PHILIP MORRIS U.S.A. INTER-OFFICE CORRESPONDENCE
120 PARK AVENUE, NEW YORK, N.Y. 10017

TO: D.E.R. Dangoor/H.G. Steele DATE: May 14, 1992

FROM: T.P. Beane

SUBJECT: Players License Agreement

As mentioned in my May 5th memo on the Players license agreement, PM-USA would not be able to book the Players units in a straight licensing arrangement. Since the Canadian style Players could generate over 2.0 billion units of annual volume given Player's share of the Canadian domestic market and the size of the export (to U.S.) business, we should consider approaching Imperial with an alternative proposal which would:

1) maintain or enhance their profitability trends on Players
2) enable PM-USA to book the units
3) provide Imperial some "added value" service which they would find attractive

The following are two options which could meet these objectives.

Option 1

- PM-USA purchases Players cigarettes from Imperial at a price which is $10 per thousand below the manufacturers list price less FET. The $10 per thousand "discount" would grow over time in relation to the percentage increase in the price of Marlboro. (This is identical to the royalty fee in the license agreement)

- PM-USA assumes all credit and returned goods risks for the Players cigarettes we have purchased.

- PM-USA determines the manufacturers list price for Players in the U.S. However, we agree to maintain a pricing strategy comparable to Imperial's strategy for Players in Canada. (i.e. We would not unilaterally turn Players into a discount or super premium brand.)

- PM-USA's sales force would support the Players brand in a manner comparable to our other premium brands.

- POS materials would be produced by PM-USA with designs and artwork either supplied or approved by Imperial. The cost of these materials would be shared by PM-USA and Imperial at a rate to be negotiated by the parties.

Variants to this option could be for us to accept a smaller "discount" in return for Imperial's acceptance of the agreement, PM-USA agreeing to advertise Players in the U.S., or supporting Du Maurier as well as Players (for a nominal fee).

Option 2

- Imperial transfers all Players trademark rights to PM-USA.

- PM-USA has Imperial contract manufacture for us. Our fee to Imperial for this would equal the margin they would have realized from the license agreement.

- All other points are identical to Option 1.

By gaining Imperial's acceptance of one of these options, PM-USA could realize significant incremental volume while largely preserving the additional profits we would have received under the license agreement. If we can keep Imperial whole from a profit standpoint while providing the services of a much larger sales force, the potential for greater Players volume could be attractive to Imperial.

Please let me know if I can provide further assistance on this issue.