

*The American Tobacco Company*



SUMMARY OF ANNUAL MEETING OF STOCKHOLDERS  
HELD AT FLEMINGTON, NEW JERSEY  
ON WEDNESDAY, APRIL 6, 1966

0926867-020

*Stockholders arriving at the Hunterdon Central High School near Flemington, New Jersey. Many from New York City were brought to the meeting by bus.*

*Directors assembled in the lobby of the Company's New York headquarters prior to departing for the Annual Meeting.*





*Mr. Robert B. Walker, President and Chairman of the Board, acted as Chairman of the meeting and Mr. John W. Hanlon, Secretary, acted as Secretary of the meeting. The following directors were introduced by the Chairman: Virgil D. Hager, Executive Vice President; A. LeRoy Janson, Executive Vice President; Alfred F. Bowden, Vice President and President, Cigar Division; Robert K. Heimann, Vice President Marketing and Public Relations; Cyril F. Hetsko, Vice President and General Counsel; Joseph R. Waterhouse, Vice President and Treasurer; James J. Cunningham, Director of Corporate Procurement; John G. Hager, Jr., Vice President Cigarette and Tobacco Manufacture; Eugene F. Mooney, Director of Sales; John B. Sparrow, Director of Leaf Purchases; Silas E. Strickland, Director of Leaf Processing and Storage, and two of our outside directors: Alvin R. Jennings and George H. Woodard. The Chairman also introduced two new directors: Boone Gross, the Company's third outside director, and Julien B. McCarthy, Director of Manufacturing and Leaf. Messrs. R. Kirk Batzer and Reed L. Colegrove of Lybrand, Ross Bros. & Montgomery, the Company's independent public auditors, were presented by Chairman Walker. More than 83% of the total eligible votes were represented at the meeting. The Chairman reported to the meeting on the Company's progress and plans for the future.*



## PRESIDENT'S REPORT

Fellow Stockholders, Ladies and Gentlemen:

In 1965, dollar sales and dollar earnings attained a new high and unit cigarette sales were the highest in the history of The American Tobacco Company. Let me assure you, however, we do not feel we have reached a comfortable plateau—nor would your Management be content to stay on one. We have never made specific predictions of earnings, nor will I today, but you can be certain we will

work hard to make each year's results better than the year before.

We are confident that our growth will continue, but rather than paint an overly optimistic picture I choose to say that we are realistically facing the obstacles that have been cast in our path. One such obstacle is the caution notice now required on all cigarette packages. Other obstacles are increased taxes, increased operating costs and continuing harassment from anti-tobacco groups.

I know of no panacea for these problems; however, as we have in the past, we shall meet them squarely and with courage and we will devote every waking hour to planning and working to assure the continued profitable growth of The American Tobacco Company.

In the three years that present Management has been in office we have concentrated on increasing our share of the filter tipped cigarette market. This, I believe, was clearly stated in our Annual Report for 1965. Many new products have been developed to enable the Company to meet and satisfy consumer tastes in today's ever-changing market.

### **Progress through Innovation**

These new products are helping us to increase our share of the cigarette market. Four of these new products we introduced in 1964 — CARLTON, HALF AND HALF, LUCKY STRIKE Filter and PALL MALL Filter Tipped. All are now in national distribution. In 1965 these four

brands yielded almost 90 million dollars in sales. I think you will agree that this is a pretty good payoff from our first year of new product development, and I think it fair to say that it may be considered as 90 million dollars in cigarette sales that we would not otherwise have had last year.

Last year we developed eight new cigarette brands. In the process of doing this, the Manufacturing Department gave me

a new name. Down South and especially in the Richmond Research and manufacturing plant they call me "Brand-a-month Walker." Nothing would please me more than to continue to justify this name.

Competition is intense and the stakes are enormous, but with many of our new brands we have managed to leapfrog competition and beat them to the marketplace. Our strategy has been carefully

*Mr. Walker called the meeting to order at 1:30 p.m.*



planned and carefully executed—and the results are gratifying. We intend to continue to do everything we can to add to our list of “firsts.”

According to independent analysts PALL MALL is the number one selling brand in the country. Its volume has been augmented by the new PALL MALL Filter Tipped Luxury Length, in the distinctive gold package, and by PALL MALL Menthol in the smart flat 20s box, which just last month completed national distribution.

This package, I might add, has been so successful that we have now introduced a companion package for PALL MALL Luxury Length — a flat 20s package which I call “gold on gold.” So far these new PALL MALL packings have drawn enthusiastic compliments from the trade and from consumers. More important, they are selling well. The Latin motto on the PALL MALL crest reads “IN HOC SIGNO VINCES”—translated it means—in this sign you will conquer. May this ring true for 1966—we will try to make it so.

One important step in this effort was announced in March. That is the reduction of the price of PALL MALL Filter Tipped in the soft pack to bring the brand into the mass market. We are just now beginning to advertise this fine quality cigarette in its new luxury length, packaged in gold. You will be seeing more of PALL MALL gold on television and in magazines and other media as the year goes on.

#### **Growing Share of Filter Market**

In April 1963 when I took office we had two filter tipped cigarettes in our brand lineup, representing 9% of our cigarette business. At the end of 1965 we had six filter brands in national distribution and their sales accounted for nearly 23% of our production. The total filter cigarette market in 1965 represented almost two-thirds of all cigarettes sold.

One of the nation's best-known business publications, appraising the industry for 1965, reported that PALL MALL Filter Tipped and LUCKY STRIKE Filters were two of the outstanding performers for 1965 and together accounted for an impressive share of the entire industry's net gain.

In 1966, we are confident that our share of this expanding market will continue to grow.

Each successful new brand we have introduced over the years has won its place in the market through some distinctive product difference. PALL MALL won its place by offering 20% greater length. TAREYTON offered the first charcoal filter tip, although it has taken 10 years to develop volume to a point where, today, it is an important national brand.

#### **Our Recent “Firsts”**

I believe we have offered more new product innovations in the last two years than any tobacco manufacturer has ever done in a like period of time.

Pipe tobacco in a filter cigarette . . .



*Mr. and Mrs. Charles F. Sweet of Trenton, New Jersey, inspect one of several displays featuring some of the Company's famous cigarette brands and National advertisements.*

The new 100 millimeter luxury length filter cigarette...

The first luxury length in the menthol field...

The flat 20s flip top box...

WATERFORD with the water tip...

WATERFORDS, first introduced last September, are now national. The development of this fine brand is an outstanding

achievement and a new concept in filter cigarettes. Tiny capsules containing water are in the filter, and, when crushed by a pinching action, release moisture into the filter for greater smoking pleasure.

HALF AND HALF smoking tobacco in a filter cigarette represented something new and different and in 1965 established its position as America's Number 1 pipe tobacco cigarette. Competitive imita-

tions were introduced but did not appear to affect the sales of HALF AND HALF Filters.

Up to now I have been speaking about our national brands. However, we are constantly developing new product ideas.

One of them is SWEET CAPORAL, the granddaddy of all cigarette brands, dating from 1870. For many years we have carried SWEET CAPS on our price list without advertising support and they have maintained a limited volume of sales, particularly in the New York City area. Last fall we decided to bring SWEET CAPS up to date by making them king size and adding a filter tip. We are advertising the new SWEET CAP on a modest scale in the New York market and the brand is doing more business now than it did before we made these changes.

#### **New Brand Development**

A second brand innovation, MAYO'S SPEARMINT BLEND, is a new kind of cigarette blend incorporating natural spearmint leaves. We have been promoting this new and different product for the last two or three months in parts of New England. It is much too soon to decide whether we can make these brands part of our regular, national product line, but I thought you might be interested in what we are doing in the field of new product development, which is so important to future progress. We have, of course, additional plans which for competitive reasons I cannot reveal at this time.

The consumer is a hard man to stay ahead of. He does not state his wants; sometimes he doesn't even know his wants. However, our greatest successes have come when we have anticipated those wants and have given him new products before he asked for them.

While the entire organization of American Tobacco involves many skills and talents working in many diverse areas we have developed in the last three years a common denominator for success—that common denominator is marketing. It is marketing that must be visionary—it is marketing that must be ahead of the times in anticipating consumer preferences and changing consumer tastes. It is marketing that sells the goods that make the profits that pay the dividends—and, I submit, it is this combination of good marketing and manufacture of the finest quality products which will move us along to our proclaimed objective—WE ARE GOING TO REGAIN INDUSTRY LEADERSHIP. That is our rallying cry—I believe it; our people believe it and we will accomplish it.

#### **Investment for Growth**

Another, but related, subject is our new products research facility. Announced last year, it was completed in December and is now in full operation. One of the first assignments to be undertaken at the new research laboratory was development of the tiny water capsules contained in the filter of new WATERFORD Cigarettes. Today, research is a full-time



partner in the all-important chain of marketing, a chain which extends from the never-ending basic research, to applied research, to manufacturing, advertising and selling.

In July we announced that the Company will move its headquarters operation to a new building in New York City. We have reached a point where greater space is required for our headquarters operation. Since we will be the largest single tenant of 245 Park Avenue, the new skyscraper will be named "The American Tobacco Company Building."

#### **Favorable Cigar Trend**

Last year our Cigar Division announced a new cigar named TIPTON, with a plastic tip and selling at a lower cost than the conventional tip cigar. Distribution began in late summer and we are pleased to announce that it is now national.

In keeping with industry trends dollar sales for our Cigar Division were below the record levels of 1964, an unusually high year, but well ahead of 1963, a more normal year. During the July-December period of 1965, however, sales rose to an

*Many of Mr. Walker's remarks drew applause from stockholders.*





*Mr. Walker responded to questions from the floor during the discussion period.*

all-time record which gave them a good start for 1966 with a continuing favorable trend.

This year we will broaden the cigar line and the Cigar Division will also market test new products.

A new series of television commercials has started promoting the ROI-TAN line—perhaps you have already seen some of these which are being shown nationally.

#### **Diversification**

On April 30 of last year we terminated our discussions with Consolidated Foods

because of a number of practical difficulties which could not be resolved. During the year we continued to investigate many situations and I might add that there were several that we turned down. I believe that we have been very fortunate in getting together with Sunshine Biscuits, Incorporated, on a mutually agreeable basis. Sunshine is recognized for its quality products and is highly respected in its industry.

In our diversification plans we strive to meet two requirements: first, that our diversification will not distract the attention of your Management from its basic responsibility, which is the care and growth of our successful tobacco business; second, that our diversification activity carries with it the potential of tangible benefits to our stockholders in future years.

We are proceeding with the details of the Sunshine transaction and we will keep you advised of further developments regarding this fine acquisition.

In December we added another outside Director bringing our total representation of outside directors up to three. Mr. Boone Gross, retired President of the Gillette Company, brings to American Tobacco's Board more than 35 years of sales and marketing experience.

At this point I would like to take a moment to honor a fellow Director—a close friend and valued associate of many years—Mr. A. LeRoy Janson, Executive Vice President and chief financial officer,

who retires at the end of this month. Mr. Janson has been with American Tobacco since 1936; his great devotion and loyalty to the Company will long be remembered by those who have been privileged to work with him and we will miss his wise counsel and dedicated service.

#### **Increased Dividends**

In July we announced a dividend increase which raised the annual dividend rate from \$1.60 to \$1.70. In January of this year your Board of Directors voted another dividend increase from 42½ cents to 45 cents bringing the annual rate up to \$1.80. This is the sixth year since 1960 in which dividends have increased. The rise from \$1.25 in 1959 to the present annual rate represents a gain of 44%.

On June 30 at a special meeting the stockholders voted to retire the Company's Preferred stock and to permit future stockholder meetings to be held in New York City as well as in New Jersey. At that time I stated that the retirement of the Preferred would strengthen and increase the flexibility of the Company's financial position and put us in a better position for financing an acquisition.

Regarding the vote to permit future stockholder meetings to be held in New York City as well as in New Jersey, I reported that the Company had made no decision to hold such meetings in New York. Attendance at our meetings has increased in recent years to an extent where available space in Flemington may

*John Henry Campbell urged the Company to buy its own Common stock.*



not be sufficient in the future to accommodate those who wish to attend.

The cost reduction program instigated in 1963 continues to yield decisive savings. Despite the trend to higher prices, our purchasing department reduced cost of supplies by more than \$400,000 in 1963; by \$430,000 in 1964; and reductions in 1965 amounted to \$1,055,484.10. Though this program is constantly being intensified we shall never compromise on quality of product.

*R. Kirk Batzer, representing the Company's independent auditing firm, reported to the stockholders.*



#### **The Labeling Law**

This year Federal Law requires a notice on all packages of cigarettes manufactured after January 1, 1966, reading: "Caution: Cigarette Smoking May Be Hazardous To Your Health." Our packaging has been redesigned to comply with this new law.

Though it is too early for us to give any report indicating how the labeling law has influenced sales, we believe it will have some impact, just as the Surgeon General's Report did in 1964.

From day to day I receive many letters from people throughout the country and there is one that I would like to quote from that requested a favor—"Will you do me a favor? It is very kind of my government to be so concerned about my health but I have the doctors' bills to prove that it would have done more good if that same government had made automobile manufacturers print that warning on all cars. Would you make that suggestion to them, please. In fact, the man who hit me was drunk before noon and it might have helped if the warning was on liquor bottles, too."

#### **Recognition of Problems**

As I mentioned at the beginning of my address anti-tobacco groups continue their campaign against cigarettes at every level, and are quick to grasp any opportunity that gives them a platform to be heard.

Another serious problem is the growing tax burden at the three levels of government—federal, state and local. In 1965 legislation was enacted in 23 states increasing the tax rate anywhere from one to five cents per package of cigarettes; similar legislation was defeated in 12 states.

Though an excise tax reduction has been anticipated since 1954, the House and Senate accepted the President's recommendation to make permanent the Korean emergency tax rate on cigarettes and alcoholic beverages. The eight-cent Federal cigarette tax is therefore permanent.

Another obstacle we must cope with is higher prices for leaf tobacco which accounts for more than half our manufacturing costs. As indicated in our Annual Report, leaf prices on both the Burley and Bright markets last year were up more than 10%. We are also incurring higher interest rates on borrowed money, increased federal taxes for Social Security and Medicare, and increased costs for scientific and new product research.

Advertising costs were held even last year. One important reason why we were able to do this was the fee system of agency compensation started in January 1965, which resulted in a saving of more than one and a half million dollars. Costs of advertising, like all other costs, are going up and our promotional expenditures this year will be higher.

*Lewis D. Gilbert stated that it was his opinion that the company should resign from the Cigarette Advertising Code, and requested that this be put on the record.*



Final figures for the first quarter of 1966 will not be available until later this month. Despite the obstacles I mentioned earlier, indications are that dollar sales for the first quarter will be close to last year's figures. Net income for the first two months is slightly below last year, and we believe the figures for the entire first quarter will also be slightly lower than last year.

In the first quarter filter brands increased to approximately 25% of our cigarette volume. Sales of smoking tobacco and cigars account for about 5% of our total business. As I mentioned earlier, our ci-



*Adele L. Stanton pointed out that the Company has a good record that few companies can match and asked fellow stockholders not to sell the Officers and Directors short with cumulative voting.*

gar business is showing an especially favorable trend.

**Facing the Challenge**

Ladies and Gentlemen, I want you to know how very much we appreciate your support and encouragement. Your presence here, plus the hundreds of letters I have received from our stockholders

across the nation is heartwarming—we value this confidence in Management.

My associates and I are not sorcerers, nor are we capable of magic when it comes to meeting the challenges that we face in our industry. Our basic product is tobacco and our tools are experience, imagination, and hard work. It is these

ingredients that have put us where we are today.

For the past ten years I have had in my office a credo that I often refer to when confronted with a difficult problem or decision. That credo is, "God grant me the serenity to accept the things I cannot change; courage to change the things I can; and wisdom to know the difference."

Thank you.

#### **Election of Directors**

The following directors were elected: Alfred F. Bowden, James J. Cunningham, Boone Gross, John G. Hager, Jr., Virgil D. Hager, Robert K. Heimann, Cyril F. Hetsko, A. LeRoy Janson, Alvin R. Jennings, Julien B. McCarthy, Eugene F. Mooney, John B. Sparrow, Silas E. Strickland, Robert B. Walker, Joseph R. Waterhouse and George H. Woodard.

#### **Action on Proposal**

Proposal One, to elect Lybrand, Ross Bros. & Montgomery independent auditors for the Company for 1966 recommended by management, was adopted. It was reported that 21,259,730 votes, being greater than a majority of the votes cast, favored this proposal.

#### **Financial Reports**

Mr. Batzer of the firm of Lybrand, Ross Bros. & Montgomery read to the meeting the report of the independent auditors for the year 1965. The report stated that, as in prior years, the accountants had reviewed or tested accounting procedures

and evaluated the systems of internal control of the Company and its subsidiaries and that, in their opinion, the accounting procedures and systems of internal control are, in all material respects, adequate and appropriate to the needs of the business. The report also described the procedures followed by the accountants in substantiating accounts receivable and inventories, indicating that (a) tests and reviews were made as to cash collections recorded in customers' accounts which showed that the Company's customers are paying their accounts substantially in accordance with the credit terms granted by the Company; and (b) inventories were priced at

*Philip Applebaum thanked Mr. Walker for the way in which the meeting was conducted, allowing stockholders to present their views to the Chairman.*





*Albert Goldstein requested more information about negotiations for the planned acquisition of Sunshine Biscuits, Inc.*



*William Bianchino asked how LUCKY STRIKE Regular sales compared with that of LUCKY STRIKE Filters.*

costs determined by the averaging of the transactions reflected in the inventory accounts and the costs were computed by procedures consistent with those employed for many years, as approved by the United States Treasury for tax purposes.

The Annual Report of the Company's operations for the year ended December 31, 1965, a copy of which had been mailed to each stockholder of record, was presented to the meeting by the Secretary.

#### **Discussion**

Philip Applebaum, William Bianchino, Thomas V. Brosnahan, Lewis Gilbert,

Matilda Glickman, Albert Goldstein, John Campbell Henry, Charles Kaye, Stella Phillips, Adele L. Stanton, Murray Weiner and Paul D. Wolfe participated at the meeting with questions, comments and suggestions.

In response to a question about the fees paid to outside directors and also the number of directors' meetings held in 1965, Mr. Walker replied with the following information. Mr. George Woodard received \$25,000 and is required to devote 25% of his time to the affairs of the Company while Mr. Alvin Jennings devotes somewhat less time to the Company. However, he is available to us for



consultation and is paid \$15,000 annually. Our newest outside director, Mr. Boone Gross, receives \$10,000 yearly. The Company's By-Laws call for regular meetings of directors on Tuesday of each week and it is our practice to conduct formal business on the last Tuesday of each month. In 1965 there were twenty-three meetings of the Board of Directors at which formal business was transacted.

In answer to questions about the Company's planned acquisition of Sunshine Biscuits, Inc., Mr. Walker offered the following statement. On January 13, stockholders were informed that the Company was negotiating to acquire

Sunshine and that the terms of acquisition, 1.4 shares of American Common for each share of Sunshine Common, were reached with the assistance and advice of our investment bankers.

Management was informed by Sunshine's management during negotiations that Sunshine's operating results for 1965 would be depressed, the principal reason being start-up costs for Sunshine's new baking plant at Sayreville, New Jersey, which replaces its outmoded plant in Long Island City. The new Sayreville plant should contribute to the improvement of Sunshine's operations as it reaches full operating efficiency.

*Paul D. Wolfe commented about vending machines and marketing new brands.*



*Charles Kaye asked about the denial of free cigarettes to hospitalized servicemen.*



Thus far, the progress of negotiations and investigation has disclosed no obstacle to the completion of our transaction with Sunshine. We anticipate that Sunshine would operate as a wholly owned subsidiary of American Tobacco under its own management and would be represented on our Board of Directors.

Responding to a question about the Company's price increase instituted in March, Mr. Walker pointed out that costs have risen beyond our power to compensate for them by operating economies. The major manufacturing cost is leaf tobacco and under the government's price support program leaf prices on the Burley and Bright markets in 1965 and 1966 rose more than 10%.

Other factors which have increased costs and which promise to increase costs still more in the near future are: one, higher interest rates on borrowed money; two, higher labor costs; three, increased cost for scientific and new product research; four, continuing increases in media rates; five, increased Federal taxes for Social Security and Medicare.

In the year ended March 18, twenty-three states increased their cigarette taxes. The average increase in these states was more than two cents per pack. No one denounced these increases as inflationary, yet on the average they are considerably greater than the 4/5 of a cent per pack announced on March 11 and which was later halved to 2/5 of a cent per pack.



*Thomas V. Brosnahan asked about the Company's new product development program.*

Since the price increase in 1957, the price of our major brands, PALL MALL and LUCKY STRIKE, have increased by 1% and 4%, respectively. During the same period of time, the consumer price index increased by 10%. In this context it is clearly fallacious to label a modest cost recovery such as our recent price increase as "inflationary."

In the fourth quarter of 1965, before higher leaf prices had a chance to show their effects on our reported costs, our net earnings showed a decline being \$739,000 under the net income reported in the fourth quarter of 1964. A Wall Street Journal summary of 604 large

companies showed an average gain of 16.4% in the net income for the fourth quarter of 1965. However, the six large tobacco companies included in this survey showed a combined loss for the fourth quarter of 1965 of 1/10 of 1% compared with the year earlier period. These results clearly indicate the beginning effects of the higher costs referred to above.

Despite the pressure of these increased costs, we believe we responded fairly to the Administration's request to restrain price increases on consumer goods when

on March 21 we halved our 40¢ per thousand price increase.

We find it difficult to understand how the government, with one hand, can escalate leaf prices by 10%, yet on the other hand object to a price increase which would add only 2% to the average price at retail. Nevertheless, as a contribution to the fight against inflation, we took action on March 21, reducing our price increases by 50%.

Discussion also came up about recent newspaper articles reporting the ban-

*Stella Phillips commenting about the acquisition of Sunshine Biscuits, Inc., expressed implicit confidence in the Company's Chairman and the Board of Directors.*





ning of cigarettes being given to servicemen in military hospitals, in the United States and overseas. Mr. Walker responded that this was true and that Government hospitals prohibit the free distribution of cigarettes to hospitalized servicemen and veterans.

A question was asked about the Company's purchase of its Common stock and the price of this stock at the time of purchase. The Chairman stated the Company bought through the stock exchange 179,300 shares of its Common stock between July 1965 and January 1966 at an average price of \$36.96 per share. During

this period, the price of Common stock on the market ranged from a high of \$41.78 to a low of \$32.25.

Other discussion topics included advertising, new cigarette brands, the Company's announced move to a new headquarters building in New York City, the sale of property overseas and marketing. During the course of the meeting, and at its close several stockholders complimented the Company on its plan to acquire Sunshine Biscuits and on its general progress, and commended the Chairman for an informative and pleasant meeting.

*Mr. Walker and other directors after the meeting. During the meeting, Mr. Walker paid tribute to A. LeRoy Janson, Executive Vice President, at right, who retired at the end of April.*

*Many stockholders found a moment to congratulate Mr. Walker following the meeting.*



# YOUR COMPANY'S PRINCIPAL PRODUCTS

which make your dividends possible . . .

## *Nonfilter Cigarettes*

PALL MALL  
LUCKY STRIKE  
HERBERT TAREYTON

## *Filter Cigarettes*

TAREYTON  
LUCKY STRIKE *Filters*  
PALL MALL *Filter Tipped*  
PALL MALL *Menthol*  
WATERFORD  
HALF AND HALF *Filter Cigarettes*  
MONTCLAIR  
CARLTON

## *Cigars*

ROL-TAN  
ANTONIO Y CLEOPATRA  
LA CORONA  
BOCK Y CA  
TIPTON

## *Smoking Tobaccos*

HALF AND HALF  
BLUE BOAR  
GENUINE "BULL" DURHAM



*The American Tobacco Company*

150 E. 42nd Street, New York, N.Y. 10017