

CONTROLLER'S REPORT
SEPTEMBER 1994

Financial and General

- Net sales of \$139.8MM exceeded both prior year and forecast by 19.8% and 9.6% respectively. Year-to-date we are up 5.2% vs. forecast and 1.0% over actual. Although Operating Contribution was at a loss for the month, year-to-date we are up 10.1% over prior year and .3% over forecast.
- Domestic units at 9.4b exceeded both prior year and forecast. Year-to-date we are up 17.4%. International at 1.4b year-to-date off 1.8%.
- Our loan to American Brands as of September 30th was \$28,539,000.
- Three Year Strategic Plan submitted on October 1st to American Brands along with updated 1994. Highlights are as follows:

	<u>1995</u>	<u>10/1</u> <u>1994</u>	<u>7/1</u> <u>1994</u>	<u>Actual</u> <u>1993</u>
Net Sales	1,542,118	1,556,563	1,458,931	1,491,661
Gross Profit	798,062	788,235	736,647	793,866
Operating Expenses	613,062	585,866	534,278	624,538
Operating Income	185,000	202,369	202,369	169,328
Net Income	111,682	113,138	112,830	100,352 *

* Before Account Change

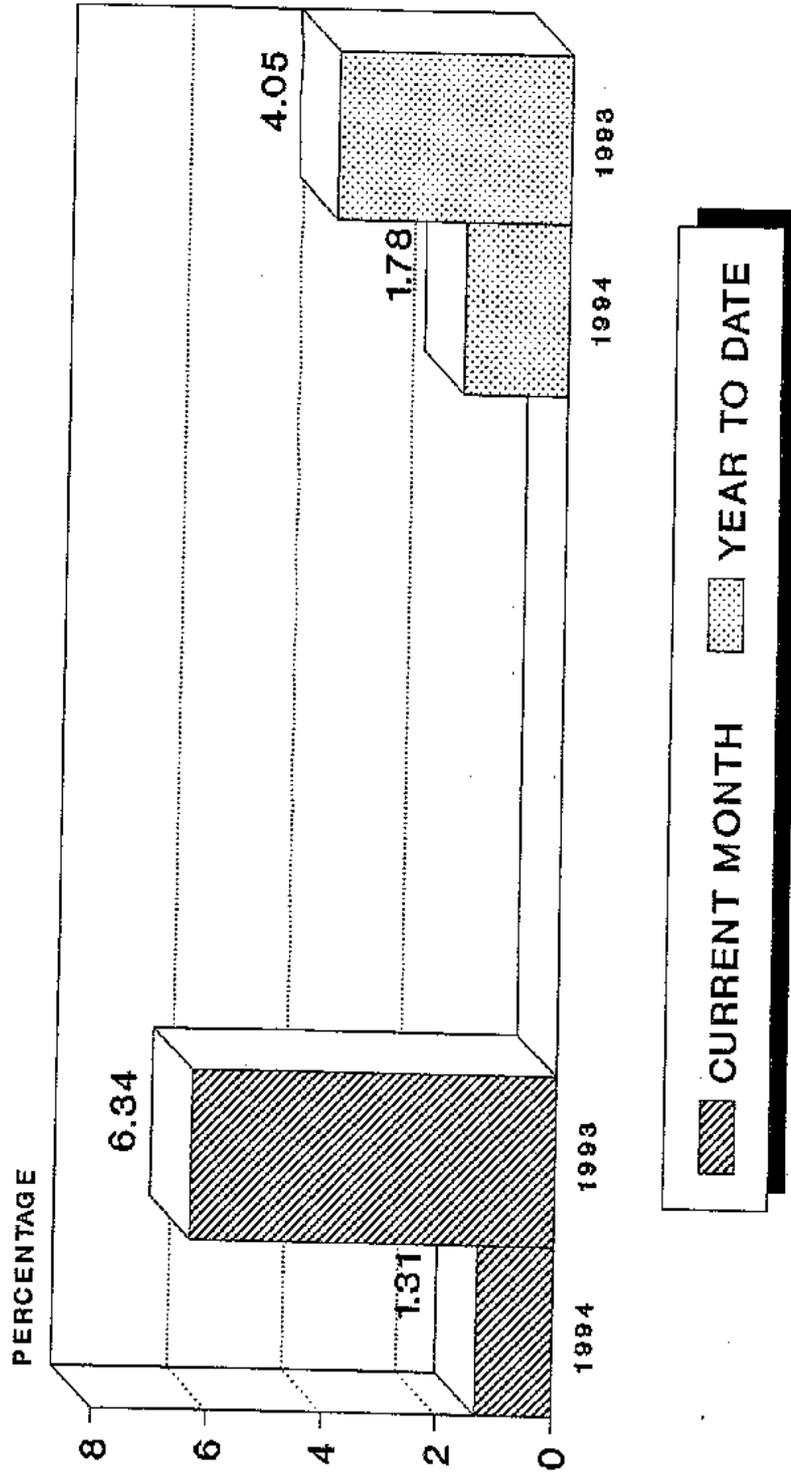
Domestic Units	33.5	34.9	32.6	31.1
International Units	2.9	2.1	2.1	1.8

- Sanders - Langson has had some checks returned and the bank stopped funding their account when one of the new owners gave them false information. Our exposure is \$393M.
- Tax audits by Michigan, Wisconsin and the IRS are active. IRS audit is nearing conclusion although the remaining issues of shelf display and plant closing reserves pose significant tax exposure.
- Leaf purchases continue at a strong pace in flue cured, and our Leaf Accounting systems are working extremely well with no problems. We have implemented electronic communication of bills from the auction market warehouses.
- We are progressing with the in-house conversion of our salesmen draft system. There are some concerns in certain areas to meeting the tight schedule. Discussions with Gelco indicated they would go beyond the January 1 cutoff if necessary.
- Imaging project has begun and we are looking at work flow issues instead of simply "imaging" what we have done in the past.

- The service level of regular products was 99.8% for the month while AVA was at 99.76%.
- Green Bay, Wisconsin warehouse was closed bringing the network to 49.
- Warehouse transfers are down 27% vs. 1993 due primarily to the effort of a Transfer Team. Besides the drop in number, there is a projected savings of \$637,000 compared to original budget.
- Total returns to sales were 1.2% for the month and 1.68% year-to-date.

REGULAR RETURNS TO SALES

1994 vs 1993
SEPTEMBER



% - RETURNS CREDITED DIVIDED BY SALES

THE AMERICAN TOBACCO COMPANY
STATEMENT OF INCOME
QUARTER ENDING: SEPTEMBER 30, 1994

CURRENT QUARTER					YEAR TO DATE						
THIS	PRIOR	FCST	INCR (DECR)		(\$ IN THOUSANDS)		THIS	PRIOR	FCST	INCR (DECR)	
			PRIOR	FST						PRIOR	FST
\$420,399	\$313,297	\$408,100	34.2	3.0		NET SALES [I]	\$1,195,467	\$1,136,009	\$1,183,168	5.2	1.0
206,722	170,063	201,605	21.6	2.5		COST OF SALES [II]	586,569	512,958	581,452	14.4	0.9
213,677	143,234	206,495	49.2	3.5		GROSS PROFIT	608,898	623,051	601,716	(2.3)	1.2
24,619	17,052	26,941	44.4	(8.6)		ADVERTISING [III]	65,017	39,839	67,339	63.2	(3.4)
113,485	100,012	106,237	13.5	6.8		SELLING [III]	300,517	323,207	293,269	(7.0)	2.5
5,657	6,547	5,944	(13.6)	(4.8)		DISTRIBUTION	16,676	16,279	16,963	2.4	(1.7)
2,060	2,935	2,149	(29.8)	(4.1)		RESEARCH	6,292	8,527	6,381	(26.2)	(1.4)
16,109	19,706	13,993	(18.3)	15.1		GENERAL & ADMIN [IV]	47,106	50,291	44,990	(6.3)	4.7
3,372	512	3,373	-	-		PROFIT-SHARE & INCENT	5,982	8,405	5,983	(28.8)	-
174	30,064	169	-	3.0		RESTRUCTURING CHARGES	(7,205)	18,420	(7,210)	-	(0.1)
165,476	176,828	158,806	(6.4)	4.2		TOTAL OPERATING EXPENSE	434,385	464,968	427,715	(6.6)	1.6
48,201	(33,594)	47,689	-	1.1		OPERATING CO CONTRIBUTION	174,513	158,083	174,001	10.4	0.3
0	1,144	0	-	-		AMORT OF INTANGIBLES	1,768	1,144	1,768	54.5	-
48,201	(34,738)	47,689	-	1.1		OPERATING INCOME	172,745	156,939	172,233	10.1	0.3
0	8,050	0	-	-		INT EXP NOTE TO PARENT [V]	9,811	23,888	9,811	(58.9)	-
13	976	12	(98.7)	8.3		OTHER INTEREST EXPENSE [V]	1,242	764	1,241	62.6	0.1
831	(60)	764	-	8.8		OTHER INCOME (EXPENSE) [V]	(561)	(926)	(628)	39.4	10.7
49,019	(43,824)	48,441	-	1.2		INCOME BEFORE TAXES	161,131	131,361	160,553	22.7	0.4
19,869	(15,031)	19,371	-	2.6		INCOME TAXES	65,088	31,494	64,590	-	0.8
29,150	(28,793)	29,070	-	0.3		INCOME BEFORE CUM EFFECT	96,043	99,867	95,963	(3.8)	0.1
0	0	0	-	-		CUM EFFECT OF ACCT CHANGE (Net of Income Taxes)	0	84,893	0	-	-
\$29,150	(\$28,793)	\$29,070	-	0.3		NET INCOME	\$96,043	\$14,974	\$95,963	-	0.1

PERCENT OF NET SALES

50.8	45.7	50.6	5.1	0.2	GROSS PROFIT	50.9	54.8	50.9	(3.9)	0.0
32.9	37.4	32.6	(4.5)	0.3	MARKETING	30.6	32.0	30.5	(1.4)	0.1
3.8	6.3	3.4	(2.5)	0.4	GENERAL & ADMINISTRATIVE	3.9	4.4	3.8	(0.5)	0.1
11.5	(10.7)	11.7	22.2	(0.2)	OPERATING CO CONTRIBUTION	14.6	13.9	14.7	0.7	(0.1)
6.9	(9.2)	7.1	16.1	(0.2)	NET INCOME	8.0	1.3	8.1	6.7	(0.1)

COMMENTS: Profit-Sharing and Incentive Compensation for 1994 are \$4,845 and \$1,136 respectively.

THE AMERICAN TOBACCO COMPANY
STATEMENT OF INCOME
PERIOD ENDING: SEPTEMBER 30, 1994

CURRENT MONTH					YEAR TO DATE					
					(\$ IN THOUSANDS)					
THIS YEAR	PRIOR YEAR	FCST (10/1/94)	INCR (DECR)			THIS YEAR	PRIOR YEAR	FCST (10/1/94)	INCR (DECR)	
			PRIOR YR %	FST %					PRIOR YR %	FST %
\$139,816	\$116,673	\$127,517	19.8	9.6	NET SALES [I]	\$1,195,467	\$1,136,009	\$1,183,168	5.2	1.0
68,914	62,362	63,797	10.5	8.0	COST OF SALES [II]	586,569	512,958	581,452	14.4	0.9
70,902	54,311	63,720	30.5	11.3	GROSS PROFIT	608,898	623,051	601,716	(2.3)	1.2
9,262	5,861	11,584	58.0	(20.0)	ADVERTISING [III]	65,017	39,839	67,339	63.2	(3.4)
60,938	11,522	53,690	-	13.5	SELLING [III]	300,518	323,207	293,269	(7.0)	2.5
1,818	2,826	2,105	(35.7)	(13.6)	DISTRIBUTION	16,676	16,279	16,963	2.4	(1.7)
692	913	781	(24.2)	(11.4)	RESEARCH	6,292	8,527	6,381	(26.2)	(1.4)
8,157	6,156	6,041	32.5	35.0	GENERAL & ADMIN [IV]	47,106	50,291	44,990	(6.3)	4.7
1,124	171	1,125	-	(0.1)	PROFIT-SHARE & INCENT	5,981	8,405	5,983	(28.8)	-
5	30,085	0	-	-	RESTRUCTURING CHARGES	(7,205)	18,420	(7,210)	-	(0.1)
81,996	57,534	75,326	42.5	8.9	TOTAL OPERATING EXPENSE	434,385	464,968	427,715	(6.6)	1.6
(11,094)	(3,223)	(11,606)	-	(4.4)	OPERATING CO CONTRIBUTION	174,513	158,083	174,001	10.4	0.3
0	381	0	-	-	AMORT OF INTANGIBLES	1,768	1,144	1,768	54.5	-
(11,094)	(3,604)	(11,606)	-	(4.4)	OPERATING INCOME	172,745	156,939	172,233	10.1	0.3
0	2,625	0	-	-	INT EXP NOTE TO PARENT [V]	9,811	23,888	9,811	(58.9)	-
4	311	3	(98.7)	33.3	OTHER INTEREST EXPENSE [V]	1,242	764	1,241	62.6	0.1
296	(541)	229	-	29.3	OTHER INCOME (EXPENSE) [VI]	(561)	(926)	(628)	39.4	10.7
(10,802)	(7,081)	(11,380)	52.5	(5.1)	INCOME BEFORE TAXES	161,131	131,361	160,553	22.7	0.4
(4,110)	(2,873)	(4,608)	43.1	(10.8)	INCOME TAXES	65,088	31,494	64,590	-	0.8
(6,692)	(4,208)	(6,772)	59.0	(1.2)	INCOME BEFORE CUM EFFECT	96,043	99,867	95,963	(3.8)	0.1
0	0	0	-	-	CUM EFFECT OF ACCT CHANGE	0	84,893	0	-	-
(\$6,692)	(\$4,208)	(\$6,772)	59.0	(1.2)	(Net of Income Taxes)					
					NET INCOME	\$96,043	\$14,974	\$95,963	-	0.1
PERCENT OF NET SALES										
50.7	46.5	50.0	4.2	0.7	GROSS PROFIT	50.9	54.8	50.9	(3.9)	0.0
50.2	14.9	51.2	35.3	(1.0)	MARKETING	30.6	32.0	30.5	(1.4)	0.1
5.8	5.3	4.7	0.5	1.1	GENERAL & ADMINISTRATIVE	3.9	4.4	3.8	(0.5)	0.1
(7.9)	(2.8)	(9.1)	(5.1)	1.2	OPERATING CO CONTRIBUTION	14.6	13.9	14.7	0.7	(0.1)
(4.8)	(3.6)	(5.3)	(1.2)	0.5	NET INCOME	8.0	1.3	8.1	6.7	(0.1)

COMMENTS: Profit-Sharing and Incentive Compensation for 1994 are \$4,845 and \$1,136 respectively.

**THE ATCO. BRAND/SALES OPERATIONS STATUS REPORT
SEPTEMBER 1994**

Industry volume decreased in September by 10.6% versus September 1993. ATCo. was +11.3%, creating a positive "gap" to the Industry trend of +21.9 points. Competitive performance for the month was as follows:

B & W	-4.8%
L & M	-13.1%
Lorillard	+5.4%
Philip Morris	-17.8%
R. J. Reynolds	-8.7%

	Sept. 1994 Units (MM)	% Change vs. Year Ago	YTD Sept. 1994 Units (MM)	% Change vs. Year Ago
Industry	41,583	-10.6%	369,469	+8.2%
ATCo.	3,120	+11.3%	26,710	+17.4%
Share	7.50		7.23	

Year-to-date September, ATCo.'s "gap" to the Industry trend is +9.2 points.

Competitive year-to-date September 1994 versus 1993, volume and share performance was as follows:

<u>YTD 8/94 vs. YTD 8/93</u>		
	<u>Volume % Change</u>	<u>Share Pt. Change</u>
B & W	+15.2	+0.69
L & M	+7.6	-0.02
LLD	+17.4	+0.59
PM	+14.5	+2.46
RJR	-6.6	-4.29

With the exception of L&M (minutely off), all remaining companies continue to gain share on a year-to-date basis, at the expense of R. J. Reynolds.

ATCo.'s price value brands accounted for 56.2% (Discount 38.7%, Deep Discount 17.6%) of year-to-date September volume versus 51.8% (Discount 32.6%, Deep Discount 19.2%) in the comparable 1993 time period (See Attachment "A" and Pie Charts "A-1").

The total price value category had a September 1994 share of 32.9% (Premium 67.1%) (MSA early estimate.)

MSA Price Value Market Share and Growth

	<u>Deep Discount Market Share</u>			<u>Discount Market Share</u>		
	1994	1993	% Volume Change	1994	1993	% Volume Change
August	7.19	8.56	+ 0.2%	24.75	24.98	+18.2%
3 Mos. End. August	7.50	15.95	-49.7%	24.79	21.04	+26.0%
12 Mos. End. August	8.11	21.18	-59.1%	24.60	14.74	+78.1%

Nielsen Retail (Food/Drug/Gas) Market Share and Growth

	<u>MARKET SHARE</u>		
	4 Weeks Ending 8/13/94	4 Weeks Ending 8/14/93	% Volume Change
Discount	23.78	24.53	-2.4%
Deep Discount	8.80	11.12	-20.3%
Total Price Value	32.58	35.65	-8.0%

Effective July 1993, Discount includes Basic, GPC, Monarch and Raleigh Extra.

CARLTON

- A split circulation Sunday Supplement Buy One Get One Free coupon ran August 28 featuring the "Thinking Low Tar?" creative. MONTCLAIR received B county markets, with CARLTON activity concentrated in A county opportunity markets.
- The new "Switched" ads will appear in twenty-three magazines throughout 4th quarter. Coupon ads (BIGIF) will begin appearing in October issues. High Spot OOH advertising which began in August continues to run in 21 key markets through October 15. Thirteen high growth markets will receive a 60 day billboard posting beginning October 15.

- A key chain self shipper program ran in 3rd quarter featuring \$1 ISC's and the Vacation Cash offer. Beginning 4th quarter a 50¢ off two pack program will be implemented.
- A wholesaler self shipper program featuring 40¢ off 2 packs was worked in 3rd quarter. The new CASH Start design (Copy And Ship) will provide for Co-Marketing sales of other Distributor product categories. During 4th quarter, a \$2 carton ISC/VPR program will be run.
- Pinnacle golf balls are being used as an on-carton premium offer.
- To follow-up the third quarter program a CARLTON ISC/VPR program has been approved for 4th Quarter implementation in PTA outlets. At FSO option, a \$1.00, \$1.50, or \$2.00 ISC or VPR will be used to gain added impact via off-shelf displays.
- CARLTON MAG-LITE flashlights have been produced as an on-carton premium offer. The FSO has been allocated supplies based on CARLTON development, to allow targeted placement.
- CARLTON's new pack has achieved effective retail distribution. Factory affixed BIG1F's, 25¢ ISC's and free lighter package inserts support the introduction.
- Offensive new pack direct mail was sent on August 22. Free Pack, BIG1F and \$3 coupons will drive competitive conversion.
- A \$50 U.S. Savings Bond Direct Mail offer was extended to 130M key franchise smokers on September 12 to encourage retention. In addition, 100M high opportunity competitive smokers were offered the bond to stimulate conversion.
- Permanent Pack Display contracts continue to be booked. Quarterly Take One promotions are featured for retail and consumer impact. 4th quarter allocations have been provided.

MONTCLAIR

- MONTCLAIR "Price Parity" "You Got Taste" image advertising will continue to appear through the 4th quarter with 25% of circulation receiving "Price Parity" coupon ads (\$1.00 off 3 packs or a carton).
- A 72 market OOH posting covering 55% of sales and 43% of population posted to September 15 to conclude MONTCLAIR's 3rd quarter media plans.

MONTCLAIR (cont.)

- MONTCLAIR & CARLTON will split a Sunday Supplement Trial Driver appearing November 13. MONTCLAIR offer is \$1.00 off 2 packs or a carton. Circulation is 31MM.
- The MONTCLAIR Gift Offer has been reformatted as an Offensive promotion vehicle. Catalog will appear in November 28 (on stand November 21) issues of People Magazine as a bind-in backed up by 2-pg spread.
- MONTCLAIR packaging conversion is proceeding on schedule. Initial retail appearance in October. Full, effective distribution anticipated by mid-November.
- The MONTCLAIR Chain Buydown Program continues. The program is to meet competitive activity by Doral, Cambridge, Viceroy, GPC, Basic, and Monarch (i.e. "Target Six"). Where applicable, Old Gold and Harley Davidson are included as "Target Six-A."
- The 4th quarter "Price is Right" Program allows for price promotions via 20¢, 25¢, 30¢, 35¢ and 40¢ package ISC's, \$2.00, \$2.50, \$3.00, \$3.50 and \$4.00 carton ISC's and VPR's to meet the "Target Six" competitors.
- The MONTCLAIR C&G Display Opportunity Program is being conducted by the Sales Organization during the 4th quarter. Targeting the C&G retail outlet universe, this program provides a variety of on-pack premiums (disposable lighter, Country and Rock music cassettes) as well as resources to conduct customized local programs.
- A 1995 Coupon Calendar will be offered to MONTCLAIR consumers via an Added Value Bounceback during the 4th quarter. The calendar contains 24 - \$1.00 coupons that are time dated for use throughout the year.
- A MONTCLAIR Master Retailer Program will be tested for 3 months in Sales Section E-1. The program is designed to drive sales for MONTCLAIR by establishing a network of Master Retailers who will promote MONTCLAIR as their store brand. Participating retailers earn promotional product based on their store's sales of MONTCLAIR.
- A MONTCLAIR "Blitz" Coverage will be conducted from November 7 to November 18. Program includes 2.4MM 1-W-1 U.P. units, new high impact POS (cash register clocks, metal signs and banners) and a Sales Organization "success call" incentive.
- A free roll of Fuji film (including development) will be offered as a MONTCLAIR carton premium during Coverage #13. A bounceback offer will also be included for a Fuji SmartShot Deluxe camera for 200 UPC's plus postage and handling.
- MONTCLAIR will conduct a Scripto Electric Lighter promotion during Coverage #13. One million lighters will each be offered free with one pack purchase.
- A MONTCLAIR offensive action program went into effect August 29. Components include 1,181M B2G1F units plus floor displays featuring \$4.00 VPR/ISC product in calls ranging from 400 to 999 cartons per week.

MISTY

- New MISTY "Slim and Sassy" creative is currently appearing in print and OOH.
- MISTY will drop a new Direct Mail package (copy focus on "Slim 'n Sassy") to over 500,000 competitive smokers on October 15. Two versions: National Package and a special local markets version which highlights that MISTY is the #1 fashion brand in the particular market (total of 28 ADI's). Offer includes: Free Packs, B1G1F and \$1.00 off 2 packs or a carton.
- 4th Quarter "Price is Right" allows for price promotions via 20¢ and 25¢ package ISC's, \$2.00 and \$2.50 carton ISC's and VPR budgets to "Meet the Competition" (competitively priced fashion brands).
- MISTY Distribution and Display Drive will be conducted through the end of the year. Designed to gain new distribution, program provides incentives for direct accounts, retailers and consumers.
- MISTY will conduct a Designer Fragrance Collection Added Value Bounceback during the fourth quarter. Fourth quarter ISC's will carry the bounceback offer which requires 50 pack UPC's plus postage and handling.
- 500M ten minute long distance calling cards will each be offered free with a two pack purchase of MISTY during Sales Coverage #13 (November 21 to December 21).

RIVIERA

- The RIVIERA Vitality test in Baltimore and Wilkes Barre/Scranton began on July 11th.
- A one sheet C-Store billboard buy for both Vitality tests will be posted through November 15.
- A \$900M budget has been established to promote RIVIERA Full Flavor styles nationally at up to 25¢ per pack through year end.
- 250 cases of U.P.'s have been provided to the markets (150-Wilkes-Barre/Scranton, 100-Baltimore) to provide added lift and trial to the brand as well as to combat discounting by competitive menthols during its introduction.

SPECIAL 10'S

- SPECIAL 10's (five box styles) continues to be tested in Sales Section W-2 (less Nevada and Hawaii). Consideration will be given to focus test exclusively in major metros of San Francisco, Oakland and San Jose.
- A supplemental media plan employing a new positioning "For Those Who Are Smoking Less Often" is currently running in W-2 via OOH and C-Store boards. Plan will run through November 15.

- A recommendation has been approved (July 29) to open up the Albany ADI beginning September 19. Sales meeting was held in Albany on September 8. SPECIAL 10's was expanded into the Albany ADI on September 19 in an effort to provide the Brand group with retail diversity beyond California.

AMERICAN

- A recommendation to reposition and test AMERICAN as a broad based added value brand to compete with the "Target Six" has been approved. Test market is New Orleans/Baton Rouge with a down the street date of October 24. Beyond price, AMERICAN will have an ongoing free U.S. Savings Bond offer as part of the brand's positioning.

AVA

- Fourth quarter pre-priced pack outdoor postings will be in place in eight highly developed AVA markets. "Pre", "during" and "post" sales data will be gathered to analyze program results.
- An AVA Super Bowl Master Distributor Program will run from October 11 through December 16. Entries will be gained for new distribution, securing an everyday low price and displaying their AVA brand.
- Awards and Cheques were mailed to 298 Distributors of Excellence in late September. Master Distributors based on 1st half '94 sales whose AVA volume accounts for at least 15% of their total Black & White Private Label Sales received this distinction.
- Distributor of Excellence Part II - will reward Master Distributors of Excellence with \$1.50 carton and 15¢ pack factory VPR product for use with brand specific self-shipper units. Pre-booking of product has begun. Shipments of promotional product began in late September.
- Enhanced SUMMIT Full Flavor and Lights King Box was produced. The new labels and cartons will be in production in October. First shipments to SUMMIT Master Distributors scheduled for December.
- Field Driven initiatives will continue in the third quarter. Programs include: PTA/HVD, Deep Discount and Target Distributor and Independent/Chain Trifecta.

TRADE DEVELOPMENT PROGRAMS

ACCOUNT BUSINESS ANALYSIS

Wholesale Trend Information which was recently released by the Trade Publications will be distributed to A.B.A. trained personnel in early October 1994 for insertion into their A.B.A. manuals.

AMERICAN PERFORMERS '94

The MISTY Pen display has been reordered and will be available for placement during the fourth quarter. Scheduled delivery of displays is the week of October 24.

Performance Level IV tracking reports will be released the week of October 3 with monthly reissues scheduled through December 1994.

Steps have been taken toward the development of American Performers '95. Information concerning the program is being compiled from responses received from our Field personnel and will be considered for next year's program. Meeting with Executive Management scheduled for the week of October 3. Currently, recommended program components and budget are compiled - recommendation will be forthcoming.

CUSTOMER PROGRAMS

All current Customer Programs contracts are being reviewed and evaluated for usage during 1995. Recommendations for the addition or reductions in contracts will be forwarded to Senior Management during the fourth quarter. Second quarter executive summary forwarded week of October 3.

DECISION SUPPORT SYSTEM

Preparations are currently underway to roll the system out to the Northern Field during the fourth quarter 1994. Attendees will consist of all Northern Field KAM's and Western RTOM's. Currently account information is being gathered and processed by MIS, and Sales Administration is working on cleaning up CSN's for this roll out.

The presentation Module of DSS is near completion. A user's manual for the module is being developed for training on this component.

TAPP

The Master Distributors currently listed on the TAPP system have been updated to reflect current A.V.A. status.

TAPP (Continued)

MSA has completed processing of the Nielsen database and it became available on the TAPP system the week of September 30.

Steps are underway to move TAPP into a windows environment. Beta sites will be located in the Stamford office as well as Field locations. Recent programming obstacles have delayed development thus Beta sites will not receive a test version until January 1995.

The A.B.A. program in TAPP is also being enhanced by adding worksheet pages to the Trade Programs summary. This additional screen will provide all necessary hard-coded information for simplified dollar calculations. Time-line for completion is pending with a tentative target date of January 1995.

WAREHOUSE CLUB INITIATIVE

All personnel involved in this test initiative have been contacted and are currently working with their Price/Costco houses on implementation. The initiative will run for approximately three months or until displays/supplies are depleted. Implementation will occur in the Western and Southern Fields.

MERCHANDISING AND SALES COMMUNICATIONS

Returned Goods

Total returns for the month of August were 38.2MM units which was 1.11% of total sales. YTD returns total 408.4MM units which is 1.74% of total sales vs. 1993 YTD returns of 704.9MM units which was 3.58% of sales.

Military Programs

Total YTD sales (August) of 845.0MM units are down 25.9% vs. YAG.

In order to be more competitive with our program, the following changes are being made:

- Increasing the MONTCLAIR ISC value to \$1.50 (90% of volume), and \$2.00 (10% of volume). New strategy is to meet GPC.
- The MISTY ISC value will remain constant (\$1.00), however, we will include a "free perfume" added value offer during the 4th Quarter (same as national offer).
- CARLTON's \$2.00 ISC volume coverage is being increased from 50% to 85%.
- We will continue the AMERICAN \$1.00 ISC (75% of volume) effort to maintain an ATCo. low price presence in Exchange stores.

KEY COMPETITIVE INFORMATION

LIGGETT

Grand Prix

Liggett has introduced a new brand called Grand Prix (seen in Massachusetts). After a \$2.00 rebate, retailer cost is \$11.13 per carton. Grand Prix comes in eight styles: Full Flavor King, Full Flavor Menthol King, Full Flavor 100, Full Flavor Menthol 100, Light King, Light Menthol King, Light 100 and Light Menthol 100.

R. J. Reynolds

Doral

R. J. Reynolds has introduced a new program called "The Doral Frequent Buyer Program" where consumers earn free store credit with every pack and carton purchase of Doral. For every five packs purchased, consumers receive \$1.00 off store merchandise, or after accumulating 20 pack purchases, consumers can receive \$10.00 in free store merchandise.

For each carton purchase, consumers receive \$2.00 in store merchandise, or after five carton purchases the customers receive \$25.00 in store merchandise.

The promotion is being advertised with over-sized window posters that read: "Up to \$25 Off of Retail Merchandise When Purchasing Doral Products." Merchandise can only be redeemed at participating stores.

This program has been seen in several small, independent grocery stores in various parts of Michigan.

MISCELLANEOUS

DK

A new Deep Discount product, DK, has been seen in the San Francisco area at 99¢ per pack. According to the Sales Organization, consumer trial is minimal. DK is available in one style and is distributed by MTC.

Sonoma

A new Deep Discount product, Sonoma, has been introduced by Commonwealth Brands, Inc. of Bowling Green, Kentucky. Sonoma comes in eleven styles and was seen in Georgia.

INDUSTRY DEVELOPMENTS

For the 12 month period ending August 1994, the Industry showed an increase of 0.9% versus the comparable year-ago period. Liggett & Meyers and R. J. Reynolds both experienced declines on this basis of 3.0% and 8.7% respectively. However, both companies were up for the month of August, 13.6% and 3.4% respectively.

ATCo. sales were up an impressive 34.9% for August versus 19.3% for the Industry. Brown and Williamson, Lorillard and Philip Morris sales for the same period were up 18.2%, 28.1% and 27.7% respectively.

Philip Morris market share for the 12 month period is holding at 44.43 points. For the current one month period, Philip Morris share is 44.85 versus R. J. Reynolds a distant second, at 26.64, a gap of 18.21 points.

1994 NATIONAL SALES COVERAGE SCHEDULE (CONFIDENTIAL) As of August 3, 1994

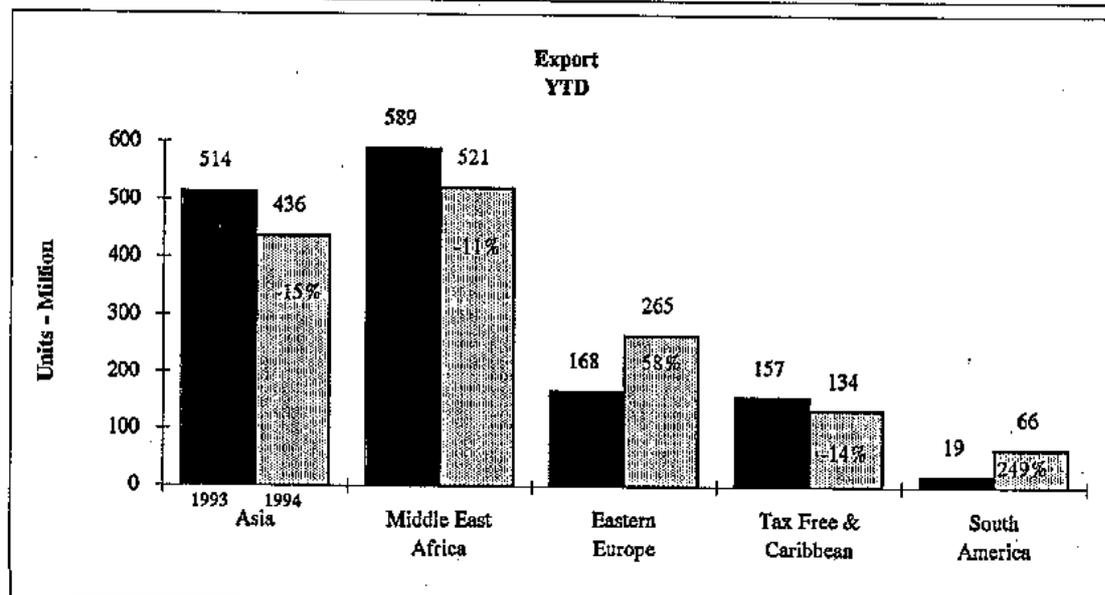
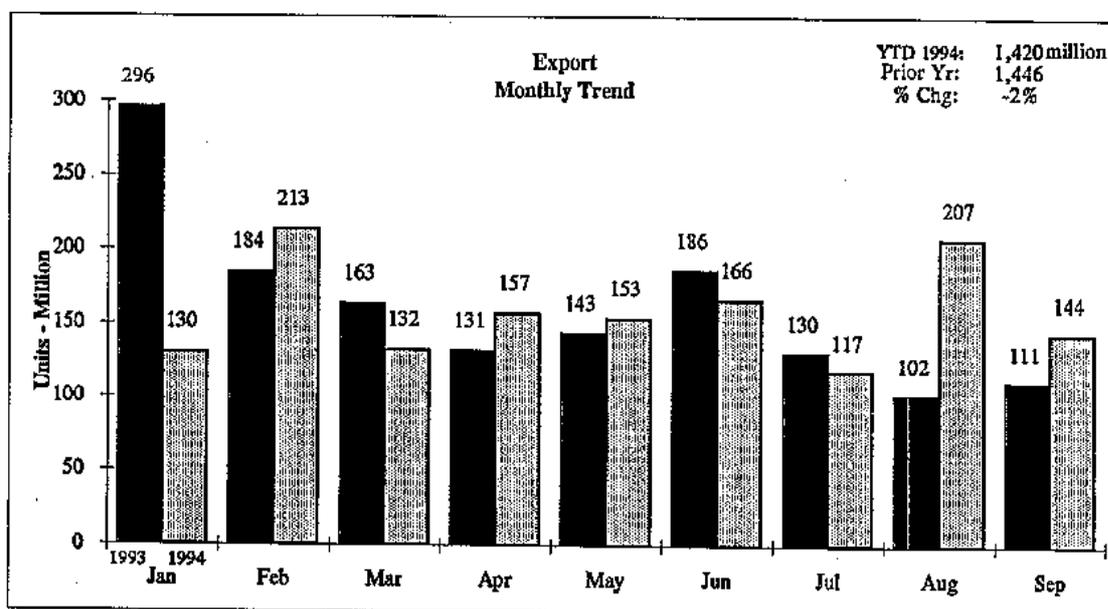
Coverage Dates	Programs	Branded Price Value				Full Price		New Products	Private Label
		MONTCLAIR	MISTY	RIVIERA	CARLTON	PALMARIA			
1. 1/1-3/11 6 Weeks	National Test or Overlay	FEA TURE BRAND P/R On Pack Gift Card \$1.000 (1000) U.S. Thru in the Bank	P/R Bottle of Lipstick w/ 1 Pack	Package VPR EAM Field	216 Gift - Pink Cash T.O.A. - 1000 U.S.	216 Gift - Pink Cash T.O.A. - 1000 U.S.	Special 10's W-2 Free PK With Pack Purchase	AVA Utopia 3/4oz Bars (Chocolate Biscuits)	
2. 2/1-2/18 (10 days) FOCUS (MONTCLAIR)	National Test or Overlay	FEA TURE BRAND P/R EAM Product U/P \$1.000 (1000) U.S. Thru in the Bank	MISTY DAD Chain Accounts	Package VPR EAM Field	KAM Start - "Top Me First" From PK Rollout - 1Q	KAM Start - "Top Me First"	Special 10's W-2 Free PK With Pack Purchase	CROWP - Item EAM-Whip Sized S.O. 10e	
3. 2/1-4/1 5 Weeks	National Test or Overlay	FEA TURE BRAND P/R EAM Product U/P \$1.000 (1000) U.S. Thru in the Bank	MISTY DAD Chain Accounts	Package VPR EAM Field	216 Gift - Pink Cash T.O.A. - 1000 U.S.	216 Gift - Pink Cash T.O.A. - 1000 U.S.	Special 10's W-2 Free PK With Pack Purchase	D & D	
4. 4/1-4/8 8 Days FOCUS (CARLTON)	National Test or Overlay	FEA TURE BRAND P/R EAM Product U/P \$1.000 (1000) U.S. Thru in the Bank	MISTY DAD Chain Accounts	Package VPR EAM Field	KAM Start - "Top Me First" From PK Rollout - 1Q PTA 2 Pack U.C.	KAM Start - "Top Me First"	Special 10's W-2 Free PK With Pack Purchase	Bunch Addition Slip Up Eased Hand Joystick Lighter Display Brackets Pack-Item 10's	
5. 4/11-5/13 5 Weeks	National Test or Overlay	FEA TURE BRAND P/R EAM Product U/P \$1.000 (1000) U.S. Thru in the Bank	MISTY DAD Chain Accounts	Package VPR EAM Field	216 Gift - Pink Cash T.O.A. - 1000 U.S.	216 Gift - Pink Cash T.O.A. - 1000 U.S.	Special 10's W-2 Free PK With Pack Purchase	AVA, P/R II Business Display White Stock 1000 Biscuits Primo	
6. 5/16-6/3 14 Days FOCUS (CARLTON)	National Test or Overlay	FEA TURE BRAND P/R EAM Product U/P \$1.000 (1000) U.S. Thru in the Bank	MISTY DAD Chain Accounts	Package VPR EAM Field	KAM Start - "Top Me First" From PK Rollout - 1Q PTA 2 Pack U.C.	KAM Start - "Top Me First"	Special 10's W-2 Free PK With Pack Purchase	Private Stock Packaging	
7. 6/6-7/1 5 Weeks	National Test or Overlay	FEA TURE BRAND P/R EAM Product U/P \$1.000 (1000) U.S. Thru in the Bank	MISTY DAD Chain Accounts	Package VPR EAM Field	216 Gift - Pink Cash T.O.A. - 1000 U.S.	216 Gift - Pink Cash T.O.A. - 1000 U.S.	Special 10's W-2 Free PK With Pack Purchase	AVA, P/R II Business Display White Stock 1000 Biscuits Primo	

INTERNATIONAL STATUS REPORT

SEPTEMBER 1994

OVERVIEW:

- Total Export shipments in September were 144 million units, up 30% from 111 million in September 1993. Year-to-date September shipments were 1,420 million units, down 2% from 1,446 million last year. Notably,
- Shipments to Japan were down 9%; despite this full year shipments are expected to increase 6%.
New CARLTON Ultra Slims Menthol 100 Box and CARLTON Ultra Kings Box (Charcoal) has been shipped. The former is scheduled for an October 1 launch.
 - Shipments to the Middle East were down 11%, reflecting a reduction in inventory held by GI/Cigalah. COMPASS to be introduced in October.
 - Shipments to Eastern Europe, primarily Russia and Ukraine, were 58% ahead of last year.
 - Shipments of AMERICAN and RIVIERA to Puerto Rico remain at record levels, following introductions in January. Year-to-date 91 million units shipped as compared to 11 million last year.
 - Shipments of 66 million MALIBU and COMPASS units to South America were 249% ahead of last year. Colombia, Paraguay and Chile are all new markets.



**International Status Report
September 1994**

ASIAN MARKETS

Japan

Year-to-date shipments of 394 million continue to track behind prior year by 9%. This unfavorable variance is entirely due to the moving forward of the January 1994 shipment into December 1993 and an abnormally high shipment level in January 1993. Despite this, full year shipments are expected to be 582 million, 6% ahead of last year.

Included in September shipments were 19 million CARLTON Slims Menthol 100's Box (1mg) units and 16 million CARLTON Kings Box (1mg/charcoal filter). The Menthol product is set for an October 1st launch and a total of 60 million has been shipped to date. Consumer testing of the Kings product has indicated a very favorable response, particularly compared to competitive products Next and Frontier Lights. CARLTON Kings Box will be introduced in November, but officially launched in January 1995 and 29 million has been shipped to date.

MID EAST MARKETS

MidEast / Saudi Arabia

Year-to-date shipments for total Middle East were 521 million units, down 11% from 589 million units for 1993.

Year-to-date shipments to Saudi Arabia were 475 million units, down 4% from 497 million last year. The decrease is largely due to the draw down of excess inventory held by Gallaher/Cigalah during the first half of the year. Saudi Arabia accounts for just over 90% of total Middle East volume; and CARLTON accounts for almost 80%. Year-to-date 347 million CARLTON units have been shipped; the full year forecast is 430 million units.

AMERICAN Lights continue to suffer from the intense competition in the low price sector where there are over 30 brands competing fiercely on a promotional and/or price basis. Year-to-date AMERICAN shipments were 89 million; the full year forecast is 110 million units.

Year-to-date, 34 million units of Firras have been shipped. Cigalah launched Firras with an expensive on-outer carton premium which proved very successful. Following the launch in-market sales have been averaging between 3 and 4 million units per month.

**International Status Report
September 1994**

Saudi Arabia (continued)

In late September, ATCo. met with G.I. and Cigalah in Rome to finalize plans for the introduction of the new CARLTON packaging effective February, 1995. First shipments of this new package will be made in mid-January. In addition, we have decided to change over to the new tipping effective with the November 1994 shipment.

EASTERN EUROPE MARKETS

Bulgaria

Year-to-date, 3 million COMPASS Full Flavor King Box units were shipped to International Trade Burgas. We are waiting momentarily for an additional 8 million unit order of COMPASS and AMERICAN Full Flavor 100's.

Russia

Year-to-date shipments were 173 million units, up 84% from 94 million last year. Astra has paid for and taken delivery of 20 million units of the 57 million AMERICAN units now in storage in Moscow. Funds for the remaining 37 million are expected the week of October 10. In addition, we are working to secure another order from Astra over the coming weeks.

We have signed an agreement with Pechat for the promotion of our products in 157+/- kiosks in the North Eastern section of Central Moscow. Five test kiosks have been painted in AMERICAN livery, and lighted outdoor signs have been installed. If the test kiosks prove successful the program will be expanded to the remaining kiosks.

The Moscow office continues to talk to various interested parties concerning the importation and sale of our products in Russia and the C.I.S. As in previous cases, the customers have interest but not the financial capabilities that we seek. The Moscow office management is working with DMB&B Moscow to produce a new T.V. commercial in 30 and 50 second versions to support the marketing of AMERICAN Full Flavor in Eastern Europe and the C.I.S. Story boards should be ready in the next 3-4 weeks for management approval.

Ukraine

Year-to-date 50 million units of AMERICAN, COMPASS, MISTY and RIVIERA were shipped. In conjunction with Joseph Friedman International and Molodsporloto a promotion involving 80 kiosks in Kiev commenced in August. Thus far, 40 kiosks have been painted and illuminated with AMERICAN livery. According to availability surveys AMERICAN Full Flavor 100's is now the 7th leading brand overall in the market.

**International Status Report
September 1994**

U.S. TAX FREE / CARIBBEAN / SOUTH AMERICA

U.S. Duty Free

Year-to-date 17 million units were shipped, down 86% versus last year. The loss of LUCKY STRIKE and PALL MALL in July 1993, which comprised 88% of U.S. Duty Free shipments, accounts for the steep decline. CARLTON, MONTCLAIR and TAREYTON shipments are up 12%, 53% and 26% respectively.

U.S. Overseas Military

Year-to-date 20 million units were shipped, down 11% versus last year. Despite the reduction in the number of overseas military troops and installations, the broadening of our brand offerings is beginning to alleviate the expected downward trend.

Puerto Rico

Year-to-date 91 million units were shipped, up 752% versus the comparable year ago period and up 403% versus full year 1993. The volume gain reflects the continuing success of AMERICAN Full Flavor King Size Box and RIVIERA Full Flavor Menthol King Size Box. RJ Reynold's announced a 25% reduction in the wholesale price of Winston which accounts for about 50% of the market. Philip Morris, Brown & Williamson and Lorillard followed RJ Reynold's announcement with a 15% reduction in the wholesale price of their full price offerings. Since PALL MALL non-filter comprises in excess of 90% of ATCo.'s full price volume and has no direct competition, we are maintaining our current price for full price brands.

Colombia

44.5 million units of MALIBU King Size Box were shipped in the first nine months of 1994, up 297% versus the 11.2 million shipped in the comparable year ago period. Shipments of MALIBU will resume in November.

U.S. Virgin Islands

6.4 million units were shipped in the first nine months of 1994, up 226% versus the comparable year ago period. The volume gain reflects the introduction of AMERICAN, MONTCLAIR and RIVIERA via a new distributor.

**International Status Report
September 1994**

WAREHOUSES

Present export inventory in GATX, Cyprus and Hong Kong is 239 million units as follows:

AMERICAN . . .	104 million units
COMPASS	88 million units
MISTY	35 million units
RIVIERA	12 million units

status9

Golden Belt Manufacturing Company

Executive Summary - September 1994 Status Report

September sales remained strong at \$3,951,000 to finish the quarter with the best performance of the year. Sales to date in 1994 are \$33,442,000, some \$2.9 million ahead of the original forecast.

Sales to American Tobacco at \$1.66 million were down by about \$300,000 from August, but Brown and Williamson at \$1.2 million and other accounts were equal to the strong August performance. Orders booked are starting to soften a bit for the fourth quarter compared with the unusual strength of the second and third quarters.

Operating income for September was \$156,000, showing continuing improvement over August. For the year to date, operating income is \$1,018,000, in line with the revised budget but still far below the original forecast.

Manufacturing performance in the consolidated Durham plant strengthens every month with better results from a stabilizing work force. Overtime has been greatly reduced and no Sunday work is taking place. Waste is declining every month and the backlog of set aside material has been reduced significantly. The team approach through the PEP program is paying off.

Employee morale is also improving at Golden Belt. Management is working hard to dispel rumors and reinforce the positive working climate that has developed. The fourth quarter looks quite positive overall to close out this most challenging year.