the Company (or, at the request of the Company, as a director, officer, employee, agent or fiduciary of another corporation, partnership, joint venture, employee benefit plan, trust or other enterprise), or related to anything done or not done by such person in any such capacity during the time he or she was a director or officer of the Company.

The Indemnification Agreements also provide for the prompt advancement of all expenses incurred in connection with any Proceeding and obligate the director or officer to reimburse the Company for all amounts so advanced if it is subsequently determined, as described below, that the director or officer is not entitled to indemnification.

Indemnification would not, however, be available under the Indemnification Agreements if a person or body ("Reviewing Party") appointed by the Company's Board of Directors determines that such indemnification is not permitted under applicable law and such determination is not successfully challenged before a court. The Reviewing Party may not be a party to the Proceeding in connection with which indemnification is sought, but otherwise may be, or consist of, one or more members of the Company's Board of Directors. After a "change in control" (as defined in the Indemnification Agreement) of the Company (not approved by the Company's Board of Directors), all determinations required to be made by a Reviewing Party must be made by independent legal counsel to be selected by the director or officer seeking indemnification and approved by the Board (which approval cannot be unreasonably withheld). The Company has the burden of proving that the director or officer is not entitled to indemnification in any particular case, and the Indemnification Agreements negate certain presumptions which might otherwise be drawn against a director or officer in certain circumstances.

In the event that the Reviewing Party determines that a director or officer is not permitted to be indemnified under applicable law (and, therefore, is not entitled to indemnification under the Indemnification Agreement), the director or officer may seek a judicial determination of his or her right to indemnification. In addition, a director or officer is entitled to indemnification for, and advancement of, all expenses (including attorneys' fees) incurred in any Proceeding seeking to collect from the Company an indemnification payment or advancement of expenses under the Indemnification Agreement, the Company's By-Laws or otherwise, or in seeking to recover under a directors' and officers' liability insurance policy, whether or not the director or officer is successful.

Prior to a "change in control" of the Company (not approved by the Company's Board of Directors), a director or officer would not be entitled to indemnification in connection with a Proceeding initiated by such director or officer (other than to enforce his or her rights under the Indemnification Agreement), unless such Proceeding was authorized or consented to by the Board of Directors.

The Indemnification Agreements also provide that all legal actions brought against the director or officer by or in the right of the Company must be brought within a period of one year from the date of the accrual of such actions (or any shorter period that would otherwise be applicable), after which period any such cause of action will be extinguished. Although support can be found in Delaware law for the proposition that parties may contractually limit a statutory period of limitation, the enforceability of such a provision in the context of agreements such as the Indemnification Agreements has not been tested in court and remains subject to considerations of state law and public policy. Consequently, legal counsel cannot give an opinion as to the enforceability of this one-year limitation provision.

Like the Delaware Statute and the Company's By-Laws, the Indemnification Agreements provide that a director's or officer's rights thereunder are not exclusive of any other indemnification rights he or she may have; however, the Indemnification Agreements do prevent double payment. If the Company pays a director or officer pursuant to an

Indemnification Agreement, the Company will be subrogated to such director's or officer's right to recover from third parties. While not requiring the maintenance of directors' and officers' liability insurance, the Indemnification Agreements require that the director or officer be covered in accordance with the terms of any such insurance which the Company maintains. The Company currently maintains directors' and officers' liability insurance policies providing aggregate coverage of \$50,000,000. These policies expire May 31, 1988.

CERTAIN EFFECTS OF THE INDEMNIFICATION AGREEMENTS

The Indemnification Agreements ensure that, in the event of a "change in control" of the Company, a determination of whether a director or officer is entitled to indemnification and advancement of expenses will not be made by potentially hostile directors. If court assistance to obtain such indemnification is required, the director or officer can receive indemnification for costs incurred in pursuing his or her rights to indemnification, regardless of whether such claim to indemnification is successful. In addition, the Indemnification Agreements would afford directors and officers the benefit of any subsequent changes in Delaware law relating to indemnification, including any expansion of the scope of permissible indemnification.

All rights to indemnification under the Indemnification Agreements would exist only to the extent permitted by applicable law. Under the Delaware Statute, indemnification in the case of stockholder derivative suits is limited to expenses; but, as noted above, the Delaware Statute also provides that its indemnification provisions are not exclusive of any other rights to indemnification, such as under the Indemnification Agreements. The Indemnification Agreements, which do not distinguish between stockholder derivative claims and third party claims, are intended to provide indemnification of directors and officers for stockholder derivative claims. However, the enforceability of this feature

of the Indemnification Agreements has not been tested in court, and it is uncertain whether Delaware's public policy (as codified in the Delaware Statute) would bar indemnification of directors and officers for judgments and amounts paid in settlement of derivative claims under the Indemnification Agreements. Stockholders objecting to any indemnification of a stockholder derivative claim would be required to challenge the indemnification in an appropriate proceeding at their own expense. Whether stockholders will receive notice of judgments and amounts paid in settlement of stockholder derivative claims may depend upon the jurisdiction in which the derivative action is brought. Delaware law generally provides that stockholders receive notice of dismissal or compromise of any derivative action in such manner as the court deems appropriate. In addition, the federal securities laws require that the Company's annual proxy statement describe briefly any transaction with a director or executive officer that involves more than \$60,000.

The Company is not aware of any pending or threatened claim against any of the Company's directors or officers for which indemnification may be sought, and there has not been any recent litigation which would have been covered by the Indemnification Agreements had they been in effect at that time. The Indemnification Agreements would be applicable with respect to any claims asserted after their effective dates, whether arising from acts or omissions occurring before or after their effective dates.

OTHER INFORMATION

Stockholder approval of the Indemnification Agreements is not required by law. However, the Company's directors will be parties to and beneficiaries of the rights conferred by the Indemnification Agreements, and will therefore have a personal interest in approval of the Indemnification Agreements. Moreover, any personal benefit that the directors may derive could potentially be at the expense of stockholders. As a result, the Board of Directors believes it

is appropriate to submit the proposal to authorize the Company to enter into the Indemnification Agreements to stockholders for their approval. In addition, the Company believes that stockholder approval of the Indemnification Agreements may pose a significant obstacle to any subsequent stockholder attempt to invalidate the Indemnification Agreements.

If the stockholders approve this proposal, it is anticipated that the Company will enter into Indemnification Agreements with each of its directors and officers and that similar agreements will be entered into, from time to time, with future directors and officers of the Company. The Company, directly or through an appropriate subsidiary, may also enter into similar agreements, from time to time, with other officers, agents or representatives of the Company and its subsidiaries. The form of the Indemnification Agreement may be modified from time to time by the Board of Directors as it deems appropriate, and, to the extent reasonably related to its subject matter, by the Company's Chief Executive Officer and General Counsel as they deem necessary or appropriate. If the stockholders do not approve the proposal, the Board of Directors will reconsider whether the Indemnification Agreements should be entered into and then take such action as may be appropriate.

Approval of this proposal requires the affirmative vote of the holders of a majority of the shares of Stock present, or represented, and entitled to vote at the Annual Meeting.

The Board of Directors recommends a vote FOR approval of Indemnification Agreements for Directors and Officers (Proposal No. 5).

ADDITIONAL INFORMATION STOCKHOLDER PROPOSALS AND NOMINATIONS

Any proposals from stockholders intended to be presented at the 1988 Annual Meeting must be received by the Company by April 8, 1988. The Certificate of Incorporation of the Company provides that no person (other than a person nominated by or on behalf of the Board of Directors) shall be eligible for election as a director at any annual or special meeting of stockholders unless a written request that such person's name be placed in nomination is received from a stockholder of record by the Secretary of the Company not less than 30 days prior to the date fixed for the meeting, together with the written consent of such person to serve as a director. It is presently contemplated that the 1988 Annual Meeting will be held on Tuesday, September 13, 1988.

OTHER BUSINESS

As of the date of this proxy statement, the management of the Company knows of no matters that will be presented for consideration at the 1987 Annual Meeting other than those referred to herein. If any other matters properly come before the Meeting calling for a vote of the stockholders, it is intended that proxies in the form solicited will be voted in accordance with the judgment of the individual or individuals voting the proxies.

ANNUAL REPORT ON FORM 10-K

A copy of the Company's annual report on Form 10-K as filed with the Securities and Exchange Commission for the last fiscal year will be provided to stockholders without charge upon the receipt of a written request to: Investor Relations Department, The Pillsbury Company, Pillsbury Center, 200 South Sixth Street, Minneapolis, MN 55402.

CHARLES H. GAUCK
Secretary