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

TO: H.G. Steele DATE: April 17, 1992

FROM: T.P. Beane

SUBJECT: ALTERNATIVE NEGOTIATING OPTION PROPOSED BY PMI

Attached is the analysis I have done on the negotiating proposal suggested by PMI. As I understand it, the joint venture's profits would be divided as follows: PM would keep 100% of the profit from volume destined for the U.S. and 50% of the profit from volume destined for Canada.

Based on population alone, only 7% of the volume would stay in the U.S. Using more aggressive assumptions, perhaps as much as 25% would remain in the U.S. Even in the more aggressive scenario, the profitability to PM does not come close to what we would realize from taking back our trademarks.

John Kramer has asked for this analysis as soon as possible. Please let me know when you and Mr. Campbell have reviewed it so I can make any changes you would like and then forward it to John.

Please note that I do not recommend we pursue this negotiating stance due to its lower profitability and the units we would forego by not taking back our trademarks.

TPB/et
Attachment

cc: W. Campbell

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