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TO: D.E.R. Dangoor/H.G. Steele DATE: May 5, 1992

FROM: Tim Beane Tim Beane

SUBJECT: COMMENTS ON DRAFT PLAYERS LICENSE AGREEMENT

After reading through the draft Players License Agreement, I have the following concerns/observations.

- Marketing Restrictions (Section 4(e)) -- The Agreement limits Imperial to point-of-sale advertising only. I assume this precludes them from utilizing outdoor and ROP as well as possibly any type of promotional activity (incentives, coupons, etc.). Given RJR-MacDonald's current efforts, this could seriously hamper Imperial. Do we want this to occur especially considering the long-term profit potential of the royalty payments?

- Fees (Section 9) -- The fee structure appears to be very favorable to PM. As I understand it, the $10.00 per thousand royalty fee would be adjusted every six months by the absolute change in our Marlboro prices over the previous six months. If I am correct, the fee will increase significantly over time and should exceed Imperial's margin in about three years. This would not be true if the phrase "in proportion to the increase" means changes in percentage terms. If my first fee assumption is correct, we should not restrict Imperial's marketing efforts since we would have more to gain in the long run if their volume increased.

  Additionally, as currently worded, the agreement does not seem to have a provision for a fee change on 7/1/93. See 9 (b).

- Fine Cut Tobacco -- No clear reference is made to fine cut tobacco. Will the agreement cover fine cut tobacco?

- Agreement Length (Section 12) -- Why do we want to limit the agreement to 10 years?

- Retail Price (Section 3(b)) -- Reference is made to Imperial having the right to determine retail price. Shouldn't this say manufacture list price or price to wholesaler?

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Perhaps most importantly, the agreement as currently structured would not enable PM-USA to book the units. According to C&L, at least one and possibly all of the following conditions would have to be met for PM-USA to be able to book the units.

° PM-USA would be responsible for marketing and sales efforts.
° PM-USA would determine pricing.
° PM-USA would assume all credit risks and returned goods risks.

I wonder if it would be possible to structure the agreement as one where Imperial contract manufactures for us, we control the items mentioned above, and our fee to Imperial for the contract manufacture would at least equal the profits they would have derived from the current license proposal? This could create a win/win scenario for both PM and Imperial.

I am free to discuss at your convenience.

TPB/et