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1960

Annual Report

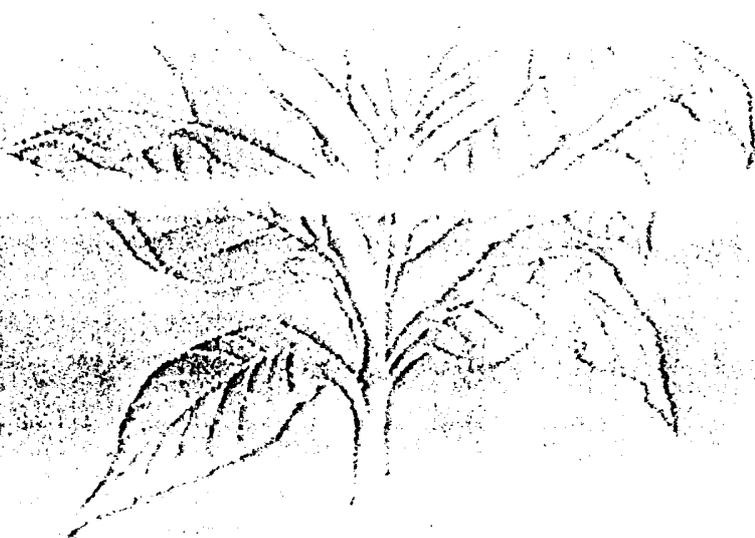
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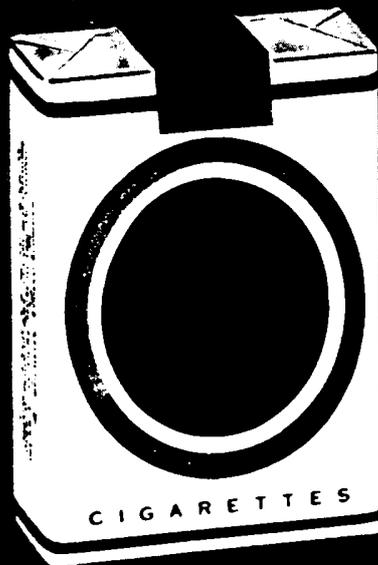
Ray Blewins
Mktg Res.



The American Tobacco Company

ANNUAL REPORT • 1960





ANNUAL REPORT

For the year ended December 31, 1960

The American Tobacco Company

Executive Office, 150 East 42nd Street, New York 17

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HIGHLIGHTS

The American Tobacco Company

AND WHOLLY-OWNED SUBSIDIARIES



	1960	1959
<i>Per Common Share</i>		
Net operating income	\$4.62	\$4.61
Less: Nonoperating charge to provide for possible loss of leaf inventory in Cuba, less applicable federal income tax	<u>.06</u>	<u>—</u>
Net income	4.56	4.61
Dividends paid	2.72½	2.50
Net sales	\$1,215,342,819	\$1,161,376,858
Operating income, before taxes on income	135,843,166	136,071,270
Net income (in 1960 after provision for possible loss of leaf inventory in Cuba)	62,522,313	63,248,270
Dividends paid (common and preferred)	38,660,244	35,729,596
Portion of net income invested in assets used in the business and to provide for debenture sinking fund requirements	23,862,069	27,518,674
Current assets, December 31	771,818,513	728,028,304
Current liabilities, December 31	175,829,476	140,403,931
Net working capital, December 31	595,989,037	587,624,373
Number of stockholders, December 31:		
Common	89,440	87,772
Preferred	7,105	7,172

THE PRESIDENT'S LETTER

To Our Stockholders

FEBRUARY 14, 1961

THIS report covers operations of The American Tobacco Company, including wholly-owned subsidiaries, for 1960.

Dollar sales in 1960 reached an all-time high at \$1,215,342,819 compared with \$1,161,376,858 in 1959, an increase of \$53,965,961. This was the second successive year in which dollar sales showed a gain of more than \$50 million. The Company's unit cigarette sales in 1960 were higher than in 1959, both in this country and abroad.

Net income in 1960, before deducting nonoperating charge of \$797,292 to provide against possible loss of leaf inventory in Cuba, was \$63,319,605, slightly higher than the record \$63,248,270 for 1959.

The 1960 fourth quarter was the fifth successive quarter to show a record high in dollar sales. Despite the provision against possible Cuban leaf loss (charged to fourth-quarter earnings), net income during that period also set a new record for a fourth quarter.

Sales

Again in 1960 the Company's cigarette volume increased in both the filter and non-filter fields.

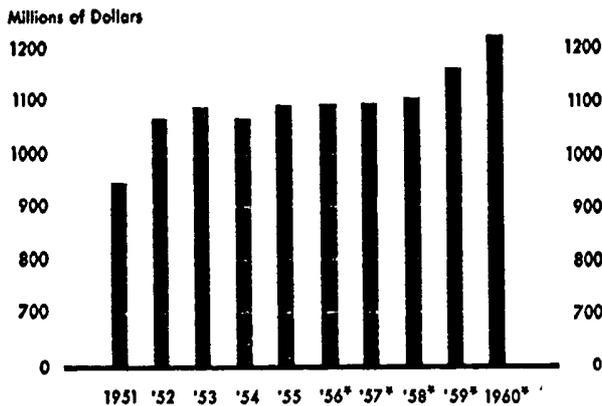
PALL MALL, the largest-selling brand made by the Company, recorded substantial and consistent increases throughout 1960. It has been estimated that PALL MALL Cigarettes account for about one-seventh of all cigarettes consumed in the United States. The outstanding success of PALL MALL is attributed to the outstanding quality of its tobacco blend, reflecting the Company's high standards of leaf purchase and precision manufacture.

DUAL FILTER TAREYTON Cigarette sales continued to increase in 1960. Since its introduction in July 1958, DUAL FILTER TAREYTON has shown a steady upward sales curve. In addition to the traditional TAREYTON tobacco blend, this brand offers the exclusive dual filter with an inner component of activated charcoal, definitely proved to make the taste of a cigarette mild.

Increasing acceptance of both king-size and filter-tip cigarettes again resulted in a contraction of the market for standard-size cigarettes. Unit sales of LUCKY STRIKE Cigarettes, however, showed a lesser rate of decline in 1960 than in 1959.

Export unit sales of your Company's cigarettes manufactured in this country, as well as unit sales of cigarettes manu-

SALES AT RECORD HIGH



*Includes all wholly-owned subsidiaries

factured and sold abroad by the Company's English subsidiary, J. Wix & Sons Limited, were higher in 1960 than in 1959.

Estimated industry cigar sales in the 10¢ price class and ROI-TAN sales in this class were lower in 1960 than in 1959; however, ROI-TAN continues to be America's largest-selling 10¢ cigar. The brand's new Sta-Firm head, advertised beginning at midyear, was reflected in improved sales performance during the second half. ROI-TAN also offers Golfers at 4¢ and Cigarillos and Trumps at 5¢.

Combined sales of the two 5¢ shapes were higher in 1960 than in 1959.

The Company's higher-priced cigars—including LA CORONA, ANTONIO y CLEOPATRA and BOCK y CA—again showed an increase in combined unit sales. These brands comprise the largest-selling cigar line in their field.

Sales of smoking tobaccos were lower in 1960 than in 1959.

Improvements in packaging continued in 1960. A new package design for HERBERT TAREYTON Nonfilter King-Size Cigarettes was introduced early in the year. A new carton was designed for LUCKY STRIKE Cigarettes and introduced in January 1961.

The Company's principal products are listed on page 24 of this report. Stockholders are urged to use these quality products themselves, to use them as gifts, and to promote them among their friends and acquaintances who smoke. By promoting the Company's brands, stockholders can materially contribute to sales and to the value of their own investment.

Earnings

Net income in 1960, before deducting

nonoperating charge of \$797,292 to provide against possible loss of leaf inventory in Cuba, was \$63,319,605, slightly higher than the record \$63,248,270 for 1959. After this deduction, 1960 net income was \$62,522,313.

Based on 13,025,044 shares of the Company's Common stock now outstanding, per share earnings in 1960, before providing against possible loss of leaf inventory in Cuba, were \$4.62 against \$4.61 in 1959. After this provision, per share earnings in 1960 were \$4.56. Per share figures are in terms of the present Common stock, after the 2-for-1 split effective April 7, 1960.

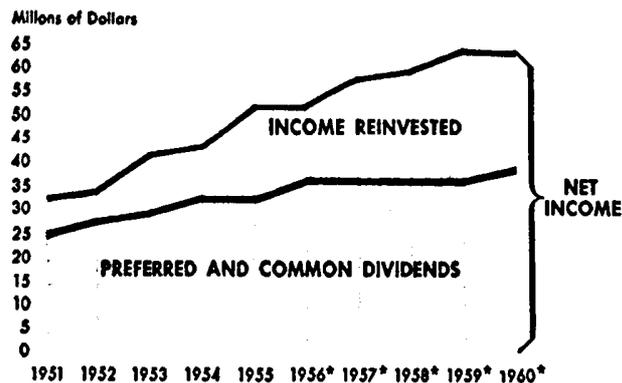
Common Dividend Increased

1960 was the 56th consecutive year in which Common dividends have been paid by your Company.

An increased regular quarterly dividend of 57½ cents per Common share was paid on June 1, September 1 and December 1, 1960. Previous regular quarterly payments had been equivalent to 50 cents per share on the present Common stock.

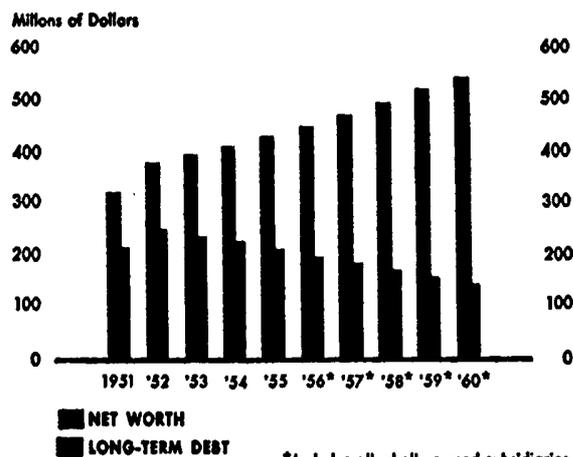
The total amount of dividends paid in 1960 on both Common and Preferred

NET INCOME, DIVIDENDS AND INCOME REINVESTED



*Includes all wholly-owned subsidiaries

FINANCIAL POSITION STRONGER



*Includes all wholly-owned subsidiaries

stock was \$38,660,244. The balance of 1960 earnings amounting to \$23,862,069 was retained for use in the business.

New Dividend Policy

On January 31, 1961, a regular quarterly dividend of 70 cents per Common share was declared, payable on March 1, 1961, to stockholders of record February 10, 1961. This action carried out the previously announced intention of the Board of Directors to equalize quarterly divi-

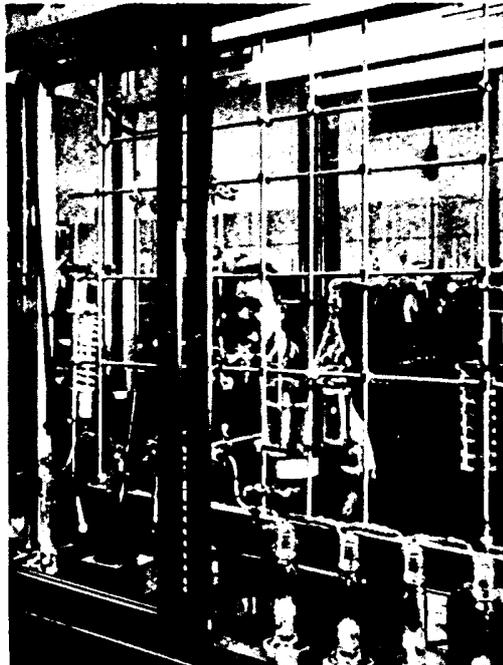
dends on the Common stock in 1961.

For the past several years, an extra dividend equivalent to 50 cents per share on the present Common stock was paid on March 1 of each year. Under the new policy, subject as always to business conditions at the time, regular quarterly dividends will be increased 12½ cents per share in place of paying the extra dividend of 50 cents on March 1.

Stockholders in 1961 will, under this plan, receive four regular quarterly divi-



Leaf Auction



Research



Cigarette Making

dend payments of 70 cents per Common share, or a total of \$2.80 per share for the full year. Dividends (including extras) were equivalent to a total, on the present Common stock, of \$2.72½ per share in 1960 and \$2.50 per share in 1959 and the three previous years.

Continued Improvement in Financial Position

The Company's over-all financial position continued to grow stronger last year.

Long-term debt was \$14,913,000 lower at the end of 1960 than at the end of 1959, as a result of retirement of debentures through operation of the Sinking Funds. This reduction, together with the addition of \$23,862,069 of retained earnings to net worth, further improved the ratio of funded debt to net worth. Thus funded debt was 25% of net worth at the end of 1960 as compared with 70% ten years ago.

In April 1962, approximately \$26,000,000 of the \$100,000,000 3% Debentures issued in 1942 will become due and payable. This represents the amount of debentures which will not have been redeemed through the operation of the Sink-

ing Fund. It is the present intention of your Management to meet this maturity out of working capital provided other demands for working capital do not indicate the need for new financing. However, no new financing is presently contemplated.

Notes Payable were higher during most of 1960 and amounted to \$78,000,000 at the end of the year compared with \$56,000,000 a year earlier. Heavier purchases of leaf tobacco accounted for the increase in this type of indebtedness. However, at times during the summer months there were no Notes Payable outstanding.

Increased sales volume of our English subsidiary, necessitating increased working capital, was the cause of the increase in the loans payable by this subsidiary.

Net working capital at the end of 1960 amounted to \$595,989,037 compared with \$587,624,373 a year earlier.

Taxes

Federal and other taxes on income in 1960 amounted to \$71,659,828, or \$5.50 per Common share. This compares with net income of \$4.56 per Common share.

The Company's total tax bill for 1960,

including excise taxes of \$491,250,000, income taxes, social security and other taxes, amounted to \$648,301,324.

Although the Company is not involved in the collection of State and local tobacco taxes, they represent a substantial levy on sales of its products with commensurate higher prices to the consumer. At the end of 1960, 47 of the 50 States (all except Colorado, North Carolina and Oregon) had a tax on cigarettes and more than 200 local taxing units (cities and counties) also levied taxes on tobacco products.

Capital Expenditures

Capital expenditures in 1960 were mainly for machinery and other equipment to improve the efficiency of handling and processing in our cigarette factories and for additions to and improvements in buildings. Additional manufacturing facilities were also acquired during the year by our English subsidiary in order to handle its increased volume of cigarette sales.

Total capital expenditures in 1960 were \$7,838,000 compared with \$9,121,000 in the previous year. Depreciation

charged to cost and expense in 1960 amounted to \$5,480,419.

Leaf Tobacco

As it has for many years, the Government continues to control the growing and marketing of flue-cured and Burley leaf tobacco, the principal types used in making cigarettes. This control takes the form of acreage restriction at the farm and price support at the auction markets. Average market prices for flue-cured and Burley tobacco are now nearly four times as high as in 1940.

The flue-cured crop in 1960 totaled about 1,250 million pounds, nearly 16% above 1959, and the average selling price for the crop on the auction markets was 59.9¢ per pound—about 2¢ above a year earlier and a record high. The Government price support level for the 1960 crop was 55.5¢ per pound.

The harvest of Burley tobacco in 1960 was about 496 million pounds, or roughly 1% below the previous year. Prices on the auction markets through the end of 1960 averaged 65.3¢ per pound, which is 4.3¢ higher than in the comparable period of 1959. The Government price support

level for the 1960 crop was 57.2¢ per pound. Approximately 75% of the 1960 crop had been sold through the end of the year compared with 90% at the same time in 1959.

The Company's constant effort to improve the quality of its tobacco products is, of course, dependent in the first instance upon the purchase of the better grades of leaf tobacco. In line with this policy, your Company's purchases on the auction markets were concentrated on the finest grades of leaf tobacco available.

The Cuban Situation

Your Company owns 84.5% of Cuban Tobacco Company Inc. Common stock. The operating results of Cuban Tobacco Company Inc. have never been consolidated with those of The American Tobacco Company. Furthermore, the sum total of its operations in Cuba is not significant in terms of either sales or earnings when compared with total operations of The American Tobacco Company.

The American Tobacco Company's investment in and advances to Cuban Tobacco Company Inc. are carried on the balance sheet at \$5,555,069, represent-

ing less than 1% of the Company's total assets. The Company's 1960 income included \$207,270 representing interest on Cuban Tobacco Company Inc. loan and notes; this was less than 1/4 of 1% of The American Tobacco Company's operating income before taxes. Cuban Tobacco Company Inc. has paid no dividends on its Common stock for many years.

Through its investment in Cuban Tobacco Company Inc. the Company had an equity in two small subsidiaries which operated in Cuba. One was intervened and the other nationalized. Information regarding the financial aspects of these expropriations are set forth in the notes on page 18.

Provision was made against possible loss of leaf tobacco inventories in Cuba owned by The American Tobacco Company which we were unable to have shipped to the United States. This amount was \$797,292 after deducting applicable Federal income tax.

Cuban Tobacco Company Inc. continues to manufacture cigars in the United States at its Trenton, N. J., factory. Sales of these cigars amounted to \$8,716,501 in 1960. Dollar sales of cigars and ciga-

rettes manufactured in Cuba are not available for 1960. However, in the past they have represented less than one-half of Cuban Tobacco Company's consolidated sales of manufactured products.

Advertising and Sales Promotion

Your Company is one of the nation's largest advertisers. Virtually all major media, including newspapers, magazines, television, radio and billboards, are used to sustain and widen the demand for our tobacco products by the smoking public.

As is the case with most manufac-

turers of branded consumer products, considerable time, effort and expense are devoted to this aspect of operations. National advertising to sustain and increase the large sales volume of our brands makes it possible for the Company to maintain and improve their high quality standards and still produce a profit. Beginning about one hundred years ago, national advertising made possible the emergence of national tobacco brands and the volume production, high quality standards and relatively low prices on which the Company's business is based.

Our Sales Organization, which is also nationwide, reinforces the work of our brand advertising and services the distribution of our products. Its members strive to maximize distribution, extend merchandising and display aid to retailers, insure that our products are properly cared for at both wholesale and retail levels, and also sample consumers directly.

The work of the Advertising and Sales Departments is constantly reviewed so as to get full value for each dollar spent on promotion and so as to strengthen our important lines of communication with the trade and the consuming public.



Supermarket Display

Tareyton delivers the flavor...



Here's one filter cigarette that's really different!

The difference is this: Tareyton's Dual Filter processes a unique blend of activated charcoal... to provide a smooth, rich taste... and a pure white outer filter... to balance the flavor elements in the smoke. Tareyton delivers... and you enjoy... the best taste of the best tobacco.

DUAL FILTER Tareyton



Tobacco Institute

The Tobacco Institute, Inc. represents your Company and other tobacco manufacturers in creating better knowledge and understanding of tobacco among the general public. On December 1, 1960, Mr. George V. Allen assumed the Presidency of The Tobacco Institute. Mr. Allen resigned last year from government service after a distinguished thirty-year career as Ambassador to various countries, as Assistant Secretary of State for Public Affairs, and as Director of the United States Information Agency. A native of Durham, North Carolina, Mr. Allen was reared in the tobacco country and has had first-hand experience in our industry.

Representative Advertisements



Taste PALL MALL... So
**GOOD!
GOOD!
GOOD!**

Good-looking. Good-tasting. Good-smoking Pall Mall!

Why does Pall Mall taste so good, good, good? Because Pall Mall's famous length of fine, good-tasting tobacco travels and gentles the smoke naturally—makes it mild—but does not filter out that satisfying flavor. That's why Pall Mall tastes so good! good! good! Never too strong. Never too weak. Always just right! Outstanding... and they are Mild!



Enjoy satisfying flavor...so friendly to your taste!

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Smoking and Health

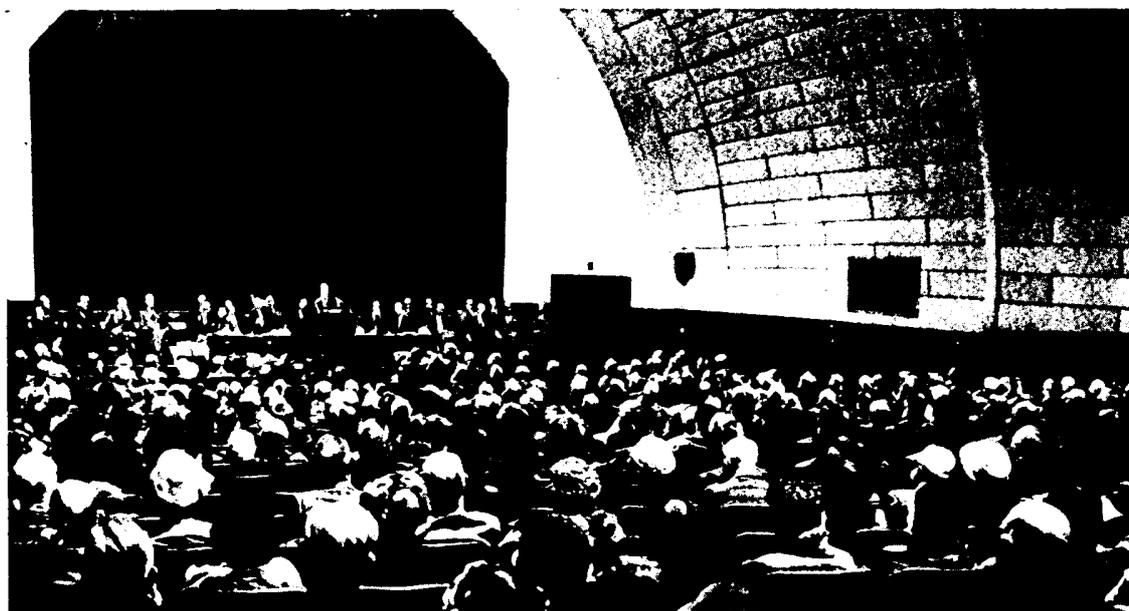
As was true in previous years, 1960 produced no laboratory or pathological evidence to support the highly propagandized anti-cigarette theory. The lack of substantiation for this theory has been the subject of comment by a number of outstanding scientists.

Your Company continues to support the scientific program of the Tobacco Industry Research Committee, now in its eighth year. Since its inception, the T.I.R.C. has appropriated about \$4 million for objective research in the area of

smoking and health, this research being performed by independent scientists with no obligation to the industry other than to pursue the facts and publish them. The research program is administered by a Scientific Advisory Board whose members are not connected with the tobacco industry.

Last year in a joint report to the T.I.R.C., the Scientific Advisory Board stated in part:

“... perhaps the most significant development has been the general recognition that we do not yet have the an-



1960 Stockholders' Meeting

swers: that an association between the extent of tobacco use and the incidence of lung cancer does not prove a causal relationship. . . .”

Personnel

Mr. John A. Crowe retired from his duties as a Director and Senior Vice President, Manufacture and Leaf, on December 31, 1960, after more than 50 years of service to the Company. It is with profound regret and a deep sense of loss that the Directors report his death on February 13, 1961. During his notable career Mr. Crowe did much to maintain and strengthen the tradition of quality upon which rests the success of the Company and of the industry as well.

Mr. Charles Ganshow, formerly a Director and Deputy Comptroller of The American Tobacco Company, and Vice President of the ACC Division, retired from these duties on December 31, 1960, after 50 years of service to the Company and its subsidiaries. His many contributions to the Company's operations will be remembered by those who follow him.

The Directors gratefully acknowledge the long and exemplary careers of

Messrs. Crowe and Ganshow and their wise counsel as members of the Board.

Stockholders' Annual Meeting

The Annual Meeting of Stockholders will be held on Wednesday, April 5, 1961. Formal notice of this meeting, together with the proxy and proxy statement, accompanies this report.

. . .

During the past year I have again received many letters from our stockholders evidencing an active interest in the affairs of the Company. A substantial number of these communications have shown great interest in the promotion of the Company's products.

On behalf of the Board of Directors, I should like to express our appreciation for this cooperation from the stockholders, for the cooperation of our customers and for the faithful service rendered by our employees.



PAUL M. HAHN

President

1960 OPERATIONS AT A GLANCE

The Company received
for goods it sold
and from interest
and miscellaneous \$1,216,015,000

This is how it was used or set aside

\$ 648,301,000 Taxes (excise, income, social security, etc.)

53.3%

\$ 276,097,000 Tobacco (including applicable expenses)

22.7%

\$ 222,628,000 Wages, Goods, Services, etc.

18.3%

\$ 6,467,000 Bond and Bank Interest

.5%

\$ 38,660,000 Dividends to Stockholders

3.2%

\$ 23,862,000 Earnings Retained to Meet Future Needs

2.0%

Consolidated Statements of INCOME AND RETAINED EARNINGS

The American Tobacco Company
AND WHOLLY-OWNED SUBSIDIARIES

<i>For Years Ended December 31</i>	1960	1959
Net Sales	\$1,215,342,819	\$1,161,376,858
Cost of sales, selling, general and administrative expenses	<u>1,072,572,440</u>	<u>1,019,129,251</u>
Operating Profit	142,770,379	142,247,607
Other income	<u>671,868</u>	<u>511,415</u>
	<u>143,442,247</u>	<u>142,759,022</u>
Interest and related charges	<u>6,467,008</u>	<u>5,906,001</u>
Other deductions from income	<u>1,132,073</u>	<u>781,751</u>
Total deductions	<u>7,599,081</u>	<u>6,687,752</u>
Operating income, before taxes on income	<u>135,843,166</u>	<u>136,071,270</u>
Federal and other taxes on income	<u>72,523,561</u>	<u>72,823,000</u>
Net Operating Income	63,319,605	63,248,270
Provision for possible loss of leaf inventory in Cuba, less applicable federal income tax of \$863,733	<u>797,292</u>	<u>—</u>
Net Income	62,522,313	63,248,270
Retained earnings, beginning of year	<u>254,908,381</u>	<u>227,389,707</u>
	<u>317,430,694</u>	<u>290,637,977</u>
Cash Dividends:		
Common stock, 1960, \$2.72½ per share; 1959, \$2.50 per share (Note 1)	<u>35,493,258</u>	<u>32,562,610</u>
Preferred stock, \$6 per share	<u>3,166,986</u>	<u>3,166,986</u>
Total dividends	<u>38,660,244</u>	<u>35,729,596</u>
Retained earnings, end of year	<u>\$ 278,770,450</u>	<u>\$ 254,908,381</u>
Depreciation provided and charged to costs and expenses amounted to \$5,480,419 in 1960 and \$5,215,154 in 1959.		

CONSOLIDATED BALANCE SHEETS

Assets

<i>December 31</i>	1960	1959
Cash	\$ 20,400,242	\$ 17,740,414
Accounts receivable, customers	56,576,888	51,910,968
Leaf tobacco, manufactured stock, operating supplies, etc., at average cost	693,389,538	656,680,134
Miscellaneous accounts receivable	<u>1,451,845</u>	<u>1,696,788</u>
Total current assets	771,818,513	728,028,304
Investment in and advances to Cuban Tobacco Com- pany Inc., a majority-owned subsidiary, at amounts not in excess of cost (Note 2)	5,555,069	5,955,069
Insurance deposits and miscellaneous investments .	1,123,080	1,113,692
Land, buildings, machinery, etc., at cost, less accu- mulated depreciation, 1960, \$58,752,744; 1959, \$55,844,776	68,699,311	67,776,385
Prepaid expenses and deferred charges	3,704,528	3,652,437
Brands, trade-marks, patents, good will, etc.	<u>1</u>	<u>1</u>
	<u>\$850,900,502</u>	<u>\$806,525,888</u>

The American Tobacco Company
AND WHOLLY-OWNED SUBSIDIARIES

Liabilities

<i>December 31</i>	1960	1959
Notes payable	\$ 78,000,000	\$ 56,000,000
Loans payable by British subsidiary	8,665,417	4,410,546
Accrued taxes	53,751,821	53,817,206
Accounts payable and accrued expenses	24,064,492	15,760,433
Dividend on preferred stock for quarter ended December 31	791,746	791,746
Debentures to be redeemed through sinking fund opera- tions (Note 3)	10,556,000	9,624,000
Total current liabilities	<u>175,829,476</u>	<u>140,403,931</u>
Debentures (Note 3)	135,740,000	150,653,000
	<u>311,569,476</u>	<u>291,056,931</u>
 Stockholders' Equity		
Capital stock (Note 1):		
Preferred, six per cent cumulative, par value \$100 per share	52,783,100	52,783,100
Common, par value \$12.50 per share	162,813,050	162,813,050
Excess of net proceeds from capital stocks issued over par values	44,964,426	44,964,426
	<u>260,560,576</u>	<u>260,560,576</u>
Retained earnings	278,770,450	254,908,381
Total	<u>539,331,026</u>	<u>515,468,957</u>
	<u>\$850,900,502</u>	<u>\$806,525,888</u>

50032 5597

Notes Accompanying Financial Statements

1. Capital stock at December 31, 1960, comprises:

	Shares Authorized	Shares Issued
Preferred	540,106	527,831
Common	20,000,000	13,025,044

The number of shares of common stock authorized and issued reflects the change of each share of the par value of \$25.00 into two shares of the par value of \$12.50, as approved by the stockholders at the 1960 annual meeting; all information regarding shares gives effect to this change.

- 2. During 1960, Cuban Tobacco Company Inc., a majority-owned unconsolidated subsidiary, provided for possible loss of its investments in two wholly-owned subsidiaries operating in Cuba and of its leaf inventory in Cuba, by charge to retained earnings. The provision, less applicable federal income tax, amounted to \$4,280,492 of which \$3,656,947 was applicable to the majority interest of The American Tobacco Company. At December 31, 1960, after this provision, the net tangible assets applicable to the Company's \$5,555,069 investment in and advances to this subsidiary amounted to \$6,321,767. The Company received \$207,270 of interest from this subsidiary in 1960, and its equity in the net income of this subsidiary for 1960 amounted to \$157,021.**

At December 31, 1959, the net tangible assets applicable to the Company's \$5,955,069 investment in and advances to Cuban Tobacco Company Inc. and its consolidated subsidiaries amounted to \$10,069,546. The Company received \$254,160 of interest from this subsidiary in 1959, and its equity in the consolidated net income of this subsidiary for 1959 amounted to \$399,793.

3. Debentures outstanding at December 31, 1960, comprise:

	Principal Amounts	
	Redeemable Within One Year*	Redeemable After Dec. 31, 1961
Twenty year 3%, due April 15, 1962	\$ 3,430,000	\$ 25,948,000
Twenty year 3%, due January 1, 1968	3,000,000	36,000,000
Twenty-five year 3%, due October 15, 1969	2,997,000	38,590,000
Twenty-five year 3¼%, due February 1, 1977	1,129,000	35,202,000
	<u>\$10,556,000</u>	<u>\$135,740,000</u>

*Estimated principal amounts to be redeemed through sinking fund operations at prices as provided by the indentures.

- 4. A noncontributory Retirement Plan providing for funding of cost of benefits thereunder, as approved by the stockholders at the 1960 annual meeting, became effective as of January 1, 1960. Under the Plan the Company has the right to amend, modify or terminate the Plan in whole or in part at any time. Payments made and charged to income under the Plan, including amounts applicable to service prior to 1960, amounted to \$4,754,242 (\$2,207,811 after federal and state income taxes) in 1960. Payments made and charged to income under the previous plan (pay-as-you-go) amounted to \$1,128,823 (\$524,890 after federal and state income taxes) in 1959.**
- 5. A deferred Profit-Sharing Plan as approved by the stockholders at the 1960 annual meeting, became effective January 1, 1960. The Plan extends benefits to all regular full-time employees of the Company and designated subsidiaries in the year following completion of a calendar year of continuous service, beginning with the calendar year 1959. In 1960, \$5,054,695 (\$2,348,613 after federal and state income taxes) was provided under the Plan and charged to income.**

Donald Porter (Pres. Res)

Supplementary Financial Information

Inventories

December 31

	1960	1959
Leaf tobacco	\$620,433,382	\$586,605,133
Manufactured stock	52,679,739	51,065,978
Supplies	20,276,417	19,009,023
TOTAL	\$693,389,538	\$656,680,134

Inventories used in the computation of cost of sales are priced at costs which result from the averaging monthly of transactions reflected in the inventory accounts except that excise taxes in manufactured stock inventories were priced at actual cost.

Land, Buildings, Machinery, etc.

December 31, 1960

	GROSS	ACCUMULATED DEPRECIATION	NET
Land and buildings	\$ 54,134,640	\$28,249,236	\$25,885,404
Machinery and equipment	63,450,707	26,221,448	37,229,259
Office furniture and equipment	3,378,892	2,157,159	1,221,733
Automobiles and trucks	4,168,603	2,124,901	2,043,702
Construction in process	2,319,213	—	2,319,213
TOTAL	\$127,452,055	\$58,752,744	\$68,699,311

Report of Independent Certified Public Accountants

The Board of Directors and Stockholders of

THE AMERICAN TOBACCO COMPANY:

We have examined the consolidated balance sheets of THE AMERICAN TOBACCO COMPANY as of December 31, 1960 and 1959 and the related consolidated statements of income and retained earnings for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets and related statements of income and retained earnings present fairly the consolidated financial position of The American Tobacco Company and its wholly-owned subsidiaries as of December 31, 1960 and 1959, and the consolidated results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

LYBRAND, ROSS BROS. & MONTGOMERY

New York,
February 2, 1961.

DIRECTORS

ORPHEUS D. BAXALYS
ALFRED F. BOWDEN
THOMAS P. CONNORS
A. GORDON FINDLAY
JOHN G. HAGER, JR.
VIRGIL D. HAGER
PAUL M. HAHN
HIRAM R. HANMER
HARRY L. HILYARD
A. LEROY JANSON
FERDINAND MALLGRAF
JOHN B. SPARROW
SILAS E. STRICKLAND
GEORGE L. TURNER
ROBERT B. WALKER
GEORGE A. WILKINSON
WILLIAM B. YOUNG

Executive Office

Corporate Office

Transfer Agent

Registrar

OFFICERS

PAUL M. HAHN, *President*
ALFRED F. BOWDEN, *Vice President*
VIRGIL D. HAGER, *Vice President*
HARRY L. HILYARD, *Vice President and Treasurer*
A. LEROY JANSON, *Vice President and Comptroller*
ROBERT B. WALKER, *Vice President*
WILLIAM B. YOUNG, *Vice President*
J. WESLEY DALE, *Auditor*
ROBERT K. HEIMANN, *Assistant to the President*
JOHN W. HANLON, *Secretary*
WALTER A. KENNEDY, *Assistant Auditor*
FREDERICK W. KENNY, *Assistant Secretary*
JOSEPH R. WATERHOUSE, *Assistant Treasurer*
FRANCIS X. WHELAN, *Assistant Treasurer*

150 East 42nd Street, New York 17, N. Y.

117 Main Street, Flemington, N. J.

Morgan Guaranty Trust Company of New York, New York 15, N. Y.

First National City Trust Company, New York 15, N. Y.

N-YEAR FINANCIAL REVIEW

IN THOUSANDS (Except Per Share Amounts)

YEAR	NET INCOME				
	NET SALES	INCOME BEFORE TAXES	TAXES ON INCOME	AMOUNT	AVAILABLE PER COMMON SHARE (2)
1951	\$ 942,552	\$ 80,411	\$47,301	\$33,110	\$2.78(a)
1952	1,065,738	78,352	44,283	34,069	2.39(b)
1953	1,088,380	99,232	58,006	41,226	2.95(b)
1954	1,068,579	91,056	48,005	43,051	3.06(c)
1955	1,090,845	113,061	61,399	51,662	3.72(c)
1956(1)	1,091,206	111,352	59,663	51,689	3.73(c)
1957(1)	1,098,093	118,605	61,510	57,095	4.14(c)
1958(1)	1,105,176	124,994	66,138	58,856	4.28(c)
1959(1)	1,161,377	136,071	72,823	63,248	4.61(c)
1960(1)	1,215,343	134,182	71,660	62,522	4.56(c)

DECEMBER 31	ASSETS			
	INVENTORIES	CURRENT ASSETS	WORKING CAPITAL	PLANT AND EQUIPMENT (NET)
1951	\$594,544	\$668,234	\$456,056	\$44,248
1952	640,753	712,654	551,255	44,480
1953	651,044	725,577	548,305	46,571
1954	632,143	703,086	550,454	47,189
1955	656,241	727,648	555,856	49,058
1956(1)	655,116	724,423	566,581	52,216
1957(1)	671,381	740,483	569,345	58,154
1958(1)	648,311	717,268	574,089	64,895
1959(1)	656,680	728,028	587,624	67,776
1960(1)	693,390	771,819	595,989	68,699

NOTES:

- (1) Includes all wholly-owned subsidiaries.
- (2) Based on following shares adjusted to reflect the two for one stock split which became effective April 7, 1960: (a) 10,756,850; (b) 12,908,220; (c) 13,025,044.
- (3) Comprises notes payable, loans payable by British subsidiary and funded debt redeemable within one year.

The American Tobacco Company

AND ITS CONSOLIDATED SUBSIDIARIES

COMMON		DIVIDENDS		PREFERRED	RETAINED EARNINGS	SINKING FUND REQUIREMENTS	YEAR
AMOUNT	PER SHARE		(\$6 PER SHARE)				
\$21,514	\$2.00		\$3,162		\$ 8,434	\$10,154	1951
23,934	2.00		3,162		6,973	10,377	1952
25,816	2.00		3,162		12,248	11,989	1953
28,654	2.20		3,167		11,230	12,261	1954
28,655	2.20		3,167		19,840	12,532	1955
32,563	2.50		3,167		15,959	12,839	1956(1)
32,563	2.50		3,167		21,365	13,144	1957(1)
32,563	2.50		3,167		23,126	13,468	1958(1)
32,563	2.50		3,167		27,518	13,800	1959(1)
35,493	2.72½		3,167		23,862	14,151	1960(1)

TOTAL ASSETS	DEBT		NET WORTH	BOOK VALUE PER COMMON SHARE	DECEMBER 31
	FUNDED	SHORT TERM (3)			
\$734,480	\$205,430	\$149,456	\$315,826	\$24.46	1951
783,154	243,570	102,950	377,074	25.13	1952
798,870	231,266	105,107	390,332	25.92	1953
775,364	218,967	91,575	403,765	26.95	1954
801,725	206,328	101,387	423,605	28.47	1955
794,404	193,188	91,555	443,374	29.99	1956(1)
815,207	179,330	104,785	464,739	31.63	1957(1)
796,532	165,402	76,521	487,950	33.41	1958(1)
806,526	150,653	70,035	515,469	35.52	1959(1)
850,901	135,740	97,221	539,331	37.35	1960(1)

YOUR COMPANY'S PRINCIPAL PRODUCTS

which make your dividends possible

CIGARETTES

Pall Mall — "Outstanding . . . and they are mild!" — the nation's King. PALL MALL's famous length of fine tobacco travels and gentles the smoke — makes it mild. Never too strong. Never too weak. Always just right! And you can light either end!

Lucky Strike — A blend of the finest Turkish and domestic tobaccos. The LUCKY STRIKE process "It's Toasted" enhances the taste of these fine tobaccos. A leader among standard size brands

Dual Filter Tareyton — "Delivers the flavor — Dual Filter does it." Combines a unique inner filter of Activated Charcoal with a pure white outer filter. It has been definitely proved that Activated Charcoal makes the taste of a cigarette mild and smooth

Herbert Tareyton — Full king size . . . the nonfilter cigarette with the tailored tip. A favorite for 45 years because of its distinctive, mild taste

CIGARS

Roi-Tan — America's largest selling cigar at 10¢. Also ROI-TAN Cigarillos and Trumps at 5¢ and Golfers at 4¢. "ROI-TAN has more of everything" than any cigar at its price

Antonio y Cleopatra — the *mildest* of the fine cigars

La Corona* — "Supreme the World Over"

Bock y Ca* — the original panetela, created in 1888

* "International Brands," among which are LA CORONA, BOCK y CA and HENRY CLAY, are manufactured by a subsidiary of the Company.

SMOKING TOBACCOS

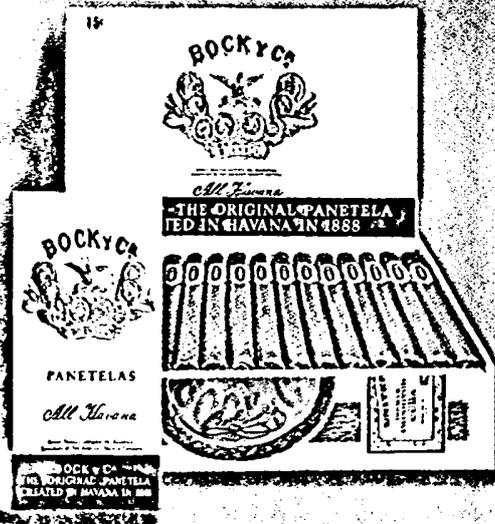
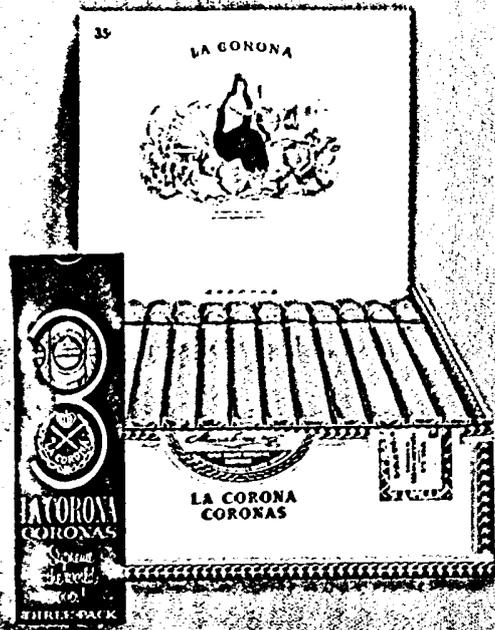
Half and Half — the Company's leading granulated plug cut, Burley and Bright. Being made available in pouch-in-box packing for double protection, longer-lasting freshness

Blue Bear — American Tobacco's leader among high-grade pipe tobacco blends

Genuine "Bull" Durham — still far and away the No. 1 "roll-your-own" tobacco

The American Tobacco Company
"Tobacco IS OUR MIDDLE NAME"

50032 5604



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50032 5606

ANNUAL REPORT • 1960

The American Tobacco Company

50032 5607

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which make your dividends possible

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The American Tobacco Company
"Tobacco IS OUR MIDDLE NAME"

TEN-YEAR FINANCIAL REVIEW

IN THOUSANDS (Except Per Share Amounts)

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				AMOUNT	AVAILABLE PER COMMON SHARE (2)
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Report of Independent Certified Public Accountants

The Board of Directors and Stockholders of

THE AMERICAN TOBACCO COMPANY:

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LYBRAND, ROSS BROS. & MONTGOMERY

New York,
February 2, 1961.

CONSOLIDATED BALANCE SHEETS

Assets

<i>December 31</i>	1960	1959
Cash	\$ 20,400,242	\$ 17,740,414
Accounts receivable, customers	56,576,888	51,910,968
Leaf tobacco, manufactured stock, operating supplies, etc., at average cost	693,389,538	656,680,134
Miscellaneous accounts receivable	<u>1,451,845</u>	<u>1,696,788</u>
Total current assets	771,818,513	728,028,304
Investment in and advances to Cuban Tobacco Com- pany Inc., a majority-owned subsidiary, at amounts not in excess of cost (Note 2)	5,555,069	5,955,069
Insurance deposits and miscellaneous investments	1,123,080	1,113,692
Land, buildings, machinery, etc., at cost, less accu- mulated depreciation, 1960, \$58,752,744; 1959, \$55,844,776	68,699,311	67,776,385
Prepaid expenses and deferred charges	3,704,528	3,652,437
Brands, trade-marks, patents, good will, etc.	<u>1</u>	<u>1</u>
	<u>\$850,900,502</u>	<u>\$806,525,888</u>

1960 OPERATIONS AT A GLANCE

*The Company received
for goods it sold
and from interest
and miscellaneous \$1,216,015,000*

This is how it was used or set aside

\$ 648,301,000 Taxes (excise, income, social security, etc.)

53.3%

\$ 276,097,000 Tobacco (including applicable expenses)

22.7%

\$ 222,628,000 Wages, Goods, Services, etc.

18.3%

\$ 6,467,000 Bond and Bank Interest

.5%

\$ 38,660,000 Dividends to Stockholders

3.2%

\$ 23,862,000 Earnings Retained to Meet Future Needs

2.0%

Smoking and Health

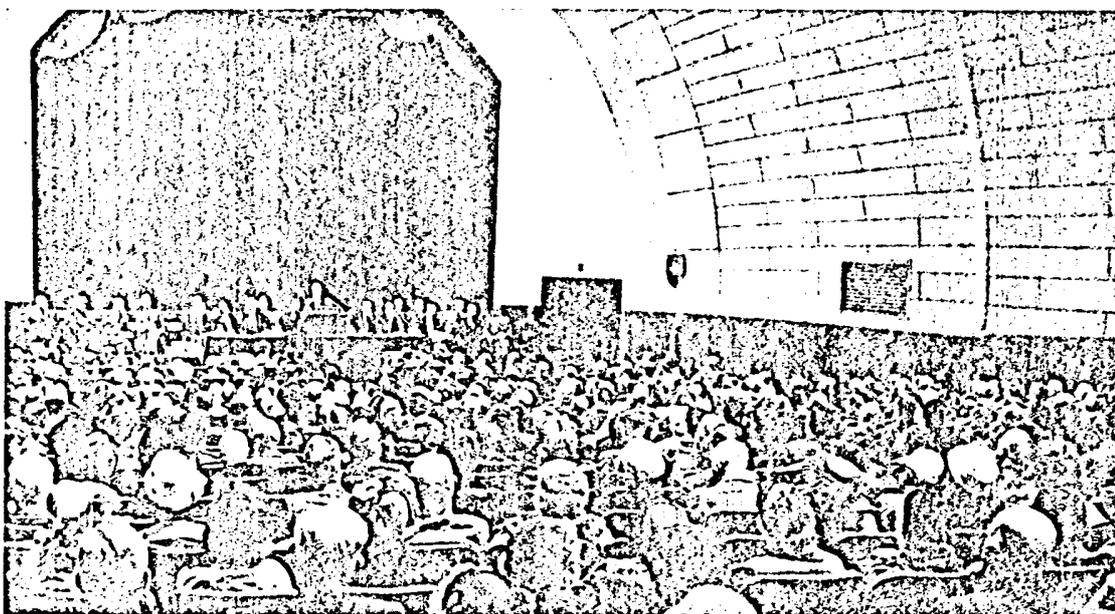
As was true in previous years, 1960 produced no laboratory or pathological evidence to support the highly propagandized anti-cigarette theory. The lack of substantiation for this theory has been the subject of comment by a number of outstanding scientists.

Your Company continues to support the scientific program of the Tobacco Industry Research Committee, now in its eighth year. Since its inception, the T.I.R.C. has appropriated about \$4 million for objective research in the area of

smoking and health, this research being performed by independent scientists with no obligation to the industry other than to pursue the facts and publish them. The research program is administered by a Scientific Advisory Board whose members are not connected with the tobacco industry.

Last year in a joint report to the T.I.R.C., the Scientific Advisory Board stated in part:

“...perhaps the most significant development has been the general recognition that we do not yet have the an-



1960 Stockholders' Meeting

rettes manufactured in Cuba are not available for 1960. However, in the past they have represented less than one-half of Cuban Tobacco Company's consolidated sales of manufactured products.

Advertising and Sales Promotion

Your Company is one of the nation's largest advertisers. Virtually all major media, including newspapers, magazines, television, radio and billboards, are used to sustain and widen the demand for our tobacco products by the smoking public.

As is the case with most manufac-

turers of branded consumer products, considerable time, effort and expense are devoted to this aspect of operations. National advertising to sustain and increase the large sales volume of our brands makes it possible for the Company to maintain and improve their high quality standards and still produce a profit. Beginning about one hundred years ago, national advertising made possible the emergence of national tobacco brands and the volume production, high quality standards and relatively low prices on which the Company's business is based.

Our Sales Organization, which is also nationwide, reinforces the work of our brand advertising and services the distribution of our products. Its members strive to maximize distribution, extend merchandising and display aid to retailers, insure that our products are properly cared for at both wholesale and retail levels, and also sample consumers directly.

The work of the Advertising and Sales Departments is constantly reviewed so as to get full value for each dollar spent on promotion and so as to strengthen our important lines of communication with the trade and the consuming public.



Supermarket Display