

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period  
ended June 30, 1994

Commission file number 1-9076

AMERICAN BRANDS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

13-3295276

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

1700 East Putnam Avenue, Old Greenwich, Connecticut 06870-0811

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (203) 698-5000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  
Yes (X) No ( )

The number of shares outstanding of the registrant's Common stock, par value \$3.125 per share, at July 29, 1994 was 201,303,055 shares.

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

AMERICAN BRANDS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEET

(In millions)

June 30,  
1994

December 31,  
1993

(Unaudited)

Assets

Consumer products and corporate

Current assets

Cash and cash equivalents	\$ 102.0	\$ 62.5
Accounts receivable, net	1,339.9	1,241.6
Inventories	1,765.9	2,043.2
Other current assets	285.6	385.8
	-----	-----
Total consumer products and corporate current assets	3,493.4	3,733.1
Property, plant and equipment, net	1,465.5	1,472.1
Intangibles resulting from business acquisitions, net	3,626.6	3,637.9
Other assets	413.5	379.4
	-----	-----
Total consumer products and corporate assets	8,999.0	9,222.5
	-----	-----
Life insurance		
Investments	6,089.4	5,808.8
Cash and cash equivalents	101.7	79.1
Deferred policy acquisition costs	489.2	470.5
Present value of future profits, net	165.9	170.0
Other assets	373.1	588.1
	-----	-----
Total life insurance assets	7,219.3	7,116.5
	-----	-----
Total assets	\$16,218.3	\$16,339.0
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

- 1 -

AMERICAN BRANDS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEET

(In millions, except per share amounts)

	June 30, 1994	December 31, 1993
	-----	-----
	(Unaudited)	
Liabilities and stockholders' equity		
Consumer products and corporate		
Current liabilities		
Notes payable to banks	\$ 299.3	\$ 298.9
Commercial paper	480.3	711.3
Accounts payable, accrued expenses and other liabilities	1,104.6	1,248.5
Accrued excise and other taxes	1,000.2	726.3
Current portion of long-term debt	102.2	172.7
	-----	-----
Total consumer products and corporate current liabilities	2,986.6	3,157.7
Long-term debt	2,312.9	2,492.4
Deferred income taxes	129.6	124.7
Postretirement and other liabilities	512.2	520.3
	-----	-----
Total consumer products and corporate liabilities	5,941.3	6,295.1
	-----	-----
Life insurance		
Policy reserves and claims	2,632.9	2,553.4
Investment-type contract deposits	2,801.2	2,732.3
Other liabilities	439.2	486.8
	-----	-----

Total life insurance liabilities	5,873.3	5,772.5
	-----	-----
\$2.67 Convertible Preferred stock - redeemable at Company's option	16.4	17.1
	-----	-----
Common stockholders' equity		
Common stock, par value \$3.125 per share, 229.6 shares issued	717.4	717.4
Paid-in capital	171.7	173.3
Unrealized (depreciation) appreciation on available-for-sale investments	(4.7)	5.3
Foreign currency adjustments	(268.2)	(317.4)
Retained earnings	4,505.4	4,393.4
Treasury stock, at cost	(734.3)	(717.7)
	-----	-----
Total Common stockholders' equity	4,387.3	4,254.3
	-----	-----
Total liabilities and stockholders' equity	\$16,218.3	\$16,339.0
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

- 2 -

AMERICAN BRANDS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF INCOME  
for the Six Months Ended June 30, 1994 and 1993

-----  
(In millions, except per share amounts)  
(Unaudited)

	1994	1993
	-----	-----
Revenues		
Consumer products	\$6,041.8	\$6,074.4
Life insurance	484.4	509.2
	-----	-----
	6,526.2	6,583.6
	-----	-----
Operating expenses		
Cost of products sold	1,888.7	1,752.2
Excise taxes on products sold	2,368.6	2,476.7
Insurance benefits	320.0	310.6
Advertising, selling and administrative expenses		
Consumer products	1,149.2	1,156.7
Life insurance	96.5	89.1
Amortization of intangibles	53.5	45.8
Restructuring charges, net	-	5.2
	-----	-----
	5,876.5	5,836.3
	-----	-----
Operating income	649.7	747.3
	-----	-----
Interest and related charges	121.1	123.7
Corporate administrative expenses	28.7	24.2
Other expenses (income), net	4.9	(6.7)
	-----	-----
	154.7	141.2
	-----	-----
Income before income taxes	495.0	606.1
	-----	-----
Income taxes	181.9	207.7
	-----	-----
Income before cumulative effect of accounting changes	313.1	398.4
	-----	-----
Cumulative effect of accounting changes (net of income taxes of \$124)	-	(201.0)
	-----	-----
Net income	\$ 313.1	\$ 197.4
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

- 3 -

AMERICAN BRANDS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF INCOME  
for the Six Months Ended June 30, 1994 and 1993 (Concluded)

-----  
(In millions, except per share amounts)  
(Unaudited)

	1994	1993
	-----	-----
Earnings per Common share		
Primary		
Income before cumulative effect of accounting changes	\$1.55	\$1.97
Cumulative effect of accounting changes	-	(.99)
	-----	-----
Net income	\$1.55	\$.98
	=====	=====
Fully diluted		
Income before cumulative effect of accounting changes	\$1.52	\$1.91
Cumulative effect of accounting changes	-	(.95)
	-----	-----
Net income	\$1.52	\$.96
	=====	=====
 Dividends paid per Common share	 \$.9925	 \$.985
	=====	=====
Average number of Common shares outstanding during each period		
Primary	201.8	201.8
	=====	=====
Fully diluted	213.5	213.9
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

- 4 -

AMERICAN BRANDS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF INCOME

for the Three Months Ended June 30, 1994 and 1993

(In millions, except per share amounts)  
(Unaudited)

	1994	1993
Revenues		
Consumer products	\$3,040.9	\$2,578.7
Life insurance	237.1	267.3
	-----	-----
	3,278.0	2,846.0
	-----	-----
Operating expenses		
Cost of products sold	977.5	877.7
Excise taxes on products sold	1,153.3	824.7
Insurance benefits	162.4	164.9
Advertising, selling and administrative expenses		
Consumer products	589.6	587.3
Life insurance	47.0	46.8
Amortization of intangibles	26.8	22.9
Restructuring charges, net	-	5.2
	-----	-----
	2,956.6	2,529.5
	-----	-----
Operating income	321.4	316.5
	-----	-----
Interest and related charges	59.7	61.8
Corporate administrative expenses	21.0	19.2
Other expenses (income), net	2.2	(1.0)
	-----	-----
	82.9	80.0
	-----	-----
Income before income taxes	238.5	236.5
	-----	-----
Income taxes	74.6	85.2
	-----	-----
Net income	\$ 163.9	\$ 151.3
	=====	=====
Earnings per Common share		
Primary	\$ .81	\$ .75
	=====	=====
Fully diluted	\$ .80	\$ .73
	=====	=====
Dividends paid per Common share	\$ .50	\$ .4925
	=====	=====
Average number of Common shares outstanding during each period		
Primary	201.8	201.7
	=====	=====
Fully diluted	213.4	213.7
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

- 5 -

AMERICAN BRANDS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
for the Six Months Ended June 30, 1994 and 1993

(In millions)  
(Unaudited)

	1994	1993
Operating activities		
Net income	\$ 313.1	\$ 197.4
Changes in accounting principles	-	201.0
Depreciation and amortization	158.1	146.9
Loss (gain) on dispositions and investments, net	6.5	(65.0)
(Increase) decrease in accounts receivable	(62.4)	27.4
Decrease (increase) in inventories	308.4	(8.9)
Decrease in accounts payable, accrued		

expenses and other liabilities	(194.0)	(121.5)
Increase (decrease) in accrued excise & other taxes	229.3	(75.0)
Increase in insurance policy and investment-type contract related liabilities	159.6	154.6
Purchase of trading securities	(168.1)	-
Proceeds from sale of trading securities	202.4	-
Other operating activities, net	56.8	85.9
	-----	-----
Net cash provided from operating activities	1,009.7	542.8
	-----	-----
Investing activities		
Additions to property, plant and equipment	(76.4)	(107.9)
Acquisition	(10.3)	(107.2)
Purchases of investments	(535.8)	(1,213.0)
Proceeds from the maturity, call and sale of investments	400.7	929.2
Other investing activities, net	7.2	7.7
	-----	-----
Net cash used by investing activities	(214.6)	(491.2)
	-----	-----
Financing activities		
Deposits on annuity and other financial products	170.9	203.7
Withdrawals of annuity and other financial products	(181.6)	(127.1)
(Decrease) increase in short-term debt	(243.2)	206.4
Issuance of long-term debt	26.9	165.2
Repayment of long-term debt	(290.7)	(285.2)
Dividends to stockholders	(201.1)	(199.6)
Other financing activities, net	(19.3)	(58.2)
	-----	-----
Net cash used by financing activities	(738.1)	(94.8)
	-----	-----
Effect of foreign exchange rate changes on cash	5.1	(15.9)
	-----	-----
Net increase (decrease) in total cash and cash equivalents	62.1	(59.1)
Total cash and cash equivalents at beginning of period	141.6	140.2
	-----	-----
Total cash and cash equivalents at end of period	\$ 203.7	\$ 81.1
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

- 6 -

AMERICAN BRANDS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Principles of Consolidation

The condensed consolidated balance sheet as of June 30, 1994, the related condensed consolidated statements of income for the three-month and six-month periods ended June 30, 1994 and 1993 and the related condensed consolidated statement of cash flows for the six-month periods ended June 30, 1994 and 1993 are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted only of normal recurring items. Interim results may not be indicative of results for a full year. (For a discussion of results of operations, see Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations").

The condensed consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries. Balance sheet accounts are segregated into two categories. Consumer products and corporate accounts are classified as current or noncurrent, whereas the life insurance accounts are unclassified, in accordance with industry practice.

The condensed consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in the Company's annual consolidated financial statements and notes. The year-end condensed consolidated balance sheet was derived from the Company's audited financial statements, but

does not include all disclosures required by generally accepted accounting principles. This Form 10-Q should be read in conjunction with the Company's consolidated financial statements and notes incorporated by reference in its 1993 Annual Report on Form 10-K.

2. Accounting Changes

On December 31, 1993, the Company elected early adoption of FAS Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," under which trading securities purchased with the intent of being sold in the near term are carried at fair value and the applicable unrealized gains and losses are recorded in income.

Effective January 1, 1993, the Company adopted FAS Statement No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," requiring accrual of the expected costs during the years that employees render the service that qualifies them for coverage. Also, effective January 1, 1993, the Company adopted FAS Statement No. 112, "Employers' Accounting for Postemployment Benefits," requiring accrual of the expected costs of benefits provided to former or inactive employees after employment but before retirement.

The initial effects of adopting FAS Statements No. 106 and 112 were recorded as cumulative changes in accounting principles as follows (in millions, except per share amounts):

- 7 -

AMERICAN BRANDS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Accounting Changes (Concluded)

	FAS Statements No.		
	106	112	Total
	-----	-----	-----
Pretax charges	\$310.0	\$15.0	\$325.0
Income taxes	119.0	5.0	124.0
	-----	-----	-----
Net loss	\$191.0	\$10.0	\$201.0
	=====	=====	=====
Net loss per Common share	\$.94	\$.05	\$.99
	=====	=====	=====

3. Pending Disposition

On April 26, 1994, the Company announced that it entered into an agreement for the sale of The American Tobacco Company to B.A.T Industries, PLC for a price of \$1 billion, which would be largely tax free. The transaction is subject to review by government antitrust agencies and other conditions. The proceeds from the sale could be used for share purchases, debt reduction, strategic acquisitions or other general corporate purposes.

On April 26, 1994, the Company's subsidiary in the U.K., Gallaher Limited, agreed to the sale to B.A.T Industries, PLC of its Silk Cut trademark rights outside of Europe in exchange for a long-term manufacturing arrangement. This transaction is contingent upon the completion of the sale of The American Tobacco Company.

American Tobacco's revenues and operating income were as follows (in millions):

	Six Months Ended		Year Ended
	June 30,		December 31, 1993
	-----		-----
	1994	1993	
	-----	-----	

Revenues	\$782.1	\$826.9	\$1,501.5
	=====	=====	=====
Operating income	\$125.6	\$193.2	\$169.2
	=====	=====	=====

If the transaction is consummated, the estimated gain, which will be based on the carrying value of The American Tobacco Company at the date of closing, will be in the range of \$500 million, net of taxes, or about \$2.50 per share.

- 8 -

AMERICAN BRANDS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Acquisitions

During the fourth quarter of 1993, Whyte & Mackay, a subsidiary of Gallaher Limited, completed its acquisition of Invergordon Distillers Group PLC by purchasing the remaining 58.7% of the outstanding shares of Invergordon. In 1991, Whyte & Mackay acquired 41.3% of the outstanding shares of Invergordon. The aggregate cost of Invergordon of \$599.1 million, exceeded the fair value of net assets acquired by \$492.9 million. The financial statements for prior periods were not restated because the effect was not material. Operations, including the effect of the application of the equity method to prior periods, were consolidated from December 1, 1993.

On June 30, 1993, the Benson and Hedges cigarette trademark in Europe was acquired from B.A.T Industries, PLC in exchange for the assignment of the Lucky Strike and Pall Mall overseas cigarette trademarks, and \$107.2 million in cash, including expenses, and contingent future payments based on volumes. Results from the Benson and Hedges trademark were included in international tobacco from the date of acquisition. A pretax gain of \$25.5 million was recognized in domestic tobacco as a result of the assignment of the Lucky Strike and Pall Mall trademarks. Certain of the contingent payments were guaranteed and, accordingly, their present value was included in the initial \$183 million of intangibles recorded. Any payments in excess of the guarantees will also be amortized over periods not to exceed 40 years.

5. Inventories

The components of inventories are as follows (in millions):

	June 30, 1994	December 31, 1993
	-----	-----
Leaf tobacco	\$ 415.3	\$ 477.7
Bulk whiskey	364.5	359.3
Other raw materials, supplies and work in process	319.6	306.9
Finished products	666.5	899.3
	-----	-----
	\$1,765.9	\$2,043.2
	=====	=====

AMERICAN BRANDS, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. The Franklin Life Insurance Company

Summarized income statement data for Franklin (in millions):

	Six Months Ended June 30,		Three Months Ended June 30,	
	1994	1993	1994	1993
Revenues				
Premiums	\$221.8	\$218.5	\$112.2	\$117.4
Net investment income	238.1	230.2	118.9	114.0
Investment gains (losses)	(9.9)	39.4	(11.5)	21.0
Other income	34.4	21.1	17.5	14.9
	-----	-----	-----	-----
	484.4	509.2	237.1	267.3
	-----	-----	-----	-----
Insurance benefits	320.0	310.6	162.4	164.9
Advertising, selling and administrative expenses	96.5	89.1	47.0	46.8
Amortization of intangibles and present value of future profits	5.7	5.6	2.9	2.8
	-----	-----	-----	-----
	422.2	405.3	212.3	214.5
	-----	-----	-----	-----
Operating income	62.2	103.9	24.8	52.8
Income taxes	25.1	35.7	10.1	18.1
	-----	-----	-----	-----
Income before cumulative effect of accounting change	37.1	68.2	14.7	34.7
Cumulative effect of accounting change (net of income taxes of \$10.9)	-	(20.6)	-	-
	-----	-----	-----	-----
Net income	\$ 37.1	\$ 47.6	\$ 14.7	\$ 34.7
	=====	=====	=====	=====

AMERICAN BRANDS, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. The Franklin Life Insurance Company (Concluded)

Summarized cash flow data for Franklin (in millions):

Six Months Ended  
 June 30,  
 -----

	1994	1993
	-----	-----
Net cash provided from operating activities	\$ 194.4	\$ 169.8
Investing activities		
Additions to property and equipment	(1.9)	(3.3)
Purchase of investments	(535.8)	(1,213.0)
Proceeds from sale of investments	-	199.8
Proceeds from maturity and call of investments	400.7	729.4
Net cash used by investing activities	(137.0)	(287.1)
Financing activities		
Dividends to parent	(24.1)	(24.5)
Deposits on annuity and other financial products	170.9	203.7
Withdrawals of annuity and other financial products	(181.6)	(127.1)
Net cash (used) provided by financing activities	(34.8)	52.1
Net increase (decrease) in cash and cash equivalents	\$ 22.6	\$ (65.2)
	=====	=====

#### 7. Credit Facilities

The Company recently extended to June 15, 1999 the expiration dates of revolving credit agreements maintained by the Company with various banks providing for unsecured committed borrowings of up to \$4 billion, including \$1 billion in various Eurocurrencies. Other terms of the agreements remained unchanged.

- 11 -

#### AMERICAN BRANDS, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 8. Supplementary Profit and Loss Information

Federal and foreign excise taxes included in consumer products revenues (in millions):

	Six Months Ended June 30,		Three Months Ended June 30,	
	1994	1993	1994	1993
	-----	-----	-----	-----
International tobacco	\$1,949.8	\$2,073.0	\$ 921.5	\$611.6
Domestic tobacco	212.7	177.3	116.4	92.3
Distilled spirits	206.1	226.4	115.4	120.8
	-----	-----	-----	-----
	\$2,368.6	\$2,476.7	\$1,153.3	\$824.7
	=====	=====	=====	=====

Restructuring charges, net, for the six-month and three-month periods ended June 30, 1993 included workforce reduction provisions of

\$16.7 million in international tobacco and \$14 million in domestic tobacco, partly offset by a \$25.5 million gain in domestic tobacco on the assignment of trademarks.

The higher effective income tax rate for the six-month period ended June 30, 1994 reflected a higher U.S. income tax rate, this year's proportionally greater impact of nondeductible goodwill on reduced income and lower reversals of tax provisions no longer required. For the three-month period ended June 30, 1994, the lower effective income tax rate reflected higher reversals of tax provisions no longer required, partly offset by an increase in the U.S. income tax rate.

#### 9. Earnings Per Share

Earnings per Common share are based on the weighted average number of Common shares outstanding in each period and after preferred stock dividend requirements.

Fully diluted earnings per Common share assume that any convertible debentures and convertible preferred shares outstanding at the beginning of each period, or at their date of issuance, if later, were converted at those dates, with related interest, preferred stock dividend requirements and outstanding Common shares adjusted accordingly. It also assumes that outstanding Common shares were increased by shares issuable upon exercise of those stock options for which market price exceeds exercise price, less shares which could have been purchased by the Company with related proceeds.

- 12 -

AMERICAN BRANDS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Concluded)

#### 10. Pending Litigation

The American Tobacco Company subsidiary and other tobacco manufacturers are defendants in various actions based upon allegations that human ailments have resulted from tobacco use. It is not possible to predict the outcome of the pending litigation, and management is unable to make a reasonable estimate of the amount or range of loss that could result from an unfavorable determination of the pending litigation. It is possible that an unfavorable determination could have a material effect on the Company's results of operations and cash flows in a particular quarterly or annual period and could encourage the commencement of additional litigation. Management believes that there are meritorious defenses to the pending actions and that the pending actions will not have a material adverse effect upon the financial condition of the Company. These actions are being vigorously contested.

#### 11. Environmental

The Company is subject to laws and regulations relating to the protection of the environment. While it is not possible to quantify with certainty the potential impact of actions regarding environmental matters, particularly remediation and other compliance efforts that the Company's subsidiaries may undertake in the future, in the opinion of management, compliance with the present environmental protection laws, before taking into account estimated recoveries from third parties, will not have a material adverse effect on the Company's financial condition or results of operations.

#### 12. Subsequent Event

On July 12, 1994, the Company announced the sale of the Dollond & Aitchison Group PLC, a subsidiary of Gallaher Limited, for a total

consideration of 94 million pounds (\$146 million) which approximated the carrying value of the company.

- 13 -

REPORT OF INDEPENDENT ACCOUNTANTS

-----

To the Board of Directors of American Brands, Inc.:

We have reviewed the condensed consolidated balance sheet of American Brands, Inc. and Subsidiaries as of June 30, 1994, the related condensed consolidated statements of income for the three-month and six-month periods ended June 30, 1994 and 1993 and the related condensed consolidated statement of cash flows for the six-month periods ended June 30, 1994 and 1993. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet as of December 31, 1993, and the related consolidated statements of income, cash flows and Common stockholders' equity for the year then ended (not presented herein) and in our report dated February 1, 1994, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 1993, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

1301 Avenue of the Americas  
 New York, New York  
 August 11, 1994

- 14 -

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
 - ----- AND RESULTS OF OPERATIONS.

-----  
 AMERICAN BRANDS, INC. AND SUBSIDIARIES  
 -----

Results of Operations for Six Months Ended June 30, 1994 as Compared  
 to Six Months Ended June 30, 1993  
 -----

	Revenues		Operating Income	
	1994	1993	1994	1993
	-----			
	(In millions)			
Tobacco products				
International	\$2,545.7	\$2,704.7	\$218.0	\$209.7
Domestic	782.1	826.9	125.6	193.2
	-----	-----	-----	-----
Total Tobacco	3,327.8	3,531.6	343.6	402.9
	-----	-----	-----	-----
Distilled spirits	533.5	535.9	74.9	85.9
Life insurance	484.4	509.2	62.2	103.9
Hardware and home improvement products	598.3	518.6	86.2	76.3
Office products	465.6	444.9	21.6	19.3
Specialty businesses	1,116.6	1,043.4	61.2	59.0
	-----	-----	-----	-----
Total Nontobacco	3,198.4	3,052.0	306.1	344.4
	-----	-----	-----	-----
	\$6,526.2	\$6,583.6	\$649.7	\$747.3
	=====	=====	=====	=====

CONSOLIDATED  
 - -----

Revenues and operating income decreased 1% and 13%, respectively. Decreases in total tobacco products principally reflected a cigarette unit decline in international tobacco due to a change in timing of the U.K. government budget announcements, and price changes in domestic tobacco reflecting the industrywide price reductions in August 1993. Nontobacco revenues increased 5% on new products, price increases and the acquisition of Invergordon, partly offset by lower volume, principally at Beam, and an unfavorable change in investment gains/losses in life insurance. Nontobacco operating income decreased 11%, principally on the unfavorable change in investment gains/losses.

The increase in the effective income tax rate to 36.7% from 34.3% in 1993 reflected a higher U.S. income tax rate, this year's proportionally greater impact of nondeductible goodwill on reduced income and lower reversals of tax provisions no longer required.

Net income was \$313.1 million, or \$1.55 per Common share, for the six months ended June 30, 1994, compared to net income of \$197.4 million, or 98 cents per share, and income before accounting changes of \$398.4 million, or

- 15 -

AMERICAN BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
 FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)  
 -----

CONSOLIDATED (Concluded)

- -----  
\$1.97 per share, last year. Last year included a one-time charge related to the adoption of FAS Statements No. 106 and 112.

Although the second quarter results were encouraging, several conditions indicate that unfavorable overall profit comparisons may well result for the year 1994. In markets around the world competitive conditions remain intense. This will tend to continue the pressure on pricing and margins, particularly in tobacco and distilled spirits. Profit comparisons in life insurance are also likely to be difficult due to investment gains totaling \$53.2 million in the last half of 1993 and the added volatility from market fluctuations in valuing the trading securities portfolio. Domestic tobacco will continue to be adversely affected by last year's extraordinary changes in the industry, but quarterly profit comparisons should be easier during the remainder of 1994. In international tobacco, last year's third quarter benefited from buying by the trade in anticipation of a manufacturers' price increase, so quarterly comparisons may continue to be somewhat distorted and achieving full year growth will be challenging.

The American Tobacco Company subsidiary and other tobacco manufacturers are defendants in various actions based upon allegations that human ailments have resulted from tobacco use. It is not possible to predict the outcome of the pending litigation, and management is unable to make a reasonable estimate of the amount or range of loss that could result from an unfavorable determination of the pending litigation. It is possible that an unfavorable determination could have a material effect on the Company's results of operations and cash flows in a particular quarterly or annual period and could encourage the commencement of additional litigation. Management believes that there are meritorious defenses to the pending actions and that the pending actions will not have a material adverse effect upon the financial condition of the Company. These actions are being vigorously contested.

The Company is involved in proceedings concerning the discharge of materials into the environment and the handling, disposal and clean-up of waste materials and otherwise relating to the protection of the environment. As of August 10, 1994 various subsidiaries of the Company had been designated as potentially responsible parties under "Superfund" or similar state laws with respect to 39 sites. While it is not possible to quantify with certainty the potential impact of actions regarding environmental matters, particularly remediation and other compliance efforts that the Company's subsidiaries may undertake in the future, in the opinion of management compliance with the present environmental protection laws, before taking into account estimated recoveries from third parties, will not have a material adverse effect on the Company's competitive position, financial condition or results of operations.

- 16 -

AMERICAN BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)  
-----

Tobacco Products  
-----

Worldwide tobacco revenues decreased 6% and operating income declined 15%; total cigarette units increased 4.1%.

International tobacco revenues in sterling were down 7% on a 20.2% decrease in U.K. cigarette unit sales, partly offset by price increases principally resulting from higher U.K. tobacco taxes and a substantial unit increase in export sales, mainly on increased periodic shipments to the CIS and the inclusion of Benson and Hedges shipments to Europe. U.K. cigarette industry volume declined 14% and the underlying consumer demand is estimated to have declined in the area of 4.1%. A change in the timing of the U.K. budget announcements has significantly impacted U.K. cigarette unit sales. The November 30, 1993 U.K. Budget announcement had the effect

of drawing sales into the fourth quarter of 1993 from 1994's first quarter. Additionally, the March 1993 Budget generated advance trade buying that is still affecting six month comparisons. These adverse effects were partly offset by manufacturers' price increases ("MPI") in April 1994 and August 1993 and trade buying in advance of the April 1994 MPI. Operating income in sterling increased 3% primarily on reduced marketing costs as last year included significant expenditures associated with the launch in January 1993 of Benson and Hedges Superkings. In dollars, revenues declined 6% and operating income increased 4%.

Domestic tobacco revenues declined 5% reflecting the August 1993 list price reductions, partly offset by increased volume and new products. American Tobacco's U.S. unit shipments increased 14.2% while industry shipments increased 9.8%. American Tobacco increased its market share for the six months (7.15% from 6.88% last year) while market share for the latest twelve months remained stable. Unit sales of the more profitable premium brands increased 4.9%, but continue to lag the industry's performance. The industry's less profitable price-value category, comprising discount and deep discount brands, accounted for approximately 37% of the market in 1993 and about 33% in the first six months of 1994. Price-value brands accounted for 56% of American Tobacco's U.S. unit sales in this year's first six months, compared to 52% in 1993's like period. American Tobacco's price-value brands increased 22.8% as discount and deep discount brands increased 32.3% and 6.5%, respectively. The discount brand increase reflected a strong performance by Montclair and Misty while the deep discount increase largely reflected the introduction of Summit in March 1993. Operating income declined 35% reflecting the lower prices, a less favorable product mix and unfavorable comparison to last year's gain on the assignment of trademarks, partly offset by volume increases, lower marketing and administrative expenses, as well as the favorable effects of workforce reductions.

Profit comparisons for domestic tobacco should be easier in the second half and the Company is hopeful that full year operating income for American Tobacco will exceed the 1993 result. Domestic tobacco will continue to be consolidated in American Brands' results pending consummation of the sale of The American Tobacco Company to B.A.T Industries, PLC.

- 17 -

AMERICAN BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Tobacco Products (Concluded)

U.S. federal excise taxes on cigarettes increased four cents per pack on January 1, 1991 and 1993. The Clinton administration has proposed increasing the tax on cigarettes from 24 cents to 99 cents per pack. Legislation has also been introduced in the U.S. Congress that would increase excise taxes on cigarettes substantially more than the administration's proposed increase. U.K. tobacco taxes increased by 11 pence and 10 pence per pack in November and March 1993, respectively, the fourth consecutive year of increases. The likelihood and effects of any future tax increases cannot be determined but would likely add to the overall industry declines and the shift to lower priced brands.

Congressional hearings have been held to determine the appropriateness of FDA regulation of cigarettes due to nicotine content, and extensive publicity has occurred relative to cigarette ingredients. The industry has released lists of cigarette ingredients.

A Florida statute, which took effect July 1, 1994, would permit the state to sue manufacturers to recover medicaid costs for individuals claiming product-related illnesses. In such actions, the state would be permitted to rely upon evidence showing injury to be statistically associated with that product. The state would not have to prove that the medicaid recipient used the particular manufacturer's product; rather, the legislation would impose liability on the basis of a manufacturer's "market share." Manufacturers would be precluded from asserting various defenses against liability. While the measure does not mention the tobacco industry by name, supporters of the legislation have been reported as saying that

tobacco manufacturers are the target of the legislation. On July 10, 1994, the governor of Massachusetts signed legislation authorizing the state's attorney general to sue cigarette manufacturers to recover medical assistance payments made by the state to individuals for which the cigarette manufacturers may be liable. Other states are considering legislation authorizing the recovery of medical assistance that they have provided as well as considering the commencement of actions seeking such recovery. It is not possible to predict the impact of such legislation or actions on American Tobacco or the industry.

Distilled Spirits  
- -----

Worldwide revenues declined slightly and operating income declined 13%.

Beam's revenues were down 9%, principally on lower domestic volume due to a reduction in wholesale customers' inventory levels, partly offset by a 33% increase in international revenues. With a continuing consolidation of distilled spirits wholesalers and retailers, Beam has increased its focus on retail point of sale and encouraged its wholesale customers in the first quarter to draw down their inventories. Total branded case sales were down 8% reflecting a 14.2% decline in domestic branded case sales tempered by a 22.8% increase in international. Operating income declined 11% as a result

- 18 -

AMERICAN BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)  
-----

Distilled Spirits (Concluded)  
- -----

of the reduced volume, effects of competitive pricing pressures in the domestic market and higher international selling costs related to market development, partly offset by reduced domestic media advertising.

Whyte & Mackay's revenues in sterling increased 39% on the inclusion of Invergordon, consolidated beginning December 1, 1993. Total unit volume was up 126.7%. Excluding Invergordon, U.K. and total volume declined 16.2% and 10.5%, respectively, reflecting a more competitive environment. Operating income in sterling declined 43% as last year included a dividend from Invergordon. Excluding the dividend, operating income was up 54% on the inclusion of Invergordon.

There is likely to be continuing volatility in quarter-to-quarter comparisons through the year related to changing trade practices at Beam and last year's acquisition of Invergordon.

Life Insurance  
- -----

Revenues declined 5% reflecting an unfavorable change in investment gains/losses, partly offset by higher commissions and allowances on group life and health reinsurance, net investment income and premiums. The \$49.3 million unfavorable change in investment gains/losses reflected an unfavorable change in gains/losses from equity securities (partly resulting from adoption of FAS Statement No. 115) and substantially lower gains from high coupon bond redemptions. Although investment gains/losses and redemptions are dependent on market conditions and cannot be predicted, bond redemption gain comparisons are likely to be unfavorable for the remainder of the year. FAS Statement No. 115, which requires inclusion of market fluctuations on the trading portfolio in income, may continue to add increased volatility to future results. Operating income declined 40%, principally reflecting the unfavorable change in investment gains/losses. Excluding the investment gains/losses, operating income increased 12% on higher revenues and lower death benefits and dividends to policyholders, partly offset by higher policy reserves and selling and administrative expenses.

Hardware and Home Improvement Products

Record revenues increased 15% on new products, line extensions, volume gains and price increases. All four companies in the group achieved record revenues. The major contributors with substantial increases were Moen, up on volume gains and a favorable product mix, and Aristokraft, up on price and volume increases. Record operating income was up 13% on revenue gains, partly offset by higher raw material costs at Aristokraft, increased advertising at Moen and higher administrative expenses.

- 19 -

AMERICAN BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Office Products

Revenues increased 5% on benefits from new products as well as increases in volume and prices, partly offset by an unfavorable foreign exchange effect. ACCO continued to achieve significant share increases in the fast-growing retail channels and is well positioned for further growth. Operating income increased 12% principally on volume gains and improved operating margins.

Specialty Businesses

Specialty businesses revenues were as follows (in millions):

	Six Months Ended June 30,	
	1994	1993
Golf and leisure products	\$ 301.4	\$ 269.3
Optical goods and services	177.9	189.0
Retail distribution	650.4	653.8
Housewares	41.0	48.2
Rubber products	28.8	27.6
Other	3.0	3.6
	-----	-----
	1,202.5	1,191.5
Less intersegment elimination	85.9	148.1
	-----	-----
	\$1,116.6	\$1,043.4
	=====	=====

Revenues and operating income increased 7% and 4%, respectively.

Record golf and leisure products revenues and operating income were up 12% and 14%, respectively. The increases primarily resulted from new golf ball products and volume gains. Operating income was also impacted by increased marketing and administrative expenses.

In sterling, operating income from foreign businesses declined 44%. Optical and retail distribution were down 41% and 21%, respectively, on the effects of volume declines, partly offset by price increases and lower marketing and administrative expenses. In dollars, the operating income percent change approximated the sterling result.

The optical goods and services group was sold on July 12, 1994. See note 12, Notes to Condensed Consolidated Financial Statements.

- 20 -

AMERICAN BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)  
-----

LIQUIDITY AND CAPITAL RESOURCES  
-----

Net cash provided from operating activities of \$1 billion for the period ended June 30, 1994 increased \$466.9 million and exceeded the funds required for capital expenditures and dividends by \$732.2 million. The increase was largely attributable to the shift in international tobacco's sales pattern resulting from the timing of the U.K. budget announcements in 1993. The shift in sales pattern impacted accounts receivable, accrued excise taxes and inventories.

Net cash used by investing activities for the period ended June 30, 1994 was \$214.6 million compared with \$491.2 million in 1993, principally reflecting lower insurance investment activity and lower acquisition activity.

In addition, the adoption of FAS Statement No. 115 has affected both the operating and investing activities by classifying the transactions relating to trading securities as operating activities, whereas prior to 1994 these transactions were classified as investing activities.

Net cash used by financing activities for the period ended June 30, 1994 was \$738.1 million compared to \$94.8 million in 1993, reflecting higher repayments.

Total debt at June 30, 1994 aggregated \$3.2 billion, a decrease of \$480.6 million from December 31, 1993 principally due to the timing of international tobacco's receipts related to the November 1993 U.K. pre-budget buy-in. The ratio of total debt to total capital decreased from 46.2% at December 31, 1993 to 42.0% at June 30, 1994.

The Company recently extended to June 15, 1999 the expiration dates of revolving credit agreements maintained by the Company with various banks providing for unsecured committed borrowings of up to \$4 billion, including \$1 billion in various Eurocurrencies. Other terms of the agreements remained unchanged.

The Company believes that its internally generated funds, together with its access to global credit markets, are more than adequate to meet its capital needs.

Proceeds from the sale of The American Tobacco Company, if consummated, could be used for share purchases, debt reduction, strategic acquisitions or other general corporate purposes. For further information regarding the pending sale of American Tobacco, see note 3, Notes to Condensed Consolidated Financial Statements.

- 21 -

AMERICAN BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)  
-----

Results of Operations for Three Months Ended June 30, 1994 as Compared  
to Three Months Ended June 30, 1993  
-----

Revenues		Operating Income	
1994	1993	1994	1993
-----	-----	-----	-----

(In millions)

Tobacco products				
International	\$1,215.4	\$ 815.4	\$ 92.9	\$ 44.6
Domestic	405.6	419.4	70.2	90.7
	-----	-----	-----	-----
Total Tobacco	1,621.0	1,234.8	163.1	135.3
	-----	-----	-----	-----
Distilled spirits	292.9	289.3	44.8	46.5
Life insurance	237.1	267.3	24.8	52.8
Hardware and home improvement products	309.0	259.8	45.2	39.3
Office products	232.7	216.5	7.3	6.2
Specialty businesses	585.3	578.3	36.2	36.4
	-----	-----	-----	-----
Total Nontobacco	1,657.0	1,611.2	158.3	181.2
	-----	-----	-----	-----
	\$3,278.0	\$2,846.0	\$321.4	\$316.5
	=====	=====	=====	=====

CONSOLIDATED

Record revenues increased 15% and operating income was up 2%. Increases in total tobacco products principally reflected higher volume in both international and domestic tobacco (total cigarette units were up 37.1%), partly offset by price changes in domestic tobacco reflecting the industrywide price reductions in August 1993. Nontobacco revenues were up 3% on new products, increases in volume and prices, principally in hardware and home improvement products, and the acquisition of Invergordon, partly offset by an unfavorable change in investment gains/losses in life insurance. Nontobacco operating income decreased 13% principally on the unfavorable change in investment gains/losses.

The decrease in the effective income tax rate to 31.3% from 36% in 1993 reflected higher reversals of tax provisions no longer required, partly offset by an increase in the U.S. income tax rate.

Net income of \$163.9 million, or 81 cents per Common share, was up 8%.

- 22 -

AMERICAN BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Tobacco Products

Record worldwide tobacco revenues increased 31% and operating income increased 21%; total cigarette units increased 37.1%.

International tobacco revenues in sterling were up 51% in part due to a 44.2% increase in U.K. cigarette unit sales reflecting the March 1993 U.K. Budget announcement which pulled volume from 1993's second quarter into the first quarter (U.K. cigarette industry volume increased 53%) and price increases principally resulting from higher U.K. tobacco taxes. Revenues also increased as a result of a substantial unit increase in export sales, mainly on increased periodic shipments to the CIS and the inclusion of Benson and Hedges shipments to Europe. Operating income in sterling increased 111% on the cigarette volume gain, partly offset by higher marketing costs, principally on increased support for Benson and Hedges Special Filter, as well as export expansion in Europe and the CIS. In dollars, revenues and operating income percent changes approximated the sterling result.

Domestic tobacco revenues declined 3% reflecting the August 1993 list price reductions, largely offset by increased volume. American Tobacco's U.S. unit shipments increased 14.6% and industry shipments increased 11.1%.

American Tobacco's market share for the second quarter increased to 7.11% from 6.89% in last year's second quarter. Unit sales of the more profitable premium brands increased 8.1% in the quarter, but continue to lag the industry's performance. The industry's less profitable price-value category, comprising discount and deep discount brands, accounted for about 32% of the market during the second quarter of 1994. Price-value brands accounted for 57% of American Tobacco's U.S. unit sales in the second quarter, compared to 54% in last year's second quarter. American Tobacco's price-value brands increased 20% as discount and deep discount brands increased 30.6% and 2.4%, respectively. The discount brand increase reflected a strong performance by Montclair and Misty. The deep discount increase reflected higher unit sales of Summit and Prime. Operating income decreased 23% reflecting the lower prices, a less favorable product mix and unfavorable comparison to last year's gain on the assignment of trademarks, partly offset by volume increases, lower marketing expenses and favorable effects of workforce reductions.

- 23 -

AMERICAN BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Distilled Spirits  
- -----

Worldwide revenues increased 1%, while operating income declined 4%.

Beam's revenues decreased 7%. Total branded case sales were down 7.1% as a 12.9% decline in domestic was partly offset by a 22.4% increase in international. Revenues have been adversely affected by the company encouraging its wholesale customers in the first quarter to reduce their inventories. Operating income increased 2% through lower domestic marketing expenses as well as the very strong performance internationally offset in part by competitive pricing pressures in the domestic market.

Whyte & Mackay's revenues in sterling increased 43% on the inclusion of Invergordon, consolidated beginning December 1, 1993. Total unit volume was up 140.2%. Excluding Invergordon, U.K. and total volume declined 11.7% and 4.4%, respectively, reflecting a more competitive environment. Operating income in sterling decreased 67% on lower volume, unfavorable product mix, higher operating expenses and last year's inclusion of a dividend from Invergordon. Excluding the dividend, operating income was up 80% on the inclusion of Invergordon.

Life Insurance  
- -----

Revenues were down 11% reflecting an unfavorable change in investment gains/losses and lower premiums, partly offset by increased investment income. The \$32.5 million unfavorable change in investment gains/losses principally reflects substantially lower gains from high coupon bond redemptions and higher losses from equity securities (partly resulting from adoption of FAS Statement No. 115). Premiums decreased 4% as lower group annuities related to pension buy-outs were partly offset by higher life premiums. The increase in net investment income reflects a larger invested asset base. Operating income declined 53% reflecting the unfavorable change in investment gains/losses. Excluding the investment gains/losses, operating income increased 14% on higher revenues and lower death benefits

and dividends to policyholders.

Hardware and Home Improvement Products  
-----

Record revenues increased 19% on new products, line extensions, volume gains and price increases. All four companies in the group achieved record revenues. The major contributors with substantial increases were Moen, up on volume gains and a favorable product mix and Aristokraft, up on price and volume increases. Record operating income was up 15% on revenue gains, partly offset by higher marketing costs at Moen.

- 24 -

AMERICAN BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Concluded)  
-----

Office Products  
-----

Record revenues were up 7% on volume gains and new products, partly offset by an unfavorable foreign exchange effect. All operating groups reported higher revenues, most significantly ACCO North America and Australia. ACCO continued to achieve share increases in the fast-growing retail channels. Operating income was up 18% mainly on volume gains and the benefits from ongoing cost reductions, partly offset by higher operating expenses in North America to improve customer service levels and expand channels of distribution.

Specialty Businesses  
-----

Specialty businesses revenues were as follows (in millions):

	Three Months Ended June 30,	
	1994	1993
Golf and leisure products	\$167.9	\$147.4
Optical goods and services	94.2	98.2
Retail distribution	316.9	321.3
Housewares	20.8	24.6
Rubber products	14.7	14.2
Other	1.4	1.7
	-----	-----
	615.9	607.4
Less intersegment elimination	30.6	29.1
	-----	-----
	\$585.3	\$578.3
	=====	=====

Revenues increased 1% and operating income decreased slightly.

Record golf and leisure products revenues and operating income were up 14%. The increases primarily resulted from new golf ball products and volume gains. Operating income was also impacted by increased marketing and administrative expenses.

In sterling, operating income from foreign businesses declined 62%. Optical and retail distribution were down 27% and 55%, respectively, on the effects of volume declines, partly offset by price increases and lower marketing and administrative expenses. In dollars, the operating income percent change approximated the sterling result.

AMERICAN BRANDS, INC. AND SUBSIDIARIES  
 Computation of Net Income Per Common Share -  
 Primary and Fully Diluted (Unaudited)

(In millions)

	Six Months Ended June 30,	
	1994	1993
Income before cumulative effect of accounting changes	\$313.1	\$398.4
Preferred stock dividend requirements	(0.7)	(0.8)
Income available before accounting changes for computing earnings per Common share - primary	312.4	397.6
Cumulative effect of accounting changes	-	(201.0)
Net income for computing earnings per Common share - primary	\$312.4	\$196.6
Income available before accounting changes for computing earnings per Common share - primary	\$312.4	\$397.6
Convertible preferred stock dividend requirements	0.7	0.8
Interest expense and related charges on convertible debentures	10.7	10.9
Income available before accounting changes for computing earnings per Common share - fully diluted	323.8	409.3
Cumulative effect of accounting changes	-	(201.0)
Net income for computing earnings per Common share - fully diluted	\$323.8	\$208.3

Computation of Weighted Average Number of  
 Common Shares Outstanding on a Fully Diluted Basis (Unaudited)

(In millions, except per share amounts)

Six Months Ended  
 June 30,

	----- 1994 ----	1993 ----
Weighted average number of Common shares outstanding during each period - primary	201.8	201.8
Addition from assumed conversion as of the beginning of each period of the convertible preferred stock outstanding at the end of each period	2.2	2.4
Addition from assumed conversion of convertible debentures	9.3	9.4
Other additions	0.2	0.3
	-----	-----
Weighted average number of Common shares outstanding during each period on a fully diluted basis	213.5 =====	213.9 =====
Earnings per Common share		
Primary		
Income before cumulative effect of accounting changes	\$1.55	\$1.97
Cumulative effect of accounting changes	-	(.99)
Net income	\$1.55 =====	\$ .98 =====
Fully diluted		
Income before cumulative effect of accounting changes	\$1.52	\$1.91
Cumulative effect of accounting changes	-	(.95)
Net income	\$1.52 =====	\$ .96 =====

- 27 -

PART I - EXHIBIT A (Concluded)  
-----

AMERICAN BRANDS, INC. AND SUBSIDIARIES  
Computation of Net Income Per Common Share -  
Primary and Fully Diluted (Unaudited)  
-----

(In millions)

	Three Months Ended June 30, -----	
	1994 -----	1993 -----
Net income	\$163.9	\$151.3
Preferred stock dividend requirements	(0.4)	(0.4)
Net income for computing earnings per Common share - primary	163.5	150.9
Convertible preferred stock dividend requirements	0.3	0.4
Interest expense and related charges on convertible debentures	5.4	5.5
	-----	-----
Net income for computing earnings per Common		

share - fully diluted	\$169.2	\$156.8
	=====	=====

Computation of Weighted Average Number of  
Common Shares Outstanding on a Fully Diluted Basis (Unaudited)

-----  
(In millions, except per share amounts)

Weighted average number of Common shares outstanding during each period - primary	201.8	201.7
Addition from assumed conversion as of the beginning of each period of the convertible preferred stock outstanding at the end of each period	2.2	2.4
Addition from assumed conversion of convertible debentures	9.3	9.4
Other additions	0.1	0.2
	-----	-----
Weighted average number of Common shares outstanding during each period on a fully diluted basis	213.4	213.7
	=====	=====
Earnings per Common share		
Primary	\$.81	\$.75
	=====	=====
Fully diluted	\$.80	\$.73
	=====	=====

- 28 -

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

-----

(a) (i) The American Tobacco Company ("ATCO") and other leading tobacco manufacturers have been sued by parties seeking damages for cancer and other ailments claimed to have resulted from tobacco use and by certain asbestos manufacturers seeking unspecified amounts in indemnity or contribution in third-party actions against all or most of the major domestic tobacco manufacturers. At August 10, 1994, ATCO or ATCO's predecessor had disposed of 238 actions, and the industry a total of 428, all without recovery by the plaintiffs or by the third-party plaintiffs. Although there was a jury award which was overturned on appeal against another tobacco manufacturer in the Cipollone case, discussed below, there has been no actual recovery of damages to date in any such action against the tobacco manufacturers; however, unfavorable decisions in other cases could increase filing of additional actions against the tobacco manufacturers, which would add to the high cost of defending such litigation as well as increase the defendants' damage exposure. It has been reported that certain groups of attorneys are interested in promoting product liability and other types of tobacco and health suits against the tobacco manufacturers.

Eighteen cases have come to trial, all against manufacturers as direct defendants. Sixteen of such cases resulted in judgments for the defendant or defendants. At August 10, 1994, ATCO was a defendant in 35 pending cases. In two cases, ATCO has been joined as a defendant with members of the asbestos industry and it is alleged that the combination of smoking and exposure to asbestos produced injury and death. In one case in which ATCO is a defendant, Butler, et al. v. R.J. Reynolds Tobacco Co., et al. (described under paragraph (a)(i) of Item 3, "Legal Proceedings", of Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1993), plaintiffs are seeking damages for alleged injuries claimed to have resulted from exposure to tobacco smoking of others. Although the case is currently scheduled to come to trial on November 28, 1994, plaintiffs have filed a motion to dismiss this action and have filed a wrongful death action asserting many of the same claims in the Circuit Court of Jones County, Mississippi. In Wilkes, et al. v. The American Tobacco Company, et al. (described under paragraph (a)(i) of Item 3, "Legal Proceedings", of Registrant's Annual Report on Form 10-K for the fiscal

year ended December 31, 1993), the jury found in favor of the defendants on June 17, 1993. Plaintiffs have appealed from the judgment entered on the jury verdict and from the trial court's denial of their request to seek "lifetime damages" unrelated to the cause of death and their request to seek punitive damages. ATCO has cross-appealed from the trial court's pretrial ruling regarding "absolute liability" and the court's ruling striking defendants' affirmative defenses. In *Horton, et al. v. The American Tobacco Company, et al.* (described under paragraph (a)(i) of Item 3, "Legal Proceedings", of Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1993), on September 24, 1990, the jury found "for the plaintiffs against [T]he American Tobacco Company and against New Deal Tobacco and Candy Company, Inc. and assess[ed] actual damages at \$0." Plaintiffs have appealed from the judgment entered on the jury verdict and from the court's denial of their post-trial motion for, alternatively, an additur on damages, a new trial on the issue of damages or a new trial on

- 29 -

Item 1. LEGAL PROCEEDINGS. (continued)

all issues. ATCO has cross-appealed from the judgment and from the court's order denying its motion for judgment notwithstanding the verdict. Oral argument on the appeals took place before the Mississippi Supreme Court on August 17, 1993.

In *Broin, et al. v. Philip Morris Companies Inc., et al.* (described under paragraph (a)(i) of Item 3, "Legal Proceedings", of Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1993), certain airline flight attendants are seeking unspecified compensatory and \$5 billion punitive damages for alleged injuries claimed to have resulted from exposure to tobacco smoking of others and are seeking to establish class-action status on behalf of other alleged nonsmoking flight attendants. It has also been reported that other claims against the tobacco manufacturers may be made seeking damages for alleged injuries claimed to have resulted from exposure to tobacco smoking of others.

Additional purported "class actions" have been filed against ATCO and other leading tobacco manufacturers. In *Castano, et al. v. The American Tobacco Company, et al.* (described in Part II, Item 1(a)(i) of Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1994), plaintiffs have asserted an alleged class action claiming that defendants caused members of the purported class to become "addicted" to cigarettes through manipulation of nicotine levels. The alleged class consists of all residents or domiciliaries of the United States who claim to be "addicted" to cigarettes, as well as survivors who claim that their decedents were injured by their "addiction" to tobacco products. Plaintiffs seek equitable relief as well as compensatory and punitive damages. In *Allman, et al. v. The American Tobacco Company, et al.* (described in Part II, Item 1(a)(i) of Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1994), plaintiffs have asserted an alleged class action under the Racketeer Influenced and Corrupt Organizations Act on behalf of all persons in the United States who have become "addicted" to defendants' cigarette products and who have or who will in the future be prescribed a "nicotine patch" to help them break their purported "addiction." Plaintiffs are seeking treble compensatory damages for amounts expended for "nicotine patches and associated medical services," as well as unspecified injunctive relief. In *Engle, et al. v. RJ Reynolds Tobacco Company, et al.* (described in Part II, Item 1(a)(i) of Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1994), plaintiffs claim to represent all United States citizens and residents, as well as their survivors, who have suffered or died from diseases allegedly caused by smoking cigarettes containing nicotine. Plaintiffs seek compensatory damages in excess of \$100 billion as well as punitive damages in excess of \$100 billion. Plaintiffs additionally seek equitable relief, including the establishment of a medical fund for future healthcare costs. It has been reported in the press that a purported class action was filed in June 1994 in the United States District Court for the Southern District of California.

In *Moore v. The American Tobacco Company, et al.*, described below, the Mississippi State Attorney General has filed an equitable action which, inter alia, seeks restitution from tobacco companies of expenditures by the state for the medical care provided to Mississippi citizens for

Item 1. LEGAL PROCEEDINGS. (continued)

- -----

alleged "tobacco-related diseases." It has been reported that other states are considering filing similar lawsuits.

ATCO's counsel, Chadbourne & Parke, have advised that, in their opinion, the specified damages claimed in pending actions against ATCO, which approximate \$209,605,685,000 in the aggregate, are exaggerated.

In Cordova v. Liggett Group Inc., et al. (described under paragraph (a)(i) of Item 3, "Legal Proceedings", of Registrant's Annual Report on form 10-K for the fiscal year ended December 31, 1993), plaintiffs are seeking injunctive relief and restitution on behalf of the general public of the State of California for defendants' claimed failure to disclose to the public information regarding research relating to smoking and health sponsored by The Council for Tobacco Research, an organization whose members include ATCO and other cigarette manufacturers. Plaintiff's complaint in Cordova references the opinion filed February 6, 1992 by Judge Sarokin of the United States District Court for the District of New Jersey in the case of Haines v. Liggett Group Inc., et al., to which ATCO is not a party. In that opinion, Judge Sarokin ruled that plaintiff had made sufficient showing of evidence to warrant disclosure under the crime-fraud exception to the attorney-client privilege of documents regarding research relating to smoking and health sponsored by The Council for Tobacco Research which the defendants in that case had claimed were protected from discovery by plaintiff. Defendants in Haines sought appellate review of Judge Sarokin's February 6, 1992 opinion. On September 4, 1992, the United States Court of Appeals for the Third Circuit granted defendant's petition for writ of mandamus and directed that Judge Sarokin's February 6, 1992 ruling be vacated and that the case be remanded and assigned to another District Court judge. The opinion of the Court of Appeals also stated that the District Court judge to whom the case is reassigned on remand may reconsider the magistrate judge's order stating that the crime-fraud exception did not apply, which order had been reversed by Judge Sarokin's ruling, or alternatively may remand the proceedings to the magistrate judge for his reconsideration. On September 14, 1992, Judge Sarokin, as directed, vacated his February 6, 1992 opinion and orders in Haines. Plaintiff's allegations in Haines may be similar to allegations which have been made in other actions in which ATCO is a defendant. ATCO has been advised that the United States Attorney for the Eastern District of New York has commenced a criminal investigation in connection with activities relating to The Council for Tobacco Research following the February 6, 1992 opinion in Haines. It is not possible to predict the outcome of the investigation.

Another case, Cipollone v. Liggett Group, Inc., et al., tried against manufacturers other than ATCO, resulted in a jury award of \$400,000 against one of three defendants on a theory of breach of warranty. On January 5, 1990, the jury award in Cipollone was reversed and remanded for a new trial by the United States Court of Appeals for the Third Circuit. Plaintiff petitioned the United States Supreme Court to review that ruling. As described below, on June 24, 1992, the Supreme Court reversed in part and affirmed in part the ruling of the Court of Appeals. The Cipollone case was tried before Judge Sarokin. On September 11, 1992, following the September 4, 1992 decision of the United States Court of Appeals for the

Item 1. LEGAL PROCEEDINGS. (continued)

- -----

Third Circuit in Haines discussed above, Judge Sarokin removed himself from the Cipollone case. On November 5, 1992, plaintiff voluntarily dismissed the Cipollone case with prejudice. Counsel for plaintiff in Cipollone also represented the plaintiffs in Smith, et al. v. R.J. Reynolds Tobacco Co., et al. (described under paragraph (a)(i) of Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1993) and the plaintiff in Haines. On December 2, 1992, plaintiffs' counsel in Smith filed a motion to withdraw as counsel of record; that motion was granted on January 8,

1993. Plaintiffs appealed the ruling. On August 9, 1993, the Appellate Division of the New Jersey Superior Court vacated the lower court's ruling which had permitted plaintiffs' counsel to withdraw. The appellate court directed that the trial court convene a hearing on plaintiffs' counsel's motion to withdraw. Plaintiff's counsel in Haines also sought to withdraw and be substituted by new counsel. The motion to withdraw in Haines, however, was denied by United States District Judge Lechner on January 26, 1993. Counsel appealed. Argument on that appeal was heard before the Court of Appeals for the Third Circuit on September 22, 1993.

On June 24, 1992, the Supreme Court reversed in part and affirmed in part the ruling of the Court of Appeals for the Third Circuit in Cipollone. The Supreme Court held that the 1965 version of the Labeling Act did not preempt lawsuits seeking money damages for personal injuries allegedly caused by cigarette smoking. The Supreme Court further held that the Public Health Cigarette Smoking Act of 1969, which, among other things, amended the preemption provision of the 1965 version of the Labeling Act effective July 1, 1969, preempts such lawsuits based on alleged failure to warn and the neutralization of the federally mandated warnings to the extent that those claims rely on omissions or inclusions in cigarette advertising or promotions, but that the 1969 version of the Labeling Act does not preempt claims based on alleged breach of express warranty, or certain claims based on intentional fraud and misrepresentation or conspiracy.

In addition, legislation has been introduced in the United States Congress that if enacted would limit the effect of the preemption provisions of the Labeling Act. It is not possible to predict whether or not the Supreme Court's decision in Cipollone will affect, or whether or not the enactment of any such legislation would affect, filing of additional actions against tobacco manufacturers and, as a result, litigation costs and defendant's damage exposure.

ATCO has received a civil investigative demand from the U.S. Department of Justice, Antitrust Division, seeking the production of documents relating to matters including "fire-safe or self-extinguishing cigarettes". The civil investigative demand states that it has been issued in the course of an investigation to determine whether there is or has been a violation of Section 1 of the Sherman Act. It is not possible to predict the outcome of the investigation.

While it is not possible to predict the outcome of pending litigation, management of Registrant does not believe that, based on failure of recovery to date except as noted above and the advice of counsel, the pending litigation will have a material adverse effect on

- 32 -

Item 1. LEGAL PROCEEDINGS. (continued)

-----  
Registrant's financial condition. If, however, there were to be a significant increase in such litigation, the increased financial burden could be material. See note 10 "Pending Litigation" in the Notes to Condensed Consolidated Financial Statements set forth in Part I, Item 1 of this Quarterly Report on Form 10-Q, which note is incorporated herein by reference.

ATCO's counsel have advised that, in their opinion, on the basis of their investigations generally with respect to suits and claims of this character, ATCO has meritorious defenses to the above-mentioned actions and threatened actions. The actions will be vigorously defended on the merits.

With regard to proceedings of the above-described type terminated since April 1, 1994, four cases have been dismissed in addition to those whose termination was previously reported in Part II, Item 1(a) of Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1994: Voth v. Forsyth Tobacco Products, et al., which was previously pending in the United States District Court for the District of Oregon and instituted on August 10, 1993, was dismissed with prejudice on May 31, 1994; Haight v. The American Tobacco Company, et al., which was previously pending in the Circuit Court of Kanawha County, State of West Virginia and instituted on May 30, 1984, was dismissed without prejudice on June 1, 1994; Rothgeb, et al. v. The American Tobacco Company, et al.,

which was previously pending in the District Court of Travis County, State of Texas and instituted on June 9, 1986, was voluntarily dismissed with prejudice on June 2, 1994; and Dyer, et al. v. American Tobacco Company, Inc., et al., which was previously pending in the District Court of Travis County, State of Texas and instituted on December 20, 1985, was voluntarily dismissed with prejudice on July 5, 1994. One case, Higley v. Philip Morris, Inc., et al., which was previously pending in the United States District Court for the Southern District of California and instituted on March 31, 1994, was consolidated with Allman v. Philip Morris, Inc., et al. on April 29, 1994.

With regard to proceedings of the above-described type initiated since April 1, 1994, eight new cases have been filed: Estate of Burl Butler v. Philip Morris, Inc., et al., Circuit Court of Jones County, State of Mississippi, May 12, 1994; Moore v. The American Tobacco Company, et al., United States District Court for the Southern District of Mississippi, May 23, 1994; Burton v. R. J. Reynolds Tobacco Co., et al., United States District Court for the District of Kansas, May 25, 1994; Collins v. R.J. Reynolds Tobacco Company, et al., United States District Court for the District of South Carolina, June 2, 1994; Jensen v. American Brands, United States District Court for the Eastern District of Michigan, June 9, 1994; Tompkins v. American Brands, Inc., et al., United States District Court for the Northern District of Ohio, June 24, 1994; Jacks v. The American Tobacco Company, et al., Circuit Court of Washington County, State of Mississippi, June 30, 1994; and Gilboy v. R.J. Reynolds Tobacco Company, et al., United States District Court for the Middle District of Louisiana, August 1, 1994.

(ii) Reference is made to the discussion in paragraph (a)(ii) of Item 3, "Legal Proceedings", of Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1993 and Part II, Item 1(a)(i) of

- 33 -

Item 1. LEGAL PROCEEDINGS. (concluded)

-----  
Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1994. An application for Judicial Review of the refusal to grant to approximately 225 prospective plaintiffs legal aid to prepare and file smoking and health lawsuits against tobacco manufacturers, including Gallaher, has been decided. At a hearing in the High Court of Justice on April 22, 1994, Mr. Justice Turner ruled that the tobacco manufacturers, including Gallaher, were not entitled to participate in the judicial review proceedings as parties "directly affected" within the meaning of Order 53 of the Rules of the Supreme Court. On or about June 2, 1994, Justice Popplewell ruled that the Legal Aid Board had applied inconsistent procedural standards in refusing to grant 225 prospective plaintiffs legal aid and recommended their applications for reconsideration.

(b) Reference is made to the discussion of People of the State of California ex rel. Daniel E. Lungren, Attorney General of the State of California v. American Standard, et al., and the related action, Natural Resources Defense Council, et al. v. Price Pfister, Inc., et al., in paragraph (d) of Item 3, "Legal Proceedings", of Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1993. The plaintiffs in both actions moved for injunctive relief to require certain of the defendants to provide prescribed warnings. In Natural Resources Defense Council, the court refused to issue any order regarding the motion pending resolution of defendants' demurrer challenging plaintiffs' standing to bring the action, which demurrer was filed on April 16, 1993. By order dated May 10, 1994, the court ruled that the plaintiffs, the Natural Resources Defense Council and the Environmental Law Foundation, have standing to sue with respect to non-residential faucets only, and also ruled that the plaintiffs are not entitled to restitution, compensatory damages or punitive damages. In Lungren, on April 16, 1993, defendants filed a demurrer in respect of plaintiffs' claims based on defendants' alleged intentional discharge of lead from faucets to sources of drinking water. On May 5, 1994, the court sustained the demurrer that water from faucets does not constitute a prohibited "discharge" within the meaning of the statute. On or about May 25, 1994, the Attorney General appealed the demurrer decision, and on July 25, 1994, the California Court of Appeals issued a show cause order why the peremptory writ of mandate requested by the plaintiffs should not issue and indicated that it will hear arguments and issue a formal opinion on the discharge issue. These actions will be

vigorously contested.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.  
-----

(a) The Annual Meeting of Stockholders was held on May 3, 1994.

(c) (i) The Registrant's Certificate of Incorporation provides for the classification of the Board of Directors into three classes, as nearly equal in number as possible, with staggered terms of office and provides that upon the expiration of the term of office for a class of directors, nominees for such class shall be elected for a term of three years or until their successors are duly elected and qualified. The four

- 34 -

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS. (continued)  
-----

nominees for Class II directors, Mr. Eugene R. Anderson, Dr. Patricia O. Ewers, Mr. John W. Johnstone, Jr. and Mr. Wendell J. Kelley, were elected by a plurality of the combined votes cast by the holders of Registrant's Common Stock and \$2.67 Convertible Preferred Stock voting thereon:

(A) Mr. Anderson: 175,387,519 votes for and 5,205,481 votes withheld;

(B) Dr. Ewers: 175,059,131 votes for and 5,533,870 votes withheld;

(C) Mr. Johnstone: 175,299,134 votes for and 5,293,867 votes withheld;

(D) Mr. Kelley: 175,360,680 votes for and 5,232,320 votes withheld.

(c) (ii) A proposal (designated Item 2 and set forth in Registrant's Proxy Statement), approved by the Board of Directors, to elect Coopers & Lybrand independent accountants of Registrant for the year 1994 was approved by a majority of the combined votes cast by the holders of Registrant's Common Stock and \$2.67 Convertible Preferred Stock voting thereon: 176,442,180 affirmative votes; 1,863,263 negative votes; and 2,287,558 votes abstained.

(c) (iii) A proposal (designated Item 3 and set forth in Registrant's Proxy Statement), approved by the Board of Directors, to approve amendments to the American Brands, Inc. 1990 Long-Term Incentive Plan to be effective as of January 1, 1994 was approved by a majority of the combined votes cast by the holders of Registrant's Common Stock and \$2.67 Convertible Preferred Stock voting thereon: 108,866,540 affirmative votes; 49,859,230 negative votes; 4,672,215 votes abstained; and 17,195,015 broker non-votes.

(c) (iv) A proposal (designated Item 4 and set forth in Registrant's Proxy Statement), approved by the Board of Directors, to approve an amendment to the American Brands, Inc. 1986 Stock Option Plan to be effective as of January 1, 1994 was approved by a majority of the combined votes cast by the holders of Registrant's Common Stock and \$2.67 Convertible Preferred Stock voting thereon: 132,085,795 affirmative votes; 44,253,665 negative votes; and 4,282,191 votes abstained.

(c) (v) A proposal (designated Item 5 and set forth in Registrant's Proxy Statement), approved by the Board of Directors, to approve amendments to the executive incentive compensation program contained in Article XII of Registrant's By-laws to be effective for 1994 and subsequent years was approved by a majority of the combined votes cast by the holders of Registrant's Common Stock and \$2.67 Convertible Preferred Stock voting thereon: 145,406,135 affirmative votes; 30,847,456 negative votes; and 4,339,408 votes abstained.

(c) (vi) A proposal (designated Item 6 and set forth in Registrant's Proxy Statement), approved by the Board of Directors, to

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS. (concluded)

-----  
approve amendments to the Profit-Sharing Plan of American Brands, Inc. to be effective as of January 1, 1994 was approved by a majority of the combined votes cast by the holders of Registrant's Common Stock and \$2.67 Convertible Preferred Stock voting thereon: 163,103,301 affirmative votes; 13,405,122 negative votes; and 4,084,577 votes abstained.

(c) (vii) A proposal (designated Item 7 and set forth in Registrant's Proxy Statement) requesting the elimination of election of directors by classes was defeated by a majority of the combined votes cast by the holders of Registrant's Common Stock and \$2.67 Convertible Preferred Stock voting thereon: 99,517,442 negative votes; 59,064,835 affirmative votes; 4,815,708 votes abstained; and 17,195,016 broker non-votes.

(c) (viii) A proposal (designated Item 8 and set forth in Registrant's Proxy Statement) requesting the cancellation of Company pensions for outside directors was defeated by a majority of the combined votes cast by the holders of Registrant's Common stock and \$2.67 Convertible Preferred Stock voting thereon: 114,428,537 negative votes; 43,578,036 affirmative votes; 5,390,696 votes abstained; and 17,195,731 broker non-votes.

(c) (ix) A proposal (designated Item 9 and set forth in Registrant's Proxy Statement) requesting establishment of minimum stock ownership requirements for senior managers and outside directors was defeated by a majority of the combined votes cast by the holders of Registrant's Common Stock and \$2.67 Convertible Preferred Stock voting thereon: 141,913,890 negative votes; 14,958,601 affirmative votes; 6,522,563 votes abstained; and 17,197,947 broker non-votes.

(c) (x) A proposal (designated Item 10 and set forth in Registrant's Proxy Statement) requesting implementation of the MacBride Principles was defeated by a majority of the combined votes cast by the holders of Registrant's Common Stock and \$2.67 Convertible Preferred Stock voting thereon: 133,527,810 negative votes; 16,376,103 affirmative votes; 13,491,138 votes abstained; and 17,197,949 broker non-votes.

(c) (xi) A proposal (designated Item 11 and set forth in Registrant's Proxy Statement) requesting a report on promotion of lower-priced cigarettes to African-Americans and low-income persons was defeated by a majority of the combined votes cast by the holders of Registrant's Common Stock and \$2.67 Convertible Preferred Stock voting thereon: 141,944,320 negative votes; 8,030,731 affirmative votes; 13,415,503 votes abstained; and 17,202,447 broker non-votes.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K.

-----  
(a) Exhibits.  
-----

3(ii)a. By-law amendment adopted May 3, 1994 effective May 3, 1994.

3(ii)b. By-laws of Registrant, as amended effective May 3, 1994.

- 10a. 1990 Long-Term Incentive Plan of American Brands, Inc., as amended and restated.
- 10b. Amendment to 1986 Stock Option Plan of American Brands, Inc. constituting Exhibit 10b3 to the Annual Report on Form 10-K for the Fiscal Year ended December 31, 1993.
- 12. Statement re computation of ratio of earnings to fixed charges.
- 15. Letter from Coopers & Lybrand L.L.P. dated August 11, 1994 re unaudited financial information.
- 23. Consent of Counsel, Chadbourne & Parke.

In lieu of filing certain instruments with respect to long-term debt of the kind described in Item 601(b)(4) of Regulation S-K, Registrant agrees to furnish a copy of such instruments to the Securities and Exchange Commission upon request.

(b) Reports on Form 8-K.  
-----

Registrant filed a Current Report on Form 8-K, dated April 26, 1994, in respect of Registrant's press release dated April 26, 1994 announcing (i) Registrant's financial results for the three-month period ended March 31, 1994, (ii) that Registrant had entered into an agreement with B.A.T Industries p.l.c. for the sale of The American Tobacco Company and (iii) that Registrant had increased its dividend (Items 5 and 7(c)).

Registrant filed a Current Report on Form 8-K, dated July 25, 1994, in respect of Registrant's press release dated July 25, 1994 announcing Registrant's financial results for the three-month and six-month periods ended June 30, 1994 (Items 5 and 7(c)).

This Quarterly Report shall not be construed as a waiver of the right to contest the validity or scope of any or all of the provisions of the Securities Exchange Act of 1934 under the Constitution of the United States, or the validity of any rule or regulation made or to be made under such Act.

SIGNATURE  
-----

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMERICAN BRANDS, INC.  
-----  
(Registrant)

Date: August 11, 1994

By A. Henson

A. Henson  
Executive Vice President and  
Chief Financial Officer

EXHIBIT INDEX

Exhibit	Sequentially Numbered Page
3(ii)a.	By-law amendment adopted May 3, 1994 effective May 3, 1994.
3(ii)b.	By-laws of Registrant, as amended effective May 3, 1994.
10a.	1990 Long-Term Incentive Plan of American Brands, Inc., as amended and restated.
10b.	Amendment to 1986 Stock Option Plan of American Brands, Inc. constituting Exhibit 10b3 to the Annual Report on Form 10-K for the Fiscal Year ended December 31, 1993.
12.	Statement re computation of ratio of earnings to fixed charges.
15.	Letter from Coopers & Lybrand L.L.P. dated August 11, 1994 re unaudited financial information.
23.	Consent of Counsel, Chadbourne & Parke.

AMERICAN BRANDS, INC.

BY-LAW AMENDMENT

ADOPTED ON MAY 3, 1994

EFFECTIVE MAY 3, 1994

Article XII was amended to read in its entirety as follows:

ARTICLE XII

Incentive Compensation

Section 1. (A) As soon as practicable after the end of the year 1994 and of each year thereafter, if a cash dividend on the Common Stock shall have been paid in such year, there shall be made available for allotment, as hereinafter provided, an amount equal to one-half of 1% of adjusted income from continuing operations (as defined in Section 5 hereof).

(B) Of such amount made available for allotment under this Article, 18% shall be allotted to the person or persons who during such year held the office of Chairman of the Board, subject to reduction of any person's share as permitted by Section 3(A) hereof, as incentive compensation, in addition to the fixed salary of such person or persons for such year. If such office shall have been vacant at any time during the year, the amount to be allotted to the incumbent or incumbents of such office for such year shall be reduced proportionately. If such office shall have had more than one incumbent during the year, the amount to be allotted in respect of such office shall be divided among the different incumbents in the proportion of their respective periods of incumbency during the year. Nothing herein contained shall give any incumbent of such office any right to claim to continue therein, or any other right except as herein specifically expressed.

(C) Of such amount made available for allotment under this Article, the amount not allottable pursuant to Section 1(B) hereof by reason of a vacancy at any time during such year in the office of the Chairman of the Board shall be available for allotment to other key employees, as provided in Section 2 hereof, in addition to the fixed salary of each of such persons for such year.

Section 2. (A) The amount available for allotment pursuant to this Section 2 for each year shall be allotted among the members of a Management Group consisting of all persons elected to the office of Vice President of the Company or any office senior thereto (except the Chairman of the Board and any officer covered by an incentive compensation plan of any subsidiary of the Company). A person who during part of such year has held an office in the Management Group shall participate in such allotment on a proportional basis reflecting the portion of the year during which he holds such office. A person who during part of such year has held the office of Chairman of the Board shall be included in the Management Group for the portion of the year during which he held an office in the Management Group and did not hold the office of Chairman of the Board, and the allotment to such person as a member of the Management Group shall be in addition to the allotment to which he is entitled under Section 1(B) hereof.

(B) Within 60 days after receipt from the independent accountants of the certificate to be furnished pursuant to Section 6 hereof showing the amount made available for allotment under this Article, the amount to be allotted pursuant to this Section 2 shall then be allottable among the members of such Management Group as follows:

(1) Of such amount made available for allotment under this Article, 30% shall be allotted to all members of such Group pro rata, subject to reduction of any member's share as permitted by Section 3(A) hereof, according to the proportion which the fixed salary of each member of said Group for periods of membership during such year bears to the total of such fixed salaries of all members of the Group for such periods. For purposes of this allotment, (a) the fixed salary

of each member of said Group whose compensation is not subject to the limitation on deductibility under Section 162(m) of the Internal Revenue Code, as amended, or any successor provision (the Section 162(m) Limitation) for such year shall be at a rate equal to the highest fixed salary rate of such member during any period of membership in said Group during such year and (b) the fixed salary of each member of said Group whose compensation is subject to the Section 162(m) Limitation for such year shall be at the rate in effect at the beginning of such year, or if later the beginning of such member's first period of membership in the Group during such year.

(2) So much of the remaining amount made available for allotment under this Article as the Committee (as defined in Section 3(C) of this Article) determines, in its sole discretion, shall be allotted among the members of such Management Group to such individuals in said Group, and in such amounts as to individuals as the Committee, in its sole discretion, shall determine, except as otherwise provided in Section 2(D) hereof.

(C) In addition to the foregoing, there shall also be allottable to such Management Group within the 60-day period specified in Section 2(B) hereof any amount which is not allotted in such year to the Chairman of the Board pursuant to Section 1(B) hereof by reason of vacancy at any time during such year in such office. Except as otherwise provided in Section 2(D) hereof, so much of such additional amount as the Committee determines, in its sole discretion, shall be allotted among the members of such Management Group to such individuals in said Group, and in such amounts as to individuals, as the Committee, in its sole discretion, shall determine.

(D) In any case where a Chairman of the Board is a person to whom an allotment may be made as a member of such Management Group pursuant to paragraph (2) of Section 2(B) hereof or pursuant to both said paragraph (2) and Section 2(C) hereof, there shall be allotted to him within the 60-day period specified in Section 2(B) hereof (subject to reduction as permitted by Section 3(A) hereof), from the total of the amount allottable among the members of the Management Group by the Committee under said paragraph (2) and of any additional amount so allottable under said Section 2(C), a sum which shall be the same percentage (adjusted proportionately on the basis of the period of the year for which the allotment is being made in which he was a member of the Management Group but did not hold the office of Chairman of the Board) of such total as the allotment made to him for the next preceding year under said paragraph (2) and said Section 2(C) was of

2

the total amount allottable for such preceding year under said paragraph (2) and said Section 2(C).

Section 3. (A) The Committee shall have authority to reduce the amount of any allotment to the Chairman of the Board pursuant to Section 1(B) hereof or the amount of any allotment to a member of the Management Group pursuant to Section 2 (B) (1) or Section 2(D) hereof if and to the extent that the Committee deems it appropriate. No part of any such reduction in any allotment shall be available for allotment to any other person under this Article.

(B) No part of the amount made available for allotment under this Article as shall not have been allotted, under Sections 1 and 2 hereof, within such 60-day period, for any year may be carried forward for subsequent allotment.

(C) As used in this Article the word Committee shall mean the Compensation and Stock Option Committee. All decisions of the Committee pursuant to the provisions of this Article shall be binding and conclusive on all interested parties.

Section 4. Payment to the Chairman of the Board of the amounts payable to him under Section 1(B) hereof, and to each of the allottees of the Management Group of the amount of his total allotment under Sections 2(B), 2(C) and 2(D) hereof, with respect to any year shall be made in cash as soon as practicable.

Section 5. For the purpose of this Article, the term adjusted income

from continuing operations\_ for any year is defined as the income from continuing operations, before income taxes, as reflected in the consolidated financial statements set forth in the annual report for such year of the Company to the stockholders, but adjusted by the independent accountants who have audited the Company's consolidated financial statements to (i) exclude the deduction for Article XII incentive compensation, (ii) exclude unrealized gains and losses on securities, and adjust realized gains and losses on trading securities to reflect cost, (iii) exclude restructuring charges or credits, and charges for impaired assets other than those sold in the ordinary course of business, (iv) include the results of operations for such year from businesses classified as \_discontinued operations\_ prior to the disposition dates, and (v) to the extent not adjusted pursuant to items (ii), (iii) or (iv) above, exclude gains or losses included in continuing operations resulting from the sale or writedown of intangible assets, land or buildings, investments in business units and securities resulting from the sale of business units.

Section 6. At the time of rendering their report with respect to the financial statements of the Company and its consolidated subsidiaries for any year, such independent accountants shall also furnish to the Company their written certificate stating the amount of the \_adjusted income from continuing operations\_ for such year as defined in Section 5(A) hereof, the amount made available for allotment under this Article for such year, and the amounts thereof to be allotted to the Chairman of the Board, and the amount thereof available for allotment to the Management Group, which certificate as to the amounts available and payable hereunder shall be binding and conclusive on all interested parties, and no one claiming

3

hereunder shall have a right to question the same, or to any examination of the books or accounts of the Company or subsidiaries.

Section 7. This Article may be repealed only by the action of the stockholders of the Company, and not by the directors. Upon the unanimous recommendation of the Committee, this Article may be amended or modified by the directors in accordance with Article XI, except that, without the approval of the stockholders of the Company, no such amendment or modification shall be made which increases the amount made available for allotment as specified in Section 1(A) hereof or increases to higher than 18% of such amount the amount to be allotted hereunder to the Chairman of the Board.



BY-LAWS  
of  
AMERICAN BRANDS, INC.  
(As Amended)  
ARTICLE I  
Directors

Section 1. The number of directors constituting the entire Board of Directors of the Company shall be fixed at twelve. The number of the directors may be altered by amendment of these By-laws, which amendment may be adopted at any regular or special meeting of the Board of Directors by the affirmative vote of at least two-thirds of all the directors then in office.

Section 2. Each director shall hold office until his successor is elected and qualified or until his earlier resignation or removal. Any director of the Company may resign at any time upon written notice to the Company. Except as otherwise provided for, or fixed by, or pursuant to the provisions of Article IV of the Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the

7-27-93

2

BY-LAWS

Common Stock, newly created directorships resulting from any increase in the number of directors or any vacancy on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled solely by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors, or by a sole remaining director.

Section 3. In order to qualify to hold office as a director of the Company, a person must hold at least one share of stock of the Company.

Section 4. The directors may hold their meetings and have an office and keep the books of the Company in Old Greenwich, Connecticut, or elsewhere outside of the State of Delaware.

Section 5. The Board of Directors, by resolution adopted by a majority of the entire Board, may appoint from among its members an Executive Committee which shall have at least three members. To the extent provided in such resolution, such committee shall have and may exercise all the powers and authority of the Board, including the power to authorize the seal of the Company to be affixed to all papers that require it, except that such

10-30-90

BY-LAWS

3

committee shall not have such power and authority in reference to

(1) amending the Certificate of Incorporation (except that such committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board of Directors as provided in Section 151(a) of the General Corporation Law of Delaware, fix the designations and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Company or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Company or fix the number of shares of any series of stock or authorize the increase or decrease of the shares of any series);

(2) adopting an agreement of merger or consolidation under

Sections 251 or 252 of the General Corporation Law of Delaware;

(3) recommending to the stockholders any action that requires stockholders' approval;

1-1-86

4

BY-LAWS

---

- (4) making, amending or repealing any By-law of the Company;
- (5) electing or appointing any director, or removing any officer or director;
- (6) amending or repealing any resolution theretofore adopted by the Board of Directors;
- (7) fixing compensation of the directors for serving on the Board of Directors or on any committee; or
- (8) unless the resolution shall expressly so provide, declaring a dividend, authorizing the issuance of stock or adopting a certificate of ownership and merger pursuant to Section 253 of the General Corporation Law of Delaware.

Actions taken at a meeting of such committee shall be reported to the Board of Directors at its next meeting following such committee meeting; except that, when the meeting of the Board is held within two days after the committee meeting, such report shall be made to the Board at either its first or second meeting following such committee meeting.

1-1-86

BY-LAWS

---

5

## ARTICLE II

### Meetings of Stockholders

Section 1. The annual meeting of the stockholders of the Company for the election of directors, and such other business as may properly come before the meeting, shall be held at such place as may from time to time be designated by the directors, on the first Wednesday of May, at ten o'clock in the forenoon, or at such other hour as the directors may designate, or on such other day and at such hour as the directors may designate. If the day fixed for the meeting is a legal holiday, the meeting shall be held at the same hour on the next business day which is not a legal holiday.

Section 2. Special meetings of the stockholders, to be held at such place as may from time to time be designated by the directors, may be called only by the Chairman of the Board, the President or the Board of Directors, by resolution adopted by a majority of the entire Board, for such purposes as shall be specified in the call.

Section 3. Except as otherwise provided by law, due notice of each annual meeting of the stockholders shall be given by a written or printed notice signed by the Secretary

10-30-90

6

BY-LAWS

---

or an Assistant Secretary of the Company and mailed, postage prepaid, at least ten days prior to such meeting to each stockholder of record entitled to vote thereat appearing on the books of the Company at the address given thereon.

Due notice of each special meeting shall be given also in the manner above provided. The notice shall state the object of the special meeting, and no other business shall be transacted at such meeting.

Section 4. The holders of a majority in voting power of the outstanding shares of capital stock entitled to vote, present in person or

represented by proxy, shall constitute a quorum at a meeting of stockholders. Except as otherwise required by law or the Certificate of Incorporation, the affirmative vote of shares representing a majority in voting power of the shares present in person or represented by proxy at a meeting at which a quorum is present and entitled to vote on the subject matter shall be the act of the stockholders, and except that directors shall be elected by a plurality of votes cast at an election. The stockholders present at a duly convened meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

10-30-90

BY-LAWS

7

-----  
Section 5. Each meeting of the stockholders, whether annual or special, shall be presided over by the Chairman of the Board if present, and if he is not present by the President if present. If neither officer specified in the preceding sentence is present, the meeting shall be presided over by the person designated in writing by the Chairman of the Board, or if the Chairman of the Board has made no designation, by the person designated by the President, or if the President has made no designation, by the person designated by the Board of Directors. If neither officer specified in the first sentence of this section is present, and no one designated by the Chairman of the Board or the President or the Board of Directors is present, the meeting may elect any stockholder of record who is entitled to vote for directors, or any person present holding a proxy for such a stockholder, to preside. The Secretary of the Company (or in his absence any Assistant Secretary) shall be the Secretary of any such meeting; in the absence of the Secretary and Assistant Secretaries, any person may be elected by the meeting to act as Secretary of the meeting.

Section 6. Any voting proxy given by a stockholder must be in writing, executed by the stockholder, or, in lieu thereof, to the extent permitted by law, may be transmitted in a telegram, cablegram or other means of

10-30-90

8

BY-LAWS

-----  
electronic transmission setting forth or submitted with information from which it can be determined that the telegram, cablegram or other electronic transmission was authorized by the stockholder. A copy, facsimile transmission or other reliable reproduction of a written or electronically-transmitted proxy authorized by this Section 6 may be substituted for or used in lieu of the original writing or electronic transmission to the extent permitted by law.

Section 7. Any previously scheduled annual or special meeting of stockholders may, by resolution of the Board of Directors, be postponed upon public announcement made prior to the date previously scheduled for such meeting of stockholders. For purposes of this Article II, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Company with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Securities Exchange Act of 1934, as amended. The person presiding over any meeting of stockholders, or a majority of the voting power of the shares entitled to vote, present in person or represented by proxy, even if less than a quorum, may adjourn the meeting from time to time. No notice of the time and

10-30-90

BY-LAWS

9

-----  
place of adjourned meetings need be given except as required by law.

Section 8. The directors shall appoint one or more inspectors of election and of the vote at any time prior to the date of any meeting of stockholders at which an election is to be held or a vote is to be taken.

In the event any inspector so appointed is absent from such meeting or for any other reason fails to act as such at the meeting, the person presiding pursuant to these By-laws may appoint a substitute who shall have all the powers and duties of such inspector. The inspector or inspectors so appointed shall act at such meeting, make such reports thereof and take such other action as shall be provided by law and as may be directed by the person presiding over the meeting. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his ability.

Section 9. The directors may, at any time prior to any annual or special meeting of the stockholders, adopt an order of business for such meeting which shall be the order of business to be followed at such meeting. The date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at

10-30-90

10

BY-LAWS

---

such meeting shall be announced at such meeting by the person presiding over such meeting.

Section 10. At any meeting of stockholders a stock vote shall be taken on any resolution or other matter presented to the meeting for action if so ordered by the person presiding over the meeting or on the demand of any stockholder of record entitled to vote at the meeting or any person present holding a proxy for such a stockholder. Such order or demand for a stock vote may be made either before or after a vote has been taken on such resolution or other matter in a manner other than by stock vote and before or after the result of the vote taken otherwise than by stock vote has been announced. The result of a stock vote taken in accordance with this By-law shall supersede the result of any vote previously taken in any manner other than by stock vote.

Section 11. (A) Nominations of persons for election to the Board of Directors of the Company may be made as provided in the Certificate of Incorporation. The proposal of other business to be considered by the stockholders may be made at an annual meeting of stockholders (1) pursuant to the Company's notice of meeting, (2) by or at the direction of the Board of Directors or (3) by any stockholder of the Company who was a stockholder of record at the time of giving of the notice provided for

10-30-90

BY-LAWS

11

---

in this Section 11, who is entitled to vote thereon at the meeting and who complies with the notice procedures set forth in this Section 11.

(B) For business (other than the nomination of persons for election to the Board of Directors) to be properly brought before an annual meeting by a stockholder pursuant to clause (3) of paragraph (A) of this Section 11, the stockholder must have given timely notice thereof in writing to the Secretary of the Company. To be timely, a stockholder's notice shall be delivered, either by personal delivery or by United States mail, postage prepaid, to the Secretary not later than one hundred twenty (120) days in advance of such meeting. Such stockholder's notice shall set forth (1) a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made and (2) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the proposal is made (a) the name and address of such stockholder, as they appear on the Company's books, and of such beneficial owner and (b) the class and number of shares of the Company which are owned beneficially and of record by such stockholder and such beneficial owner.

10-30-90

12

BY-LAWS

---

(C) The person presiding over an annual meeting of stockholders shall have the power and duty to determine whether any business proposed by any stockholder to be brought before the meeting was made in accordance with the procedures set forth in this Section 11 and, if any proposed business is not in compliance with this Section 11, to declare that such defective proposal shall be disregarded.

(D) In addition to the foregoing provisions of this Section 11, a stockholder shall comply with all applicable requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder with respect to the matters set forth in this Section 11. Nothing in this Section 11 shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Company's proxy statement pursuant to Rule 14a-8 under such Act.

10-30-90

BY-LAWS

13

---

ARTICLE III

Meetings of Directors

Section 1. Regular meetings of the Board of Directors shall be held at the office of the Company in Old Greenwich, Connecticut, or at such other place as may from time to time be designated by the directors, the Chairman of the Board or the President, at ten o'clock in the forenoon on the last Tuesday of each month other than March, May, June, August and December and at three o'clock in the afternoon on the day on which the annual meeting of stockholders is held. If any such day shall be a holiday, the meeting scheduled for that day shall be held on the next business day. Special meetings may be held as determined by the Board of Directors, and may be called by the Chairman of the Board at any time and shall be called by him on the request of three directors, or, if the Chairman of the Board fails to call such meeting when so requested, the same may be called by any three directors.

Section 2. No notice need be given of regular meetings of the directors, except that at least one day's notice shall be given of any place other than the office of the Company in Old Greenwich, Connecticut at which any

1-31-89

14

BY-LAWS

---

such meeting is to be held, but such notice need not be given to any director who signs a written waiver of notice before or after the meeting. Attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except when the director attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

Section 3. At any meeting six directors shall constitute a quorum unless otherwise provided for in these By-laws or in the Certificate of Incorporation or in any applicable statute, but in no case less than one-third of all the directors then in office.

Section 4. Members of the Board of Directors or of any Committee thereof may participate in meetings of the Board of Directors or of such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at such meeting.

Section 5. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all members of the Board of Directors or of such committee,

1-1-86

BY-LAWS

15

---

as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the Board of Directors or of such committee.

#### ARTICLE IV

##### Officers

Section 1. The Board of Directors shall annually choose from amongst its members a Chairman of the Board. The Board shall also annually choose a President, an Executive Vice President, one or more Senior Vice Presidents (if any), a principal financial officer, such other Vice Presidents (if any) as it shall determine, a Secretary, a Treasurer and a Controller, who need not be directors.

Section 2. The Board of Directors may elect other officers and define their powers and duties.

Section 3. Any two offices not inconsistent with each other may be held by the same person.

Section 4. All officers elected by the Board of Directors shall hold office, subject to removal by the Board, until their successors are chosen and qualified. The affirmative vote of at least two-thirds of all of the directors

10-30-90

16

BY-LAWS

-----  
then in office shall be required to remove or reduce the salary of any officer elected by the Board of Directors.

Section 5. All agents and employees shall be appointed and may be removed by the Chairman of the Board, subject to the control of the Board of Directors.

Section 6. Vacancies among officers of the Company shall be filled as, and to the extent that, the Board of Directors shall determine by vote of a majority of the directors present at any regular or special meeting at which not less than a majority of all the directors then in office are present.

Section 7. The Chairman of the Board shall be the Chief Executive Officer of the Company and shall have general direction of its business affairs, subject, however, to the control of the Board of Directors. He shall, if present, preside at all meetings of the Board of Directors and shall perform such other duties and have such responsibilities as the Board may from time to time determine.

Section 8. At the request of the Chairman of the Board, or in case of his absence or disability, the President shall perform the duties of the Chairman of the Board, subject to the control of the Board of Directors, and the President shall have such other powers and

6-15-87

BY-LAWS

17

-----  
perform such other duties as shall at any time be delegated to him by the Board Of Directors. The Executive Vice President and the Senior Vice Presidents (if any) and such other Vice Presidents as shall have been chosen shall have such powers and perform such duties as shall at any time be delegated to them by the Board of Directors.

Section 9. The Secretary shall give the requisite notice of meetings of stockholders and directors and shall record the proceedings of such meetings, shall have the custody of the seal of the Company and shall affix it or cause it to be affixed to such instruments as require the seal and attest it and, besides his powers and duties prescribed by law, shall have such other powers and perform such other duties as shall at any time be

required of him by the Board of Directors.

Section 10. The Assistant Secretaries shall assist the Secretary in the discharge of his duties and shall have such powers and perform such other duties as shall at any time be delegated to them by the Board of Directors, and in the absence or disability of the Secretary, shall perform the duties of his office, subject to the control of the Board.

Section 11. The Treasurer shall have charge of the funds and securities of the Company and shall have such

6-15-87

18

BY-LAWS

---

powers and perform such duties as shall at any time be delegated to him by the Board of Directors.

Section 12. The Assistant Treasurers shall assist the Treasurer in the discharge of his duties and shall have such powers and perform such other duties as shall at any time be delegated to them by the Board of Directors, and in the absence or disability of the Treasurer, shall perform the duties of his office subject to the control of the Board.

Section 13. Any other officer, agent or employee of the Company may be required to give such security for the faithful performance of his duties as shall be determined by the Board of Directors, who shall also determine the custody of any security given.

#### ARTICLE V

##### Salaries

Section 1. The salaries of all officers elected by the Board of Directors who hold offices of a rank of Vice President or above shall be fixed by the Compensation and Stock Option Committee.

Section 2. Salaries of all other officers elected by the Board and all other agents and employees shall be fixed by or in the manner determined by the Board.

3-1-93

BY-LAWS

---

19

Section 3. The Board of Directors, by the affirmative vote of a majority of directors in office and irrespective of any personal interest of any directors, shall have authority to establish reasonable compensation of directors for services to the Company as directors, officers or otherwise, except that the Compensation and Stock Option Committee, by the affirmative vote of a majority of Committee members in office and irrespective of any personal interest of any Committee members or other directors, shall have authority to establish such compensation of directors who also are officers elected by the Board and hold offices of a rank of Vice President or above.

#### ARTICLE VI

##### Seal

Section 1. The Seal of the Company shall be in such form as the Board of Directors may from time to time prescribe and it may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

#### ARTICLE VII

Signatures on Commercial  
Instruments and Contracts

Section 1. All checks or bank drafts shall be signed

3-1-93

20

BY-LAWS

---

by any two of the following named officers: Chairman of the Board, President, the principal financial officer, the principal accounting officer, any Vice President, Secretary, any Assistant Secretary, Treasurer, any Assistant Treasurer, Controller, any Assistant Controller; and in such other manner as the Board of Directors may from time to time designate.

Section 2. All notes or other obligations or contracts shall be signed by the Chairman of the Board, the President, the principal financial officer, the principal accounting officer, or any Vice President and also by one of the following officers: the Secretary, an Assistant Secretary, the Treasurer, an Assistant Treasurer, the Controller, or an Assistant Controller (provided that no individual shall sign the same instrument in two capacities), or shall be signed by the Chairman of the Board, the President, the principal financial officer, the principal accounting officer, or any Vice President, with the corporate seal or a facsimile thereof affixed thereto or imprinted thereon, attested by the Secretary or an Assistant Secretary; or such notes, obligations or contracts shall be signed in such manner and by one or more of such officers or other persons on behalf of the Company as the Board of Directors may from time to time authorize or direct. When and as authorized or directed by the Board of Directors, the signatures of such officers or

6-15-87

BY-LAWS

---

21

other persons or any of them signing on behalf of the Company may be facsimiles.

#### ARTICLE VIII

##### Capital Stock

Section 1. Certificates of the capital stock of the Company shall be issued for shares duly numbered and registered in the order of their issue, and shall be in the form the directors shall prescribe.

Section 2. The capital stock shall be transferable on the transfer books of the Company, subject to these By-laws, by the owner in person, or by attorney or legal representative, written evidence of whose authority shall be filed with the Company.

Section 3. No transfer of capital stock can be required except upon surrender and cancellation of the certificate representing the same.

Section 4. The Board of Directors may at any time, in its discretion, appoint one or more transfer agents or registrars of the shares of stock of the Company and terminate the appointment of any transfer agent or registrar. The Board of Directors may also designate the Company to perform such functions alone or in conjunction with one or more other transfer agents or registrars.

10-26-93

22

BY-LAWS

---

Section 5. (A) For the purpose of determining the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or for the purpose of determining stockholders entitled to receive payment of any dividend or allotment of any right, or for the purpose of any other action, the Board of Directors may fix, in advance, a date as the record date for any such determination of stockholders. Such date shall be not more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action.

(B) When a determination of stockholders of record entitled to notice of or to vote at any meeting of stockholders has been made as provided in this Section 5, such determination shall apply to any adjournment thereof, unless the Board of Directors fixes a new record date under this Section 5 for the adjourned meeting.

ARTICLE IX

Committee on Conflicts of Interests

Section 1. The Board of Directors, by resolution adopted by a majority of the entire Board, shall appoint a Committee on Conflicts of Interests which shall have at

10-30-90

BY-LAWS

23

-----  
least three members. To the extent provided by resolution of the Board, such committee shall have the power to interpret, administer and apply the policies of the Company as established by the Board from time to time with respect to conflicts of interests.

ARTICLE X

Dividends

Section 1. Dividends on the Preferred Stock and the Common Stock of the Company may be declared by the Board of Directors, at any regular or special meeting, as provided by law and the Certificate of Incorporation.

ARTICLE XI

Amendments

Section 1. The Board of Directors shall, except as otherwise provided in these By-laws or the Certificate of Incorporation, have the power to alter, amend or repeal these By-laws at any meeting by the affirmative vote of two-thirds of the directors then in office, provided notice of the proposed alteration, amendment or repeal be given in writing to each of the directors, and provided also that

10-30-90

24

BY-LAWS

-----  
no alteration, amendment or repeal of a specification in any section of these By-laws of a stated fraction of directors as the minimum number whose presence or vote is requisite for action under such section may be made without the presence or vote or both, as the case may be, of the minimum number so specified.

ARTICLE XII

Incentive Compensation

Section 1. (A) As soon as practicable after the end of the year 1994 and of each year thereafter, if a cash dividend on the Common Stock shall have been paid in such year, there shall be made available for allotment, as hereinafter provided, an amount equal to one-half of 1% of adjusted income from continuing operations (as defined in Section 5 hereof).

(B) Of such amount made available for allotment under this Article, 18% shall be allotted to the person or persons who during such year held the office of Chairman of the Board, subject to reduction of any person's share as permitted by Section 3(A) hereof, as incentive compensation, in addition to the fixed salary of such person or persons for such year. If

5-3-94

such office shall have been vacant at any time during the year, the amount to be allotted to the incumbent or incumbents of such office for such year shall be reduced proportionately. If such office shall have had more than one incumbent during the year, the amount to be allotted in respect of such office shall be divided among the different incumbents in the proportion of their respective periods of incumbency during the year. Nothing herein contained shall give any incumbent of such office any right to claim to continue therein, or any other right except as herein specifically expressed.

(C) Of such amount made available for allotment under this Article, the amount not allottable pursuant to Section 1(B) hereof by reason of a vacancy at any time during such year in the office of the Chairman of the Board shall be available for allotment to other key employees, as provided in Section 2 hereof, in addition to the fixed salary of each of such persons for such year.

Section 2. (A) The amount available for allotment pursuant to this Section 2 for each year shall be allotted among the members of a Management Group consisting of all persons elected to the office of Vice President of the Company or any office senior thereto (except the

5-3-94

26

BY-LAWS

Chairman of the Board and any officer covered by an incentive compensation plan of any subsidiary of the Company). A person who during part of such year has held an office in the Management Group shall participate in such allotment on a proportional basis reflecting the portion of the year during which he holds such office. A person who during part of such year has held the office of Chairman of the Board shall be included in the Management Group for the portion of the year during which he held an office in the Management Group and did not hold the office of Chairman of the Board, and the allotment to such person as a member of the Management Group shall be in addition to the allotment to which he is entitled under Section 1(B) hereof.

(B) Within 60 days after receipt from the independent accountants of the certificate to be furnished pursuant to Section 6 hereof showing the amount made available for allotment under this Article, the amount to be allotted pursuant to this Section 2 shall then be allottable among the members of such Management Group as follows:

(1) Of such amount made available for allotment under this Article, 30% shall be allotted to all members of such Group pro rata, subject to reduction of any member's share as permitted by Section 3(A) hereof, according to the proportion

5-3-94

BY-LAWS

27

which the fixed salary of each member of said Group for periods of membership during such year bears to the total of such fixed salaries of all members of the Group for such periods. For purposes of this allotment, (a) the fixed salary of each member of said Group whose compensation is not subject to the limitation on deductibility under Section 162(m) of the Internal Revenue Code, as amended, or any successor provision (the Section 162(m) Limitation) for such year shall be at a rate equal to the highest fixed salary rate of such member during any period of membership in said Group during such year and (b) the fixed salary of each member of said Group whose compensation is subject to the Section 162(m) Limitation for such year shall be at the rate in effect at the beginning of such year, or if later the beginning of such member's first period of membership in the Group during such year.

(2) So much of the remaining amount made available for allotment under this Article as the Committee (as defined in Section 3(C) of

this Article) determines, in its sole discretion, shall be allotted among the members of such Management Group to such individuals in said Group, and in such amounts as to individuals as the Committee, in its sole discretion, shall determine, except as otherwise provided in Section 2(D) hereof.

5-3-94

28

BY-LAWS

---

(C) In addition to the foregoing, there shall also be allottable to such Management Group within the 60-day period specified in Section 2(B) hereof any amount which is not allotted in such year to the Chairman of the Board pursuant to Section 1(B) hereof by reason of vacancy at any time during such year in such office. Except as otherwise provided in Section 2(D) hereof, so much of such additional amount as the Committee determines, in its sole discretion, shall be allotted among the members of such Management Group to such individuals in said Group, and in such amounts as to individuals, as the Committee, in its sole discretion, shall determine.

(D) In any case where a Chairman of the Board is a person to whom an allotment may be made as a member of such Management Group pursuant to paragraph (2) of Section 2(B) hereof or pursuant to both said paragraph (2) and Section 2(C) hereof, there shall be allotted to him within the 60-day period specified in Section 2(B) hereof (subject to reduction as permitted by Section 3(A) hereof), from the total of the amount allottable among the members of the Management Group by the Committee under said paragraph (2) and of any additional amount so allottable under said Section 2(C), a sum which shall be the same percentage (adjusted proportionately on the basis of the period of the year for which the allotment

5-3-94

BY-LAWS

---

29

is being made in which he was a member of the Management Group but did not hold the office of Chairman of the Board) of such total as the allotment made to him for the next preceding year under said paragraph (2) and said Section 2(C) was of the total amount allottable for such preceding year under said paragraph (2) and said Section 2(C).

Section 3. (A) The Committee shall have authority to reduce the amount of any allotment to the Chairman of the Board pursuant to Section 1(B) hereof or the amount of any allotment to a member of the Management Group pursuant to Section 2 (B) (1) or Section 2(D) hereof if and to the extent that the Committee deems it appropriate. No part of any such reduction in any allotment shall be available for allotment to any other person under this Article.

(B) No part of the amount made available for allotment under this Article as shall not have been allotted, under Sections 1 and 2 hereof, within such 60-day period, for any year may be carried forward for subsequent allotment.

(C) As used in this Article the word Committee shall mean the Compensation and Stock Option Committee. All decisions of the Committee pursuant to the provisions of this Article shall be binding and conclusive on all interested parties.

5-3-94

30

BY-LAWS

---

Section 4. Payment to the Chairman of the Board of the amounts payable to him under Section 1(B) hereof, and to each of the allottees of the Management Group of the amount of his total allotment under Sections 2(B), 2(C) and 2(D) hereof, with respect to any year shall be made in cash as soon as practicable.

Section 5. For the purpose of this Article, the term adjusted income from continuing operations for any year is defined as the income from continuing operations, before income taxes, as reflected in the consolidated financial statements set forth in the annual report for such

year of the Company to the stockholders, but adjusted by the independent accountants who have audited the Company's consolidated financial statements to (i) exclude the deduction for Article XII incentive compensation, (ii) exclude unrealized gains and losses on securities, and adjust realized gains and losses on trading securities to reflect cost, (iii) exclude restructuring charges or credits, and charges for impaired assets other than those sold in the ordinary course of business, (iv) include the results of operations for such year from businesses classified as discontinued operations prior to the disposition dates, and (v) to the extent not adjusted pursuant to items (ii), (iii) or (iv) above, exclude gains or losses included in continuing operations resulting from

5-3-94

BY-LAWS

31

-----  
the sale or writedown of intangible assets, land or buildings, investments in business units and securities resulting from the sale of business units.

Section 6. At the time of rendering their report with respect to the financial statements of the Company and its consolidated subsidiaries for any year, such independent accountants shall also furnish to the Company their written certificate stating the amount of the adjusted income from continuing operations for such year as defined in Section 5(A) hereof, the amount made available for allotment under this Article for such year, and the amounts thereof to be allotted to the Chairman of the Board, and the amount thereof available for allotment to the Management Group, which certificate as to the amounts available and payable hereunder shall be binding and conclusive on all interested parties, and no one claiming hereunder shall have a right to question the same, or to any examination of the books or accounts of the Company or subsidiaries.

5-3-94

32

BY-LAWS

-----  
Section 7. This Article may be repealed only by the action of the stockholders of the Company, and not by the directors. Upon the unanimous recommendation of the Committee, this Article may be amended or modified by the directors in accordance with Article XI, except that, without the approval of the stockholders of the Company, no such amendment or modification shall be made which increases the amount made available for allotment as specified in Section 1(A) hereof or increases to higher than 18% of such amount the amount to be allotted hereunder to the Chairman of the Board.

#### ARTICLE XIII

##### Indemnification

Section 1. (A) Each person (an indemnatee) who was or is made or threatened to be made a party to or was or is involved (as a witness or otherwise) in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a proceeding), by reason of the fact that he or she or a person of whom

5-3-94

BY-LAWS

33

-----  
he or she is the legal representative was or is a director, officer or employee of the Company or was or is serving at the request of the Company as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding was or is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Company to the fullest extent permitted by the General Corporation Law of the State of Delaware as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Company to provide broader

indemnification rights than said law permitted the Company to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees and retainers therefor, judgments, fines, excise taxes or penalties under the Employee Retirement Income Security Act of 1974, as amended, and amounts paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to

10-30-90

34

BY-LAWS

---

the benefit of his or her heirs, executors and administrators; provided, however, that except as provided in Section 3 of this Article XIII with respect to proceedings seeking to enforce rights to indemnification, the Company shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of Directors of the Company.

(B) The right to indemnification conferred in this Article XIII is and shall be a contract right. The right to indemnification conferred in this Article XIII shall include the right to be paid by the Company the expenses (including attorneys' fees and retainers therefor) reasonably incurred in connection with any such proceeding in advance of its final disposition, such advances to be paid by the Company within 20 days after the receipt by the Company of a statement or statements from the indemnitee requesting such advance or advances from time to time; provided, however, that if the General Corporation Law of the State of Delaware requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without

10-30-90

BY-LAWS

---

35

limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the Company of an undertaking by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Article XIII or otherwise.

Section 2. (A) To obtain indemnification under this Article XIII, an indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to the indemnitee and is reasonably necessary to determine whether and to what extent the indemnitee is entitled to indemnification. Upon written request by an indemnitee for indemnification pursuant to the first sentence of this Section 2(A), a determination, if required by applicable law, with respect to the indemnitee's entitlement thereto shall be made as follows: (1) if requested by the indemnitee, by Independent Counsel (as hereinafter defined), or (2) if no request is made by the indemnitee for a determination by Independent Counsel, (a) by the Board of Directors by a majority vote of a quorum consisting of Disinterested Directors (as hereinafter defined), or (b) if a quorum of the Board of Directors consisting of Disinterested Directors is not

10-30-90

36

BY-LAWS

---

obtainable or, even if obtainable, such quorum of Disinterested Directors so directs, by Independent Counsel in a written opinion to the Board of Directors, a copy of which shall be delivered to the indemnitee, or (c) by the stockholders of the Company. In the event the determination of entitlement to indemnification is to be made by Independent Counsel at the request of the indemnitee, the Independent Counsel shall be selected by the indemnitee unless the indemnitee shall request that such selection be made by the Board of Directors, in which event the Independent Counsel shall be

selected by the Board of Directors. If it is so determined that the indemnitee is entitled to indemnification, payment to the indemnitee shall be made within 10 days after such determination.

(B) In making a determination with respect to entitlement to indemnification hereunder, the person, persons or entity making such determination shall presume that the indemnitee is entitled to indemnification under this Article XIII, and the Company shall have the burden of proof to overcome that presumption in connection with the making by any person, persons or entity of any determination contrary to that presumption.

Section 3. (A) If a claim under Section 1 of this Article XIII is not paid in full by the Company within

10-30-90

BY-LAWS

37

-----  
30 days after a written claim pursuant to Section 2(A) of this Article XIII has been received by the Company, or if an advance is not made within 20 days after a request therefor pursuant to Section 1(B) of this Article XIII has been received by the Company, the indemnitee may at any time thereafter bring suit (or, at the indemnitee's option, an arbitration proceeding before a single arbitrator pursuant to the rules of the American Arbitration Association) against the Company to recover the unpaid amount of the claim or the advance and, if successful in whole or in part, the indemnitee shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such suit or proceeding (other than a suit or proceeding brought to enforce a claim for expenses incurred in connection with any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Company) that the indemnitee has not met the standards of conduct which make it permissible under the General Corporation Law of the State of Delaware for the Company to indemnify the indemnitee for the amount claimed or that such indemnification otherwise is not permitted under the General Corporation Law of the State of Delaware, but the burden of proving such defense shall be on the Company.

10-30-90

38

BY-LAWS

-----  
(B) Neither the failure of the Company (including its Board of Directors, Independent Counsel or stockholders) to have made a determination prior to the commencement of such action that indemnification of the indemnitee is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the General Corporation Law of the State of Delaware, nor an actual determination by the Company (including its Board of Directors, Independent Counsel or stockholders) that the indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the indemnitee has not met the applicable standard of conduct.

(C) If a determination shall have been made pursuant to Section 2(A) of this Article XIII that the indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to paragraph (A) of this Section 3.

(D) The Company shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to paragraph (A) of this Section 3 that the procedures and presumptions of this Article XIII are not valid, binding and enforceable and shall stipulate in any

10-30-90

BY-LAWS

39

-----  
such court or before any such arbitrator that the Company is bound by all the provisions of this Article XIII.

Section 4. The right to indemnification and the payment of expenses incurred in connection with a proceeding in advance of its final

disposition conferred in this Article XIII shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, By-laws, agreement, vote of stockholders or Disinterested Directors or otherwise.

Section 5. The Company may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Company or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Company would have the power to indemnify such person against such expense, liability or loss under the General Corporation Law of the State of Delaware. To the extent that the Company maintains any policy or policies providing such insurance, each such director, officer or employee, and each such agent to which rights to indemnification have been granted as provided in Section 6 of this Article XIII, shall be covered by such policy or policies in accordance with its or their terms to the

10-30-90

40

BY-LAWS

---

maximum extent of the coverage thereunder for any such director, officer, employee or agent.

Section 6. The Company may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification, and rights to be paid by the Company the expenses incurred in connection with any proceeding in advance of its final disposition, to any agent of the Company to the fullest extent of the provisions of this Article XIII with respect to the indemnification and advancement of expenses of directors, officers and employees of the Company.

Section 7. If any provision or provisions of this Article XIII shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (A) the validity, legality and enforceability of the remaining provisions of this Article XIII (including without limitation, each portion of any Section of this Article XIII containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (B) to the fullest extent possible, the provisions of this Article XIII (including, without limitation, each portion of any Section of this Article XIII containing any such provision held to be invalid, illegal or unenforceable) shall be

10-30-90

BY-LAWS

41

---

construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

Section 8. For purposes of this Article XIII:

(A) "Disinterested Director" means a director of the Company who is not and was not a party to the matter in respect of which indemnification is sought by the indemnitee.

(B) "Independent Counsel" means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the past five years has been, retained to represent: (1) the Company or the indemnitee in any matter material to either such party, or (2) any other party to the matter giving rise to a claim for indemnification. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or the indemnitee in an action to determine the indemnitee's rights under this Article XIII.

Section 9. Any notice, request or other communication required or permitted to be given to the Company under this Article XIII shall be in writing and either

10-30-90

delivered in person or sent by telecopy, telex, telegram or certified or registered mail, postage prepaid, return receipt requested, to the Secretary of the Company and shall be effective only upon receipt by the Secretary.

## AMERICAN BRANDS, INC.

## 1990 LONG-TERM INCENTIVE PLAN

(As Amended and Restated as of  
January 1, 1994)

## 1. Purpose of Plan

The purpose of this 1990 Long-Term Incentive Plan (the "Plan") is to aid American Brands, Inc. and its Subsidiaries (the "Company") in securing and retaining Key Employees of outstanding ability by making it possible to offer them increased incentives, which may include a proprietary interest in the Company, to join or continue in the service of the Company and to increase their efforts for its welfare.

## 2. Definitions

As used in the Plan, the following words shall have the following meanings:

- (a) "American" means American Brands, Inc.;
- (b) "Award" means an award or grant made to a Participant pursuant to the Plan, including, without limitation, an award or grant of an Option, Right, Restricted Stock, Performance Award or Other Stock-Based Award, or any combination of the foregoing;
- (c) "Award Agreement" means an agreement between the Company and a Participant that sets forth the terms, conditions and limitations applicable to an Award;
- (d) "Board of Directors" means the Board of Directors of American;
- (e) "Committee" means the Compensation and Stock Option Committee of the Board of Directors;
- (f) "Common Stock" means common stock of American;
- (g) "Exchange Act" means the Securities Exchange Act of 1934, as amended;
- (h) "Incentive Stock Option" means a stock option to purchase shares of Common Stock which is intended to qualify as an incentive stock option as defined in Section 422A of the Internal Revenue Code;
- (i) "Key Employee" means any person, including an officer or director, in the regular full-time employment of the Company who, in the opinion of the Committee, is or is expected to be primarily responsible for the management, growth or protection of some part or all of the business of the Company;
- (j) "Limited Right" means a right to receive cash in lieu of the exercise of an Option or Right as set forth in Section 12(b);
- (k) "Nonqualified Stock Option" means a stock option to purchase shares of Common Stock which is intended not to qualify as an incentive stock option as defined in Section 422 of the Internal Revenue Code;
- (l) "Option" means an Incentive Stock Option, a Nonqualified Stock Option or an option granted pursuant to Section 14(a);
- (m) "Other Stock-Based Award" means an Award pursuant to Section 8;
- (n) "Participant" means a person to whom one or more Awards have been granted that have not all been forfeited or terminated under the Plan;
- (o) "Performance Period" means the period specified with respect to a Performance Award during which specified performance criteria are to be measured;

(p) "Performance Award" means an Award granted pursuant to Section 7;

(q) "Restricted Stock" means shares of Common Stock granted pursuant to Section 6 or as part of a Performance Award or an Other Stock-Based Award;

(r) "Right" means a stock appreciation right to elect to receive shares of Common Stock with a fair market value, at the time of any exercise of such stock appreciation right, equal to the amount by which the fair market value of all shares subject to the Option (or part thereof) in respect of which such stock appreciation right was granted exceeds the exercise price of said Option (or part thereof) or to receive from American, in lieu of such shares, the fair market value in cash, or to receive a combination of such shares and cash, as provided in Section 5, and shall also mean a stock appreciation right granted pursuant to Section 14(b); and

(s) "Subsidiary" means any corporation other than American in an unbroken chain of corporations beginning with American if each of the corporations other than the last corporation in the unbroken chain owns 50% or more of the voting stock in one of the other corporations in such chain.

### 3. Administration of Plan

The Plan shall be administered by the Committee whose members shall be appointed by the Board of Directors and consisting of at least three members of the Board of Directors. None of the members of the Committee shall be eligible to be selected for the grant of an Award under the Plan, or any option, stock appreciation right or shares under any other plan maintained by the Company during such membership, or have been so eligible for selection within one year prior thereto, except that such members shall be eligible to receive shares of Common Stock pursuant to the American Brands, Inc. Stock Plan for Non-employee Directors; provided, however, that the members of the Committee shall qualify to administer the Plan for purposes of Rule 16b-3 (and any other applicable rule) promulgated under Section 16(b) of the Exchange Act. The Committee may adopt its own rules of procedure, and the action of a majority of the Committee, taken at a meeting, or taken without a meeting by unanimous written consent of the members of the Committee, shall constitute action by the Committee. The

-2-

Committee shall have the power and authority to administer, construe and interpret the Plan, to make rules for carrying it out and to make changes in such rules.

### 4. Awards

The Committee may from time to time make such Awards under the Plan to such Key Employees and in such form and having such terms, conditions and limitations as the Committee may determine. Awards may be granted singly, in combination or in tandem. The terms, conditions and limitations of each Award under the Plan shall be set forth in an Award Agreement, in a form approved by the Committee, consistent, however, with the terms of the Plan.

### 5. Awards of Options and Rights

(a) The terms and conditions with respect to each Award of Options under the Plan shall be consistent with the following:

(i) The Option price per share shall not be less than fair market value at the time the Option is granted.

(ii) Exercise of the Option shall be conditioned upon the Participant named therein having remained in the employ of the Company for at least one year after the date of the grant of the Option; provided, however, that this condition shall not be applicable in the event of the death of the Participant or as otherwise provided in Section 12(b). The Option shall be exercisable in whole or in part from time to time during the period beginning at the completion of the required employment time stated in the Option and ending at the expiration of ten years from the date of grant of the Option, unless

an earlier expiration date shall be stated in the Option or the Option shall cease to be exercisable pursuant to Section 5(a)(iv) or because of the exercise of the Limited Right pertaining thereto as provided in Section 12(b). To the extent that the aggregate fair market value of shares with respect to which Incentive Stock Options are exercisable for the first time by any Participant during any calendar year exceeds \$100,000, such Options shall be treated as Nonqualified Stock Options. The foregoing shall be applied by taking Options into account in the order in which they were granted. For purposes of the foregoing, the fair market value of any share shall be determined at the time of the Award of the Option. In the event the foregoing results in a portion of an Incentive Stock Option exceeding the \$100,000 limitation, only such excess shall be treated as a Nonqualified Stock Option.

(iii) Payment in full of the Option price shall be made upon exercise of each Option and may be made in cash, by the delivery of shares of Common Stock with a fair market value equal to the Option price, provided the Participant has held such shares for a period of at least one year, or by a combination of cash and such shares that have been held by the Participant for a period of at least one year whose fair market value together with such cash shall equal the Option price. The Committee may also permit Participants, either on a selective or aggregate basis, simultaneously to exercise Options and sell the shares of Common Stock thereby acquired pursuant to a brokerage or similar arrangement, approved in advance by the

-3-

Committee, and use the proceeds from such sale as payment of the purchase price of such shares.

(iv) If a Participant's employment with the Company terminates other than by reason of the Participant's death, disability or retirement under a retirement plan of the Company, the Participant's Option shall terminate and cease to be exercisable except as otherwise provided in Section 12(b). If a Participant's employment with the Company terminates by reason of death, disability or retirement under a retirement plan of the Company, the Participant's Option shall continue to be exercisable until the expiration date stated in the option, provided that a Nonqualified Stock Option may be exercised within one year from the date of death even if later than such expiration date. In the case of a Participant whose principal employer is a Subsidiary, then such Participant's employment shall be deemed to be terminated for purposes of this Section 5 as of the date on which such principal employer ceases to be a Subsidiary.

(v) Each Option shall contain a Limited Right to receive cash in lieu of shares under the circumstances set forth in Section 12(b).

(b) The Committee, at the time of grant of an Option or at any time prior to the expiration of its term, may also grant, subject to the terms and conditions of the Plan, Rights in respect of all or part of such Option to the Participant who has been granted the Option, provided that at such time the Participant is a Key Employee. No Right shall be exercisable prior to six months from the date of grant, except as otherwise provided in Section 12(b).

(c) The holder of an Option or Right who decides to exercise the Option or Right in whole or in part shall give notice to the Secretary of American of such exercise in writing on a form approved by the Committee. A notice exercising a Right shall also specify the extent, if any, to which the Participant elects to receive cash, and shall be subject to the determination by the Committee as provided in Section 5(f). Any exercise shall be effective as of the date specified in the notice of exercise, but not earlier than the date the notice of exercise, together with, in the case of exercise of an Option, payment in full of the Option price, is actually received and in the hands of the Secretary of American.

(d) To the extent an Option is exercised in whole or in part, any Right granted in respect of such Option (or part thereof) shall terminate and cease to be exercisable. To the extent a Right is exercised in whole or in part, the Option (or part thereof) in respect

of which such Right was granted shall terminate and cease to be exercisable.

(e) Subject to Sections 5(b) and 14, a Right granted with an accompanying Option shall be exercisable only during the period in which the Option (or part thereof) in respect of which such Right was granted is exercisable, except that when the Right is held by a person who is, or within the preceding six months has been, a director or an officer of American for purposes of Section 16(b) of the Exchange Act who elects to receive cash for all or part of the payments upon exercise, or who exercises for such cash, the person may so elect or exercise such Right

-4-

only during any period beginning on the third business day following the date of release of a summary statement of American's quarterly or annual sales and earnings and ending on the twelfth business day following such date.

(f) The Committee shall have sole discretion to determine the form in which payment will be made following exercise of a Right. All or any part of the obligation arising out of an exercise of a Right may be settled

(i) by payment in shares of Common Stock with a fair market value equal to the cash that would otherwise be paid,

(ii) by payment in cash, or

(iii) by payment in a combination of such shares and cash.

(g) To the extent that any Right that shall have become exercisable shall not have been exercised or cancelled or, by reason of any termination of employment, shall have become non-exercisable, it shall be deemed to have been exercised automatically, without any notice of exercise, on the last day on which its related Option is exercisable, provided that any conditions or limitations on its exercise (other than (i) notice of exercise and (ii) exercise or election to exercise during the period prescribed in Section 5(e)) are satisfied and the Right shall then have value. Such exercise shall be deemed to specify that, subject to determination by the Committee as provided in Section 5(f), the holder elects to receive cash and that such exercise of a Right shall be effective as of the time of the exercise.

#### 6. Awards of Restricted Stock

The terms and conditions with respect to each Award of Restricted Stock under the Plan shall be consistent with the following:

(a) The provisions of Awards of Restricted Stock need not be the same with respect to each Participant. Each Award of Restricted Stock shall be subject to forfeiture as set forth in the Plan and may be otherwise subject to forfeiture as set forth in the provisions of such Award.

(b) Each Participant receiving an Award of Restricted Stock shall be issued a certificate in respect of such shares of Restricted Stock. Such certificate shall be registered in the name of such Participant and shall bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Award. The Committee may require that the certificates evidencing such shares be held in custody by American until the restrictions thereon shall have lapsed and that, as a condition of any Award of Restricted Stock, the Participant shall have delivered a stock power, endorsed in blank, relating to the Common Stock covered by such Award.

(c) Shares of Restricted Stock shall be subject to the restrictions set forth in this Section 6(c).

(i) Subject to the provisions of the Plan and the applicable Award Agreement, during the period established by the Committee commencing

-5-

on the date of such Award (the "Restriction Period"), the Participant shall not be permitted to sell, assign, transfer, pledge or otherwise encumber such shares of Restricted Stock. Within these limits, the Committee may provide for the lapse of such restrictions in installments and may accelerate or waive any or all of such restrictions, in whole or in part, based on service, performance and such other factors or criteria as the Committee may determine.

(ii) Subject to Section 10(e) and except as provided in this Section 6(c), the Participant shall have, with respect to shares of Restricted Stock issued to such Participant under the Plan, all of the rights of a holder of Common Stock of American, including the right to vote the shares and the right to receive any cash dividends. Unless otherwise determined by the Committee, cash dividends shall be automatically reinvested in additional shares of Common Stock which shall be treated as Restricted Stock under this Section 6 and dividends payable in Common Stock shall be treated as additional shares of Restricted Stock subject to the same restrictions and other terms and conditions that apply to the shares with respect to which such dividends are issued.

(iii) Except to the extent otherwise provided in this Section 6(c), in Section 12(c) or 12(d) or in the applicable Award Agreement, upon termination of a Participant's employment with the Company for any reason during the Restriction Period, all shares still subject to restriction shall be forfeited by the Participant. Except to the extent otherwise provided in the applicable Award Agreement, if the Participant's employment shall terminate and cease by reason of disability, retirement under a retirement plan of the Company or death, the Restriction Period with respect to any shares of Restricted Stock then held shall expire as of the date of such disability, retirement or death.

(iv) Upon expiration of the Restriction Period with respect to any shares of the Restricted Stock without a prior forfeiture thereof, the holder of such shares shall have the right to receive in exchange for the certificates representing such shares unlegended certificates for such shares.

## 7. Performance Awards

The terms and conditions with respect to each Performance Award under the Plan shall be consistent with the following:

(a) Performance Awards may be paid in cash, shares of Common Stock (which may, but need not, be shares of Restricted Stock pursuant to Section 6), or any combination thereof. The Committee shall determine the nature, length and starting date of the Performance Period for each Performance Award which shall be at least two years (subject to Sections 12(c) and 12(d)) and shall determine the performance objectives to be used in valuing Performance Awards and determining the extent to which such Performance Awards have been earned. Performance objectives may vary from Participant to Participant and between groups of Participants and shall be based upon revenues, operating income, operating company contribution, cash flow, income before income taxes, net income, earnings per share, return on equity or assets or total return to

-6-

stockholders, whether applicable to the Company or any relevant Subsidiary or business unit, or any combination thereof, as the Committee may deem appropriate. Performance Periods may overlap and Participants may participate simultaneously with respect to Performance Awards that are subject to different Performance Periods and different performance factors and criteria. The terms of Performance Awards need not be the same with respect to each Participant. The Committee shall determine for each Performance Award subject to such Performance Period the range of dollar values or number of shares of Common Stock (which may, but need not, be shares of Restricted Stock pursuant to Section 6), or combination thereof, to be received by the Participant at the end of the Performance Period if and to the extent that the relevant measures of performance for such Performance Awards are met. The factors must include a minimum performance standard below which no payment will be made and a maximum performance level above which no increased payment

will be made. No Performance Awards having an aggregate maximum dollar value in excess of \$5,000,000 or an aggregate maximum amount of Common Stock in excess of 500,000 shares shall be granted to any individual Participant on or after January 1, 1994.

(b) The Committee may adjust the performance goals and measurements applicable to Performance Awards to take into account changes in law and accounting and tax rules and to make such adjustments as the Committee deems necessary or appropriate to reflect the inclusion or exclusion of the impact of extraordinary or unusual items, events or circumstances, provided that no adjustment shall be made which would result in an increase in the compensation of any Participant whose compensation is subject to the limitation on deductibility under Section 162(m) of the Internal Revenue Code, as amended, or any successor provision, for the applicable year. The Committee also may adjust the performance goals and measurements applicable to Performance Awards and thereby reduce the amount to be received by any Participant pursuant to such Awards if and to the extent that the Committee deems it appropriate, provided that no such reduction shall be made on or after the date of a Change in Control (as defined in Section 12(b)(iii)).

(c) Except as otherwise provided in the applicable Award Agreement, if during a Performance Period a Participant's employment with the Company terminates by reason of the Participant's death, disability or retirement under a retirement plan of the Company, such Participant shall be entitled to a payment with respect to each outstanding Performance Award at the end of the applicable Performance Period (i) based, to the extent relevant under the terms of the Award, upon the Participant's performance for the portion of such Performance Period ending on the date of termination and (ii) prorated for the portion of the Performance Period during which the Participant was employed by the Company, all as determined by the Committee. The Committee may provide for an earlier payment in settlement of such Performance Award discounted at a reasonable interest rate and otherwise in such amount and under such terms and conditions as the Committee deems appropriate. Except as otherwise provided in Section 12(c) or 12(d) or in the applicable Award Agreement, if during a Performance Period a Participant's employment with the Company terminates other than by reason of the Participant's death, disability or retirement under a retirement plan of the Company, then such Participant shall not be entitled to any payment with respect to the Performance Awards relating

-7-

to such Performance Period, unless the Committee shall otherwise determine.

(d) The earned portion of a Performance Award may be paid currently or on a deferred basis with such interest or earnings equivalent as may be determined by the Committee. Payment shall be made in the form of cash or whole shares of Common Stock, either in a single payment or in annual installments, all as the Committee shall determine.

(e) If a Participant engages in detrimental activity (as hereinafter defined) at any time (whether before or after termination of employment), any Performance Award that has not been paid to such Participant (or is not payable as provided in Section 12(c) or 12(d)) prior to the date such activity has been determined by the Committee to constitute detrimental activity shall be forfeited and shall never become payable. For purposes of this Section 7(e), "detrimental activity" shall mean willful, reckless or grossly negligent activity that is determined by the Committee, on a case-by-case basis, to be detrimental to or destructive of the business or property of American or any Subsidiary. Any such determination of the Committee shall be conclusive and binding for all purposes of the Plan. Notwithstanding the foregoing, no Performance Award shall be forfeited or become not payable by virtue of this Section 7(e) on or after the date of a Change in Control (as defined in Section 12(b)(iii)).

#### 8. Other Stock-Based Awards

The Committee may grant other Awards under the Plan pursuant to which shares of Common Stock (which may, but need not, be shares of Restricted Stock pursuant to Section 6) are or may in the future be acquired, or

Awards denominated in stock units, including ones valued using measures other than market value. Such Other Stock-Based Awards may be granted alone, in addition to or in tandem with any Award of any type granted under the Plan and must be consistent with the purposes of the Plan.

#### 9. Dividend Equivalents

Any Awards (other than Awards of Options or Rights) under the Plan may, in the discretion of the Committee, earn dividend equivalents. In respect of any such Award which is outstanding on a dividend record date for Common Stock the Participant may be credited with an amount equal to the cash or stock dividends or other distributions that would have been paid on the shares of Common Stock covered by such Award had such covered shares been issued and outstanding on such dividend record date. The Committee shall establish such rules and procedures governing the crediting of dividend equivalents, including the timing, form of payment and payment contingencies of such dividend equivalents, as it deems are appropriate or necessary.

#### 10. Limitations and Conditions

(a) The total number of shares of Common Stock that may be made subject to Awards under the Plan on or after January 1, 1994 is 12,000,000 shares. Such total number of shares may consist, in whole or in part, of unissued shares or reacquired shares. Not more than 2,000,000 shares of Common Stock may be made subject to Awards under the

-8-

Plan to any individual Participant on or after January 1, 1994, which limitation shall be applied in a manner consistent with the requirements of Section 162(m) of the Internal Revenue Code, as amended. The foregoing numbers of shares may be increased or decreased by the events set forth in Section 12(a). In the event that the Company makes an acquisition or is a party to a merger or consolidation and American assumes the options or other awards consistent with the purpose of this Plan of the company acquired, merged or consolidated which are administered pursuant to this Plan, shares of Common Stock subject to the assumed options or other awards shall not count as part of the total number of shares of Common Stock that may be made subject to Awards under this Plan.

(b) Any shares that have been made subject to an Award that cease to be subject to the Award (other than by reason of exercise or payment of the Award to the extent it is settled in shares) shall again be available for award and shall not be considered as having been theretofore made subject to award. Any shares subject to option under an Option (or part thereof) that is cancelled upon exercise of a Right when settled wholly or partially in shares shall to the extent of such settlement in shares be treated as if the Option itself were exercised and such shares received in settlement of the Right shall no longer be available for grant.

(c) No Awards shall be made under the Plan after December 31, 1999, but the terms of Awards granted on or before the expiration thereof may extend beyond such expiration. At the time an Award is granted or amended or the terms or conditions of an Award are changed, the Committee may provide for limitations or conditions on such Award.

(d) No Award or portion thereof shall be transferable by the Participant otherwise than by will or by the laws of descent and distribution, except that an Option and related Right may be transferred by gift to any member of the holder's immediate family or to a trust for the benefit of such immediate family members, if permitted in the applicable Award Agreement. A Right shall never be transferred except to the transferee of the related Option. During the lifetime of the Participant, an Option or Right shall be exercisable only by the Participant unless it has been transferred to a member of the holder's immediate family or to a trust for the benefit of such immediate family members, in which case it shall be exercisable only by such transferee. For the purpose of this provision, a holder's "immediate family" shall mean the holder's spouse, children and grandchildren.

(e) No person who receives an Award under the Plan which includes

shares of Common Stock or the right to acquire shares of Common Stock (which may include shares of Restricted Stock pursuant to Section 6) shall have any rights of a stockholder (i) as to shares under option until, after proper exercise of the Option, such shares have been recorded on American's official stockholder records as having been issued or transferred, (ii) as to shares to be delivered following exercise of a Right until, after proper exercise of the Right and determination by the Committee to make payment therefor in shares, such shares shall have been recorded on American's official stockholder records as having been issued or transferred, or (iii) as to shares included in Awards of Restricted Stock, Performance Awards or Other

-9-

Stock-Based Awards, until such shares shall have been recorded on American's official stockholder records as having been issued or transferred.

(f) American shall not be obligated to deliver any shares until they have been listed (or authorized for listing upon official notice of issuance) upon each stock exchange upon which outstanding shares of such class at the time are listed nor until there has been compliance with such laws or regulations as American may deem applicable. American shall use its best efforts to effect such listing and compliance. No fractional shares shall be delivered.

(g) Nothing contained herein shall affect the right of the Company to terminate any Participant's employment at any time or for any reason.

#### 11. Transfers and Leaves of Absence

For purposes of the Plan: (a) a transfer of a Participant's employment without an intervening period from American to a Subsidiary or vice versa, or from one Subsidiary to another, shall not be deemed a termination of employment, and (b) a Key Employee who is granted in writing a leave of absence shall be deemed to have remained in the employ of the Company during such leave of absence.

#### 12. Stock Adjustments, Change in Control and Divestitures

(a) In the event of any merger, consolidation, stock or other non-cash dividend, extraordinary cash dividend, split-up, spin-off, combination or exchange of shares, reorganization or recapitalization or change in capitalization, or any other similar corporate event, the Committee may make such adjustments in (i) the aggregate number of shares subject to the Plan and the number of shares that may be made subject to Awards to any individual Participant as set forth in Section 10(a), (ii) the number and kind of shares that are subject to any Option (including any Option outstanding after termination of employment) and the Option price per share without any change in the aggregate Option price to be paid therefor upon exercise of the Option, (iii) the number and kind of Rights granted or that may be granted under the Plan, (iv) the number and kind of shares of outstanding Restricted Stock, (v) the number and kind of shares of Common Stock covered by a Performance Award or Other Stock-Based Award and (vi) the number of outstanding dividend equivalents, as the Committee shall deem appropriate in the circumstances. The determination by the Committee as to the terms of any of the foregoing adjustments shall be conclusive and binding.

(b) (i) In the event of a Change in Control (as defined in Section 12(b)(iii)), then each Option or Right held by a Participant that is not then exercisable shall become immediately exercisable and shall remain exercisable as provided in Section 5 notwithstanding anything to the contrary in the first sentence of Section 5(a)(ii) or in Section 5(b); provided, however, that, no such Option or Right held by any person who is subject to Section 16 of the Exchange Act (a "Section 16 Participant") shall become so exercisable until the day after the expiration of six months from its date of grant (or until such Participant's death, if earlier). In addition, unless the Committee otherwise determines at the time of grant or at any time

-10-

thereafter but prior to such Change in Control, (a) each Limited Right outstanding at the time of such Change in Control (except Limited Rights held by any Section 16 Participant that have not been outstanding at the time of such Change in Control for at least six months from the date of grant) shall be deemed to be automatically exercised as of the date of such Change in Control or as of such other date during the 60-day period beginning on the date of such Change in Control as the Committee may determine prior to such Change in Control, and (b) each Limited Right held by any Section 16 Participant that has not been outstanding at the time of such Change in Control for at least six months from the date of grant (such six-month period being hereinafter referred to as the "Holding Period") shall be deemed to be automatically exercised as of the day after the expiration of the Holding Period or as of such other day during the 60-day period beginning on the day after the expiration of the Holding Period as the Committee may determine prior to such Change in Control. In the event that the Limited Right is not automatically exercised, the Participant (other than a Section 16 Participant who has not held such Limited Right for the Holding Period) may during the 60-day period beginning on the date of the Change in Control, and the Participant who is a Section 16 Participant and has not held such Limited Right for the Holding Period may during the 60-day period beginning on the later of the date of the Change in Control and the day after the expiration of the Holding Period (the applicable 60-day period for any Participant being herein referred to as the "Limited Right Exercise Period"), in lieu of exercising such Option or Right in whole or in part, exercise the Limited Right (or part thereof) pertaining to such Option. Such Participant, whether the exercise is pursuant to his election or automatic pursuant to the terms hereof, shall be entitled to receive in cash an amount determined by multiplying the number of shares subject to such Option (or part thereof) by the amount by which the exercise price of each share is exceeded by (A) if such Option is an Incentive Stock Option, the fair market value of such shares at the date of exercise or (B) if such Option is a Nonqualified Stock Option, the greater of (x) the highest purchase price per share paid for the shares of the Company beneficially acquired in the transaction or series of transactions resulting in the Change in Control by the person or persons deemed to have acquired control pursuant to the Change in Control (except that this clause (x) shall not be applicable to the extent that such price is based on a transaction or series of transactions that has occurred prior to the expiration of six months from the date of grant of such Option if at either the date of grant or the time of exercise the person holding such Option is subject to Section 16 of the Exchange Act) and (y) the highest fair market value of shares of Common Stock during the Limited Right Exercise Period prior to the time of exercise. A Limited Right shall be exercised in whole or in part by giving written notice of such exercise on a form approved by the Committee to the Secretary of American, except that no such written notice shall be required in the event such Limited Right is automatically exercised pursuant to the terms hereof. The exercise shall be effective as of the date specified in the notice of exercise, but not earlier than the date the notice of exercise is actually received and in the hands of the Secretary of American. In the event the last day of a Limited Right Exercise Period shall fall on a day that is not a business day, then the last day thereof shall be deemed to be the next following business day. To the extent an Option or a

-11-

Right pertaining thereto is exercised in whole or in part, the Limited Right in respect of such Option shall terminate and cease to be exercisable. To the extent a Limited Right is exercised in whole or in part, the Option (or part thereof) to which such Limited Right pertains and the Right (or part thereof) pertaining to such Option (or part thereof) shall terminate and cease to be exercisable.

(ii) Notwithstanding anything to the contrary in the first sentence of Section 5(a)(ii) or in 5(a)(iv) or 5(b), the provisions of this Section 12(b)(ii) will be applicable in the event of a termination of a Participant's employment on or after a Change in Control and prior to the expiration of the Limited Right Exercise Period applicable thereto. No Option, Right or Limited Right held by a Participant shall terminate or cease to be exercisable as a result of his termination of employment on or after a Change in Control and prior to

the expiration of the Limited Right Exercise Period applicable thereto, but shall be exercisable throughout the Limited Right Exercise Period applicable thereto; provided, however, that in no event shall any Option or Right be exercisable after ten years from its date of grant (except in the event of death as provided in Section 5(a)(iv)). However, in the event such Option or Right or the Option to which such Limited Right pertains has not, on the date of termination, been held for more than six months from the date of its grant, the preceding sentence shall apply only if such Participant has been terminated other than for just cause (as hereinafter defined) or has voluntarily terminated his employment because he in good faith believes that as a result of such Change in Control he is unable effectively to discharge his duties or the duties of the position he occupied immediately prior to such Change in Control or because of a diminution in his aggregate compensation or in his aggregate benefits below that in effect immediately prior to such Change in Control. For purposes hereof, termination shall be for "just cause" only if such termination is based on fraud, misappropriation or embezzlement on the part of the Participant which results in a final conviction of a felony. Nothing in this Section 12(b) shall be in derogation of any rights otherwise provided in the Plan in respect of a Participant's Options or Rights in the event of his death, disability or retirement under a retirement plan of the Company.

(iii) A "Change in Control" shall be deemed to have occurred if (A) any person (as that term is used in Sections 13(d) and 14(d) of the Exchange Act, as in effect on November 28, 1989) is or becomes the beneficial owner (as that term is used in Section 13(d) of the Exchange Act, and the rules and regulations promulgated thereunder, as in effect on November 28, 1989) of stock of the Company entitled to cast more than 20% of the votes at the time entitled to be cast generally for the election of directors, (B) more than 50% of the members of the Board of Directors shall not be Continuing Directors (which term, as used herein, means the directors of American (x) who are members of the Board of Directors on November 28, 1989 or (y) who subsequently became directors of American and who were elected or designated to be candidates for election as nominees of the Board of Directors, or whose election or nomination for election by American's stockholders was otherwise approved, by a vote of a majority of the Continuing Directors then on the Board of Directors), (C) American shall be merged or consolidated with, or, in any transaction or series

-12-

of transactions, substantially all of the business or assets of American shall be sold or otherwise acquired by, another corporation or entity and, as a result thereof, either (1) the stockholders of American immediately prior thereto shall not directly or indirectly have at least 50% or more of the combined voting power of the surviving, resulting or transferee corporation or entity immediately thereafter or (2) any person (as that term is used in Sections 13(d) and 14(d) of the Exchange Act, as in effect on November 28, 1989) is or becomes the beneficial owner (as that term is used in Section 13(d) of the Exchange Act, and the rules and regulations promulgated thereunder, as in effect on November 28, 1989) of more than 20% of combined voting power of the surviving, resulting or transferee corporation or entity, or (D) any change in control of American shall have occurred of a nature that would be required to be reported in response to Item 1(a) of Form 8-K promulgated under the Exchange Act as in effect on November 28, 1989, regardless of whether American is at the time of such change in control subject to the reporting requirement thereof. Notwithstanding the foregoing, a Change in Control shall not be deemed to have occurred if an acquisition of stock that would otherwise constitute a Change in Control pursuant to clause (A) or (D) of the preceding sentence is made by the Company, by any corporation in a merger or consolidation that does not constitute a Change in Control pursuant to clause (C) of the preceding sentence or by any employee benefit plan (or related trust) sponsored or maintained by the Company.

(c) Notwithstanding any other provision of the Plan, in the event that a Participant's employment is terminated on or after a Change in Control (as defined in Section 12(b)(iii)) (x) by the Company other than for just cause (as defined in Section 12(b)(ii)) or (y) by the Participant

because the Participant in good faith believes that as a result of such Change in Control he is unable effectively to discharge his duties or the duties of the position he occupied immediately prior to such Change in Control or because of a diminution in his aggregate compensation or in his aggregate benefits below that in effect immediately prior to such Change in Control:

(i) with respect to shares of Restricted Stock then outstanding, the Restriction Period with respect to such shares shall be deemed satisfied as of the date such Participant's employment is so terminated, but only as to that portion of such shares as is equivalent to the portion of the Restriction Period applicable thereto that has been satisfied as of such date without regard to this Section 12(c) (i); as of such date, the portion of such shares as to which the Restriction Period is deemed satisfied pursuant to this Section 12(c) (i) shall become nonforfeitable and all other of such shares shall be forfeited; and

(ii) with respect to Performance Awards and Other Stock-Based Awards, including shares of Common Stock covered thereby, all such Performance Awards and Other Stock-Based Awards shall become nonforfeitable and shall be paid out on the date such Participant's employment is so terminated (A) as if all Performance Periods or other conditions or restrictions applicable thereto had been completed or satisfied, the maximum performance or other objectives with respect thereto had been attained and all Awards granted with respect thereto

-13-

had been fully earned, but (B) prorated for the portion of any relevant Performance Period or other period ending on the date such Participant's employment is so terminated, unless prior to the Change in Control the Committee otherwise so provides.

(d) In the case of a Participant whose principal employer is a Subsidiary, then such Participant's employment shall be deemed to be terminated for purposes of Sections 6 through 9 as of the date on which such principal employer ceases to be a Subsidiary (the "Divestiture Date") and, except to the extent otherwise determined by the Committee and set forth in the applicable Award Agreement:

(i) with respect to shares of Restricted Stock held by such Participant, the Restriction Period shall be deemed satisfied as of the Divestiture Date, but only as to that portion of such shares as is equivalent to the portion of the Restriction Period applicable thereto that has been satisfied as of the Divestiture Date without regard to this Section 12(d) (i); as of the Divestiture Date, the portion of such shares as to which the Restriction Period is deemed satisfied pursuant to this Section 12(d) (i) shall become nonforfeitable and all other of such shares shall be forfeited; and

(ii) with respect to Performance Awards and Other Stock-Based Awards, including shares of Common Stock covered thereby, all such Performance Awards and Other Stock-Based Awards shall become nonforfeitable and shall be paid out on the Divestiture Date (A) as if all Performance Periods or other conditions or restrictions applicable thereto had been completed or satisfied, the maximum performance or other objectives with respect thereto had been attained and all Awards granted with respect thereto had been fully earned, but (B) prorated for the portion of the relevant Performance Period or other period ending on the Divestiture Date, all as determined by the Committee.

In the event of a termination of the Plan, then each Participant's employment shall be deemed to be terminated for purposes of Sections 6 through 9 as of the date of such termination of the Plan and, except to the extent otherwise determined by the Committee and set forth in the applicable Award Agreement, the foregoing provisions of clauses (i) and (ii) of this Section 12(d) shall apply to such Participant's shares of Restricted Stock, Performance Awards and Other Stock-Based Awards with the same effect as if the date of such termination of the Plan were a Divestiture Date.

(a) The Board of Directors shall have the power to amend the Plan, including the power to change the amount of the aggregate fair market value of the shares subject to Incentive Stock Options first exercisable in any calendar year under Section 5 to the extent provided in Section 422, or any successor provision, of the Internal Revenue Code. It shall not, however, except as otherwise provided in the Plan, increase the maximum number of shares authorized for the Plan, nor change the class of eligible employees to other than Key Employees, nor reduce the basis upon which the minimum Option price is determined, nor extend the period within which Awards under the Plan may be granted, nor provide for an Option that is exercisable more than ten years from the date it is

-14-

granted except in the event of death. It shall have no power to change the terms of any Award theretofore granted under the Plan so as to impair the rights of a Participant without the consent of the Participant whose rights would be affected by such change except to the extent, if any, provided in the Plan or in the Award.

(b) The Board of Directors may suspend or terminate the Plan at any time. No such suspension or termination shall affect Options, Rights or Limited Rights then in effect.

#### 14. Foreign Options and Rights

(a) The Committee may grant Awards to Key Employees who are subject to the tax laws of nations other than the United States, which Awards may have terms and conditions that differ from the terms thereof as provided elsewhere in the Plan for the purpose of complying with the foreign tax laws. Awards of Options may have terms and conditions that differ from Incentive Stock Options and Nonqualified Stock Options for the purposes of complying with the foreign tax laws.

(b) The Committee may grant stock appreciation rights to Key Employees without the grant of an accompanying Option if the Key Employees are subject at the time of grant to the laws of a jurisdiction that prohibits them from owning Common Stock. The Rights shall permit the Key Employees to receive, at the time of any exercise of such Rights, cash equal to the amount by which the fair market value of all shares of Common Stock in respect to which the Right was granted exceeds the exercise price thereof.

(c) The terms and conditions of Options and Rights granted under Sections 14(a) and 14(b) may differ from the terms and conditions which the Plan would require to be imposed upon Incentive Stock Options, Nonqualified Stock Options and Rights if the Committee determines that the grants are desirable to promote the purposes of the Plan for the Key Employees identified in Sections 14(a) and 14(b); provided that the Committee may not grant such Options or Rights that do not comply with the limitations of Section 13(a).

#### 15. Withholding Taxes

The Company shall have the right to deduct from any cash payment made under the Plan any federal, state or local income or other taxes required by law to be withheld with respect to such payment. It shall be a condition to the obligation of American to deliver shares upon the exercise of an Option or Right, upon payment of a Performance Award, upon delivery of Restricted Stock or upon exercise, settlement or payment of any Other Stock-Based Award that the Participant pay to the Company such amount as may be requested by the Company for the purpose of satisfying any liability for such withholding taxes. Any Award Agreement may provide that the Participant may elect, in accordance with any conditions set forth in such Award Agreement, to pay any withholding taxes in shares of Common Stock.

#### 16. Effective Date

The Plan as originally approved by the stockholders of American, was effective on and as of May 8, 1990. The Plan, as amended and restated,

-15-

shall be effective on and as of January 1, 1994 subject to approval thereof by the stockholders of American.

AMENDMENT TO THE  
AMERICAN BRANDS, INC.  
1986 STOCK OPTION PLAN  
-----

1. Paragraph (d) of Section 5 is hereby amended in its entirety as follows:

(d) If a Participant's employment with the Company terminates other than by reason of the Participant's death, disability or retirement under a retirement plan of the Company, the Participant's Option shall terminate and cease to be exercisable except as otherwise provided in paragraph (b) of Section 10. If a Participant's employment with the Company terminates by reason of death, disability or retirement under a retirement plan of the Company, the Participant's Option shall continue to be exercisable until the expiration date stated in the option, provided that a Nonqualified Stock Option may be exercised within one year from the date of death even if later than such expiration date. If the terms of an Option provide for its expiration prior to ten years from its date of grant, the Committee may at any time extend the expiration date of the Option but not beyond ten years from its date of grant.



August 11, 1994

Securities and Exchange Commission  
450 5th Street, N.W.  
Attention: Filing Desk, Stop 1-4  
Washington, D.C. 20549-1004

Re: American Brands, Inc.

We are aware that our report dated August 11, 1994, on our review of interim financial information of American Brands, Inc. and Subsidiaries for the three-month and six-month periods ended June 30, 1994 and 1993 included in this Form 10-Q, has been incorporated by reference into (a) Post-Effective Amendment No. 4 to the Registration Statement on Form S-8 (Registration No. 33-13363) relating to the Profit-Sharing Plan of American Brands, Inc., the Registration Statement on Form S-8 (Registration No. 33-45869) relating to the Profit-Sharing Plan of The American Tobacco Company and the Registration Statement on Form S-8 (Registration No. 33-39855) relating to the 1990 Long-Term Incentive Plan of American Brands, Inc., and the prospectuses related thereto, and (b) the prospectuses related to the Registration Statements on Form S-3 (Registration Nos. 33-50832, 33-42397, 33-23039 and 33-3985) of American Brands, Inc. Pursuant to Rule 436(c) under the Securities Act of 1933, this report should not be considered a part of such registration statements or prospectuses or certification by us within the meaning of Sections 7 and 11 of that Act.

Very truly yours,

COOPERS & LYBRAND L.L.P.

1301 Avenue of the Americas  
New York, New York 10019

-----  
CONSENT OF COUNSEL

We consent to the incorporation by reference of our opinions contained in Part II, Item 1, "Legal Proceedings", of this Quarterly Report on Form 10-Q of American Brands, Inc. into (a) Post-Effective Amendment No. 4 to the Registration Statement on Form S-8 (Registration No. 33-13363) relating to the Profit-Sharing Plan of American Brands, Inc., the Registration Statement on Form S-8 (Registration No. 33-45869) relating to the Profit-Sharing Plan of The American Tobacco Company and the Registration Statement on Form S-8 (Registration No. 33-39855) relating to the 1990 Long-Term Incentive Plan of American Brands, Inc., and the prospectuses related thereto, and (b) the prospectuses related to the Registration Statements on Form S-3 (Registration Nos. 33-50832, 33-42397, 33-23039 and 33-3985) of American Brands, Inc.

CHADBOURNE & PARKE

30 Rockefeller Plaza  
New York, New York 10112  
August 11, 1994