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 September 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 October 31, 1994 was 201,390,682 shares.

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

AMERICAN BRANDS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(In millions)

	September 30, 1994 (Unaudited)	December 31, 1993
Assets		
Consumer products and corporate		
Current assets		

Cash and cash equivalents	$ 92.6	$ 62.5
Accounts receivable, net	1,334.4	1,241.6
Inventories	1,702.7	2,043.2
Other current assets	279.4	385.8
Total consumer products and corporate current assets	3,409.1	3,733.1
Property, plant and equipment, net	1,386.3	1,472.1
Intangibles resulting from business acquisitions, net	3,578.0	3,637.9
Other assets	414.6	379.4
Total consumer products and corporate assets	8,788.0	9,222.5
Life insurance		
Investments	6,238.8	5,808.8
Cash and cash equivalents	92.7	79.1
Deferred policy acquisition costs	499.3	470.5
Present value of future profits, net	177.2	170.0
Other assets	364.9	588.1
Total life insurance assets	7,372.9	7,116.5
Total assets	$16,160.9	$16,339.0

See Notes to Condensed Consolidated Financial Statements.

AMERICAN BRANDS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

(In millions, except per share amounts)

	September 30, 1994	December 31, 1993
	(Unaudited)	
Liabilities and stockholders' equity		
Consumer products and corporate		
Current liabilities		
Notes payable to banks	$ 167.7	$ 298.9
Commercial paper	300.8	711.3
Accounts payable, accrued expenses and other liabilities	1,051.4	1,248.5
Accrued excise and other taxes	1,077.6	726.3
Current portion of long-term debt	303.6	172.7
Total consumer products and corporate current liabilities	2,901.1	3,157.7
Long-term debt	2,120.5	2,492.4
Deferred income taxes	121.8	124.7
Postretirement and other liabilities	511.3	520.3
Total consumer products and corporate liabilities	5,654.7	6,295.1
Life insurance		
Policy reserves and claims	2,723.8	2,553.4
Investment-type contract deposits	2,849.1	2,732.3
Other liabilities	447.3	486.8

Total life insurance liabilities	6,020.2	5,772.5
$2.67 Convertible Preferred stock - redeemable at Company's option	16.0	17.1
Common stockholders' equity		
Common stock, par value $3.125 per share, 229.6 shares issued	717.4	717.4
Paid-in capital	170.6	173.3
Unrealized (depreciation) appreciation on available-for-sale investments	(7.0)	5.3
Foreign currency adjustments	(234.6)	(317.4)
Retained earnings	4,556.3	4,393.4
Treasury stock, at cost	(732.7)	(717.7)
Total Common stockholders' equity	4,470.0	4,254.3
Total liabilities and stockholders' equity	$16,160.9	$16,339.0

See Notes to Condensed Consolidated Financial Statements.

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

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

	1994	1993
Revenues		
Consumer products	$ 9,396.4	$9,120.6
Life insurance	785.3	765.0
	10,181.7	9,885.6
Operating expenses		
Cost of products sold	2,862.7	2,659.0
Excise taxes on products sold	3,825.1	3,796.5
Insurance benefits	540.1	473.4
Advertising, selling and administrative expenses		
Consumer products	1,738.5	1,722.0
Life insurance	139.3	134.5
Amortization of intangibles	80.9	69.7
Restructuring charges, net	-	35.2
	9,186.6	8,890.3
Operating income	995.1	995.3
Interest and related charges	177.9	183.8
Corporate administrative expenses	52.7	50.7
Other expenses (income), net	6.4	(5.9)
	237.0	228.6
Income before income taxes	758.1	766.7
Income taxes	293.1	283.3
Income before cumulative effect of accounting changes	465.0	483.4
Cumulative effect of accounting changes (net of income taxes of $124)	-	(201.0)
Net income	$ 465.0	$ 282.4

See Notes to Condensed Consolidated Financial Statements.

AMERICAN BRANDS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF INCOME
for the Nine Months Ended September 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	$2.30	$2.39
Cumulative effect of accounting changes	-	(.99)
Net income	$2.30	$1.40
Fully diluted		
Income before cumulative effect of accounting changes	$2.25	$2.33
Cumulative effect of accounting changes	-	(.95)
Net income	$2.25	$1.38
Dividends paid per Common share	$1.4925	$1.4775
Average number of Common shares outstanding during each period		
Primary	201.6	201.8
Fully diluted	213.6	213.7

See Notes to Condensed Consolidated Financial Statements.

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

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

	1994	1993
Revenues		
Consumer products	$3,354.6	$3,046.2
Life insurance	300.9	255.8
	3,655.5	3,302.0
Operating expenses		
Cost of products sold	974.0	906.8
Excise taxes on products sold	1,456.5	1,319.8
Insurance benefits	220.1	162.8
Advertising, selling and administrative expenses		
Consumer products	589.3	565.3
Life insurance	42.8	45.4
Amortization of intangibles	27.4	23.9
Restructuring charge	-	30.0
	3,310.1	3,054.0
Operating income	345.4	248.0
Interest and related charges	56.8	60.1
Corporate administrative expenses	24.0	26.5
Other expenses (income), net	1.5	0.8
	82.3	87.4
Income before income taxes	263.1	160.6
Income taxes	111.2	75.6
Net income	$ 151.9	$ 85.0
Earnings per Common share		
Primary	$.75	$.42
Fully diluted	$.73	$.42
Dividends paid per Common share	$.50	$.4925
Average number of Common shares outstanding during each period		
Primary	201.3	201.7
Fully diluted	213.3	213.5

See Notes to Condensed Consolidated Financial Statements.

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

(In millions)
(Unaudited)

	1994	1993
Operating activities		
Net income	$ 465.0	$ 282.4
Changes in accounting principles	-	201.0
Depreciation and amortization	235.9	219.1
Loss (gain) on dispositions and investments, net	2.1	(76.7)
(Increase) decrease in accounts receivable	(57.8)	146.0
Decrease in inventories	334.3	49.8
Decrease in accounts payable, accrued expenses and other liabilities	(172.0)	(106.8)
Increase in accrued excise & other taxes	312.3	50.5
Increase in insurance policy and investment-type contract related liabilities	295.3	227.9
Purchase of trading securities	(229.8)	-

Proceeds from sale of trading securities	235.6	-
Other operating activities, net	9.1	91.9
Net cash provided from operating activities	1,430.0	1,085.1
Investing activities		
Additions to property, plant and equipment	(124.9)	(157.3)
Acquisition	(14.4)	(107.2)
Proceeds from sale of operations, net of cash	123.4	-
Purchases of investments	(714.4)	(1,691.3)
Proceeds from the maturity, call and sale of investments	462.3	1,308.4
Other investing activities, net	9.2	14.6
Net cash used by investing activities	(258.8)	(632.8)
Financing activities		
Deposits on annuity and other financial products	250.8	294.5
Withdrawals of annuity and other financial products	(254.0)	(193.5)
Decrease in short-term debt	(558.0)	(0.5)
Issuance of long-term debt	34.6	164.9
Repayment of long-term debt	(293.9)	(391.4)
Dividends to stockholders	(302.1)	(299.4)
Other financing activities, net	(18.7)	(63.0)
Net cash used by financing activities	(1,141.3)	(488.4)
Effect of foreign exchange rate changes on cash	13.8	(9.3)
Net increase (decrease) in total cash and cash equivalents	43.7	(45.4)
Total cash and cash equivalents at beginning of period	141.6	140.2
Total cash and cash equivalents at end of period	$ 185.3	$ 94.8

See Notes to Condensed Consolidated Financial Statements.

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

1. Principles of Consolidation

The condensed consolidated balance sheet as of September 30, 1994, the related condensed consolidated statements of income for the three-month and nine-month periods ended September 30, 1994 and 1993 and the related condensed consolidated statement of cash flows for the nine-month periods ended September 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.

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," requiring, among other things, that trading securities purchased with the intent of being sold in the near term be carried at fair value and the applicable unrealized gains and losses be 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):

2. Accounting Changes (Concluded)

	FAS Statements No. 106	FAS Statements No. 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 proceeds from the sale could be used for share purchases, debt reduction, strategic acquisitions or other general corporate purposes. The transaction is subject to conditions, including review by government antitrust agencies. The Federal Trade Commission is challenging the sale and is seeking to enjoin it in court.

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):

	Nine Months Ended September 30, 1994	Nine Months Ended September 30, 1993	Year Ended December 31, 1993
Revenues	$1,207.4	$1,143.1	$1,501.5
Operating income	$174.2	$158.7	$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.

4. Disposition

On July 12, 1994, Dollond & Aitchison Group PLC, a United Kingdom-based subsidiary of Gallaher Limited, was sold for a total consideration of about 94 million pounds ($146 million), which approximated the carrying value of the company.

5. 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.

6. Inventories

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

	September 30, 1994	December 31, 1993
Leaf tobacco	$ 446.3	$ 477.7
Bulk whiskey	362.7	359.3
Other raw materials, supplies and work in process	290.5	306.9
Finished products	603.2	899.3
	$1,702.7	$2,043.2

7. The Franklin Life Insurance Company

Summarized income statement data for Franklin (in millions):

	Nine Months Ended September 30,		Three Months Ended September 30,	
	1994	1993	1994	1993
Revenues				
Premiums	$381.9	$329.1	$160.1	$110.6
Net investment income	356.4	347.3	118.3	117.1
Investment gains (losses)	(4.3)	51.3	5.6	11.9
Other income	51.3	37.3	16.9	16.2
	785.3	765.0	300.9	255.8
Insurance benefits	540.1	473.4	220.1	162.8
Advertising, selling and administrative expenses	139.3	134.5	42.8	45.4
Amortization of intangibles and present value of future profits	9.0	8.4	3.3	2.8
	688.4	616.3	266.2	211.0
Operating income	96.9	148.7	34.7	44.8
Income taxes	37.0	54.5	11.9	18.8
Income before cumulative effect of accounting change	59.9	94.2	22.8	26.0
Cumulative effect of accounting change (net of income taxes of $10.9)	-	(20.6)	-	-
Net income	$ 59.9	$ 73.6	$ 22.8	$ 26.0

7. The Franklin Life Insurance Company (Concluded)

Summarized cash flow data for Franklin (in millions):

	Nine Months Ended September 30,	
	1994	1993
Net cash provided from operating activities	$ 310.0	$ 249.2
Investing activities		
Additions to property and equipment	(3.3)	(4.1)
Purchase of investments	(714.4)	(1,691.3)

Proceeds from sale of investments	-	249.0
Proceeds from maturity and call of investments	462.3	1,059.4
Net cash used by investing activities	(255.4)	(387.0)
Financing activities		
Dividends to parent	(37.8)	(34.8)
Deposits on annuity and other financial products	250.8	294.5
Withdrawals of annuity and other financial products	(254.0)	(193.5)
Net cash (used) provided by financing activities	(41.0)	66.2
Net increase (decrease) in cash and cash equivalents	$ 13.6	$ (71.6)

8. Credit Facilities

The Company 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.

9. Supplementary Profit and Loss Information

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	1994	1993	1994	1993
International tobacco	$3,185.0	$3,190.1	$1,235.2	$1,117.1
Domestic tobacco	313.8	263.9	101.1	86.6
Distilled spirits	326.3	342.5	120.2	116.1
	$3,825.1	$3,796.5	$1,456.5	$1,319.8

Restructuring charges, net, for the nine-month period ended September 30, 1993 included workforce reduction provisions of $44 million in domestic tobacco and $16.7 million in international tobacco, partly offset by a $25.5 million gain in domestic tobacco on the assignment of trademarks. The restructuring charge for the three-month period ended September 30, 1993 reflected a $30 million workforce reduction provision in domestic tobacco.

The higher effective income tax rate for the nine-month period ended September 30, 1994 reflected lower reversals of tax provisions no longer required. For the three-month period ended September 30, 1994, the lower effective income tax rate reflected last year's higher taxes relating to foreign operations and the proportionally greater impact of nondeductible goodwill on reduced income.

10. 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.

11. 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.

12. 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.

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 September 30, 1994, the related condensed consolidated statements of income for the three-month and nine-month periods ended September 30, 1994 and 1993 and the related condensed consolidated statement of cash flows for the nine-month periods ended September 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.

COOPERS & LYBRAND L.L.P.

1301 Avenue of the Americas
New York, New York
November 8, 1994

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

AMERICAN BRANDS, INC. AND SUBSIDIARIES

Results of Operations for Nine Months Ended September 30, 1994 as Compared to Nine Months Ended September 30, 1993

	Revenues		Operating Income	
	1994	1993	1994	1993
	(In millions)			
Tobacco products				
International	$ 4,153.8	$4,163.9	$358.6	$343.3
Domestic	1,207.4	1,143.1	174.2	158.7
Total Tobacco	5,361.2	5,307.0	532.8	502.0
Distilled spirits	839.4	808.2	123.7	124.6
Life insurance	785.3	765.0	96.9	148.7
Hardware and home improvement products	932.3	806.9	130.7	113.5
Office products	725.7	682.4	36.6	31.3
Specialty businesses	1,537.8	1,516.1	74.4	75.2
Total Nontobacco	4,820.5	4,578.6	462.3	493.3
	$10,181.7	$9,885.6	$995.1	$995.3

CONSOLIDATED

Revenues increased 3% while operating income declined slightly. Tobacco products revenues increased 1%. Domestic tobacco revenues increased 6%, primarily from volume gains, partly offset by price changes reflecting the industrywide list price reductions in August 1993. International tobacco revenues declined slightly, primarily due to volume declines reflecting the impact of the November 1993 U.K. government budget announcement, partly offset by higher excise taxes. Record nontobacco revenues increased 5%, primarily due to new products, the acquisition of Invergordon and price increases, partly offset by the effects of the sale of the optical group in July 1994 and volume declines. Tobacco products operating income rose 6%, primarily from favorable comparisons to last year's $35.2 million restructuring charges and $29.5 million in domestic tobacco trade inventory buydown costs. Last year's restructuring charges included $60.7 million related to tobacco workforce reduction programs, partly offset by a $25.5 million gain on the assignment of domestic tobacco trademarks. Nontobacco operating income declined 6%, principally reflecting an unfavorable change in investment gains/losses in life insurance.

CONSOLIDATED (Continued)

The increase in the effective income tax rate to 38.7% from 37% in 1993 reflected lower reversals of tax provisions no longer required.

Net income was $465 million, or $2.30 per Common share, for the nine months ended September 30, 1994, compared to net income of $282.4 million, or $1.40 per share, and income before accounting changes of $483.4 million, or $2.39 per share, last year. Last year included a one-time charge related to the adoption of FAS Statements No. 106 and 112.

Despite intense competition, international tobacco is expected to achieve operating income growth for the full year. In distilled spirits, in spite of widespread competitive conditions creating pressure on pricing and margins, modest growth in operating income is anticipated for 1994.

Overall for American Brands, last year's results benefited from extraordinarily high investment gains at Franklin Life of $93 million, including $41 million in the fourth quarter, compared with a loss of $4 million for the first nine months of 1994. Conversely, last year's net income included a $198 million charge related to the adoption of FAS Statements No. 106, 112 and 115. The Company anticipates that earnings per share excluding these items will increase for the year, though reported earnings per share before accounting changes may well show a modest decline.

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 November 7, 1994 various subsidiaries of the Company had been designated as potentially responsible parties under "Superfund" or similar state laws with respect to 41 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

CONSOLIDATED (Concluded)

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.

Tobacco Products

Worldwide tobacco revenues increased 1% and operating income increased 6%; total cigarette units increased 6.2%.

International tobacco revenues in sterling were down 2% on a 14.3% 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 increased shipments of Benson and Hedges to Europe. U.K. cigarette industry volume declined about 10% and the underlying consumer demand is estimated to have declined in the area of 3.2%. A change in the timing of the U.K. budget announcement 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. Despite this adverse effect, which was partly offset by manufacturers' price increases in April 1994 and August 1993, Gallaher maintained its position as the number 1 tobacco company in the U.K. and its 40% estimated share of consumer sales. Operating income in sterling increased 2%, primarily on improved gross margins and favorable comparison to last year's workforce reduction provisions, partly offset by increased marketing costs on export expansion and increased support for Benson and Hedges Special Filter and higher administrative costs. Last year's marketing expenses included significant expenditures associated with the launch in January 1993 of Benson and Hedges Superkings. In dollars, revenues declined slightly and operating income increased 4% reflecting translation at higher average exchange rates.

Domestic tobacco revenues increased 6% reflecting increased volume and favorable comparison to last year's $29.5 million reduction related to a buydown of trade inventories, partly offset by the effects of the August 1993 list price reductions. American Tobacco's U.S. unit shipments increased 17.4% while industry shipments increased 8.2%, although these numbers are distorted by comparisons to last year's disrupted market conditions. American Tobacco increased its market share for the nine months to 7.23% from 6.66% last year. For the latest twelve months, American Tobacco's market share was 7.17%, compared to 6.80% last year. Unit sales of the more profitable premium brands increased 6.6%, but continue to lag the industry's performance. The underlying decline in these brands has been in excess of the overall industry decline in recent years. The industry's less profitable price-value category, comprising

Tobacco Products (Continued)

discount and deep discount brands, accounted for approximately 37% of the market in 1993 and about 33% for the first nine months of 1994. Price-value brands accounted for 56% of American Tobacco's U.S. unit sales in this year's nine months, compared to 52% in 1993's like period. American Tobacco's price-value brands increased 27.5% as discount and deep discount brands increased 39.2% and 7.7%, respectively. The discount brand increase reflected a strong unit performance by Montclair and Misty resulting from increased marketing support, while the deep discount increase largely reflected the introduction of Summit in March 1993. Operating income increased 10% on volume increases, favorable comparison to last year's $29.5 million in trade inventory buydown costs, favorable effects of workforce reductions and lower general and administrative expenses, partly offset by lower prices, a less favorable product mix, an unfavorable comparison to last year's gain on the assignment of trademarks and higher marketing expenses.

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. The transaction is subject to conditions, including review by government antitrust agencies. The Federal Trade Commission is challenging the sale and is seeking to enjoin it in court.

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

Tobacco Products (Concluded)

against liability. While the statute does not mention the tobacco industry by name, supporters of the legislation were reported as saying that tobacco manufacturers were 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 increased 4%, while operating income declined 1%.

Beam's revenues were down 4%, principally on lower domestic volume. Estimated depletions of Beam's major brands from distributors to retailers declined 2.5% in the U.S., in line with industry trends. Beam's international revenues increased 21%. Total branded case sales were down 3.1% reflecting a 7.4% decline in domestic branded case sales tempered by a 17.1% increase in international branded case sales. Operating income increased 1% as a result of lower media advertising and increased international shipments at higher margins, largely offset by the reduced domestic volume and higher international selling costs related to market development.

Whyte & Mackay's revenues in sterling increased 37% on the inclusion of Invergordon, consolidated beginning December 1, 1993. Total unit volume was up 125.6%. Excluding Invergordon, U.K. and total volume declined 16.7% and 10.6%, respectively, reflecting a more competitive environment. Operating income in sterling declined 27% as last year included a dividend from Invergordon. Excluding the dividend, operating income in sterling was up 45% on the inclusion of Invergordon.

Life Insurance

Revenues increased 3% reflecting higher premiums and net investment income, partly offset by an unfavorable change in investment gains/losses. The increase in premiums reflected the acquisition by assumption reinsurance of a large block of business in the third quarter of 1994, principally ordinary life policies. The $55.6 million unfavorable change in investment gains/losses reflected substantially lower gains from high coupon bond

Life Insurance (Concluded)

redemptions and an unfavorable change in gains/losses from equity securities (including the favorable effects from adoption of FAS Statement No. 115). 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 35%, principally reflecting the unfavorable change in investment gains/losses. Excluding the investment gains/losses, operating income increased 4% on higher revenues, lower dividends to policyholders and benefit from the reversal of an accounting reserve related to a disposed operation, partly offset by higher policy reserves and expenses related to a reengineering project.

Hardware and Home Improvement Products

Record revenues increased 16% on new products, volume gains and price increases. All four companies achieved record revenues. The major contributors with substantial increases were Moen, up on volume gains, price increases and favorable product mix, Aristokraft, up on price and volume increases including new products, and Waterloo, up on higher volume. Master Lock was up on increased volume. Record operating income was up 15% on revenue gains, partly offset by higher raw material costs at Aristokraft and higher marketing and other operating expenses at Moen.

Office Products

Record revenues increased 6% on benefits from new products and volume gains. ACCO continued to achieve share increases in the fast-growing retail channels and is well positioned for further growth. Operating income increased 17% principally on volume gains and improved operating margins.

Specialty Businesses

Specialty businesses revenues were as follows (in millions):

	Nine Months Ended September 30, 1994	Nine Months Ended September 30, 1993
Golf products	$ 417.5	$ 375.9
Optical goods and services	206.3	278.1

Retail distribution	918.9	967.4
Housewares	60.7	67.7
Rubber products	43.2	40.5
Other	5.0	5.1
	1,651.6	1,734.7
Less intersegment elimination	113.8	218.6
	$1,537.8	$1,516.1

Revenues increased 1% and operating income decreased 1%.

Record golf products revenues and operating income were up 11% and 14%, respectively. The increases primarily resulted from new golf ball products and strong volume gains in shoes and gloves. Operating income was also impacted by increased marketing and other operating expenses.

In sterling, operating income from foreign businesses declined 68%. Excluding optical, which was sold on July 12, 1994, operating income declined 1.5 million pounds, principally in retail distribution on volume declines, partly offset by price increases and lower marketing and administrative expenses. In dollars, the operating income percent change approximated the sterling result.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided from operating activities of $1.4 billion for the period ended September 30, 1994 increased $344.9 million and exceeded the funds required for capital expenditures and dividends by $1 billion. 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.

LIQUIDITY AND CAPITAL RESOURCES (Concluded)

Net cash used by investing activities for the period ended September 30, 1994 was $258.8 million compared with $632.8 million in 1993, principally reflecting lower insurance investment activity, proceeds from the sale of optical, 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 September 30, 1994 was $1.1 billion compared to $488.4 million in 1993, reflecting higher repayments.

Total debt at September 30, 1994 aggregated $2.9 billion, a decrease of $782.7 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 39.2% at September 30, 1994, although the year end ratio may be higher as a result of the November 29, 1994 U.K. budget announcement.

The Company 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.

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

	Revenues		Operating Income	
	1994	1993	1994	1993
	(In millions)			
Tobacco products				
International	$1,608.1	$1,459.2	$140.6	$133.6
Domestic	425.3	316.2	48.6	(34.5)
Total Tobacco	2,033.4	1,775.4	189.2	99.1
Distilled spirits	305.9	272.3	48.8	38.7
Life insurance	300.9	255.8	34.7	44.8
Hardware and home improvement products	334.0	288.3	44.5	37.2
Office products	260.1	237.5	15.0	12.0
Specialty businesses	421.2	472.7	13.2	16.2
Total Nontobacco	1,622.1	1,526.6	156.2	148.9
	$3,655.5	$3,302.0	$345.4	$248.0

CONSOLIDATED

Revenues and operating income increased 11% and 39%, respectively. Tobacco products revenues increased 15%. International tobacco revenues rose 10%, principally due to an increase in excise taxes and favorable foreign exchange. Domestic tobacco revenues rose 35%, primarily from volume gains and a favorable comparison to last year's $29.5 million reduction related to a buydown of trade inventories. Nontobacco revenues increased 6%, primarily from higher life insurance revenues, new products, the acquisition of Invergordon and price increases, partly offset by the effects of the sale of optical. Tobacco products operating income rose 91%, principally domestic tobacco reflecting favorable comparisons to last year's $30 million restructuring charge and $29.5 million in trade inventory buydown costs as well as this year's volume gains. Nontobacco operating income increased 5%, principally from volume gains in hardware and home improvement products and distilled spirits as well as lower marketing expenses in distilled spirits, partly offset by lower investment gains in life insurance and the absence of optical operations.

CONSOLIDATED (Concluded)

The decrease in the effective income tax rate to 42.3% from the 47.1% in 1993 reflected last year's higher taxes relating to foreign operations and the proportionally greater impact of nondeductible goodwill on reduced income.

Net income of $151.9 million, or 75 cents per Common share, was up 79%.

Tobacco Products

Worldwide tobacco revenues and operating income increased 15% and 91%, respectively; total cigarette units increased 10.2%.

International tobacco revenues in sterling were up 7% on price increases principally resulting from higher U.K. tobacco taxes and manufacturers' price increases in April 1994 and August 1993, partly offset by a 2.6% U.K. cigarette unit decline. Revenues also increased as a result of a 13.8% unit increase in export sales, mainly on increased periodic shipments to the CIS and increased shipments of Benson and Hedges to Europe. U.K. cigarette industry volume was substantially unchanged from last year's third quarter. Operating income in sterling increased 2% on higher revenues, partly offset by higher marketing and administrative costs. In dollars, revenues increased 10% and operating income increased 5% reflecting translation at higher average exchange rates.

Domestic tobacco revenues increased 35% on increased volume and higher prices, principally the favorable comparison to last year's $29.5 million reduction related to a buydown of trade inventories. American Tobacco's U.S. unit shipments increased 23.9% and industry shipments increased 5.3%, although these numbers are distorted by comparisons to last year's disrupted market conditions. American Tobacco's market share for the third quarter increased to 7.38% from 6.27% in last year's third quarter. Unit sales of the more profitable premium brands increased 9.8% in the quarter. However, the underlying decline in these brands has been in excess of the overall industry decline in recent years. The industry's less profitable price-value category, comprising discount and deep discount brands, accounted for about 32% of the market during the third quarter of 1994. Price-value brands accounted for 57% of American Tobacco's U.S. unit sales in the third quarter, compared to 52% in last year's third quarter. American Tobacco's price-value brands increased 36.9% as discount and deep discount brands increased 53% and 9.9%, respectively. The discount brand increase reflected a strong unit performance by Montclair and Misty resulting from increased marketing support. The deep discount increase reflected higher unit sales of all brands. Operating income of $48.6 million in 1994 compared to a loss of $34.5 million in last year's third quarter. The change principally reflected the favorable comparisons to

Tobacco Products (Concluded)

last year's $30 million restructuring provision for a voluntary early retirement program and $29.5 million in trade inventory buydown costs as well as this year's volume increases, partly offset by increased marketing expenses to meet intense competitive activity.

Distilled Spirits

Worldwide revenues and operating income increased 12% and 26%, respectively.

Beam's revenues were up 7%, primarily on a domestic volume increase. Changes in trade practices at Beam in the first quarter created volatility in quarter-to-quarter comparisons, resulting in Beam's third quarter results not being trend indicative. Total branded case sales were up 6.8%. Operating income increased 28% on higher revenues combined with lower advertising expenses.

Whyte & Mackay's revenues in sterling increased 32% on the inclusion of Invergordon, consolidated beginning December 1, 1993. Total unit volume was up 123.3%. Excluding Invergordon, U.K. and total volume declined 17.7% and 10.6%, respectively, reflecting intense competitive promotional and pricing activity. Operating income in sterling increased 33% on higher volume reflecting the inclusion of Invergordon.

Life Insurance

Revenues increased 18% reflecting higher premiums partly offset by lower investment gains. Premiums increased 45% reflecting the acquisition by assumption reinsurance of a large block of business, principally ordinary life policies. Investment gains decreased $6.3 million reflecting substantially lower gains from high coupon bond redemptions, partly offset by higher gains from equity securities on benefits resulting from the adoption of FAS Statement No. 115. Operating income declined 23% principally reflecting the lower investment gains. Excluding investment gains, operating income declined 11% reflecting higher expenses related to a reengineering project and higher insurance benefits (including higher death benefits), partly offset by higher revenues which included the reversal of an accounting reserve related to a disposed operation.

Hardware and Home Improvement Products

Record revenues increased 16% on volume gains, new products and price increases. All four companies in the group achieved record revenues. The major contributors with substantial increases were Moen, up on new products, volume and price increases and favorable product mix, and Waterloo, up on higher volume and new products. Operating income was up 20% on higher revenues, partly offset by higher marketing and other operating expenses at Moen.

Office Products

Record revenues were up 10% on new products and volume gains, and a favorable foreign exchange effect. All principal operating groups reported higher revenues. ACCO continued to achieve share increases in the fast-growing retail channels. Operating income was up 25% 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 September 30, 1994	1993
Golf products	$116.1	$106.6
Optical goods and services	28.4	89.1
Retail distribution	268.5	313.6
Housewares	19.7	19.5
Rubber products	14.4	12.9
Other	2.0	1.5
	449.1	543.2
Less intersegment elimination	27.9	70.5
	$421.2	$472.7

Revenues decreased 11% and operating income decreased 19%.

Record golf products revenues and operating income were up 9% and 13%, respectively. The increases primarily resulted from benefits of new golf ball products and strong volume gains in shoes and gloves, partly offset by increased marketing and other operating expenses.

Specialty Businesses (Concluded)

In sterling, operating income from foreign businesses declined 2.8 million pounds. Excluding optical, which was sold July 12, 1994, operating income in sterling was down 45%, principally in retail distribution on volume declines, partly offset by price increases and lower marketing and administrative expenses. In dollars, the operating income percent change approximated the sterling result.

PART I - EXHIBIT A

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

(In millions)

	Nine Months Ended September 30, 1994	Nine Months Ended September 30, 1993
Income before cumulative effect of accounting changes	$465.0	$483.4
Preferred stock dividend requirements	(1.1)	(1.2)
Income available before accounting changes for computing earnings per Common share - primary	463.9	482.2
Cumulative effect of accounting changes	-	(201.0)
Net income for computing earnings per Common share - primary	$463.9	$281.2
Income available before accounting changes for computing earnings per Common share - primary	$463.9	$482.2
Convertible preferred stock dividend requirements	1.1	1.2
Interest expense and related charges on convertible debentures	16.1	16.0
Income available before accounting changes for computing earnings per Common share - fully diluted	481.1	499.4
Cumulative effect of accounting changes	-	(201.0)
Net income for computing earnings per Common share - fully diluted	$481.1	$298.4

PART I - EXHIBIT A (Continued)

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

(In millions, except per share amounts)

	Nine Months Ended September 30, 1994	Nine Months Ended September 30, 1993
Weighted average number of Common shares outstanding during each period - primary	201.6	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	2.1	2.3
Addition from assumed conversion of convertible debentures	9.3	9.3
Other additions	0.6	0.3
Weighted average number of Common shares outstanding during each period on a fully diluted basis	213.6	213.7
Earnings per Common share		
Primary		
Income before cumulative effect of accounting changes	$2.30	$2.39
Cumulative effect of accounting changes	-	(.99)
Net income	$2.30	$1.40
Fully diluted		
Income before cumulative effect of accounting changes	$2.25	$2.33
Cumulative effect of accounting changes	-	(.95)
Net income	$2.25	$1.38

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 September 30, 1994	1993
Net income	$151.9	$85.0
Preferred stock dividend requirements	(0.4)	(0.4)
Net income for computing earnings per Common share - primary	151.5	84.6
Convertible preferred stock dividend requirements	0.4	0.4
Interest expense and related charges on convertible debentures	5.4	5.1
Net income for computing earnings per Common share - fully diluted	$157.3	$90.1

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

(In millions, except per share amounts)

	1994	1993
Weighted average number of Common shares outstanding during each period - primary	201.3	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	2.1	2.3
Addition from assumed conversion of convertible debentures	9.3	9.3
Other additions	0.6	0.2
Weighted average number of Common shares outstanding during each period on a fully diluted basis	213.3	213.5
Earnings per Common share		
Primary	$.75	$.42
Fully diluted	$.73	$.42

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 November 7, 1994, ATCO or ATCO's predecessor had disposed of 239 actions, and the industry a total of 434, 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 November 7, 1994, ATCO was a defendant in 45 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. 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 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 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 sought treble compensatory damages for amounts expended for "nicotine patches and associated medical services," as well as unspecified injunctive relief. On September 21, 1994, the court dismissed the Allman case. Plaintiffs have filed a notice of appeal. 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. On October 28, 1994, the court in Engle granted plaintiffs' motion for class certification. 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 in Part II, Item 1(a)(i) of Registrant's Quarterly Report on Form 10-Q for the

quarterly period ended June 30, 1994), the Attorney General of the State of Mississippi 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 alleged "tobacco-related diseases." In State of Minnesota, et al. v. Philip Morris, Inc., et al., described below, the Attorney General of the State of Minnesota seeks monetary damages and injunctive relief for claimed violations by the defendants of various state laws and state antitrust law. In McGraw v. The American Tobacco Company, et al., described below, the Attorney General of the State of West Virginia has filed a lawsuit seeking to recover from the tobacco companies and other defendants monies the state spends on claimed tobacco-related health care costs. 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 $206,606,095,000 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 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, Mark Edell and the Budd, Larner law firm, 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. On October 6, 1994, the court granted a motion filed by the law firm of Ness, Motley to substitute it as plaintiff's counsel. That ruling terminated the involvement of Mark Edell and the Budd, Larner law firm in the Haines case.

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 civil investigative demands from the U.S. Department of Justice, Antitrust Division, seeking the production of documents and testimony relating to matters including "fire-safe or self-extinguishing cigarettes". The civil investigative demands state that they have 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 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 11, "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 July 1, 1994, one case has 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 June 30, 1994: Jensen v. American Brands, Inc., which was previously pending in the United States District Court for the Eastern District of Michigan and instituted on June 9, 1994, was dismissed without prejudice on August 15, 1994.

With regard to proceedings of the above-described type initiated since July 1, 1994, eleven new cases have been filed in addition to those whose initiation was previously reported in Part II, Item 1(a) of Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1994: State of Minnesota, et al. v. Philip Morris, Inc., et al., District Court of Ramsey County, State of Minnesota, August 17, 1994; Eric J. Koenigshofer v. R.J. Reynolds Tobacco Co., et al., Municipal Court of California, Small Claims Division, County of Riverside, August 19, 1994; George Allen Koenigshofer, Jr. v. R.J. Reynolds Tobacco Co., et al., Municipal Court of California, Small Claims Division, County of Riverside, August 19, 1994; George Andrew Koenigshofer v. R.J. Reynolds Tobacco Co., et al., Municipal Court of California, Small Claims Division, County of Riverside, August 19, 1994; John E. Koenigshofer v. R.J. Reynolds Tobacco Co., et al., Municipal Court of California, Small Claims Division, County of Riverside, August 19, 1994; Kenneth A. Koenigshofer v. R.J. Reynolds Tobacco Co., et al., Municipal Court of California, Small Claims Division, County of Riverside, August 19, 1994; Melinda Hipp-Koenigshofer v. R.J. Reynolds Tobacco Co., et al., Municipal Court of California, Small Claims Division, County of Riverside, August 19, 1994; Paul J. Koenigshofer v. R.J. Reynolds Tobacco Co., et al., Municipal Court of California, Small

Claims Division, County of Riverside, August 19, 1994; Hinkson v. J.D. Swenson, Jr., et al., United States District Court for the Middle District of Pennsylvania, August 26, 1994; Granier v. The American Tobacco Company, et al., United States District Court for the Eastern District of Louisiana, September 22, 1994; and McGraw v. The American Tobacco Company, et al., Circuit Court of Kanawha County, State of West Virginia, November 1, 1994.

(ii) Reference is made to the discussions of Dean v. Gallaher Limited 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, in Part II, Item 1(a)(i) of Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1994 and in Part II, Item 1(a)(i) of Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1994. The appeal from the order refusing the "strike out" applications of Gallaher and Hergall (1981) Limited (In Liquidation) ("Hergall"), a predecessor to Gallaher, is currently set for hearing on

November 28, 1994. Defendants' defenses in this case will not be due until after final determination of such appeal. 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, was heard by Mr. Justice Popplewell on June 20, 1994. He ruled that the Legal Aid Board had committed procedural error by applying inconsistent procedural standards in refusing applicants' requests for legal aid, and remanded the applications to another Legal Aid Board Area Committee, where the matter is currently being briefed, for reconsideration. Reference is made to the discussion of Brennan v. Gallaher Limited 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 Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1994. Plaintiff in Brennan served a Summons on or about March 23, 1994, which is set for hearing on November 30, 1994, seeking leave to substitute Hergall for Gallaher as the defendant in this action. Gallaher has received a letter before action dated October 11, 1994 from a solicitor in Scotland stating that a client, Edward Havelin, has instructed him to make a claim against Gallaher for Buerger's disease claimed to have been caused by smoking. No formal claim has been received.

(b) Reference is made to the discussions 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, in Part II, Item 1(b) of Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1994 and in Part II, Item 1(b) of Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1994. 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. Defendants' motion to dismiss or stay this case, filed on September 29, 1994, was denied on October 21, 1994. 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. Briefing on these issues is complete and oral argument, if requested by the Court of Appeals, is not expected before the first quarter of 1995. A formal opinion on the discharge issue is expected from the Court of Appeals. These actions will be vigorously contested.

(c) Federal Trade Commission v. B.A.T Industries p.l.c., Brown & Williamson Tobacco Corporation, American Brands, Inc. and The American Tobacco Company is an action commenced in the United States District Court for the Southern District of New York on October 31, 1994. The Federal Trade Commission ("FTC") alleges, inter alia, that the proposed sale of The American Tobacco Company to B.A.T Industries p.l.c. would violate Section 7 of the Clayton Act and Section 5 of the Federal Trade Commission Act in that it may substantially lessen competition in the manufacture and sale of cigarettes in the United States. The FTC seeks to preliminarily enjoin the parties from completing the transaction, pending the issuance and resolution of an FTC administrative complaint. A hearing on the FTC's motion is currently scheduled to commence on December 5, 1994. This action is being vigorously contested.

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

(a) Exhibits.

10a. Amendment effective January 1, 1994 to the American Brands, Inc. Amended Supplemental Retirement Plan constituting Exhibit 10c1 to the Annual Report on Form 10-K of Registrant for the Fiscal Year ended December 31, 1993.

10b. Amendment effective January 1, 1995 to the American Brands, Inc. Amended Supplemental Retirement Plan constituting Exhibit 10c1 to the Annual Report on Form 10-K of Registrant 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 November 8, 1994 re unaudited financial information.

23. Consent of Counsel, Chadbourne & Parke.

27a. Financial Data Schedule (CT).

27b. Financial Data Schedule (Article 5).

27c. Financial Data Schedule (Article 7).

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 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)).

Registrant filed a Current Report on Form 8-K, dated September 8, 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 October 21, 1994, in respect of Registrant's press release dated October 21, 1994 announcing Registrant's financial results for the three-month and nine-month periods ended September 30, 1994 (Items 5 and 7(c)).

Registrant filed a Current Report on Form 8-K, dated October 28, 1994, in respect of Registrant's press release dated October 27, 1994 announcing that the Federal Trade Commission will challenge the sale of The American Tobacco Company (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: November 8, 1994

By R.L. Plancher

R.L. Plancher
Senior Vice President and
Chief Accounting Officer

EXHIBIT INDEX

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EXHIBIT 10a

AMERICAN BRANDS, INC.

AMENDED SUPPLEMENTAL RETIREMENT PLAN

AMENDMENT TO REFLECT CHANGE IN
COMPENSATION LIMIT UNDER INTERNAL
REVENUE CODE SECTION 401(a)(17)

ADOPTED ON OCTOBER 25, 1994

EFFECTIVE JANUARY 1, 1994

Section 2(j) was amended to read in its entirety as follows:

(j) "401(a)(17) Limitations" means the Retirement Plan and Profit-Sharing Plan provisions adopted pursuant to Section 401(a)(17) of the Internal Revenue Code to limit compensation considered for purposes of computing Retirement Plan benefits and Profit-Sharing Plan contributions to $150,000 (or such greater amount permitted for such year in accordance with regulations promulgated by the Secretary of the Treasury or his delegate).

EXHIBIT 10b

AMERICAN BRANDS, INC.

AMENDED SUPPLEMENTAL RETIREMENT PLAN

AMENDMENTS TO PROVIDE FOR SUPPLEMENTAL TAX REFUND CONTRIBUTIONS AND TO PROVIDE THAT ALL HIGHLY COMPENSATED EMPLOYEES RECEIVE A BENEFIT IN EXCESS OF THE IRS LIMIT

ADOPTED ON OCTOBER 25, 1994

EFFECTIVE JANUARY 1, 1995

Section 2(a) was amended to read in its entirety as follows:

(a) "Actual Earnings" means all earnings of an employee in any Plan Year for Qualifying Employment, including overtime and extra shift pay, holiday and vacation pay, amounts paid for periods of approved absence, back pay which has been either awarded or agreed to by the Company, earnings elected to be deferred by the Employee as tax deferred contributions under the Company's Profit-Sharing Plan, supplemental tax deferred amounts under this Plan, or as contributions under a plan established pursuant to Section 125 of the Internal Revenue Code, and all compensation under the Management Incentive Plan and Article XII of the By-laws of American paid during such Plan Year, but excluding (1) Worker's Compensation payments, (2) amounts paid by the Company for insurance, retirement or other benefits and bonuses, and (3) contributions to or allocations under any profit-sharing plan and benefits under this Plan or other benefits. The Actual Earnings of an employee covered under a disability income plan of the Company shall be deemed to continue as provided in the Retirement Plan.

A new Section 2(v) was added as follows:

(v) "Tax Deferred Contributions" means salary reduction contributions elected to be made to the Profit-Sharing Plan pursuant to Section 401(k) of the Internal Revenue Code.

Section 3 was amended to read in its entirety as follows:

(a) Each person who was at any time a Highly Compensated Employee and to whom benefits become payable under the Retirement Plan shall be paid a supplemental annual retirement benefit under this Plan equal in amount to the difference between (i) the benefit paid under the Retirement Plan and the Affiliated Plans and (ii) the benefit that would be payable if the 40l(a)(17) Limitations and the 415 Limitations were not contained therein; provided, however, that for purposes of computing the amount of benefit under this Plan, years of Qualifying Employment shall not exceed 35. If such a Highly Compensated Employee's Surviving Spouse is entitled to a pre-retirement spouse's benefit under the Retirement Plan and subject to Section 6, the Surviving Spouse shall be paid a benefit hereunder equal to the difference between (i) the spouse's benefit payable under the Retirement Plan and the Affiliated Plans and (ii) the spouse's benefit that would be payable if the 40l(a)(17) Limitations and the 415 Limitations were not contained therein.

(b) Each Executive Participant who at any time held the office of Vice President of the Company, or any office senior thereto, shall retire hereunder at the date of his termination of employment and be paid a supplemental annual retirement benefit under this Plan equal to 52 1/2% of the Executive Participant's Average Actual Earnings reduced (i) for an Executive Participant who retires prior to Normal Retirement Date with less than 35 years of Qualifying Employment by 1 1/2% of Average Actual Earnings for each year and fraction thereof that the Executive Participant's retirement date precedes Normal Retirement Date and further reduced (ii) by benefits payable under the Retirement Plan, the Affiliated Plans and the defined benefit pension plans of any other prior employer and supplemental retirement benefits payable under paragraph (a) of this Section 3. If a pre-retirement spouse's benefit is payable under the Retirement Plan to the Surviving Spouse of an Executive Participant who at any time before death held the office of Vice President of the Company, or any office senior thereto, or if an Executive Participant who held such office dies before supplemental retirement benefits commence with a Surviving Spouse eligible for a spouse's benefit under the Retirement Plan, the Surviving Spouse shall be paid a benefit hereunder, subject to Section 6, equal to the difference between (i) the spouse's benefit payable under the Retirement Plan and the Affiliated Plans and (ii) the spouse's benefit that would have been payable if the Participant's benefit had been calculated in accordance with the formula set forth in the first sentence of this paragraph (b) of this Section 3 (prior to any reduction for calculating the spouse's benefit).

(c) Subject to Section 6, the supplemental retirement benefits provided by this Plan shall be paid to the Executive Participant or Highly Compensated Employee (or to any beneficiary designated by him in accordance with the Retirement Plan, or to his Surviving Spouse if eligible for a spouse's benefit under the Retirement Plan) concurrently with the payment of the benefits payable under the Retirement Plan and in a form permitted thereby. In the event the supplemental retirement benefit commences prior to Normal Retirement Date or is payable in a form other than an annuity for the life of the former employee only, the supplemental retirement benefit shall be adjusted to the same extent as under the Retirement Plan. The Committee may, however, direct that the supplemental retirement benefit payable with respect to a former employee be paid as an actuarially equivalent single sum payment (and shall direct that any supplemental retirement benefit with a present value of less than $3,500 shall be paid as an actuarially equivalent single sum payment), provided that (except for a distribution to pay taxes as provided in Section 5 and except as provided in Section 6) no such payment may be made prior to termination of Qualifying Employment or prior to the date that benefits may become payable under the Retirement Plan. In determining actuarial equivalency of a single sum payment in cash, there shall be used 120% of the applicable monthly immediate annuity purchase interest rate which would be used by the Pension Benefit Guaranty Corporation for the purpose of determining the present value of a single sum distribution on plan termination and the mortality table used at the time under the Retirement Plan for funding purposes.

Section 4 was amended to read in its entirety as follows:

Section 4. SUPPLEMENTAL PROFIT-SHARING BENEFITS.

(a) In the event that the Allocation under the Profit-Sharing Plan is limited by the 401(a)(17) Limitations and the 415 Limitations for 1987 or any subsequent Plan Year for a Highly Compensated Employee, the Highly Compensated Employee shall receive a supplemental profit-sharing award under this Plan for such Plan Year equal to the difference between (i) the Allocation actually made to the Highly Compensated Employee and (ii) the Allocation that would have been made to the Profit-Sharing Plan for such Plan Year if the 401(a)(17) Limitations and the 415 Limitations were not contained therein. In addition, in the event the contribution to the Profit-Sharing Plan for any Plan Year is limited by the 404(1) Limitation, each Highly Compensated Employee shall receive a supplemental profit-sharing award under this Plan for such Plan Year equal to the difference between (i) the Allocation actually made to the Highly Compensated Employee and (ii) the Allocation that would have been made to the Profit-Sharing Plan for such Plan Year for such Highly Compensated Employee if the contribution to the Profit-Sharing Plan was not limited by the 404(1) Limitation.

(b) Except as provided in Section 6, the award for any Plan Year shall be made as of the first day of the following year and shall be deemed to be thereafter invested in an interest bearing investment selected by the Trusts Investment Committee (or successor committee) of the Company. The amount of a Highly Compensated Employee's supplemental profit-sharing benefits under this Plan shall be the aggregate amount of such awards together with any deemed investment gain thereon and less any deemed investment loss.

(c) Supplemental profit-sharing awards and deemed investment gain thereon shall be fully vested and nonforfeitable.

(d) Supplemental profit-sharing plan benefits shall be paid by a single sum payment as soon as practicable following termination of Qualifying Employment, subject to Section 6.

(e) Subject to Section 6, a Highly Compensated Employee may designate a beneficiary to receive the unpaid portion of his supplemental profit-sharing benefits in the event of his death. The designation shall be made in a writing filed with the Committee on a form approved by it signed by the Highly Compensated Employee. If no effective designation of beneficiary shall be on file with the Committee when supplemental profit-sharing benefits would otherwise be distributable to a beneficiary, then such benefits shall be distributed to the spouse of the Highly Compensated Employee or, if there is no spouse, to the executor of the will or the administrator of his estate or, if no such executor or administrator shall be appointed within six months after his death, the Committee shall direct that distribution be made, in such shares as the Committee shall determine, to the child, parent or other blood relative of such Highly Compensated Employee or to such other person or persons as the Committee may determine.

The second sentence of Section 5 was amended to read in its entirety as follows:

The Committee shall maintain records of supplemental profit-sharing awards and supplemental tax deferred amounts and related Company matching awards pursuant to Section 7 and the assumed investment thereof and records for the calculation of supplemental retirement benefits.

The preamble of Section 6 was amended to read in its entirety as follows:

Notwithstanding Section 5 of this Plan, the Company may provide for the establishment of Grantor Trusts and Segregated Accounts by or for the benefit of individual Executive Participants to provide for the payment of benefits (other than supplemental tax deferred amounts and related Company matching awards pursuant to Section 7) under this Plan, consistent with the following provisions:

In Section 6(f), the reference to "Section 4(c)" was changed to "Section 4(b)".

In Section 6(g), the reference to "Section 3(b), (c) and (d) and Section 4(f)" was changed to "Section 3(a), (b) and (c) and Section 4(e)".

Sections 7 and 8 were redesignated as Sections 8 and 9, respectively, and a new Section 7 was added as follows:

SECTION 7. SUPPLEMENTAL TAX DEFERRED AMOUNTS AND RELATED COMPANY MATCHING AWARDS.

(a) A Highly Compensated Employee who is a participant in the Profit-Sharing Plan and whose Tax Deferred Contributions are limited by the 401(a)(17) Limitations may elect that the Company reduce his compensation and credit him with a supplemental tax deferred amount under this Plan for any Plan Year equal to the difference between (i) an amount up to the maximum Tax Deferred Contribution that the Highly Compensated Employee could have elected to be made to the Profit-Sharing Plan but for the 401(a)(17) Limitations and (ii) the maximum Tax Deferred Contribution that the Highly Compensated Employee could have elected to be made to the Profit-Sharing Plan with his compensation subject to the 401(a)(17) Limitations; provided that the sum of the Tax Deferred Contributions to the Profit-Sharing Plan and the supplemental tax deferred amount credited under this Plan for a Highly Compensated Employee for any Plan Year shall not exceed the limitation set forth in Section 402(g) of the Internal Revenue Code, or any successor provision, for such Plan Year.

(b) A Highly Compensated Employee who is credited with a supplemental tax deferred amount under Section 7(a) shall also be credited with a related Company matching award equal to his supplemental tax deferred amount for any Plan Year provided that the sum of the Company Matching Contribution (as defined in the Profit-Sharing Plan) to the Profit-Sharing Plan and such related Company matching award hereunder for any Plan Year shall not exceed 50% of the limitation set forth in Section 402(g) of the Internal Revenue Code, or any successor provision, for such Plan Year.

(c) An election by a Highly Compensated Employee pursuant to paragraph (a) must be made by filing a form approved by the Committee with the Committee no later than the beginning of the Plan Year for which the election is to be effective specifying the amount of the supplemental tax deferred amount elected; provided that if a Highly Compensated Employee does not become eligible to elect Tax Deferred Contributions to the Profit-Sharing Plan until after the first day of a Plan Year, the Highly Compensated Employee may file his election pursuant to paragraph (a) for such Plan Year with the Committee no later than the effective date of the Highly Compensated Employee's eligibility to make Tax Deferred Contributions. An election pursuant to this paragraph will continue in effect for subsequent Plan Years unless changed by the Highly Compensated Employee by filing a form approved by the Committee with the Committee prior to the beginning of the Plan Year for which such change is to be effective. The election shall be irrevocable for any Plan Year.

(d) The supplemental tax deferred amounts and Company matching awards pursuant to this Section 7 shall be deemed to have been made as of the first day of the Plan Year for which the election made pursuant to paragraph (c) is effective and shall be deemed to be thereafter invested in an interest bearing investment selected by the Trusts Investment Committee (or successor committee) of the Company. The amount of a Highly Compensated Employee's supplemental tax deferred amounts and related Company matching award benefits under this Plan shall be the aggregate amount of such awards together with any deemed investment gain thereon and less any deemed investment loss.

(e) Supplemental tax deferred amounts and related Company matching awards under this Plan and deemed investment gain thereon shall be fully vested and nonforfeitable.

(f) Benefits under this Section 7 shall be paid by a single sum cash payment as soon as practicable following termination of Qualifying Employment.

(g) A Highly Compensated Employee may designate a beneficiary to receive the unpaid portion of his supplemental tax deferred contribution amounts and related Company matching award benefits in the event of his death. The designation shall be made in a writing filed with the Committee on a form approved by it and signed by the Highly Compensated Employee. If no effective designation of beneficiary shall be on file with the Committee when benefits under this Section 7 would otherwise be distributable to a beneficiary, then such benefits shall be distributed to the spouse of the Highly Compensated Employee or if there is no spouse, to the executor of the will or the administrator of his estate or, if no such executor or administrator shall be appointed within six months after his death, the Committee shall direct that distribution be made, in such shares as the Committee shall determine, to the child, parent or other blood relative of such Highly Compensated Employee or to such other person or persons as the Committee may determine.

PART II - EXHIBIT 12

AMERICAN BRANDS, INC. AND SUBSIDIARIES

STATEMENT RE COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Dollar amounts in millions)

	Years Ended December 31,					Nine Months Ended September 30,
	1989	1990	1991	1992	1993	1994
Earnings Available:						
Income before income taxes and minority interest........	$1,065.2	$1,044.6	$1,241.4	$1,401.9	$1,079.6	$760.2
Less: Excess of earnings over dividends of less than fifty percent owned companies...................	0.1	0.1	0.1	0.3	0.8	0.4
Capitalized interest........	1.9	1.5	1.0	1.0	2.5	1.3
	1,063.2	1,043.0	1,240.3	1,400.6	1,076.3	758.5
Fixed Charges:						
Interest expense (including capitalized interest) and amortization of debt discount and expenses......................	292.7	290.2	276.6	283.4	258.7	187.9
Portion of rentals representative of an interest factor.............	22.0	27.6	30.7	32.6	30.1	22.1
Total Fixed Charges.........	314.7	317.8	307.3	316.0	288.8	210.0
Total Earnings Available....	$1,377.9	$1,360.8	$1,547.6	$1,716.6	$1,365.1	$968.5
Ratio of Earnings to Fixed Charges....	4.38	4.28	5.04	5.43	4.73	4.61

PART II - EXHIBIT 15

November 8, 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 November 8, 1994, on our review of interim financial information of American Brands, Inc. and Subsidiaries for the three-month and nine-month periods ended September 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

PART II - EXHIBIT 23

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
November 8, 1994

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THIS FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEET AND RELATED STATEMENT OF INCOME AS OF SEPTEMBER 30, 1994 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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THIS FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEET AND RELATED STATEMENT OF INCOME AS OF SEPTEMBER 30, 1994 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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THIS FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEET AND RELATED STATEMENT OF INCOME AS OF SEPTEMBER 30, 1994 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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