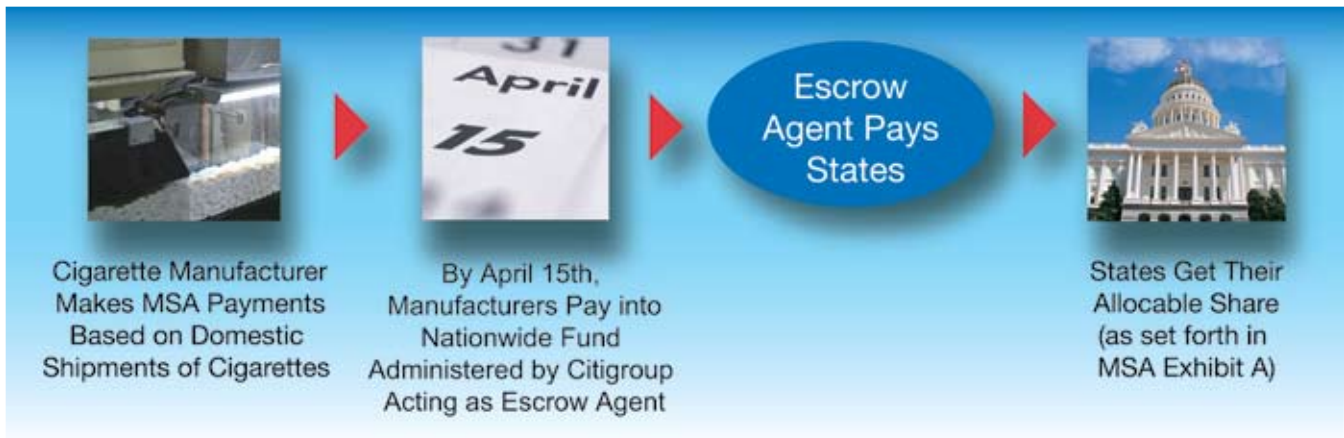


# PAYMENTS

The Master Settlement Agreement requires Participating Manufacturers to make ongoing payments to the states in perpetuity. As of May 2007, the Original Participating Manufacturers and the Subsequent Participating Manufacturers paid approximately \$45 billion. In addition, the OPMs made initial up-front payments to the MSA states totaling over \$10 billion and an endowment to the

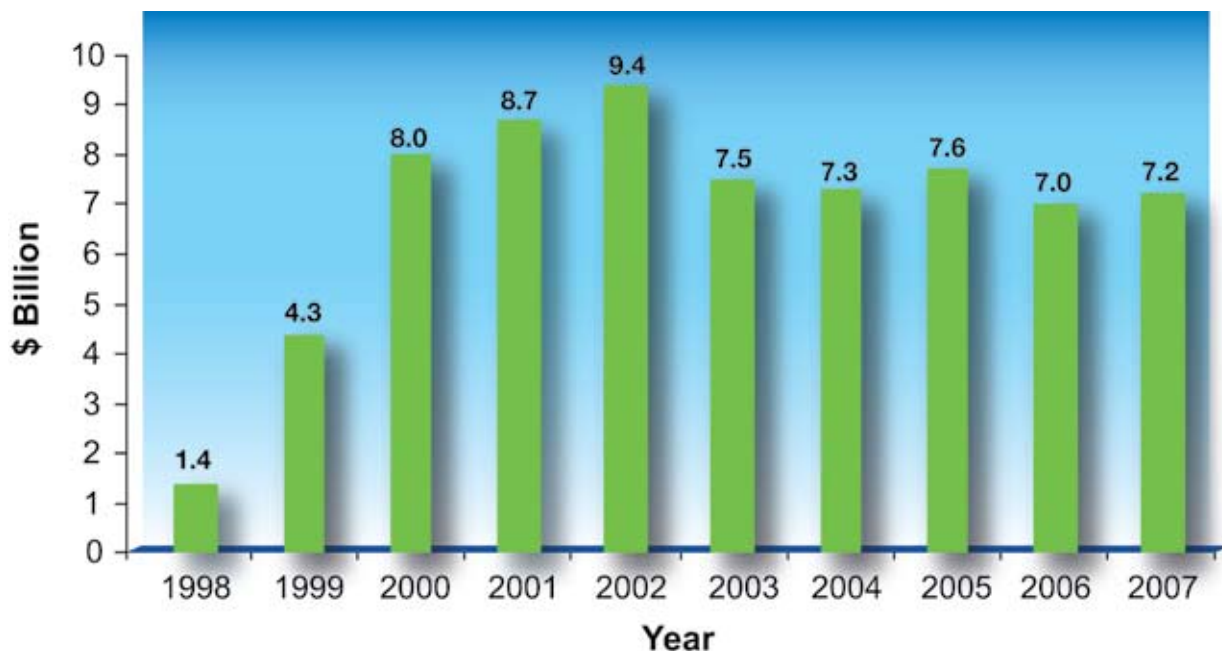
American Legacy Foundation (in addition to OPM payments of over \$1 billion to underwrite a national campaign by ALF that includes advertising and education programs). The OPMs also have paid approximately \$16.4 billion to the four previously settled states of Florida, Minnesota, Mississippi, and Texas from 1998-2007.

## How the Payments Work



## Payments Received by the States (1998-2007)

### All Participating Manufacturers



Note: 2006 and 2007 are estimates and reflect payments withheld or paid into disputed-payment escrow accounts. Total amounts include payments to MSA states and previously settled states and reflect "actual amounts received by each state each year, ... with the companies' advance January payments made in late December (for tax purposes) credited to the following year."

Source: Campaign for Tobacco-Free Kids, "Actual Payments Received by the States from the Tobacco Settlements," September 5, 2007.

Section IX (c) of the MSA sets forth a schedule of annual base payments for the years 2000 and beyond. These payment vary in amount, as shown below, until 2018, when they increase to \$9 billion (before adjustments) for that year and each year thereafter.

## Strategic Contribution Fund Payments

In addition to the base payments, beginning in April 2008 and continuing through 2017, the Participating Manufacturers will make “Strategic Contribution Fund Payments,” as set forth under Sec. IX(c)(2) and Exhibit U of the MSA. These Strategic Contribution Fund Payments to the 46 states, D.C. and U.S. territories, which are in addition to annual MSA payments, will total approximately \$860 million each year (subject to various adjustments). The payments are allocated based

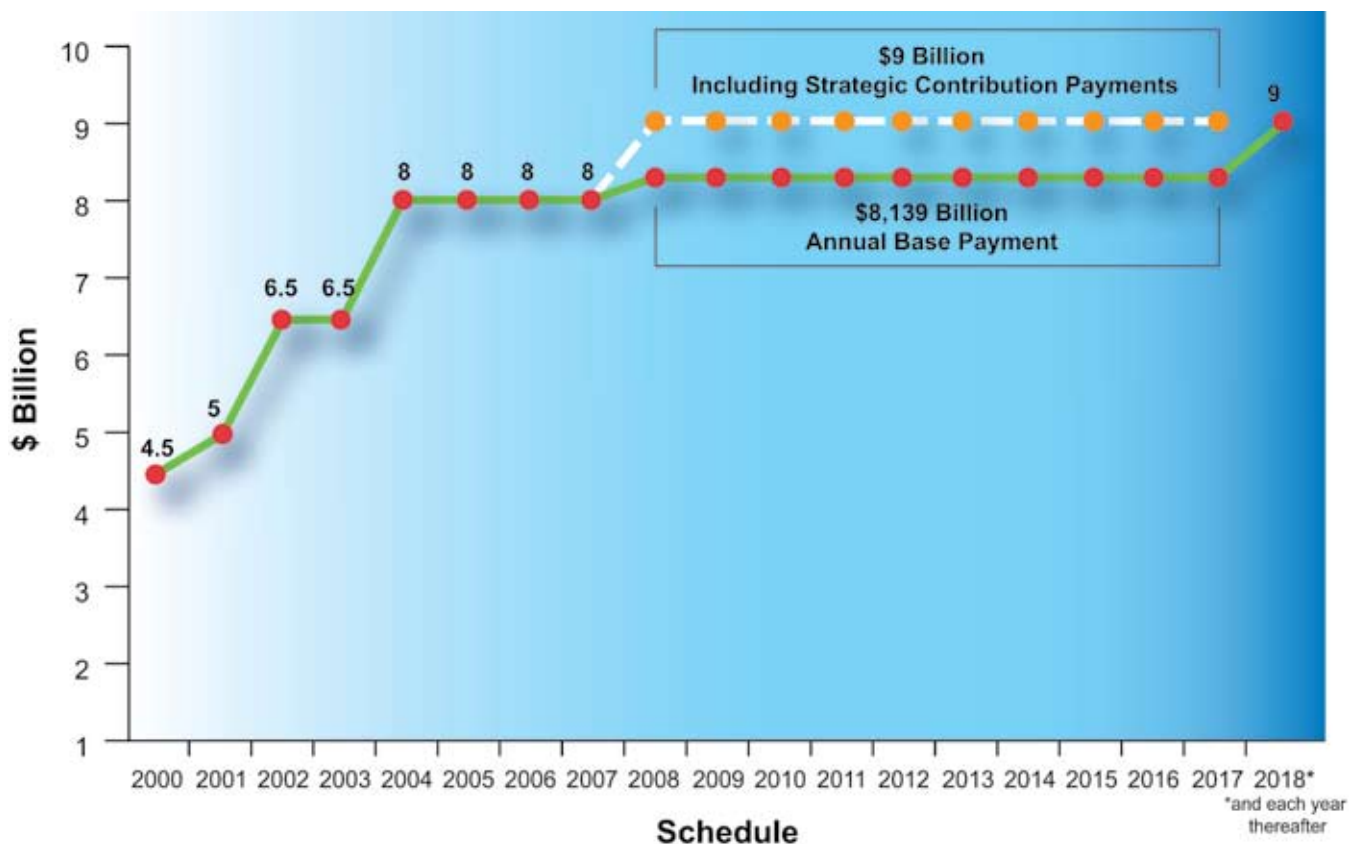
on “each Settling State’s contribution to the litigation or resolution of state tobacco litigation” and set according to a formula developed by an Allocation Committee, as set forth under Exhibit U of the MSA. The Participating Manufacturers do not participate on the Allocation Committee.

## Increases in Future Annual Base Payments

Although the Strategic Contribution Fund Payments end in 2017, in 2018 and each year thereafter, the base payments made by the Participating Manufacturers will go up by about \$1 billion, making them \$9 billion per year before adjustments.

For additional information, visit these sites: [pmusa.com](http://pmusa.com); [naag.org](http://naag.org); [Gao.gov](http://Gao.gov); [NCSL.org](http://NCSL.org); [CSG.org](http://CSG.org); and [Tobaccofreekids.org](http://Tobaccofreekids.org).

**Annual Base Payments**



Source: MSA Section IX(c)

## NPM Adjustment Proceedings

### Background

The actual amount of each Participating Manufacturer's MSA payment in a given year is determined by a complex formula that includes various "Adjustments" – terms that may cause the annual payment to go up or down by specified amounts. One component of that formula is the Non-Participating Manufacturer Adjustment (NPM Adjustment), under which the Settling States and the Participating Manufacturers expressly agreed that the Participating Manufacturers would be entitled to receive a downward adjustment in their payments if certain things happened in the marketplace. The MSA parties also agreed that any such Adjustment would not be applied against any state that diligently enforced its Escrow Statute for that calendar year. (For additional information, see the Non-Participating Manufacturers section of this guide.)

An NPM Adjustment is potentially available for any year in which the Participating Manufacturers in the aggregate lose more than two percentage points of market share compared to 1997. If this occurs, Participating Manufacturers may be entitled to a refund of a portion of their MSA payments (and NPMs would be entitled to a refund of a portion of their escrow deposits). PricewaterhouseCoopers has calculated that such a market share loss occurred each year for 2003-2006.

### Summary of NPM Adjustment Process

To determine whether an NPM Adjustment is appropriate for a particular year, an independent economic consulting firm retained by the parties to the MSA must determine whether the MSA was "a significant factor contributing to" the market share loss of the Participating Manufacturers for the year in question. The "significant factor" determination is governed by a procedures agreement entered into by the OPMs and MSA states. The firm's final determination on the significant factor issue is final and cannot be appealed.

If the firm makes a final determination that the MSA was a significant factor contributing to the market share loss, the MSA provides that the NPM

Adjustment payment reduction "shall apply." If the Participating Manufacturers had already made the full payment without the reduction, the reduction would be applied as a credit against an MSA payment due in the future. As specified in the MSA, the NPM Adjustment would not be applied against any state that demonstrates that it diligently enforced its Escrow Statute during the entire calendar year in question.

### On-Going Proceedings

Under an agreement with the Settling States, the OPMs were not able to raise the issue of an NPM Adjustment based on 2003 sales until 2005. Once the Participating Manufacturers were allowed to raise the issue, they did so. In 2006, the Participating Manufacturers initiated NPM Adjustment Proceedings for 2004 sales. In 2007, the Participating Manufacturers also initiated NPM Adjustment Proceedings for 2005 sales. For 2003 and 2004, the firm determined that the MSA was a significant factor contributing to the market share loss of the Original Participating Manufacturers. The 2005 proceedings before the firm are ongoing.

Should the OPMs prevail on all issues, the maximum possible adjustment for 2003 volume is approximately \$1.1 billion, approximately \$1.1 billion for 2004 volume, approximately \$661 million for 2005 volume, and approximately \$563 million for 2006 volume. These amounts would be split among the companies pursuant to a formula specified in the MSA.

PM USA has made all of its required payments under the MSA since the agreement was entered into in 1998. PM USA joined current NPM Adjustment proceedings to ensure that all parties to the MSA are diligently enforcing their Escrow Statutes and to preserve its rights under the financial terms of the agreement.

As of October 2007, issues regarding diligent enforcement are being disputed with respect to 2003 volume. Any state that demonstrates that it diligently enforced its Escrow Statute during the particular year in question is not subject to any resulting NPM Adjustment.

## EXHIBIT A

### STATE ALLOCATION PERCENTAGES

State	Percentage
Alabama	1.6161308%
Alaska	0.3414187%
Arizona	1.4738845%
Arkansas	0.8280661%
California	12.7639554%
Colorado	1.3708614%
Connecticut	1.8565373%
Delaware	0.3954695%
D.C.	0.6071183%
Florida	0.0000000%
Georgia	2.4544575%
Hawaii	0.6018650%
Idaho	0.3632632%
Illinois	4.6542472%
Indiana	2.0398033%
Iowa	0.8696670%
Kansas	0.8336712%
Kentucky	1.7611586%
Louisiana	2.2553531%
Maine	0.7693505%
Maryland	2.2604570%
Massachusetts	4.0389790%
Michigan	4.3519476%
Minnesota	0.0000000%
Mississippi	0.0000000%
Missouri	2.2746011%
Montana	0.4247591%
Nebraska	0.5949833%
Nevada	0.6099351%
New Hampshire	0.6659340%
New Jersey	3.8669963%
New Mexico	0.5963897%
New York	12.7620310%
North Carolina	2.3322850%
North Dakota	0.3660138%
Ohio	5.0375098%
Oklahoma	1.0361370%
Oregon	1.1476582%
Pennsylvania	5.7468588%
Rhode Island	0.7189054%
South Carolina	1.1763519%
South Dakota	0.3489458%
Tennessee	2.4408945%
Texas	0.0000000%
Utah	0.4448869%
Vermont	0.4111851%
Virginia	2.0447451%
Washington	2.0532582%
West Virginia	0.8864604%
Wisconsin	2.0720390%
Wyoming	0.2483449%
American Samoa	0.0152170%
N. Mariana Isld.	0.0084376%
Guam	0.0219371%
U.S. Virgin Isld.	0.0173593%
Puerto Rico	1.1212774%
Total	100.0000000%

## Payments

- Continue in perpetuity
- Due April 15 of each year
- Impossible to predict precisely
  - Base payment set forth in MSA
  - Adjusted for inflation (Exhibit C)
  - Adjusted for changes in OPM volume (Exhibit E)
  - Adjusted (for OPMs only) for a portion of the previously settled state payments (because only OPMs make these payments)
  - Allocation of payments among OPMs is based upon relative market share
  - Potentially adjusted for market share losses to NPMs (Sec. IX (d) of the MSA)
  - Other potential adjustments
  - Allocated to states as set forth in Exhibit A

## EXHIBIT U

### STRATEGIC CONTRIBUTION FUND PROTOCOL

The payments made by the Participating Manufacturers pursuant to section IX(c)(2) of the Agreement (“Strategic Contribution Fund”) shall be allocated among the Settling States pursuant to the process set forth in this Exhibit U.

#### Section 1

A panel committee of three former Attorneys General or former Article III judges (“Allocation Committee”) shall be established to determine allocations of the Strategic Contribution Fund, using the process described herein. Two of the three members of the Allocation Committee shall be selected by the NAAG executive committee. Those two members shall choose the third Allocation Committee member. The Allocation Committee shall be geographically and politically diverse.

#### Section 2

Within 60 days after the MSA Execution Date, each Settling State will submit an itemized request for funds from the Strategic Contribution Fund, based on the criteria set forth in Section 4 of this Exhibit U.

#### Section 3

The Allocation Committee will determine the appropriate allocation for each Settling State based on the criteria set forth in Section 4 below. The Allocation Committee shall make its determination based upon written documentation.

#### Section 4

The criteria to be considered by the Allocation Committee in its allocation decision include each Settling State’s contribution to the litigation or resolution of state tobacco litigation, including, but not limited to, litigation and/or settlement with tobacco product manufacturers, including Liggett and Myers and its affiliated entities.

#### Section 5

Within 45 days after receiving the itemized requests for funds from the Settling States, the Allocation Committee will prepare a preliminary decision allocating the Strategic Contribution Fund payments among the Settling States who submitted itemized requests for funds. All Allocation Committee decisions must be by majority vote. Each Settling State will have 30 days to submit comments on or objections to the draft decision. The Allocation Committee will issue a final decision allocating the Strategic Contribution Fund payments within 45 days.

## Section 6

The decision of the Allocation Committee shall be final and non-appealable.

## Section 7

The expenses of the Allocation Committee, in an amount not to exceed \$100,000, will be paid from disbursements from the Subsection VIII(c) Account.