

American Brands, Inc.

ANNUAL REPORT 1978

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Contents

1 Financial Highlights
3 To Our Stockholders
6 The American Tobacco Company
8 Gallaher Limited
10 James B. Beam Distilling Co.
11 Master Lock Company
12 The Franklin Life Insurance Company
13 Wilson Jones Company
14 Swingline Inc.
15 Sunshine Biscuits, Inc.
16 Acushnet Company
17 The Andrew Jergens Company
18 Acme Visible Records, Inc.
19 American Cigar
20 Duffy-Mott Company, Inc.
21 Financial Review
25 Financial Statements
38 Auditors' Report
40 Eleven-year Financial Review
44 Operating Results By Business Segments

Annual Meeting

The Annual Meeting of Stockholders will take place on Wednesday, May 2, 1979, at 10:00 a.m. in the Grand Ballroom of The Waldorf-Astoria in New York City.

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Financial Highlights (In thousands of dollars except per share amounts)

	American Brands, Inc. and Subsidiaries	
	1978	1977
Per Common share		
Net income		
Without dilution	**$7.93**	$5.82
Fully diluted	**7.66**	5.63
Dividends	**3.625**	2.98
Net sales	**$5,176,706**	$4,616,390
Income before provision for taxes on income	**422,470**	339,985
Net income	**211,539**	156,359
Dividends		
Common	**$95,214**	$77,661
Preferred	**3,675**	4,720
Number of Common stockholders, December 31	**120,522**	122,950
Average number of Common shares outstanding during the year	**26,211,793**	26,059,594

Operating Results By Product Line[1] (In millions)

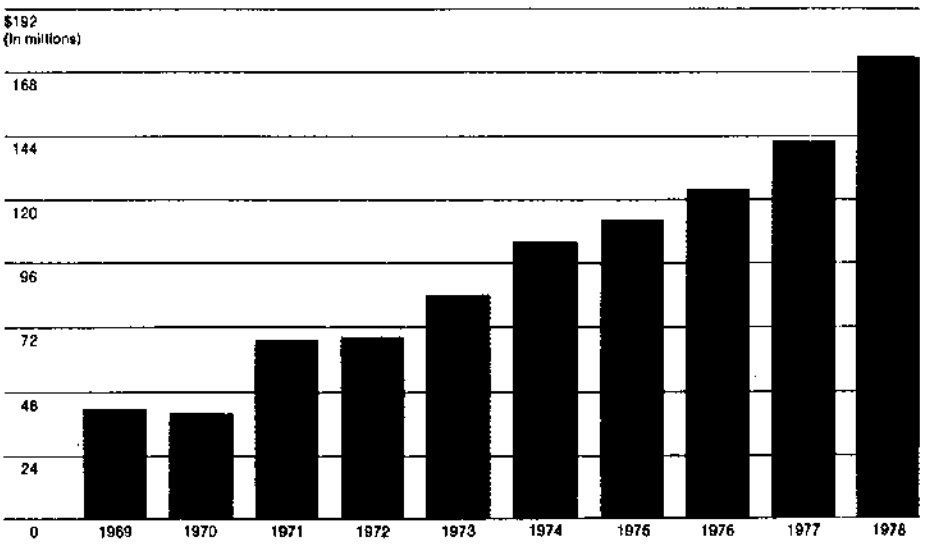
	Net sales				Operating income			
	1978		1977		**1978**		1977[2]	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Tobacco products								
Domestic	**$1,079.3**	**20.8**	$1,067.6	23.1	**$243.3**	**48.2**	$230.8	54.2
International	**2,174.1**	**42.0**	1,866.1	40.4	**88.0**	**17.4**	52.6	12.3
Hardware	**204.5**	**4.0**	186.8	4.1	**36.4**	**7.2**	35.9	8.4
Office services and supplies	**138.9**	**2.7**	126.8	2.7	**22.9**	**4.5**	18.4	4.3
Distilled beverages	**169.7**	**3.3**	150.6	3.3	**21.3**	**4.2**	16.9	4.0
Food products	**456.8**	**8.8**	447.8	9.7	**21.0**	**4.2**	19.2	4.5
Optical goods and services[3]	**67.1**	**1.3**	54.3	1.2	**12.1**	**2.4**	10.1	2.4
Engineering[3]	**114.1**	**2.2**	100.2	2.2	**8.8**	**1.7**	7.9	1.9
Golf products	**53.5**	**1.0**	52.9	1.1	**6.9**	**1.4**	6.6	1.5
Toiletries	**85.8**	**1.7**	78.6	1.7	**6.3**	**1.3**	6.5	1.5
Rubber products	**47.3**	**.9**	41.3	.9	**6.0**	**1.2**	5.4	1.3
Retailing[3]	**239.4**	**4.6**	174.6	3.8	**2.5**	**.5**	2.4	.6
Wholesaling[3]	**302.6**	**5.9**	229.0	5.0	**.4**	**.1**	2.9	.7
Miscellaneous	**63.5**	**1.2**	60.8	1.3	**7.4**	**1.5**	7.1	1.6
Deduct intracompany sales	**(19.9)**	**(.4)**	(21.0)	(.5)	**—**	**—**	—	—
	5,176.7	**100.0**	4,616.4	100.0	**483.3**	**95.8**	422.7	99.2
Life insurance	**—**	**—**	—	—	**21.2**	**4.2**	3.4	.8
Total	**$5,176.7**	**100.0**	$4,616.4	100.0	**$504.5**	**100.0**	$426.1	100.0

(1) See page 44 for Six-year Operating Results By Business Segments.
(2) Restated in connection with Statement of Financial Accounting Standards No. 13.
(3) Foreign.

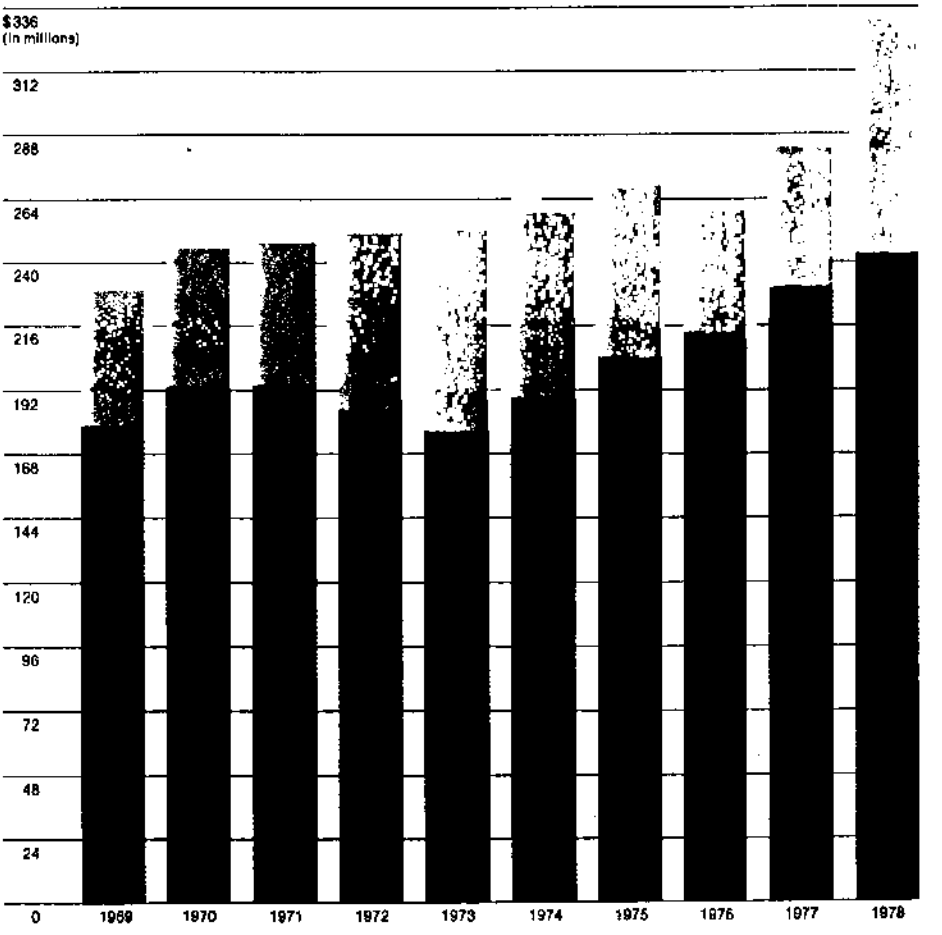
Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Operating Income

Nontobacco products



Tobacco products



Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137



Robert K. Heimann
Chairman of the Board
and Chief Executive Officer

Net income in 1978 was $211,539,000, a new record high and an increase of 35% over 1977. Net per Common share was $7.93, compared with $5.82 in 1977.

Earnings per share have grown at a compound annual rate of 10.8% for the five-year period from 1973 to 1978. This compares with a growth rate of 7.1% for the previous five-year period from 1968 to 1973.

Sales were $5,176,706,000, compared with $4,616,390,000 in 1977. All categories of the business contributed to an increase of $78,479,000 in operating income, which reached a new high of $504,549,000.

Domestic tobacco operations accounted for $249,946,000 or about half of total operating income, an increase of $12,779,000. Domestic nontobacco operations accounted for $123,472,000, an increase of $12,331,000. Gallaher Limited, our British subsidiary, accounted for $109,897,000, an increase of $35,542,000. Our 27.5% ownership of The Franklin Life Insurance Company contributed $21,234,000, an increase of $17,827,000 over 1977; our interest in Franklin Life took effect in the last two months of 1977.

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Foreign currency translation adjustments, mainly changes in the value of the British pound, increased net income in 1978 by $1,430,000, compared with a $20,227,000 reduction in 1977.

Excluding foreign currency adjustments, net income in the last four years was $154,406,000, $166,541,000, $176,586,000 and $210,109,000 in 1978. These amounts were equivalent to $5.86, $6.27, $6.60 and $7.88 per Common share.

For the second successive year your Board of Directors increased the Common stock dividend twice. With the March 1, 1978 quarterly payment, the indicated annual dividend rate was raised from $3.04 to $3.50. With the December 1, 1978 payment, the annual rate was further increased to $4.00 per share.

During the last 10 years the Company has met its objective of keeping dividend payments ahead of the rate of inflation. Since 1968 the quarterly dividend rate has been increased by 111%, while the Consumer Price Index has increased by 87%. During the same period dividends paid by the companies comprising the Dow Jones Industrial Average and the Standard & Poor's 500 Stock Index gained 55% and 66%, respectively.

On February 14 of this year American Brands acquired the remaining 72.5% of the Common stock of FDS Holding Company, holder of The Franklin Life Insurance Company, for a combination of Preferred stock and Convertible Preferred stock with a limited cash offer. This transaction was approved by 98.55% of the votes cast at a Special Meeting of American Brands stockholders held on that date. Net income of FDS Holding Company for 1978 was $54,215,000, compared with $50,836,000 for 1977. In 1979 all of Franklin's earnings will be included in American Brands' income statement.

The Company has for some time considered the life insurance industry to be attractive. Like the rest of our business, it is consumer oriented, generates considerable cash flow and produces a relatively high return on investment. Its history of steady growth and its favorable demographic outlook also recommended it as a desirable field in which to broaden the Company's operations.

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

On February 27, 1979, the Board of Directors elected William J. Alley, Chairman and President of Franklin, a Director of American Brands. At the same meeting the Board accepted the resignation of Francis X. Whelan, who retires in May of this year. The Board acknowledges the many contributions made by Mr. Whelan during a distinguished 40-year career during which he has served as Credit Manager of American Tobacco, President of American Cigar, and lastly as Executive Vice President of The American Tobacco Company Division.

The progress and problems of our divisions and subsidiaries are discussed more fully on the pages that follow.

Your Management remains dedicated to increasing the earning power of our business, which now includes 43 profit centers. We believe our stockholders should share fully and tangibly in the returns from our operations in the form of dividend increases which match the rate of earnings growth. We acknowledge the continuing dedication of our 54,520 employees and managers and thank the stockholders for their encouragement and support of our efforts. Your inquiries about Company operations are always welcome.

Submitted on behalf of the Board of Directors,



Robert K. Heimann
Chairman of the Board
and Chief Executive Officer

February 27, 1979

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Virginius B. Lougee, III
President and
Chief Operating Officer



The American Tobacco Company

American Tobacco's operating income reached a new high of $245,195,000, compared with $229,977,000 in 1977.

Sales were $1,071,712,000, compared with $1,052,853,000 last year. Total sales include $14,616,000 from smoking tobaccos and $19,844,000 from the outside business of Golden Belt, the company's printing and foil-laminating division.

As the year ended, low-tar brands represented 75% of the division's filter cigarette volume. *Carlton*, the industry's pioneer low-tar brand, gained 29% in 1978. It was the fastest-growing brand among the top 20, according to a leading independent analyst.

The low-tar line includes five styles of *Carlton*: soft pack, menthol and box in king size, *100's* and *Menthol 100's*. *Tareyton lights* are available in king size and 100 mm, as are the earlier *Tareytons*, now reduced in tar. *Pall Mall* offers two low-tar styles, the new *Light 100's* and the king size *Extra Lights*.

Tareyton lights and *long lights* posted unit increases over 1977.

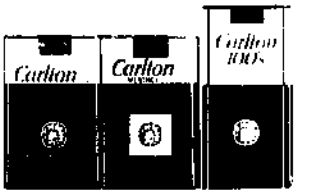
Pall Mall Light 100's were introduced in August and are being well received.

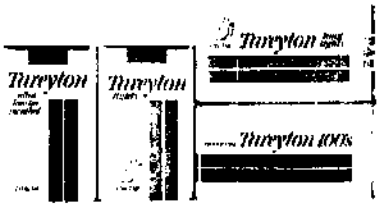
Again in 1978, industry nonfilter cigarettes declined, as did the division's nonfilter brands. American Tobacco's total cigarette volume for all of 1978 was down, mainly reflecting the nonfilter trend. However, fourth-quarter gains in filter cigarettes outweighed the nonfilter losses, resulting in an overall increase for the quarter.

Industry smoking tobacco sales have been decreasing for a number of years. In 1978 American's principal brands—*Half and Half*, *Paladin Blackcherry* and *Bourbon Blend*—declined with the trend.

Average market prices for leaf tobacco rose sharply in 1978. Flue-cured prices averaged $1.35 per pound, up 13% from $1.19 in 1977. The average price of Burley tobacco rose 9% to $1.31 from $1.20 in 1977. Increased costs brought about two cigarette price increases amounting to $1.40 per thousand.

American Tobacco has used the fee system to compensate its advertising agencies for the past 14 years in lieu of commissions. Savings in 1978 from this system were $2,395,000. Since its inception in 1965 total savings of $25,189,000 have been realized.

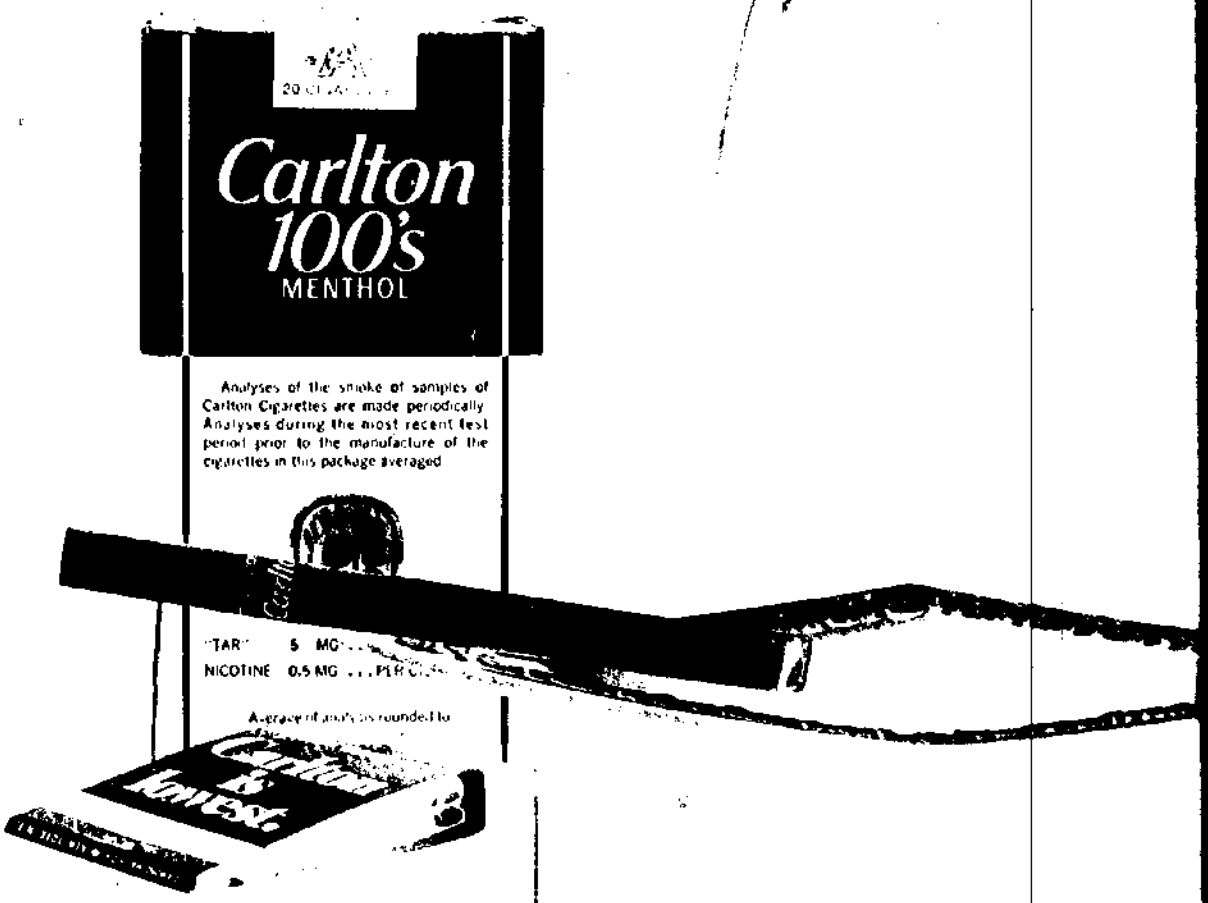


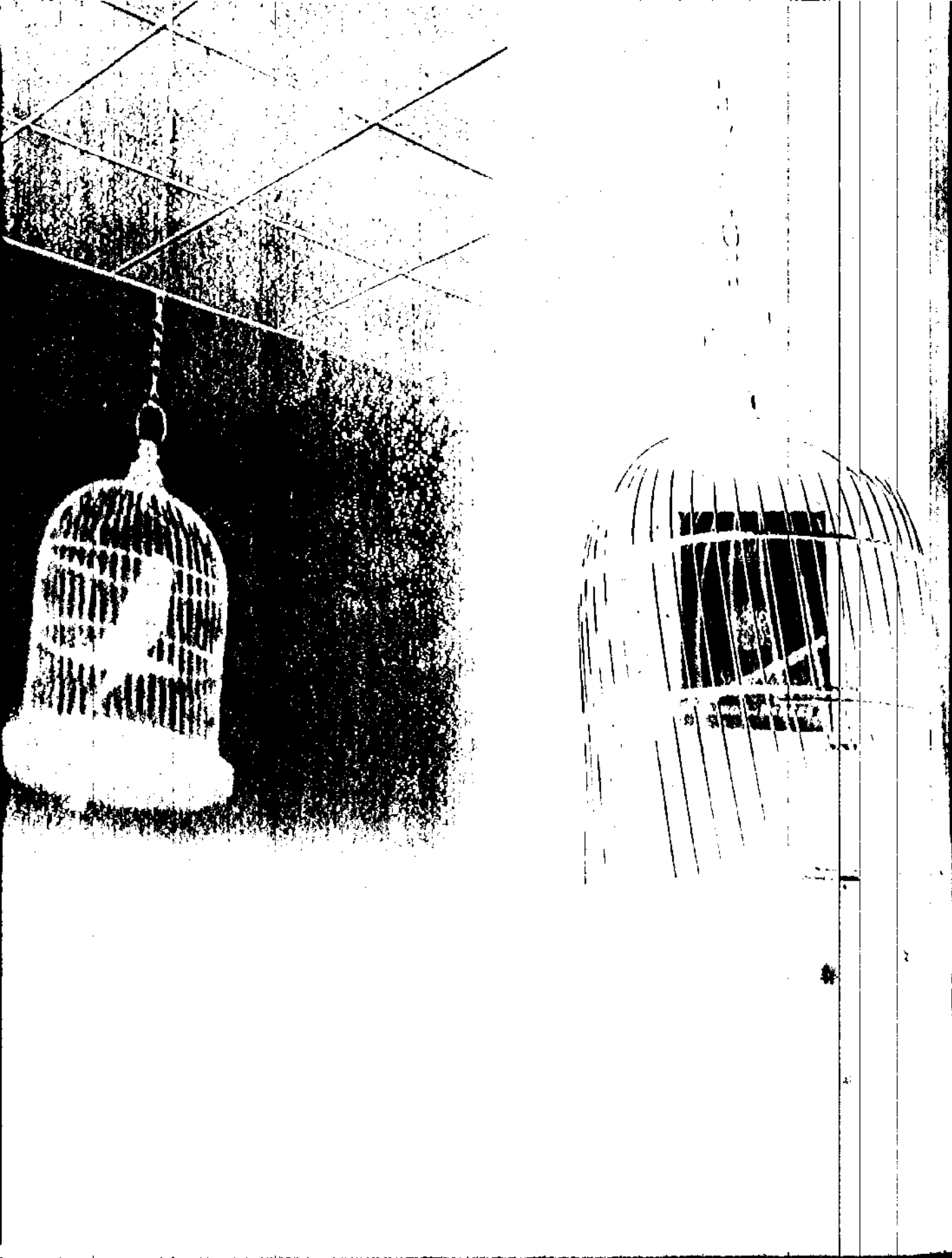




Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137





Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137



Stuart G. Cameron
Deputy Chairman

Gallaher Limited

Gallaher's operating income reached a record of £56,105,000, an increase of 8% or £4,249,000 over 1977. Sales were £1,523,325,000, of which £401,088,000 came from nontobacco operations—optical, engineering, retailing and wholesaling.

Benson and Hedges Special Filter is now the largest-selling cigarette brand in the United Kingdom market. The illustration at left is one of a series of *Benson and Hedges* advertisements that have been winning a high level of recall.

Silk Cut continues as the U.K.'s largest-selling low-tar brand, with more than 50% of that market. In the plain cigarette category Gallaher's *Park Drive* leads the field as number one.

In the cigar market, *Hamlet*, up 10%, continues as the largest-selling of all brands in the U.K., including imports. While the overall cigar market increased 1%, Gallaher's total sales were up 5%, raising its market share from 38% to 39%. Gallaher's *Manikin* remains the number two cigar brand.

In the depressed pipe tobacco market *Condor* and *Benson and Hedges Mellow Virginia* were down, but maintained their combined share of market at 43%. *Old Holborn* roll-your-own was also down. Gallaher's imported pipe tobaccos experienced an increase in volume.

Tobacco operating income was up £5,530,000 overall, with cigarette and cigar profits in the U.K. up £12,752,000, outweighing decreases in Home Trade smoking tobacco, Niemeyer in Holland and tobacco products overseas.

Gallaher's operating income from nontobacco operations was £12,824,000, compared with £14,105,000 in 1977.

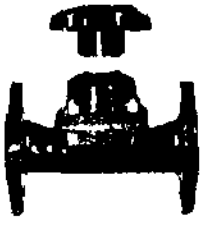
Dollond & Aitchison, in the optical goods and services business, increased its operating income by 8% to £6,294,000. The company has expanded on the Continent and now has 75 branches in Italy and 12 in The Netherlands.

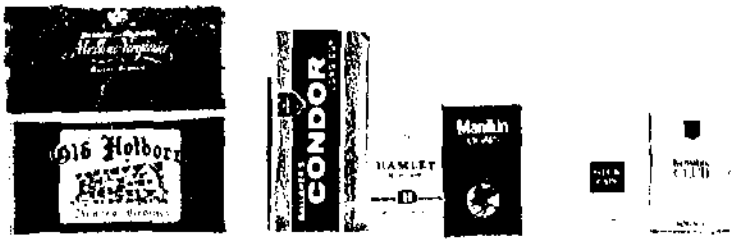
The engineering business, which includes the Mono Group, Saunders Valve and F.I.P. in Italy, makes and markets a broad range of pumps and valves. Combined operating income from these companies was £4,589,000, compared with £4,533,000 in 1977.

Retailing operations reported operating income down 8% to £1,389,000, attributed to competitive price cutting. However, the Forbuoys chain increased its operating income. The Retailing group added 25 branches to its network during the year, ending with 435 outlets.

Gallaher's wholesaling business had a decline in operating income to £190,000 from £1,720,000 owing to an intensive price war. To correct this situation major changes in management, pricing and marketing were initiated in late 1978.

Translation of Gallaher's financial statements into dollars resulted in a contribution of $51,239,000 to American Brands' consolidated net income, compared to $20,906,000 in 1977.



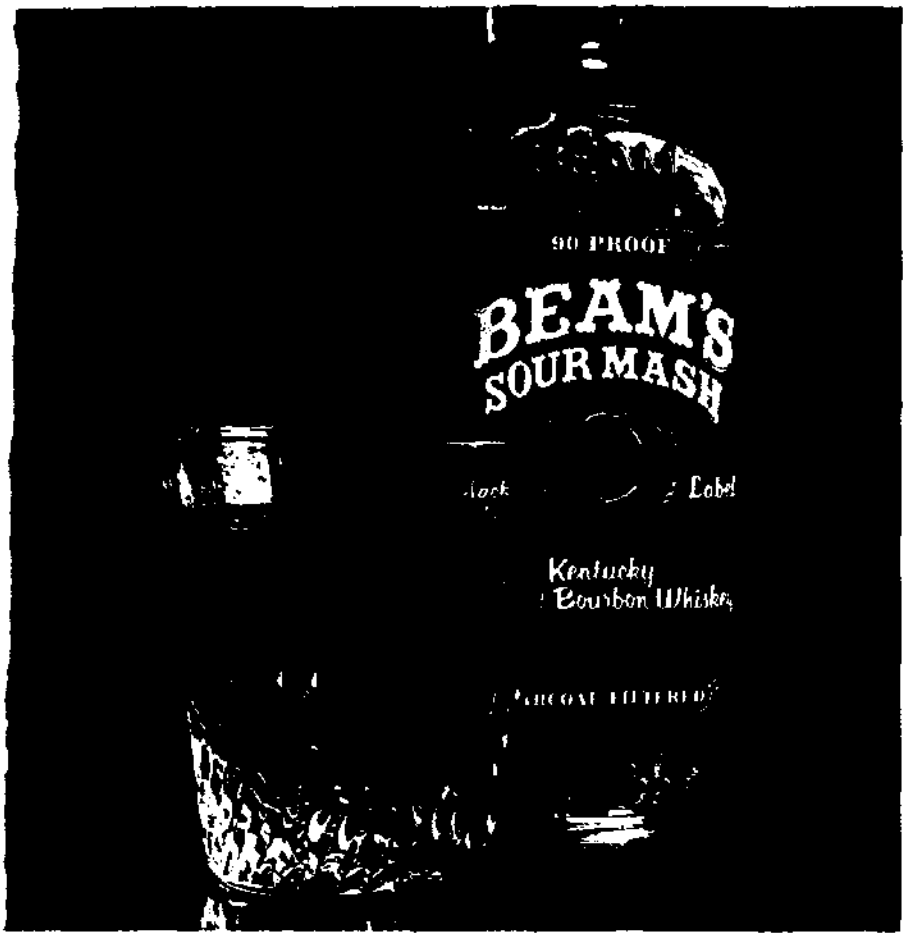


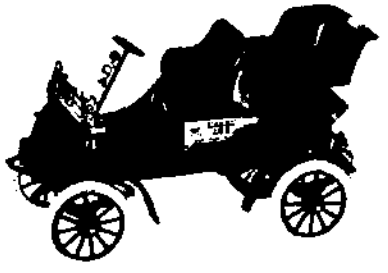
Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Julian J. McShane, Jr.
President and
Chief Executive Officer



James B. Beam Distilling Co.







Beam operating income of $22,943,000 represented an all-time record as did sales of $186,184,000, compared with $18,813,000 and $165,818,000, respectively, in 1977.

Beam Bourbon increased its domestic and international market share, accounting for 76% of Beam sales and 87% of operating income. *Beam's Sour Mash*, 90 proof, 101 months old, completed national distribution and exceeded initial forecasts in case sales.

For the first time in many years industrywide sales of Bourbon showed a gain during the year. This is a plus for Beam, which traditionally has outperformed its competitors.

The company's representation in the scotch market has been pared down to one brand, *Spey Royal*, for greater concentration. Sales and operating income from scotch were down in 1978.

Beam's line of vodkas and cordials showed results comparable to 1977. The James B. Beam Import Corp. is being phased out on March 1, 1979, and the company's line of imported wines has been discontinued.

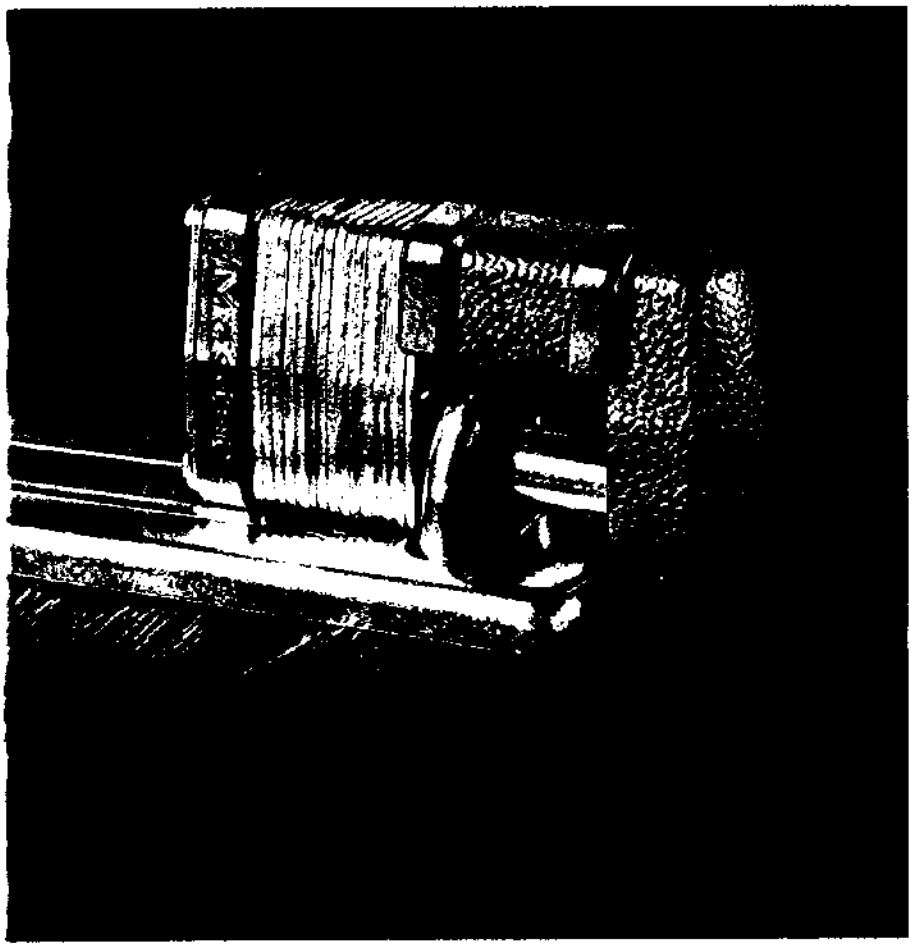
Taylor Foods, with its well-known *Mr. and Mrs. "T" Bloody Mary Mix* and other mixes, reported sales of $11,961,000. Operating income was down, however, due to the cost of a move into a new Los Angeles plant. The Regal China subsidiary, which makes Beam's trophy bottles and ceramic products, reported sales to outsiders of $4,540,000.

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

George F. Villwock
President and
Chief Operating Officer



Master Lock Company



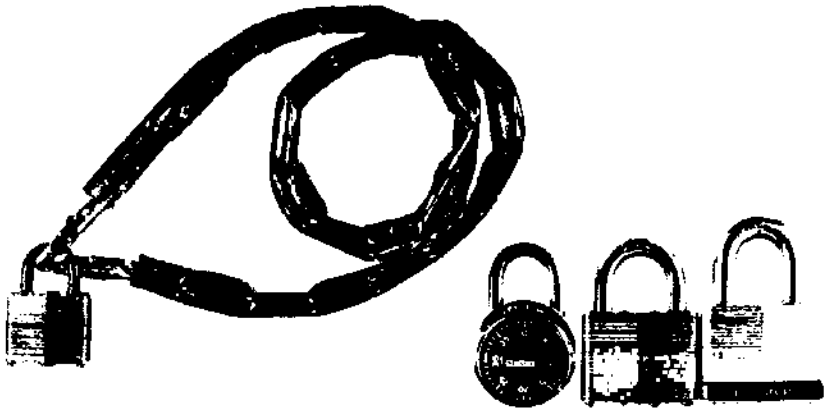
Master Lock's operating income of $22,710,000, up 11% from $20,466,000, set a record for the thirteenth consecutive year. Sales were $62,381,000, compared with $57,706,000 in 1977.

In the eight years that Master Lock has been an American Brands subsidiary, operating income has increased 140% on a sales gain of 124%, representing annual compounded growth rates of 12% and 11%, respectively.

The company's basic markets are: retail, which includes hardware, locksmith, sporting goods, variety, chain and school stores, recreational vehicle and marine outlets, and industrial and institutional customers. In 1978 increases in both categories contributed to Master Lock's sales and profit performance. Sales of high security pin tumbler padlocks were strong, while gun, ski and outboard motor locks also had increases.

In 1978 the company introduced a line of pin tumbler rekeyable padlocks. Master Lock users can replace cylinders or repin existing cylinders to extend multiple lock systems. This product flexibility becomes important when security is jeopardized through loss or theft of keys.

Master Lock continues to increase awareness of its products through the use of newspapers, magazines and television, including such sports spectaculars as the Super Bowl and World Series.

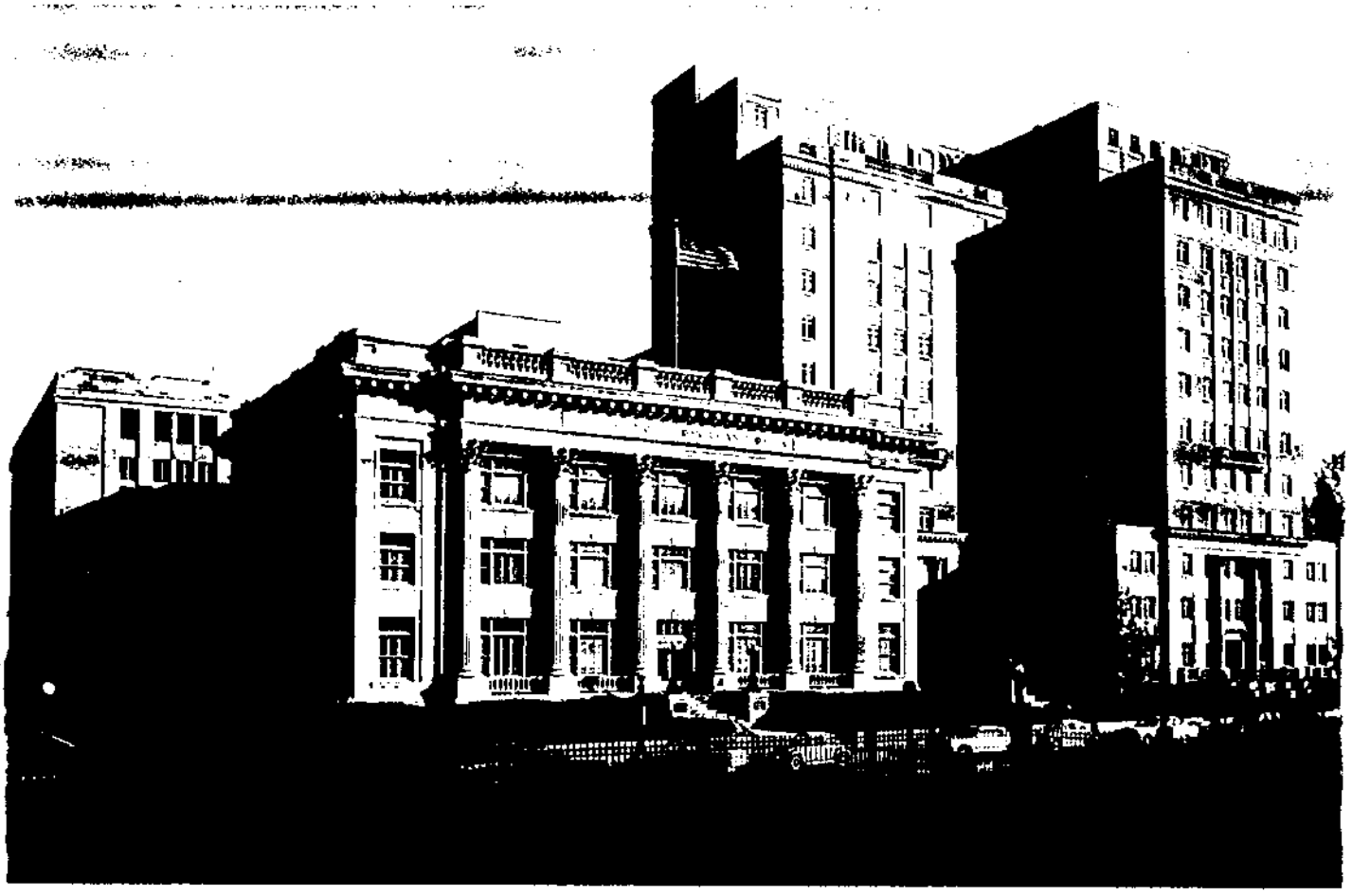


Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137



Chairman and
President

The Franklin Life Insurance Company



During 1978 American Brands owned 27.5% of Franklin's Common stock. Its contribution to American Brands' operating income for 1978 was $21,234,000. Our equity in Franklin's 1978 earnings, net of purchase accounting adjustments and amortization of excess cost, was $13,872,000.

In February 1979 American realized 100% ownership of Franklin as a result of the merger of FDS Holding Company into American Franklin Company, a wholly-owned subsidiary of American. All of Franklin's earnings will be included in American Brands' results in 1979.

Franklin, headquartered in Springfield, Illinois, was organized in 1884. It offers a variety of individual and group life insurance, annuities and accident and health insurance.

Franklin ranks ninth among stock life insurance companies doing business in the United States when measured by assets and fourteenth when measured by insurance in force.

Franklin's net income for the last five years computed in accordance with generally accepted accounting principles was:

1974	$37,738,000
1975	43,503,000
1976	46,555,000
1977	50,836,000
1978	54,215,000

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137



John P. Clark
President and
Chief Executive Officer

Wilson Jones Company

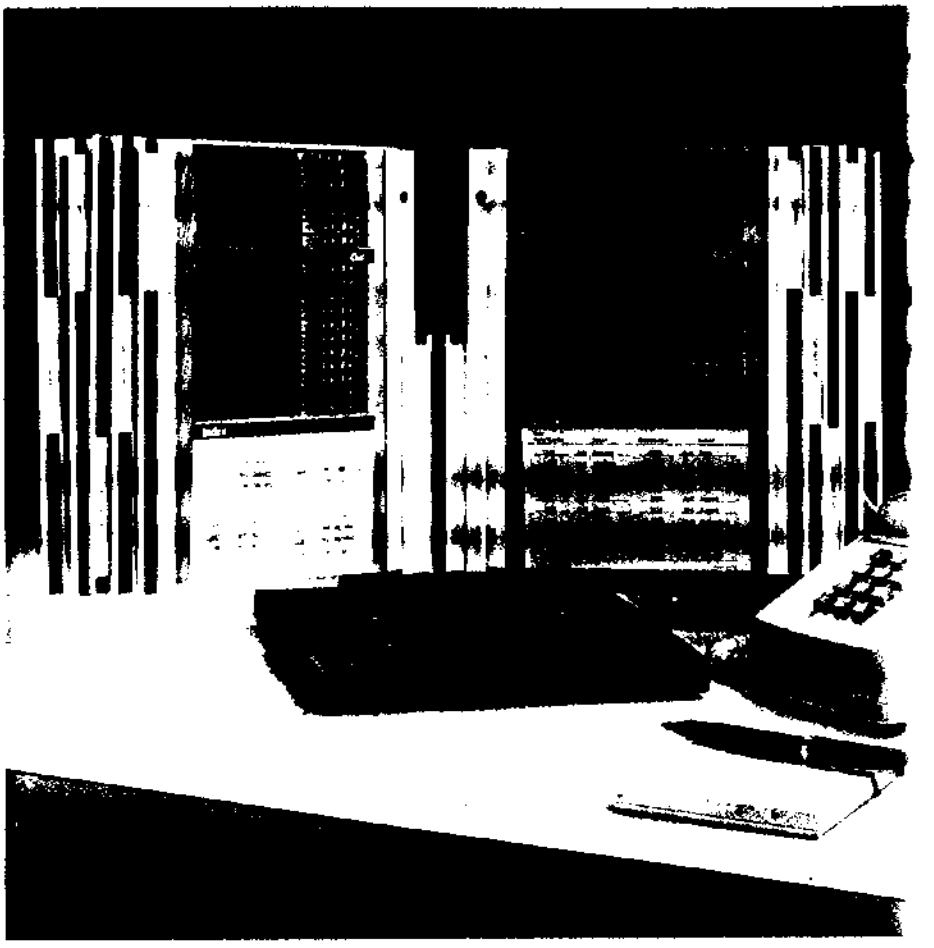
Wilson Jones' operating income in 1978 was a record $17,591,000, up 14% from the $15,384,000 posted in 1977. Sales for the year rose 12% to $79,169,000.

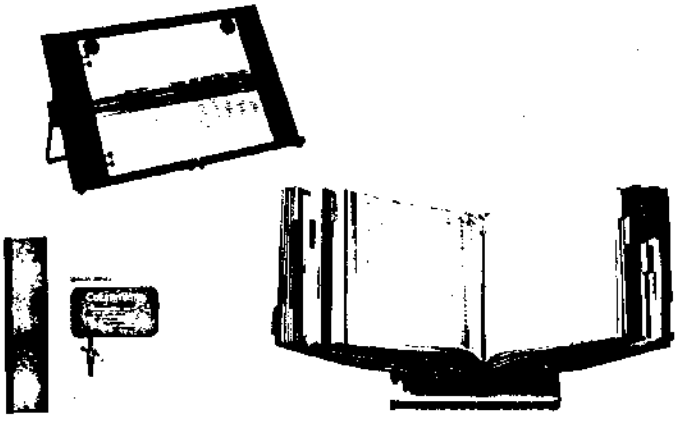
The Wilson Jones Division had a 13% increase in operating income to $8,566,000 on a 10% gain in sales to $40,425,000. The Modular Merchandising System, a dealer display program, contributed importantly to results as did the new Mail Order Marketing program. Both were designed to help retailers sell Wilson Jones products. Lines that did particularly well in 1978 were columnar pads, accounting forms, ring binders, indexes and punches.

The DataSystems Division posted sales of $18,813,000, up 17%, and operating income of $6,071,000, up 13%, for 1978. During the year the division introduced new microfiche storage equipment, including the desk model shown in the large photo on the right.

Sales and operating income gains were shown by Perma Products, which makes corrugated storage boxes. The GrayLine Division, which prints standard business forms, gained in operating income on increased sales; the Standard Diary Division also performed well in 1978, with sales and profits up.

The Cooke & Cobb Division, manufacturer of expanding files, showed an increase in sales, but higher manufacturing costs brought about a decline in operating profits.





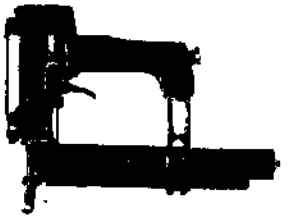
Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Ernest M. Raasch
President and
Chief Executive Officer



Swingline Inc.

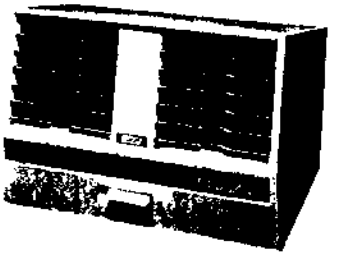












Swingline in 1978 posted operating income of $16,048,000 on sales of $158,813,000, compared with $17,553,000 and $143,301,000, respectively, in 1977. Swingline, Spotnails, Case and Marson set new profit records. The decline in operating income was due primarily to Marvel Lighting.

The Swingline Division had record operating income of $10,514,000, up 17%, on record sales of $54,267,000. The office products line was expanded and the *Electric Staplegun* for do-it-yourselfers had sales of one-quarter million units.

Spotnails, manufacturer of tools for industrial and home building use, had record operating income of $3,755,000, up 5%, on sales of $21,667,000. Case Cutlery, manufacturer of knives, shears and scissors, posted sales of $24,822,000 and record operating income, up 22%, at $3,909,000.

Marson's operating income from automotive and industrial products rose 12% to a record $2,316,000, on sales of $16,712,000. Ace Fastener, maker of specialty staplers, had sales of $11,492,000, with operating income down $190,000 to $687,000.

Marvel Lighting, manufacturer of long-life incandescent lamps, had a $4,667,000 operating loss with sales of $21,012,000, down $5,894,000. While factory sales were profitable, losses were incurred in writing down receivables and inventories.

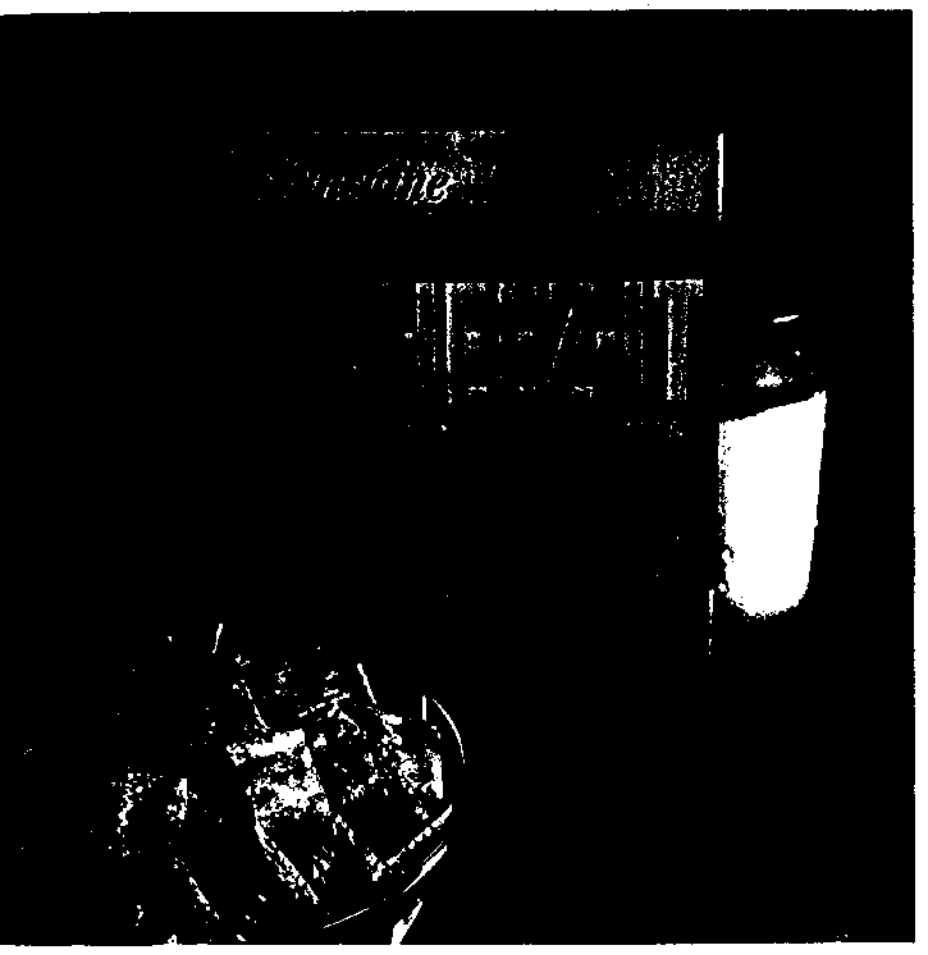
Swingline of Canada had sales of $8,841,000. Operating income declined from $495,000 in 1977 to $172,000 owing to higher costs.

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Edward J. Jennings, Jr.
President and
Chief Executive Officer



Sunshine Biscuits, Inc.



Sunshine's operating income in 1978 was $15,550,000, up 9%. Sales were $311,246,000, a gain of 6% over 1977.

The Biscuit Division in 1978 ran counter to industry trends by posting a 6% sales increase to $213,666,000. Its operating income was $10,715,000, up 6% over 1977. Sales of *Krispy* and *Cheez-It* crackers contributed to the gains. *Cheez-It* reached its highest share in history, outselling all other competitive cheese cracker brands. Two new products, *Wheat Wafers* and *Cinnamon Grahams*, were well received by consumers. In the cookie market, *Chip-A-Roos* posted increases despite intensified competitive activity.

Sunshine emphasizes its use of natural ingredients at every opportunity. The company makes exclusive use of vegetable shortening in all Sunshine brand products.

U.S. Snacks showed a gain in operating income of 31% to $1,432,000 on sales of $45,163,000. Bell Brands and Blue Bell on the West Coast posted record operating income.

The Canadian Snack Division, Humpty Dumpty Foods Limited, recorded higher profits on expanded distribution. Operating income rose 10% to $3,403,000, on a sales gain of 6% to $52,417,000. In Canadian dollars operating income was up 20% on a 13% sales increase.







Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137



Robert L. Austin
President and
Chief Executive Officer

Acushnet Company

Acushnet's operating income in 1978 rose 8% to a record $12,946,000. Sales posted a new high of $100,744,000.

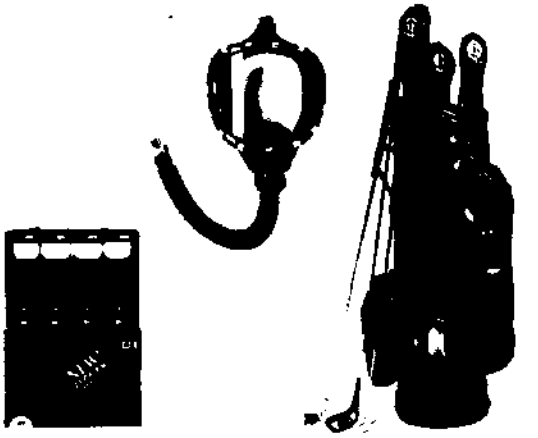
The Golf Division achieved a 6% rise in operating income to $6,930,000, on sales of $53,447,000. 1978 results reflect elimination of the company's unprofitable golf glove line for a full year.

Besides the famous *Titleist* golf ball, the Golf Division markets *Titleist* clubs, *Bulls Eye* putters, *Titleist* golf bags and headcovers through golf pro shops. The durable *Surlyn DT Titleist* was redesigned in 1978 and has received strong consumer acceptance. In 1979 two new golf clubs are being offered: *Titleist Forged Tour Model*, a conventional design with classic profile, and the *Titleist Accu-Flo*, which is aerodynamically designed for greater hitting distance.

Acushnet Limited, a wholly-owned subsidiary, continued to grow in sales and operating income with improved distribution of golf products in the U.K. and Europe.

Acushnet's Rubber Division had record results, with operating income up 10% to $6,016,000 on sales of $47,297,000. The division specializes in the manufacture of precision-molded natural and synthetic elastomeric products for automotive and industrial applications.





Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137



Thomas C. Hays
President and
Chief Executive Officer

The Andrew Jergens Company

Jergens' operating income was $6,709,000, compared with $6,949,000 in 1977. The decline is attributable to higher costs and intense competition in skin care and shampoo products. Sales were $88,613,000, versus $81,343,000 in 1977.

Jergens' domestic sales of $65,944,000 were up 6%, continuing a trend that began in 1974 when an ambitious new product development program was initiated. Products introduced since then now account for 42% of domestic sales.

Gentle Touch Soap, a new bath soap with baby oil, went national and accounted for over $8 million in sales. *Jergens Lotion-Mild Soap* increased in sales while *Jergens Lotion* was slightly down.

Gee, Your Hair Smells Terrific Shampoo and *Conditioner* experienced a slowdown in the second half of 1978, attributable to competitive shampoos which flooded the marketplace.

The Andrew Jergens Company Limited in Canada showed continued growth with sales of $7,716,000, up 18% over 1977. Sugar Beet Products Company and its Canadian subsidiary, Chemical By-Products, Ltd., producers of industrial skin cleansers, posted combined sales of $7,665,000, up 14%.

Jergens' international sales were $4,212,000, up 45%. Sales by foreign licensees and joint ventures were $5,484,000, up 34%.





Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

John B. Hinch
President and
Chief Executive Officer



Acme Visible Records, Inc.

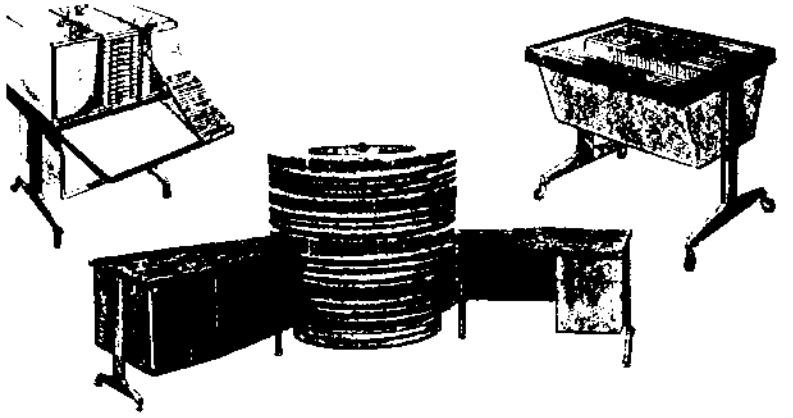


Acme's operating income in 1978 was $5,266,000, up 72%. This increase was achieved on improved margins and a 6% rise in sales to $59,732,000.

Domestic sales of storage and retrieval systems rose 11% to $38,893,000, while operating income posted a 49% gain to $5,031,000. All major product lines handled by Acme's sales organization showed volume increases, particularly *"Magic Aisle"* high-density filing equipment. Also up were the Datavue product lines marketed through office equipment and supply outlets.

Sales of Datafold Forms, Inc., the company's business forms subsidiary, were $17,707,000. Operating income was $72,000, compared with an operating loss of $459,000 in 1977. New management and corrective measures implemented earlier in the year brought about improved operating efficiencies resulting in a turnaround in profitability. During the year the Waynesburg, Pennsylvania, printing operation was consolidated with that in Richmond, Virginia.

Acme Seeley Limited sales were adversely affected by economic uncertainties in Canada. While sales of $3,132,000 were 10% below 1977's level, operating income rose modestly to $163,000.



Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Felipe S[illegible]
President



American Cigar



American Cigar's 1978 operating income was $4,751,000, compared with the prior year's record of $7,190,000. Sales were $45,196,000, versus $49,873,000.

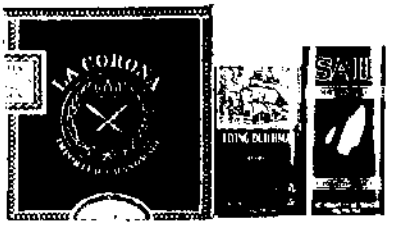
Operating income in 1978 was penalized by lower cigar volume and costs incurred in transferring production from Owensboro, Kentucky, to Mountaintop, Pennsylvania. The consolidation of all cigar operations at Mountaintop is expected to improve profit margins.

The domestic cigar industry's unit sales decline in 1978, for the eighth consecutive year, impacted all the division's cigar brands—*Roi-Tan, La Corona* and *Antonio y Cleopatra.* The smallest decrease was shown by *Antonio y Cleopatra*, the division's leading volume and profit producer, which accounts for more than half of dollar sales and operating income.

Sales of little cigars in 1978 also declined in line with the industry trend; the division's brands in this category include *Antonio y Cleopatra, Roi-Tan* and *Deringer.*

In 1978 the division expanded its line of imported Dutch smoking tobaccos with the introduction of *Flying Dutchman Dutch Black.* The other Dutch imports are *Sail* and *Clan.* Other smoking tobaccos include *Blue Boar*, a domestic mixture, and *Skallorna*, an imported premium price Danish mixture.





Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137



Raymond M. Anrig
President and
Chief Executive Officer

Duffy-Mott Company, Inc.

Duffy-Mott's operating income was $3,709,000, up 38% from $2,680,000 in 1977. Sales of $85,155,000 approximated the prior year despite the discontinuance of a packing arrangement for prune products owned by others. That arrangement contributed $8,917,000 to sales in 1977.

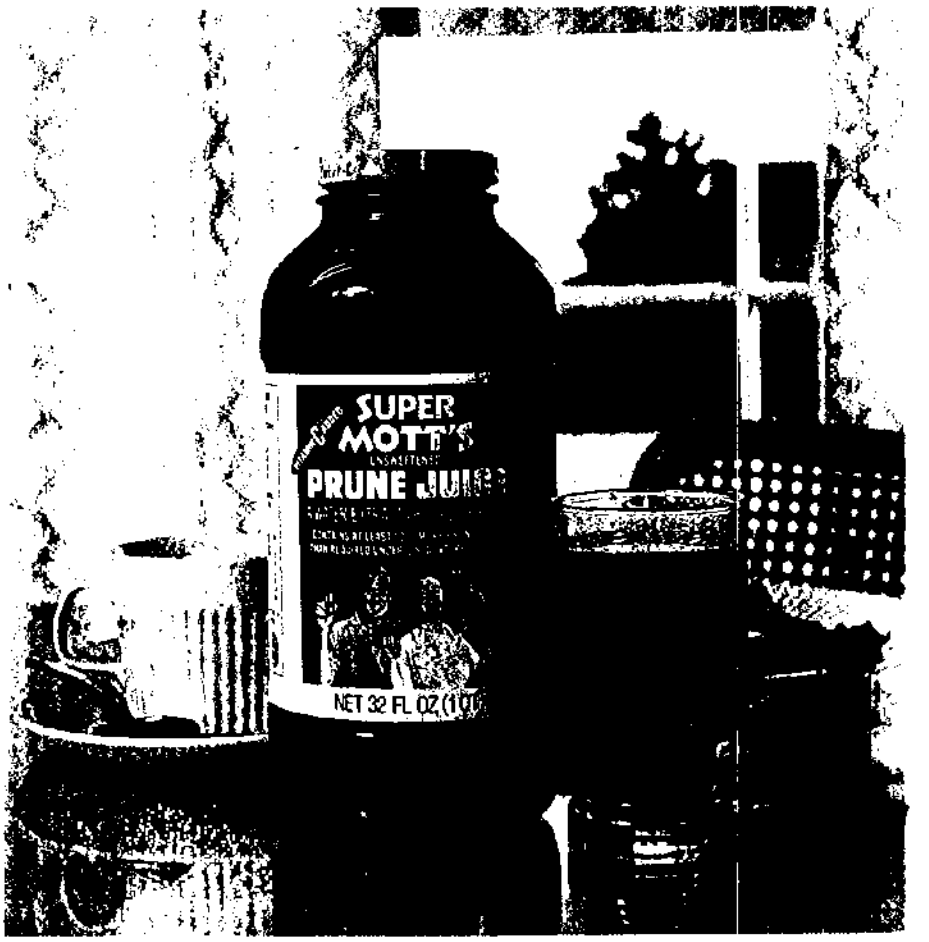
Apple sauce sales posted another gain; Mott's apple sauce line now commands a 26.4% share of market. *Natural Style Mott's Apple Sauce* contributed importantly to the gain.

Apple juice sales also increased, helped by the new *Natural Style Mott's Apple Juice*. Operating income from all apple products rose 17% in 1978.

Super Mott's Prune Juice continued to increase in sales and share of market. The newer *Mott's Prune Juice with Prune Pulp*, introduced in 1977, made excellent headway in enlarging its market.

Grandma's Molasses increased its share of market in an industrywide decline in sales of molasses.

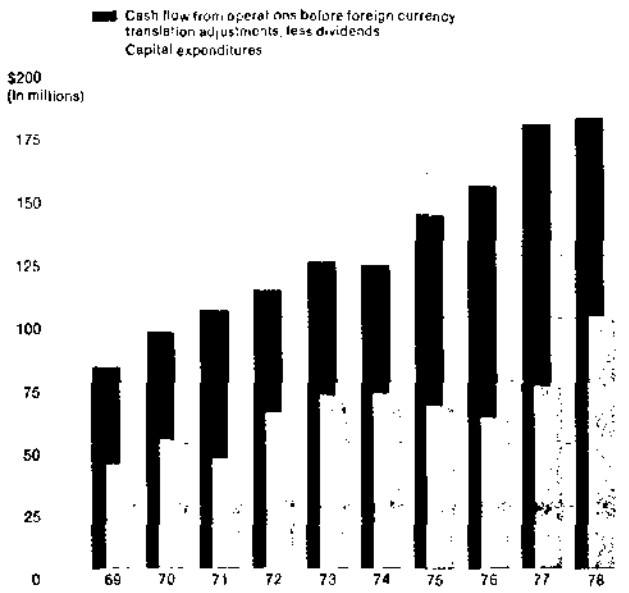
Clamato and *Beelamato* had higher sales, with *Clamato* benefiting from increased popularity in Canada.



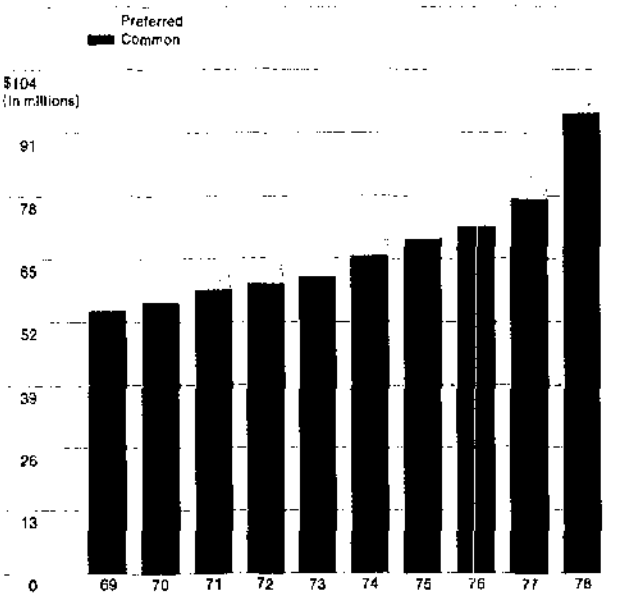


Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Cash flow compared with capital expenditures



Cash dividends paid



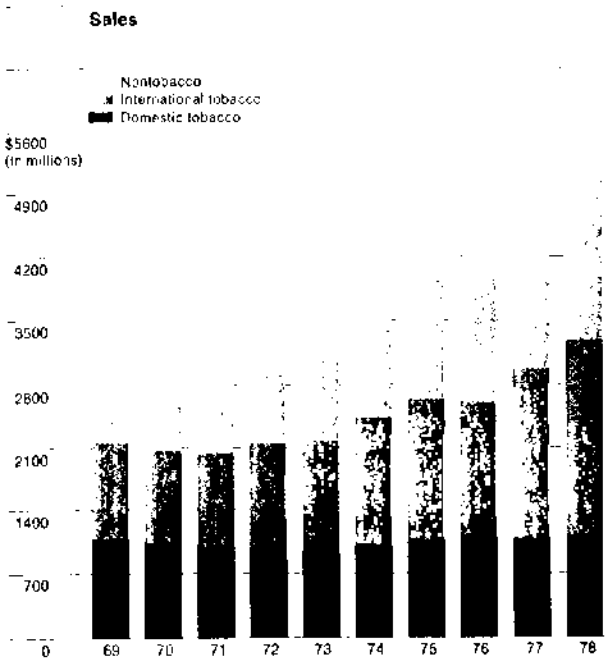
Cash Flow

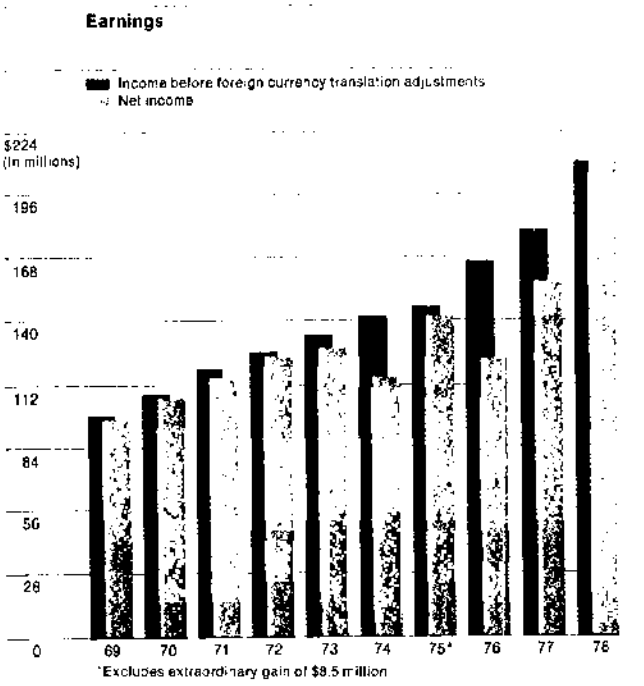
Cash flow from operations before foreign currency translation adjustments reached a record level of $278,740,000 in 1978, including $210,109,000 of earnings and $68,631,000 of depreciation and other noncash items. After providing for the payment of $98,889,000 in dividends, net cash flow amounted to $179,851,000, which, with available working capital, was sufficient to meet the financial requirements of the business and still permit a reduction of $152,596,000 in total debt.

Because the Company's operations are not affected significantly by fluctuations in the business cycle and are not capital intensive, internally generated funds over the past 10 years have provided a substantial surplus over and above the financial requirements of the Company's operations. Annual cash flow from operations has more than doubled since 1968 and has amounted to $2,022,518,000 for the 10-year period. After providing for the payment of $742,578,000 in dividends, net cash flow of $1,279,940,000 has exceeded $637,820,000 of capital expenditure requirements by about $642,120,000. This amount was available to the Company for discretionary uses and provided the bulk of the funds used for acquisitions.

Prospects are favorable for a continuation of these strong cash flow trends in the years ahead, with funds from operations less dividends expected to exceed capital expenditures by a comfortable margin.

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137





Dividends

Dividends on Common stock paid in 1978 were $95,214,000. Together with dividends of $3,675,000 paid on Convertible Preferred stock issues, total dividends amounted to $98,889,000, compared with $82,381,000 in 1977, an increase of $16,508,000.

Acquisitions

With the completion of the acquisition of The Franklin Life Insurance Company, in February 1979, American's diversification took on a new direction. At an estimated cost of $644,800,000, the acquisition is by far the largest undertaken by the Company and gives it a significant position in an industry generating over $30 billion in premium revenues annually.

The availability in 1977 of 27.5% of Franklin's Common stock presented an opportunity to establish an ownership position in one of the industry's leading companies. Franklin has a record of steady earnings growth and one of the highest profit margins in the business; it is well capitalized and has no debt; its business consists almost entirely of quality life insurance policies; and, more importantly, its management is highly regarded in the investment and insurance communities.

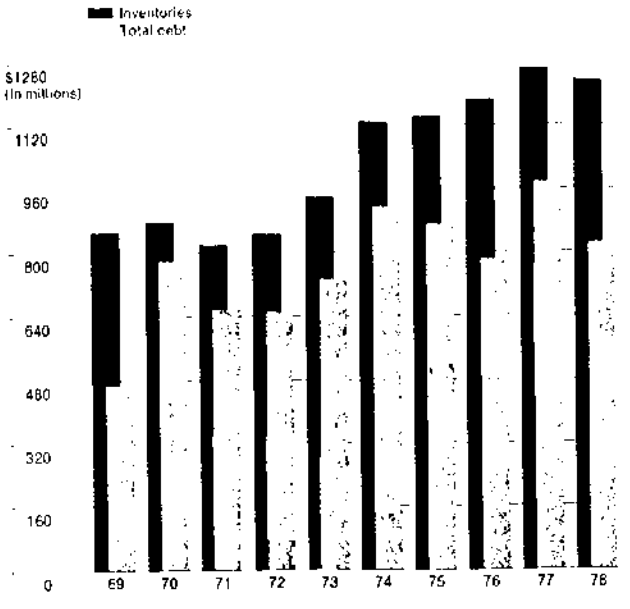
Franklin reported total revenues of $435,000,000 and net income of $54,215,000 for 1978. Insurance in force amounts to more than $12 billion and assets totaled over $2 billion at the end of 1978.

In addition to the expenditure of approximately $304,242,000 in cash (including the cost of the original 27.5% purchased in 1977), the acquisition of Franklin involved the issuance of about 5,514,197 shares each of two new series of Preferred stock.

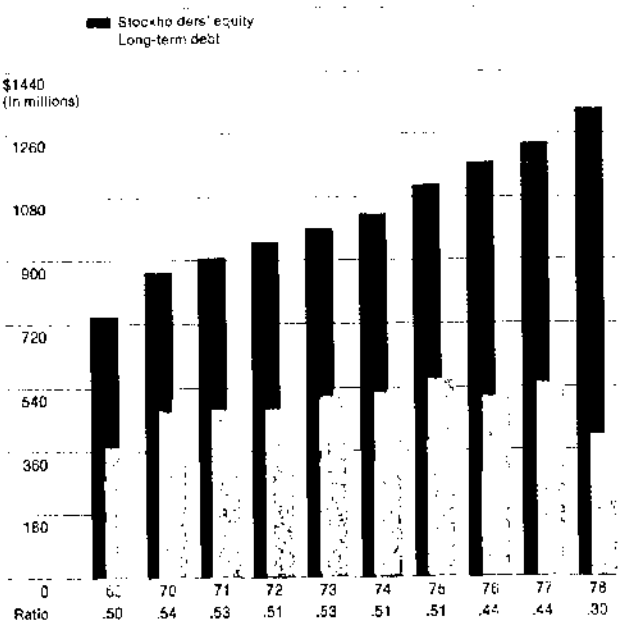
During the year the Company owned 27.5% of Franklin. Equity in its earnings amounted to $13,872,000 in 1978. In 1979, all of Franklin's

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Inventories compared with total debt



Long-term debt compared with stockholders' equity



earnings will be included in the consolidated income of American Brands.

Taxes

American Brands incurred total taxes of $2,165,838,000 during 1978, including taxes on income of $210,931,000. By comparison, income available to stockholders was $211,539,000.

U.S. federal excise taxes amounted to $367,300,000, or 29% of distilled beverage and tobacco sales, and United Kingdom excise taxes on tobacco products were $1,515,920,000, or 70% of Gallaher's tobacco sales. Social Security and other taxes amounted to $71,687,000.

Capital Expenditures

In 1978 capital outlays were a record $100,623,000, an increase of 36% over the $74,209,000 invested during 1977. A major portion of these expenditures was made for the purpose of reducing the Company's production costs, including continuation of a modernization program for Gallaher's cigarette facilities.

The investment tax credit amounted to $2,632,000 in 1978 and was accounted for as a reduction of income tax expense.

Depreciation and amortization charged to costs and expenses in 1978 was $63,035,000, compared with $58,711,000 in 1977.

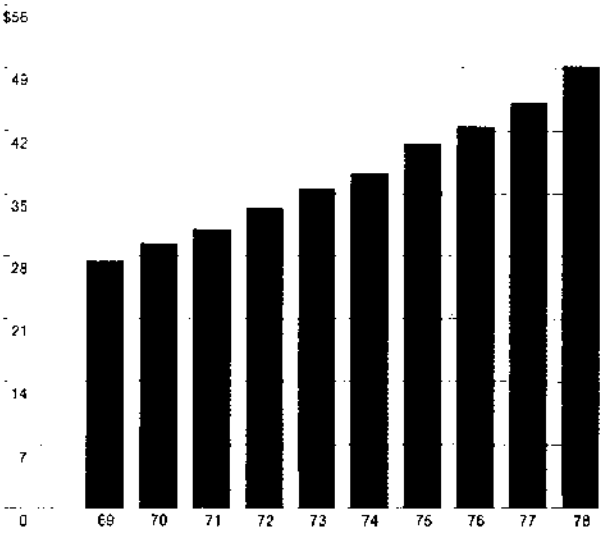
Financial Position

Domestic short-term bank debt and commercial paper were reduced from $232,291,000 to $199,245,000 at the end of 1978. Short-term debt of foreign subsidiaries decreased from $168,000,000 to $65,774,000, due principally to a change in the system of tobacco excise tax payments in the U.K.

Consolidated long-term debt, restated for obligations under capitalized leases, was down from $549,621,000 to $396,477,000. At year-end 1978 the percentage of long-term debt to stockholders' equity

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Book value per common share



Quarterly dividend payments

1978 Payment Date	1978 Amount Per Share	1977 Payment Date	1977 Amount Per Share
3/1/78	$ .875	3/1/77	$ .73
6/1/78	.875	6/1/77	.73
9/1/78	.875	9/1/77	.76
12/1/78	1.000	12/1/77	.76
Total	$3.625	Total	$2.98

Common stock prices (N.Y.S.E.)

Quarter	1978 High	1978 Low	1977 High	1977 Low
First	46	39⅜	45⅞	43
Second	51¾	45¼	48⅛	43¼
Third	53	48⅝	47⅞	43¼
Fourth	52	45½	44⅝	41⅛

was 30%; including the current portion of long-term debt, the percentage was 42% versus 46% for 1977.

Total debt was reduced by $152,596,000 to $821,810,000 during 1978, and the percentage of total debt to stockholders' equity declined from 79% to 62%.

Interest expense in 1978 amounted to $71,907,000, representing an increase of $5,308,000, resulting primarily from higher interest rates.

More than 57% of the Company's assets consists of inventories and trade receivables. These amounted to $1,669,576,000 at the end of 1978 or an increase of $24,302,000. Current assets exceeded total liabilities by $176,519,000, or more than 11%, and total inventories of $1,231,520,000 were greater than total debt by $409,710,000. The ratio of current assets to current liabilities was 1.7 to 1 at year-end.

Stockholders' Equity

Stockholders' equity increased to $1,336,545,000 at year-end from $1,237,791,000, a gain of $98,754,000, and amounted to 77% of total capitalization, compared with 69% at the end of 1977. Net income as a return on average stockholders' equity increased from 13% in 1977 to 16.4% in 1978. Book value per Common share rose from $45.15 to $49.13 at the end of 1978.

The Company purchased 294,050 shares of its Common stock for the treasury in 1978. During the year 801,384 shares were delivered upon the exercise of stock options and the conversion of 5¼% convertible debentures, $6.00 Convertible Preferred stock and $1.70 Convertible Preferred stock. At year-end 2,162,600 shares remained in the treasury.

Despite the use of convertible securities in connection with acquisitions, care has been taken to avoid dilution of outstanding Common stock. Common stock purchased in the open market has been used to redeem convertible securities and for stock options. Common shares outstanding during 1978 averaged 26,211,793—actually less than the 1968 figure of 27,514,000.

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Consolidated Statement of Income

American Brands, Inc. and Subsidiaries

For years ended December 31	1978	1977
		(In thousands)
Net sales	**$5,176,706**	$4,616,390
Cost of sales	**4,044,126**	3,605,029
Gross profit	**1,132,580**	1,011,361
Advertising, selling and administrative expenses	**649,265**	588,698
	483,315	422,663
Equity in pretax earnings of The Franklin Life Insurance Company	**21,234**	3,407
Operating income	**504,549**	426,070
Other income	**11,897**	6,481
	516,446	432,551
Interest and related charges	**71,907**	66,599
Corporate administrative expenses	**10,489**	9,832
Other deductions	**11,580**	16,135
	93,976	92,566
Income before provision for taxes on income	**422,470**	339,985
Provision for taxes on income		
Currently payable		
Federal	**134,731**	124,923
Foreign	**44,722**	6,244
Other	**21,815**	20,913
Deferred		
Federal and other	**2,042**	(2,272)
Foreign	**7,621**	33,818
	210,931	183,626
Net income	**$ 211,539**	$ 156,359
Net income per Common share		
Without dilution	**$7.93**	$5.82
Fully diluted	**$7.66**	$5.63

Consolidated Statement of Retained Earnings

For years ended December 31	1978	1977
		(In thousands)
Balance at beginning of year	**$1,055,922**	$ 982,234
Net income	**211,539**	156,359
Cash dividends		
Common stock: **1978, $3.625 per share;** 1977, $2.98 per share	**95,214**	77,661
$6.00 Convertible Preferred stock	**1,470**	2,166
$1.70 Convertible Preferred stock	**2,205**	2,554
Excess of cost over stated value of		
$1.70 Convertible Preferred stock reacquired	**76**	290
Retained earnings at end of year	**$1,168,496**	$1,055,922

See Notes Accompanying Financial Statements.

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Consolidated Balance Sheet

December 31	1978	1977
		(In thousands)
Assets		
Cash, including interest-bearing deposits	$ 28,161	$ 24,314
Accounts receivable, customers, less allowances for discounts, doubtful accounts and returns, **1978, $11,314,000;** 1977, $10,433,000	438,056	387,106
Inventories		
Leaf tobacco	696,302	704,504
Bulk whiskey	73,011	69,534
Other raw materials, supplies and work in process	195,810	182,629
Finished products	266,397	301,501
	1,231,520	1,258,168
Other current assets	39,202	39,490
Total current assets	1,736,939	1,709,078
Investment in The Franklin Life Insurance Company	184,180	178,476
Property, plant and equipment, at cost		
Land, improvements to land and leaseholds	30,676	33,651
Buildings	281,793	274,695
Machinery and equipment	653,775	611,603
Construction in process	21,819	13,195
	988,063	933,144
Less accumulated depreciation and amortization	510,511	481,052
	477,552	452,092
Intangibles resulting from business acquisitions	466,925	468,833
Other assets	31,369	33,183
Total assets	$2,896,965	$2,841,662

See Notes Accompanying Financial Statements.

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

December 31	American Brands, Inc. and Subsidiaries 1978	1977
		(In thousands)
Liabilities		
Notes payable to banks	**$ 71,000**	$ 115,000
Commercial paper	**128,245**	117,291
Short-term borrowings by foreign subsidiaries	**65,774**	168,000
Accounts payable and accrued expenses	**330,790**	306,502
Accrued taxes	**270,222**	200,598
Current portion of long-term debt	**160,314**	24,494
Total current liabilities	**1,026,345**	931,885
Long-term debt	**396,477**	549,621
Deferred income taxes	**137,598**	122,365
Total liabilities	**1,560,420**	1,603,871
Stockholders' equity		
Capital stock		
$6.00 Convertible Preferred stock, without par value, stated value $100 per share	**20,035**	33,326
$1.70 Convertible Preferred stock, without par value, stated value $20 per share	**12,797**	29,380
Common stock, par value $6.25 per share	**179,352**	179,352
Paid-in surplus	**48,483**	47,365
Equity in net unrealized depreciation on investments in marketable equity securities of The Franklin Life Insurance Company	**(3,452)**	(471)
Retained earnings	**1,168,496**	1,055,922
	1,425,711	1,344,874
Less treasury stock, at cost	**89,166**	107,083
Total stockholders' equity	**1,336,545**	1,237,791
Total liabilities and stockholders' equity	**$2,896,965**	$2,841,662

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Consolidated Statement of Changes in Financial Position

American Brands, Inc. and Subsidiaries

For years ended December 31	1978	1977
		(In thousands)
Source of working capital		
Net income	**$211,539**	$156,359
Charges (credits) to income not requiring (providing) working capital		
Depreciation and amortization	**63,035**	58,711
Translation loss on long-term debt payable in foreign currencies	**4,189**	8,718
Net provision for noncurrent deferred income taxes	**15,288**	29,985
Equity in undistributed earnings of The Franklin Life Insurance Company	**(7,578)**	(2,088)
Working capital provided from operations	**286,473**	251,685
Issuance of additional long-term debt	**9,679**	52,697
Conversion of Preferred stocks and debentures and proceeds from stock options exercised	**4,365**	3,773
Disposition of property, plant and equipment	**14,793**	6,675
	315,310	314,830
Use of working capital		
Investment in The Franklin Life Insurance Company	**—**	176,859
Additions to property, plant and equipment	**100,623**	74,209
Decrease in long-term debt (including transfer to current)	**167,012**	31,861
Dividends to stockholders	**98,889**	82,381
Purchases of Common stock for treasury	**14,766**	12,829
Other, net	**619**	2,728
	381,909	380,867
Decrease in working capital	**$ (66,599)**	$ (66,037)
Components increasing (decreasing) working capital		
Cash	**$ 3,847**	$ (5,472)
Accounts receivable, customers	**50,950**	96,788
Inventories	**(26,648)**	72,508
Other current assets	**(288)**	8,657
Notes payable to banks	**44,000**	(21,500)
Commercial paper	**(10,954)**	(7,791)
Short-term borrowings by foreign subsidiaries	**102,226**	(129,845)
Accounts payable and accrued expenses	**(93,912)**	(72,503)
Current portion of long-term debt	**(135,820)**	(6,879)
Decrease in working capital	**$ (66,599)**	$ (66,037)

See Notes Accompanying Financial Statements.

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of the Company and all subsidiaries. The Company's investment in The Franklin Life Insurance Company is accounted for by the equity method. Fiscal year-ends of certain subsidiaries of Gallaher Limited range from September 30 to November 30 to facilitate Gallaher's year-end closing.

Inventories are priced at the lower of cost (average; first-in, first-out; and minor amounts at last-in, first-out) or market. In accordance with generally recognized trade practice the leaf tobacco and bulk whiskey inventories are classified as current assets, although part of such inventories, due to the duration of aging processes, ordinarily will not be sold within one year. The last-in, first-out inventory included in the consolidated balance sheet is $1,690,000 in excess of the valuation reported by a subsidiary for federal income tax purposes, resulting from a revaluation of this asset to fair value at the date the subsidiary was purchased.

Depreciation and amortization are provided, principally on a straight-line basis, over the estimated useful lives of the assets. Profits or losses resulting from dispositions are, with minor exceptions, included in the statement of income. Betterments and renewals which improve and extend the life of an asset are capitalized; maintenance and repairs are charged to cost or expense.

Intangibles resulting from business acquisitions, comprised of brands and trademarks and cost in excess of net assets of businesses acquired, are considered to have a continuing value over an indefinite period and are not being amortized, except for intangibles acquired after 1970, which are being amortized ($2,198,000 in 1978 and $2,123,000 in 1977) on a straight-line basis over a period of 40 years. Intangibles resulting from acquisitions are adjusted to reflect differences between book and tax accounting attributable to such acquisitions.

Provision is made for deferred income taxes relating to differences in the timing of recognition for book and tax purposes of certain items. Deferred income taxes are not provided on undistributed earnings of foreign subsidiaries and domestic international sales corporations, aggregating approximately $149,000,000 at December 31, 1978, as such earnings are expected to be permanently reinvested in these companies. The investment tax credit is accounted for as a reduction of taxes on income currently payable.

Pension expense, which is being funded, is determined by independent actuaries and includes amortization of unfunded prior service costs principally over 40 years.

Investment in The Franklin Life Insurance Company

In November 1977, the Company purchased approximately 27½% of the outstanding Common stock of The Franklin Life Insurance Company from The Continental Corporation at an aggregate cost of $176,859,000. On December 30, 1978, pursuant to a Plan of Exchange between Franklin and FDS Holding Company, Franklin stockholders became stockholders of FDS and FDS became the sole stockholder of Franklin; as a result the Company acquired approximately 27½% of the outstanding shares of FDS. On January 4, 1979, an Agreement and Plan of Reorganization and an Agreement of Merger providing for the acquisition by the Company of the remaining interest in FDS not owned by the Company through the merger of FDS into a wholly-owned subsidiary of the Company were approved by the Boards of Directors of the Company and FDS. The merger transactions were approved and adopted by the stockholders of the Company and FDS on February 14, 1979; accordingly, FDS stockholders, other than the Company, will receive a maximum of 5,514,197 shares of each of a new series of $2.75 Preferred stock and of a new series of $2.67 Convertible Preferred stock and $128,116,000 will be paid to those stockholders who elected to receive cash. The estimated aggregate cost of 100% ownership in Franklin is $644,800,000.

The holders of the $2.75 Preferred stock are entitled to cumulative dividends, to one-quarter of a vote per share (in certain events, to the exclusion of the Common shares and other Preferred stock issues), and to preference in liquidation over holders of Common stock of $30.50 per share plus accrued dividends. The Company will be required on or before March 10, 1985 and each year thereafter to redeem 3% of the number of shares of original issue at a price of $30.50 per share, plus accrued dividends. The Company will have the noncumulative option to redeem an additional 3% of such number of shares each year. The Company may also redeem such Preferred stock on or after March 10, 1989, at prices beginning at $31.88 per share and declining to $30.50 on March 10, 1999, plus accrued dividends.

The holders of the $2.67 Convertible Preferred stock are entitled to cumulative dividends, to three-tenths of a vote per share (in certain events, to the exclusion of the Common shares), to preference in liquidation over holders of Common stock of $30.50 per share plus accrued dividends and to convert each share of such stock into 0.51 share of Common stock. Authorized but unissued Common shares are reserved for issuance upon such conversion but treasury shares may be substituted. The Company may redeem such Preferred stock on or after March 10, 1984, at prices beginning at $32.50 per share and declining to $30.50 on March 10, 1989, plus accrued dividends.

Equity in net earnings of Franklin, net of purchase accounting adjustments and amortization of excess cost, and equity in net unrealized depreciation on investments in marketable equity securities related to the 27½% ownership is included in the

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

consolidated financial statements from November 1, 1977; equity in the earnings amounted to $13,872,000 in 1978 and $2,088,000 in 1977. The Company's 27½% investment in Franklin at December 31, 1978 exceeded the underlying equity in the net assets by approximately $23,000,000. Such excess cost is being amortized on a straight-line basis over a period of 40 years. The Company received dividends of $6,294,000 from Franklin during 1978. Results of 100% ownership in Franklin will be included in the consolidated financial statements from January 1, 1979.

Summarized 1978 financial statement data for FDS, before purchase accounting adjustments, are as follows (in thousands):

Assets	
Investments	$2,006,493
Deferred policy acquisition costs	224,150
Other assets	59,911
Total	$2,290,554
Reserves and liabilities	
Insurance reserves and claims	$1,824,974
General liabilities	96,885
	1,921,859
Capital	368,695
Total	$2,290,554

Income	
Premiums	$293,596
Net investment income	137,944
Other income	3,542
	435,082
Benefits paid or provided	293,873
Expenses	59,868
Federal income taxes	27,126
	380,867
Net income	$ 54,215

Foreign subsidiaries

The consolidated financial statements include the following amounts related to operations, principally in the United Kingdom, of Gallaher Limited and its subsidiaries:

	1978	1977
		(In thousands)
Total assets	**$1,011,034**	$988,704
Total liabilities	**624,365**	612,816
Operating income	**109,897**	74,355
Net income	**51,239**	20,906

Foreign exchange

The consolidated statement of income includes charges (credits) related to translation of and transactions in foreign currencies as follows:

	1978	1977
		(In thousands)
Translation of foreign financial statements:		
Gallaher Limited and its subsidiaries	**$(2,401)**	$14,818
Other	**1,167**	996
	(1,234)	15,814
Foreign currency transactions:		
Losses (gains), net	**(216)**	5,472
Related income taxes	**20**	(1,059)
	(196)	4,413
Total	**$(1,430)**	$20,227

These amounts are reflected in the following captions in the consolidated statement of income:

Cost of sales	**$(3,745)**	$11,078
Other deductions	**2,295**	10,208
Provision for taxes on income	**20**	(1,059)
	$(1,430)	$20,227

Cost of sales reflects translation of inventory usage and depreciation expense at the historical exchange rates applicable to the related assets in the balance sheet and, accordingly, includes the amounts shown above representing the difference (due principally to the duration of the aging process for leaf tobacco) between such historical rates and the current average rates used in translating the other income statement accounts.

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Compensating balances and short-term borrowings

Pursuant to informal agreements with banks in connection with domestic bank lines of credit aggregating $284,000,000 at December 31, 1978, the Company maintains average compensating balances equal to the greater of 10% of the line or 20% of the average borrowings during the year. Compensating balances averaged approximately $8,500,000 during 1978. All cash balances were unrestricted as to use at any time. At December 31, 1978, a foreign subsidiary of the Company had $282,700,000 of unused bank lines of credit.

Information related to short-term borrowings is as follows:

	1978	1977
	(Dollar amounts in thousands)	
Maximum amount of short-term borrowings outstanding at any month-end during the year	**$368,088**	$420,296
Average aggregate short-term borrowings outstanding during the year	**$302,638**	$279,775
Average interest rate on average aggregate short-term borrowings outstanding during the year	**8.3%**	6.7%
Average interest rates at end of year:		
Notes payable to banks	**11.6%**	7.7%
Commercial paper	**10.2%**	6.6%
Short-term borrowings by foreign subsidiaries	**10.9%**	8.0%

Long-term debt

	Principal amounts at December 31, 1978 (In thousands)
8⅛% notes, due 1985	$150,000
9⅝% notes, due 1979	150,000
Eurocurrency revolving credit notes, 10.6% to 11.9% (a)	100,000
5⅞% debentures, due 1992	39,969
8% debentures, due 1981	13,624
5¼% convertible debentures, due 1988 (b)	5,245
4⅝% debentures, due 1990	3,866
7½% Eurodollar borrowings, due 1980	25,000
Dutch florin borrowings, 9¾% to 12½%, due 1979 through 1989	23,620
Miscellaneous borrowings	25,300
Obligations under capitalized leases	20,167
	556,791
Less current portion	160,314
Total	$396,477

(a) These notes are issued under lines of credit, aggregating $100,000,000, which expire as to $50,000,000 on December 31, 1982 and as to $50,000,000 on July 31, 1983; the interest rate is fixed at the time of each borrowing. A commitment fee of ½% per annum is paid on the average unused credit.

(b) These debentures, sold by a subsidiary, are guaranteed by the Company and are convertible into the Company's Common stock at $36 per share. At December 31, 1978 a total of 146,092 shares of Common stock costing $4,562,000 was held in the treasury and reserved for such conversions.

The Company has available additional lines of credit, aggregating $210,000,000, which expire through 1985.

Estimated payments for maturing debt and sinking fund requirements during the next five years are as follows: 1979, $160,314,000; 1980, $40,121,000; 1981, $14,288,000; 1982, $55,869,000; 1983, $59,269,000.

Stockholders' equity

On February 14, 1979, the stockholders approved an increase from 60,000,000 to 100,000,000 in the total authorized shares of Common stock and an increase from 15,000,000 to 30,000,000 in the total authorized shares of Preferred stock. (See note on "Investment in The Franklin Life Insurance Company" with respect to shares of Preferred stock issued in connection therewith.)

At December 31, 1978 and 1977, respectively, 200,350 shares and 333,261 shares of $6.00 Convertible Preferred stock and 639,865 shares and 1,468,988 shares of $1.70 Convertible Preferred stock were issued and outstanding.

The holders of the $6.00 Convertible Preferred stock are entitled to cumulative dividends, to one vote per share (in certain

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

events, to the exclusion of the Common shares), to preference in liquidation over holders of Common stock of $100 per share plus accrued dividends and to convert each share of such stock into two and two-ninths shares of Common stock. At December 31, 1978, a total of 445,272 shares of Common stock costing $18,060,000 was held in the treasury and reserved for such conversions. The Company may redeem such Preferred stock at a price of $101; declining to $100 per share on December 15, 1979, plus accrued dividends.

The holders of the $1.70 Convertible Preferred stock are entitled to cumulative dividends, to one-fifth of a vote per share (in certain events, to the exclusion of the Common shares), to preference in liquidation over holders of Common stock of $20 per share plus accrued dividends and to convert each share of such stock into 0.48 share of Common stock. Authorized but unissued Common shares are reserved for issuance upon such conversions but treasury shares may be substituted. The Company may redeem such Preferred stock on or after May 1, 1981, at prices beginning at $21.50 per share and declining to $20 per share on May 1, 1984, plus accrued dividends.

At December 31, 1978 and 1977, there were 28,696,253 Common shares issued, of which, respectively, 26,533,653 shares and 26,026,319 shares were outstanding and 2,162,600 shares and 2,669,934 shares were held in the treasury.

During 1978 treasury shares of Common stock increased through purchases of 294,050 shares at a cost of $14,766,000 and decreased by 801,384 shares costing $32,683,000 as the result of shares delivered upon conversion of Preferred stocks and debentures and exercise of stock options.

During 1978 consolidated paid-in surplus increased by a net amount of $1,118,000 in connection with the conversion of Preferred stocks and debentures and exercise of stock options.

Stock options

The Company's qualified stock option plan, under which no further options can be granted, provided for the granting of options to key employees through January 28, 1977 to purchase shares of the Company's Common stock at fair market values at dates of grant. Options extend for a term of five years from date of grant. Treasury shares are delivered on exercise of options.

Changes during 1978 in shares under option were as follows:

	Shares
Under option, December 31, 1977	358,975
Options exercised (at prices ranging from $30.125 to $40.875 per share)	(70,175)
Options lapsed	(95,725)
Options exercisable, December 31, 1978 (at prices ranging from $30.125 to $40.875 per share)	193,075

Pension plans

The Company and its subsidiaries have a number of pension plans covering substantially all employees. Total pension expense was $50,568,000 in 1978 and $46,178,000 in 1977, including provision for prior service costs.

The actuarially computed value of vested benefits as of the latest valuation dates exceeded the total of the pension fund investments, valued principally at market, at such dates by approximately $170,410,000.

Income taxes

The consolidated effective income tax rate differed from the federal statutory income tax rate as a result of the following:

	1978		1977	
	Amount (In thousands)	%	Amount (In thousands)	%
Provision computed at 48% of pretax earnings	**$202,786**	**48.0**	$163,193	48.0
Other income taxes, net of federal tax benefit	**11,344**	**2.7**	10,875	3.2
Nontaxable foreign currency exchange charges (credits)	**(672)**	**(.2)**	9,227	2.7
Other	**(2,527)**	**(.6)**	331	.1
As reported	**$210,931**	**49.9**	$183,626	54.0

The provision for deferred income taxes resulted from timing differences related to the following:

	1978	1977
		(In thousands)
Foreign inventories (see below)	**$5,934**	$20,338
Depreciation	**8,634**	8,351
Foreign exchange adjustments related to long-term debt payable in foreign currencies	**3,124**	(301)
Other	**(8,029)**	3,158
Total	**$9,663**	$31,546

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Pursuant to special provisions in the United Kingdom tax statutes which grant "stock relief" related to increases in inventory values, portions of Gallaher Limited's tax liabilities for the years 1973 through 1978 have been deferred.

The investment tax credit amounted to $2,632,000 in 1978 and $2,821,000 in 1977.

Lease commitments

On January 1, 1978, the Company applied retroactively the provisions of Statement of Financial Accounting Standards No. 13 with respect to lease transactions entered into prior to 1977 which met the criteria prescribed in the Statement. Accordingly, the 1977 consolidated financial statements have been restated; the effects of the restatement on such financial statements were not material.

Amounts relating to capitalized leases included in the consolidated balance sheet are as follows:

	1978	1977
	(In thousands)	
Land, improvements to land and leaseholds	$ —	$ 1,249
Buildings	22,429	23,586
Machinery and equipment	10,462	10,778
	32,891	35,613
Less accumulated depreciation and amortization	13,985	15,256
	$18,906	$20,357
Current portion of long-term debt	$1,649	$5,213
Long-term debt	$18,518	$14,873

Future minimum lease payments under capital leases together with present value of net minimum lease payments as of December 31, 1978 are as follows:

	(In thousands)
1979	$ 3,280
1980	3,439
1981	2,906
1982	2,696
1983	2,204
Remainder	52,911
Total minimum lease payments	67,436
Less amount representing interest	47,269
Present value of net minimum lease payments	$20,167

Future minimum rental payments required under noncancelable operating leases as of December 31, 1978 are as follows:

	(In thousands)
1979	$ 15,607
1980	14,018
1981	12,191
1982	10,855
1983	10,035
Remainder	93,080
Total minimum rental payments	155,786
Less minimum rentals to be received under noncancelable subleases	7,957
	$147,829

Total rental expense for all operating leases (reduced by minor amounts from subleases) amounted to $17,973,000 in 1978 and $17,309,000 in 1977.

The Company conducts a minor part of its manufacturing and warehousing operations and the major part of its optics, wholesaling and retailing operations in leased facilities held under long-term noncancelable leases with the leased manufacturing facilities generally having bargain purchase options. The Company also leases transportation equipment, office space and office equipment under short-term operating leases. Most leases provide that the Company pay taxes, maintenance, insurance and other operating expenses applicable to the leased property.

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Information on business segments

	Industry Segments					
	Tobacco Products	Hardware	Food Products	Other	Elimi-nations	Total
	(In thousands)					
Year ended December 31, 1978:						
Sales:						
Unaffiliated customers	$3,253,411	$204,482	$456,804	$1,262,009		$5,176,706
Intersegment				19,916	$(19,916)	
	$3,253,411	$204,482	$456,804	$1,281,925	$(19,916)	$5,176,706
Operating income:						
Industry segments	$331,317	$36,442	$20,976	$94,580		$483,315
Life insurance						21,234
						$504,549
Depreciation and amortization	$23,760	$4,698	$9,060	$25,517		$63,035
Capital expenditures	$41,491	$7,686	$13,217	$38,229		$100,623
Assets as of December 31, 1978:						
Identifiable	$1,346,870	$258,033	$205,629	$886,708		$2,697,240
Investment in The Franklin Life Insurance Company						184,180
Corporate (principally cash and prepaid expenses)						15,545
						$2,896,965
Year ended December 31, 1977:						
Sales:						
Unaffiliated customers	$2,933,684	$186,835	$447,809	$1,048,062		$4,616,390
Intersegment				21,037	$(21,037)	
	$2,933,684	$186,835	$447,809	$1,069,099	$(21,037)	$4,616,390
Operating income:						
Industry segments	$283,318	$35,945	$19,170	$84,230		$422,663
Life insurance						3,407
						$426,070
Depreciation and amortization	$22,261	$4,407	$8,276	$23,767		$58,711
Capital expenditures	$25,746	$5,513	$11,790	$31,160		$74,209
Assets as of December 31, 1977:						
Identifiable	$1,378,211	$249,871	$194,347	$821,474		$2,643,903
Investment in The Franklin Life Insurance Company						178,476
Corporate (principally cash and prepaid expenses)						19,283
						$2,841,662

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

	Geographic Areas				
	United States	Europe	Other	Elimi-nations	Total
			(In thousands)		
Year ended December 31, 1978:					
Sales:					
Unaffiliated customers	$2,168,857	$2,903,108	$104,741		$5,176,706
Transfers between geographic areas	2,968	5,327	117	$(8,412)	
	$2,171,825	$2,908,435	$104,858	$(8,412)	$5,176,706
Operating income:					
Geographic areas	$370,025	$107,165	$6,125		$483,315
Life insurance (United States)					21,234
					$504,549
Assets as of December 31, 1978:					
Identifiable	$1,619,190	$1,020,245	$57,805		$2,697,240
Investment in The Franklin Life Insurance Company					184,180
Corporate (principally cash and prepaid expenses)					15,545
					$2,896,965
Year ended December 31, 1977:					
Sales:					
Unaffiliated customers	$2,075,829	$2,438,517	$102,044		$4,616,390
Transfers between geographic areas	2,046	5,897	212	$(8,155)	
	$2,077,875	$2,444,414	$102,256	$(8,155)	$4,616,390
Operating income:					
Geographic areas	$342,896	$72,045	$7,722		$422,663
Life insurance (United States)					3,407
					$426,070
Assets as of December 31, 1977:					
Identifiable	$1,625,137	$961,778	$56,988		$2,643,903
Investment in The Franklin Life Insurance Company					178,476
Corporate (principally cash and prepaid expenses)					19,283
					$2,841,662

The Company operates principally in three industry segments as a manufacturer of: Tobacco (cigarettes, cigars and smoking tobaccos), Hardware (locks, stapling equipment, fastening tools and systems, cutlery products and "long-life" incandescent lamps) and Food products (crackers, cookies, snacks and other food products). The Other industry segment includes office services and supplies, distilled beverages, optical goods and services, engineering, toiletries, golf products, rubber products, and wholesaling and retailing activities. Life insurance represents the Company's equity in pretax earnings of Franklin.

The Company operates in the United States, Europe (principally in the United Kingdom) and in other areas (principally in Canada.)

Intersegment sales and transfers between geographic areas are generally accounted for on a current market price basis.

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Supplementary profit and loss information

Net sales and cost of sales include federal and foreign excise taxes in the amounts of $1,883,220,000 in 1978 and $1,724,438,000 in 1977.

Research and development expense was $17,046,000 in 1978 and $15,052,000 in 1977.

Earnings per share

Net income per share without dilution is based on the weighted average number of shares of Common stock outstanding in each year, and after Preferred stock dividend requirements.

Fully diluted net income per share assumes that convertible debentures and $6.00 and $1.70 Convertible Preferred shares outstanding at the beginning of each year were converted at those dates, with related interest (net of tax effect), 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 options as to which market price exceeds exercise price, less shares which could have been purchased with related proceeds.

Pending litigation

In two civil actions commenced in July 1974, and a third commenced in May 1975, the Company was named as a co-defendant with a number of other tobacco companies (including, in two cases, Gallaher Limited). The actions were brought by leaf growers for themselves and purportedly for classes of others similarly situated, and alleged violations of the antitrust laws commencing in 1970. The actions all claimed treble damages against the defendants, two of them originally aggregating approximately $2,500,000,000 and the third in an unspecified amount. The Company filed answers to the complaints in all the actions, denying the material allegations thereof and raising several affirmative defenses, including defenses to the class action allegations. In April 1976, in one of these actions, in which damages in excess of $2,100,000,000 were originally sought, plaintiffs filed an amended complaint that reduced the claimed damages to approximately $43,000,000. In another of these actions, in which six named plaintiffs initially sought damages of $335,800,000 on behalf of an alleged class, the District Court denied plaintiffs' motion to certify the suit as a class action, thereby limiting it to the individual claims of the named plaintiffs. In October 1977, the Fourth Circuit Court of Appeals affirmed that decision on rehearing, and in April 1978, the Supreme Court of the United States denied plaintiffs' petition for review of the ruling of the Court of Appeals. This case has been dismissed with prejudice. In the third action, in which a single named plaintiff sought an unspecified amount of damages on behalf of an alleged class, the District Court in November 1978 granted defendants' motion that the case not be allowed to proceed as a class action, thereby limiting this suit to the individual claims of the one named plaintiff, who has not specified his alleged damages. While counsel for the Company are unable to predict the outcome of this litigation, it is their opinion, based on their investigation to date, that the Company's defenses have a substantial basis in fact and in law. The actions continue to be vigorously defended.

The Company is a defendant in six civil actions involving claims of race and sex discrimination at various of the Company's tobacco manufacturing and leaf handling facilities. Most of the actions are purportedly brought on behalf of classes of employees or former employees of the Company and all of them seek injunctive relief as well as back pay awards in amounts not presently determinable. In two of the cases, trials were held resulting in judgments adverse to the Company. Both judgments were appealed, the appeal in one case being partially successful. Motions for reconsideration in light of subsequent United States Supreme Court decisions were filed in each case. In one case, discovery relating to issues raised by the motion is being conducted. In the other case, the Fourth Circuit Court of Appeals has recently affirmed in part and vacated and remanded in part a decision of the District Court which determined that no change in the judgment was necessary. A petition for rehearing and rehearing en banc has been filed. Back pay proceedings are in abeyance pending resolution of the appeal.

Pursuant to Statement of Financial Accounting Standards No. 16, which became effective on January 1, 1978, liability resulting from litigation will be charged to income in the year in which it becomes probable that such liability has been incurred and the amount of the loss can be reasonably estimated.

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Quarterly financial data (unaudited)

Summarized quarterly unaudited financial data (in millions except per share amounts) are as follows:

	1978			
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Net sales	**$1,258.7**	**$1,228.3**	**$1,297.2**	**$1,392.5**
Gross profit	**262.6**	**272.0**	**288.0**	**310.0**
Net income	**55.8**	**42.5**	**53.0**	**60.2**
Net income per Common share				
Without dilution	**2.10**	**1.58**	**1.99**	**2.26**
Fully diluted	**2.02**	**1.53**	**1.92**	**2.19**

	1977			
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Net sales	$1,085.9	$1,114.4	$1,175.9	$1,240.2
Gross profit	241.7	252.0	254.7	263.0
Net income	41.6	41.5	39.4	33.9
Net income per Common share				
Without dilution	1.55	1.54	1.47	1.26
Fully diluted	1.49	1.49	1.43	1.22

Net income in the preceding summary reflects the following:

Translation of and transactions in foreign currencies resulted in a favorable change of $12.8 million in the 1st quarter, and an increase in charges of $4.1 million in the 2nd quarter and a favorable change of $3.6 million and $9.4 million in the 3rd and 4th quarters of 1978, all as compared with the corresponding quarters of 1977.

The 1st, 2nd, 3rd and 4th quarters of 1978 and the 4th quarter of 1977 include equity in the net earnings of Franklin of $3.6 million, $3.8 million, $3.6 million, $2.9 million and $2.1 million, respectively.

The 4th quarter of 1978 includes $5.2 million reversal of accruals for income taxes no longer required, $2.5 million of which was provided during 1978.

A credit in the 3rd quarter of 1977 of $5.2 million ($8.7 million for the year) from reversal of a portion of an accrual for cigarette coupon redemptions no longer required and a charge in the same quarter of $2.5 million ($4.0 million for the year) for a loss on tobacco substitute and related inventories.

Supplemental information on current replacement cost (unaudited)

The Company's Form 10-K for 1978, to be filed with the Securities and Exchange Commission, will include information with respect to current replacement cost values of inventories and plant and equipment as of December 31, 1978 and 1977, and the approximate effect which such current replacement cost values would have had on cost of sales and depreciation expense for the years then ended.

The current replacement cost of the Company's inventories and plant and equipment and the amount of the associated cost of sales and depreciation expense calculated using replacement costs are significantly higher than the comparable historical cost amounts shown in the financial statements.

The Company supports the Securities and Exchange Commission's caution against simplistic use of current replacement cost data in the determination of "true income," since these data are limited to selected categories of assets and expenses and disregard other elements of the financial statements.

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Report of Independent Certified Public Accountants

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

We have examined the consolidated balance sheet of American Brands, Inc. and Subsidiaries as of December 31, 1978 and 1977, and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of American Brands, Inc. and Subsidiaries at December 31, 1978 and 1977, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

1251 Avenue of the Americas
New York, New York 10020
February 14, 1979

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

1978 Compared to 1977

Net sales increased 12%. Tobacco products were up 11%, reflecting higher prices for both domestic and international lines, with international sales also reflecting increases from translating Gallaher's sales at higher foreign exchange rates. Hardware increased 9% due mainly to volume increases and new products. Food products gain of 2% reflects higher prices and volume, tempered by phase-out of certain products during the second half of 1977. Each business in the Other industry segment was up and in total increased 20%. This includes an increase of 13% for Distilled beverages, reflecting increased market share for Bourbon, a 10% increase for Office services and supplies on higher prices and volume, and a 30% increase for foreign operations, reflecting newly acquired businesses and translation at higher exchange rates.

Gross profit was up 12%. Gross margins were unchanged as higher selling prices generally offset increased product costs.

Operating income was up 18% or $78,479,000. Tobacco products, which accounted for more than 65% of operating income, increased 17% or $47,999,000. Domestic tobacco contributed $12,515,000 of the increase; the greater contribution from international operations reflected benefits from higher prices and a more profitable sales mix, partly offset by higher marketing expenses required by severe competition. Hardware was up only 1.4%, reflecting operating losses for one division within this segment. Food products and Other industry segments were up 9% and 12%, respectively, generally as a result of higher sales, partly offset by higher costs and operating expenses. The 27½% equity in the pretax earnings of The Franklin Life Insurance Company added $21,234,000 in 1978, compared to $3,407,000 for two months in 1977.

Income before taxes was up 24%. This reflects lower foreign currency exchange losses, which more than offset an 8% increase in interest costs due to higher average domestic short-term borrowings at higher interest rates.

Taxes on income were up 15%. The comparability in relation to pretax income is distorted by nontaxable foreign currency exchange adjustments.

Net income of $211,539,000 was up $55,180,000 or 35%, reflecting an $11,784,000 increase in equity in the net earnings of Franklin, and a $1,430,000 gain from foreign currency adjustments compared to a $20,227,000 loss in 1977.

1977 Compared to 1976

Net sales increased 12%. Tobacco products were up 13% as international gained 22% on higher volume and prices, the latter reflecting, in part, increased tobacco excise taxes. Domestic tobacco was off slightly as effects of volume declines exceeded benefits from higher prices. Hardware was up 6% on price increases and volume gains. Food products were down 2% as volume declines, resulting from phase-out of certain products and some snack food operations, more than offset the effect of higher prices. Each business in the Other industry segment was up, except for a slight decline in Distilled beverages. This segment increased 17% generally on price and volume increases plus a full year's results for the Golf and Rubber businesses acquired in April 1976.

Gross profit was up 8%. Margins were down slightly, reflecting the sales mix and generally higher product costs.

Operating income was up 11% or $41,406,000. Tobacco products, which accounted for more than 66% of operating income, increased 9% or $22,523,000, reflecting benefits from higher prices partly offset by increased product costs and higher marketing expenses. Hardware increased 4% as profits were affected by reorganization expenses for one division. Food products were down 15%, on lower sales and higher costs. The Other industry segment was up 26% in line with discussion under Net sales. Pretax equity in the earnings of The Franklin Life Insurance Company added $3,407,000 in 1977.

Income before taxes was up 18%. This reflects a $12,384,000 reduction in foreign currency exchange losses.

Taxes on income were up 12%. The comparability in relation to pretax income is distorted by nontaxable foreign currency exchange adjustments.

Net income of $156,359,000 was up 26% or $32,587,000. Foreign currency adjustments reduced net income by $20,227,000 in 1977 and $42,769,000 in 1976.

[1] This Discussion should be read in conjunction with Operating Results By Business Segments appearing on page 44.

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Eleven-year Consolidated Summary of Operations and Other Financial Data[1]

(In thousands except per share amounts)	1978	1977	1976	1975
Consolidated summary of operations[2]				
Net sales	**$5,176,706**	$4,616,390	$4,125,837	$4,055,313
Gross profit	**1,132,580**	1,011,361	936,124	891,403
Operating income	**504,549**	426,070	384,664	381,784
Interest and related charges	**71,907**	66,599	67,033	78,943
Income before taxes and extraordinary gain[3]	**422,470**	339,985	287,830	304,417
Taxes on income	**210,931**	183,626	164,058	162,425
Income before extraordinary gain	**211,539**	156,359	123,772	141,992
Extraordinary gain	**—**	—	—	8,501
Net income	**211,539**	156,359	123,772	150,493
Per Common share				
Without dilution				
Income before extraordinary gain	**7.93**	5.82	4.60	5.37
Extraordinary gain	**—**	—	—	.33
Net income	**7.93**	5.82	4.60	5.70
Fully diluted				
Income before extraordinary gain	**7.66**	5.63	4.44	5.14
Extraordinary gain	**—**	—	—	.31
Net income	**7.66**	5.63	4.44	5.45
Average Common shares outstanding during year	**26,212**	26,060	25,635	25,612
Dividends				
Common				
Amount	**$ 95,214**	$77,661	$71,668	$68,623
Per share	**3.625**	2.98	2.80	2.68
Preferred	**3,675**	4,720	5,511	4,424
Added to retained earnings	**112,650**	73,978	46,593	77,446
Other financial data				
Inventories	**$1,231,520**	$1,258,168	$1,185,660	$1,139,210
Current assets	**1,736,939**	1,709,078	1,536,597	1,501,122
Working capital	**710,594**	777,193	843,230	823,330
Property, plant and equipment—net	**477,552**	452,092	437,602	426,625
Total assets	**2,896,965**	2,841,662	2,478,254	2,431,903
Long-term debt	**396,477**	549,621	520,067	564,016
Short-term debt	**425,333**	424,785	258,770	308,662
Stockholders' equity	**1,336,545**	1,237,791	1,174,977	1,109,758
Book value per Common share	**49.13**	45.15	42.39	40.53
Capital expenditures	**100,623**	74,209	61,380	65,509
Number of Common stockholders	**121**	123	126	128

(1) The years 1968 through 1977 reflect restatements in connection with Statement of Financial Accounting Standards No. 13.

(2) For Management's Discussion and Analysis of Consolidated Summary of Operations see page 39.

(3) Also before minority interest from 1968 through 1974.

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

1974	1973	1972	1971	1970	1969	1968
$3,570,426	$3,096,369	$2,998,869	$2,827,771	$2,674,461	$2,661,478	$1,897,852
781,426	697,390	666,054	652,607	581,185	553,393	463,201
363,637	337,971	319,785	314,516	285,280	271,676	230,092
73,302	48,636	41,143	45,720	39,590	30,000	18,521
260,943	268,947	273,681	252,845	239,997	234,164	205,431
136,622	128,706	132,629	123,621	122,337	127,917	108,740
117,012	127,360	125,458	116,241	107,881	97,681	92,807
—	—	—	—	—	—	—
117,012	127,360	125,458	116,241	107,881	97,681	92,807
4.39	4.75	4.60	4.18	4.02	3.62	3.37
—	—	—	—	—	—	—
4.39	4.75	4.60	4.18	4.02	3.62	3.37
4.23	4.58	4.44	4.04	3.91	3.53	3.33
—	—	—	—	—	—	—
4.23	4.58	4.44	4.04	3.91	3.53	3.33
25,619	25,865	26,269	26,713	26,755	27,003	27,514
$65,586	$61,598	$60,127	$58,837	$56,230	$54,040	$50,931
2.56	2.379	2.288	2.20	2.10	2.00	1.875
4,497	4,500	4,500	4,500	—	—	—
46,929	61,262	60,831	52,904	51,651	43,641	41,876
$1,125,739	$ 937,833	$ 847,498	$ 819,480	$ 878,126	$ 855,396	$ 878,750
1,506,915	1,259,884	1,143,065	1,101,330	1,171,930	1,109,237	1,131,059
726,422	675,826	688,634	648,123	617,232	802,506	788,026
419,983	388,322	375,496	361,056	355,139	295,048	288,679
2,458,542	2,186,683	1,997,240	1,938,347	2,002,513	1,518,051	1,524,628
532,048	524,198	478,146	477,957	474,199	369,119	370,583
380,861	214,939	177,411	184,764	300,962	100,656	153,600
1,033,767	988,556	946,459	900,366	870,494	743,338	711,962
37.49	35.64	33.36	31.22	29.61	27.71	26.22
68,670	68,738	62,808	43,570	51,141	41,455	32,250
129	129	130	133	134	137	145

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

The Executive Committee: These six executives comprise the Executive Committee of American Brands, Inc. They are appointed by and responsible to the Board of Directors and meet at weekly intervals between monthly meetings of the Board.



Robert K. Heimann, Chairman and Chief Executive Officer of American Brands, Inc. since January 1977, Chairman of the Executive Committee and Chairman and Chief Executive Officer of The American Tobacco Company. He joined the Company in 1954 after serving as a security analyst and financial editor, became Assistant to the President, was elected a Director in 1963, Vice President, Marketing and Public Relations in 1964, Executive Vice President in 1966, Executive Vice President—Operations in 1967, President in 1969 and Chairman and President in 1973.



John F. Walrath, President and Chief Operating Officer since 1977. He was Vice President and Treasurer of The Andrew Jergens Company before joining American in 1971. Elected a Director and Executive Vice President in 1973 and Chief Operating Officer in 1974.



Francis X. Whelan, Executive Vice President, The American Tobacco Company since 1971. He joined the Company in 1940, became Executive Sales Manager in 1963, President of American Cigar in 1970, when elected a Director.



Russell P. Truitt, Executive Vice President, The American Tobacco Company since 1977. He joined the Company in 1957 and was Vice President—Manufacture and Leaf prior to his present position. He was elected a Director in 1974.



William Sword was elected an outside Director in 1976 and is a member of the Audit Committee. In 1975 he retired as a Managing Director of Morgan Stanley & Co. Incorporated. He is now Managing Director of Wm Sword & Co. Incorporated, investment bankers. Other directorships are Holly Corporation, Mathematica, Inc., United Penn Corporation, United Penn Bank, Nassau Broadcasting Co., Sword Irwin & Co. Incorporated, Kepner-Tregoe, Inc., Roadway Express, Inc., Foundation Managers Incorporated and Corporate Contributions, Inc.



Boone Gross has been an outside Director since 1965, following retirement as President of The Gillette Company. He is Chairman of American Brands' Audit Committee.

Directors shown with subsidiaries are:

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137



George J. Schramm, Executive Vice President and Chief Administrative Officer since 1974, also Chairman of American Cigar. He joined the Company in 1941, was elected Assistant Controller in 1961, Director and Controller in 1968, Vice President in 1969 and Executive Vice President in 1971.



Charles A. Mehos, Vice President—Finance, and chief financial executive since 1973. He joined the Company in 1950, was elected Assistant Treasurer in 1962, Director and Treasurer in 1967 and Vice President and Treasurer in 1969.



George H. Woodard, Chairman of the management consulting firm of Welling & Woodard, Inc. An outside Director since 1964, he is Chairman of American Brands' Capital Appropriations Committee, and a Director of ten subsidiaries.



Edward W. Whittemore, Vice President—Subsidiary Administration of American Brands since 1978. He has served as President and Chief Executive Officer of Swingline Inc. and was Executive Vice President of Wilson Jones Company, which he joined in 1947. He was elected a Director in 1977.



Richard H. Stinnette, Assistant to the Chairman, American Brands, Inc. He joined the Company as Executive Assistant in 1965, was elected to his present office in 1969. He was elected a Director in 1972.



John H. Behr, outside Director and member, Capital Appropriations and Audit Committees. In 1977 he retired as Chairman and Chief Executive Officer of Swingline Inc., the position he held since 1975. He was elected a Director in 1975.



A. W. Hume Stewart-Moore, Chairman of Gallaher Limited, American's subsidiary in the United Kingdom. He joined Gallaher in 1934 and assumed his present post in 1975. He was elected a Director in 1975.



Hyland J. Barnes, Chairman and Chief Executive Officer of Master Lock Company. He joined Master Lock in 1940, became Vice President—Marketing in 1965, President in 1973 and Chairman in January 1979. He was elected a Director in 1974.

Virginius B. Lougee, III, President, The American Tobacco Company since 1978. He joined the Company in 1951 and was appointed Research and Development Director in 1973 and Vice President—Research and Development in 1976. He became Executive Vice President and a Director in 1977. (See page 6)

John P. Clark, President and Chief Executive Officer of Wilson Jones Company since 1976. He joined Wilson Jones in 1958 and was elected Executive Vice President in 1972. He was elected a Director in 1978. (See page 13)

Edward J. Jennings, Jr., President and Chief Executive Officer of Sunshine Biscuits, Inc. since 1976. Prior to being elected President and Chief Operating Officer in 1973, he was Vice President of Duffy-Mott Company, Inc., and Director of Marketing. He was elected a Director in 1977. (See page 15)

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Six-year Operating Results By Business Segments (In millions) — American Brands, Inc. and Subsidiaries

Net sales	1978	1977	1976	1975	1974	1973
Tobacco products:						
Domestic	**$1,079.3**	$1,067.6	$1,069.0	$1,051.5	$ 995.8	$ 964.4
International	**2,174.1**	1,866.1	1,531.7	1,563.3	1,384.8	1,185.7
	3,253.4	2,933.7	2,600.7	2,614.8	2,380.6	2,150.1
Hardware	**204.5**	186.8	175.9	160.6	125.1	108.2
Food products	**456.8**	447.8	455.4	457.6	420.0	345.6
Other:						
Office services and supplies	**138.9**	126.8	111.7	98.7	103.0	84.7
Distilled beverages	**169.7**	150.6	151.4	146.5	150.0	145.6
Optical goods and services[1]	**67.1**	54.3	49.7	52.3	38.4	28.4
Engineering[1]	**114.1**	100.2	80.9	97.8	83.5	66.7
Golf products	**53.5**	52.9	40.8	—	—	—
Toiletries	**85.8**	78.6	71.2	65.5	58.6	52.8
Rubber products	**47.3**	41.3	27.7	—	—	—
Retailing[1]	**239.4**	174.6	146.5	150.1	79.0	14.0
Wholesaling[1]	**302.6**	229.0	176.6	183.5	106.5	79.4
Miscellaneous	**63.5**	60.8	57.9	49.3	45.9	37.8
	1,281.9	1,069.1	914.4	843.7	664.9	509.4
Deduct intersegment sales	**(19.9)**	(21.0)	(20.6)	(21.4)	(20.2)	(16.9)
Total	**$5,176.7**	$4,616.4	$4,125.8	$4,055.3	$3,570.4	$3,096.4

Operating income[2]	1978	1977	1976	1975	1974	1973
Tobacco products:						
Domestic	**$243.3**	$230.8	$214.4	$204.2	$189.6	$176.8
International	**88.0**	52.6	46.4	65.2	70.1	76.6
	331.3	283.4	260.8	269.4	259.7	253.4
Hardware	**36.4**	35.9	34.7	33.2	26.9	26.4
Food products	**21.0**	19.2	22.5	18.4	13.9	7.3
Other:						
Office services and supplies	**22.9**	18.4	14.6	11.1	16.8	9.9
Distilled beverages	**21.3**	16.9	17.0	16.0	18.3	18.8
Optical goods and services[1]	**12.1**	10.1	8.4	8.9	6.1	6.0
Engineering[1]	**8.8**	7.9	4.5	11.5	11.6	8.3
Golf products	**6.9**	6.6	3.9	—	—	—
Toiletries	**6.3**	6.5	5.0	3.5	1.3	2.9
Rubber products	**6.0**	5.4	3.8	—	—	—
Retailing[1]	**2.5**	2.4	1.7	2.1	1.8	.1
Wholesaling[1]	**.4**	2.9	.8	1.7	1.5	1.1
Miscellaneous	**7.4**	7.1	7.0	6.0	5.7	3.8
	94.6	84.2	66.7	60.8	63.1	50.9
	483.3	422.7	384.7	381.8	363.6	338.0
Life insurance	**21.2**	3.4	—	—	—	—
Total	**$504.5**	$426.1	$384.7	$381.8	$363.6	$338.0

(1) Foreign.
(2) The years 1973 through 1977 reflect restatements in connection with Statement of Financial Accounting Standards No. 13.

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

Directors

Robert K. Heimann*
Chairman

Hyland J. Barnes
John H. Behr‡
John P. Clark
Boone Gross‡
Edward J. Jennings, Jr.
Virginius B. Lougee, III
Charles A. Mehos*
George J. Schramm*
A. W. Hume Stewart-Moore
Richard H. Stinnette
William Sword†
Russell P. Truitt
John F. Walrath*
Francis X. Whelan
Edward W. Whittemore*
George H. Woodard*

*Member of the Executive Committee.
†Member of the Audit Committee.

Officers

Robert K. Heimann
Chairman of the Board
and Chief Executive Officer

John F. Walrath
President
and Chief Operating Officer

George J. Schramm
Executive Vice President
and Chief Administrative Officer

Charles A. Mehos
Vice President—Finance

Edward W. Whittemore
Vice President—Subsidiary
Administration

Richard H. Stinnette
Assistant to the Chairman

Robert L. Plancher
Controller

Peter Reed, Jr.
Treasurer

Charles F. Matula, Jr.
Secretary

Zeno B. Teel, Jr.
Assistant Controller

Arthur F. Wade
Assistant Controller

Louis F. Fernous, Jr.
Assistant Secretary

William H. Burke
Assistant Treasurer

Executive Offices

245 Park Avenue
New York, New York 10017

Corporate Office

117 Main Street
Flemington, New Jersey 08822

Transfer Agent—Common Stock

Morgan Guaranty Trust Company
of New York
30 West Broadway
New York, New York 10015

Registrar—Common Stock

Citibank, N.A.
111 Wall Street
New York, New York 10015

American Brands Common
stock is listed on the
New York Stock Exchange.
Its trading symbol is AMB.

Printed in U.S.A.

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137

THE AMERICAN TOBACCO COMPANY

GALLAHER LIMITED

JAMES B. BEAM DISTILLING CO.

MASTER LOCK COMPANY

THE FRANKLIN LIFE INSURANCE COMPANY

WILSON JONES COMPANY

SWINGLINE INC.

SUNSHINE BISCUITS, INC.

ACUSHNET COMPANY

THE ANDREW JERGENS COMPANY

ACME VISIBLE RECORDS, INC.

AMERICAN CIGAR

DUFFY-MOTT COMPANY, INC.

American Brands, Inc.

245 PARK AVENUE NEW YORK NEW YORK 10017

Source: https://www.industrydocuments.ucsf.edu/docs/xzfk0137