NEW ISSUE **BOOK-ENTRY ONLY**

*In the opinions of Hawkins Delafield & Wood LLP and Pacifica Law Group LLP, as Co-Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (1) interest on the Series 2018 Bonds is excluded from gross income for federal income tax purposes pursuant to section 103 of the Internal Revenue Code of 1986, as amended (the "**Tax Code**"), and (2) interest on the Series 2018 Bonds is not treated as a preference item in calculating the alternative minimum tax under the Tax Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed for taxable years beginning prior to January 1, 2018. See "TAX MATTERS."*

$43,630,000
TOBACCO SETTLEMENT AUTHORITY
Tobacco Settlement Revenue Refunding Bonds, Series 2018

Dated: Date of Delivery **Maturity Dates: June 1, as set forth on the inside cover**

The Tobacco Settlement Authority (the "**Authority**") is issuing $43,630,000 aggregate principal amount of Tobacco Settlement Revenue Refunding Bonds, Series 2018 (the "**Series 2018 Bonds**"). The Authority is a public instrumentality and agency of the State of Washington (the "**State**"), separate and distinct from the State, exercising public and essential governmental functions. The Authority was organized, and the Series 2018 Bonds are being issued, pursuant to Chapter 365, Laws of Washington, 2002, codified at RCW §43.340.005 et seq., as amended (the "**Act**").

The Series 2018 Bonds are to be issued by the Authority as Refunding Bonds pursuant to an Indenture between the Authority and U.S. Bank National Association, Seattle, Washington, as trustee (the "**Indenture Trustee**"), dated as of October 1, 2002, as amended and restated on October 17, 2013, and the Series 2018 Supplement between the Authority and the Indenture Trustee, dated as of the date of delivery of the Series 2018 Bonds (collectively, the "**Indenture**"). The Series 2018 Bonds are being issued to (i) refund on a current basis a portion equal to $47,645,000 aggregate principal amount of the Authority's outstanding Tobacco Settlement Revenue Refunding Bonds, Series 2013 (the "**Series 2013 Bonds**"), and (ii) pay the costs of issuance of the Series 2018 Bonds. Following the refunding of such portion of the Series 2013 Bonds, $134,835,000 aggregate principal amount of Series 2013 Bonds will remain outstanding under the Indenture. The Series 2018 Bonds, together with the Series 2013 Bonds and any other Refunding Bonds issued under the Indenture from time to time, are collectively referred to herein as the "**Bonds**".

In 2002, pursuant to the Act and a Purchase and Sale Agreement, dated as of October 1, 2002 (the "**Sale Agreement**"), between the State and the Authority, the State sold to the Authority the "**Pledged TSRs**", which consist of 29.2% of (a) the payments received by the State under the MSA (as hereinafter defined) on and after July 1, 2003 (and all adjustments thereto), (b) all amounts received by the State under the MSA on and after July 1, 2003 consisting of adjustments to payments made to the State under the MSA prior to July 1, 2003 and (c) all Lump Sum Payments, Partial Lump Sum Payments and Total Lump Sum Payments (each as defined herein). The Master Settlement Agreement (the "**MSA**") was entered into by participating cigarette manufacturers (the "**PMs**"), 46 states (including the State) and six other U.S. jurisdictions in November 1998 to settle certain smoking-related litigation. The right of the Authority to receive the Pledged TSRs is valid and enforceable and on a parity with the claim of the State to the Unpledged TSRs (defined herein).

The Series 2018 Bonds are limited obligations of the Authority. The Authority has pledged the Pledged TSRs as security and in trust for the benefit of the Holders of the Bonds. Payment of the Series 2018 Bonds depends on receipt by the Indenture Trustee, as collateral assignee of the Authority, of the Pledged TSRs. The amount of Pledged TSRs received depends on many factors, including future domestic cigarette consumption, the financial capability of the PMs and the domestic tobacco industry, litigation generally, including litigation challenging the MSA and related state statutes, and federal, state and local regulations affecting the domestic tobacco industry. Payments by the PMs under the MSA are subject to certain adjustments, including the NPM Adjustment (as defined herein), which may be material. Prospective investors should carefully consider the discussion of certain risks and other considerations contained in "RISK FACTORS" and "LEGAL CONSIDERATIONS", as well as the other information contained in this Official Statement, regarding an investment in the Series 2018 Bonds. One or a combination of the risk factors discussed herein, and other risks, may materially adversely affect the ability of the Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full and could have a material adverse effect on the liquidity and/or market value of the Series 2018 Bonds.

The Series 2018 Bonds will be dated their date of delivery and mature on June 1 in the years as set forth on the inside cover page (each such date, a "**Maturity Date**"). Interest on the Series 2018 Bonds will be payable on each June 1 and December 1, commencing December 1, 2018. The Series 2018 Bonds are also subject to optional or mandatory redemption as described herein.

See the inside cover for Maturity Schedule, Interest Rates and Yields with respect to the Series 2018 Bonds.

This cover contains information for reference only. Potential investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

THE SERIES 2018 BONDS SHALL NOT BE OBLIGATIONS OF THE STATE AND SHALL BE OBLIGATIONS ONLY OF THE AUTHORITY, PAYABLE SOLELY FROM THE SPECIAL FUND OR FUNDS CREATED BY THE AUTHORITY FOR THEIR PAYMENT. PAYMENT OF THE PRINCIPAL OF, INTEREST ON, AND REDEMPTION PREMIUM, IF ANY, ON THE SERIES 2018 BONDS SHALL BE A VALID CLAIM ONLY AS AGAINST THE SPECIAL FUND OR FUNDS RELATING THERETO. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR ANY MUNICIPAL CORPORATION, SUBDIVISION OR AGENCY OF THE STATE, OTHER THAN THE AUTHORITY AS SET FORTH IN THE ACT, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, INTEREST ON, AND PREMIUM, IF ANY, ON THE SERIES 2018 BONDS.

The Series 2018 Bonds are offered when, as and if issued by the Authority and accepted by the Underwriter, subject to the approval of legality by Hawkins Delafield & Wood LLP, New York, New York, and Pacifica Law Group LLP, Seattle, Washington, Co-Bond Counsel. Certain legal matters will be passed upon for the Authority by Pacifica Law Group LLP, Seattle, Washington, general counsel to the Authority and by Nixon Peabody LLP, New York, New York, as Disclosure Counsel to the Authority; for the State by the Attorney General of the State; and for the Underwriter by Orrick, Herrington & Sutcliffe LLP, New York, New York, counsel to the Underwriter. It is expected that the Series 2018 Bonds will be available for delivery on or about June 20, 2018, in book-entry form through The Depository Trust Company, New York, New York.

Jefferies

Dated: June 12, 2018

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS, AND CUSIPS

$43,630,000
Tobacco Settlement Authority
Tobacco Settlement Revenue Refunding Bonds, Series 2018

Serial Bonds

Maturity Date (June 1)	Principal Maturity	Interest Rate	Yield	CUSIP* (Base# 88880M)
2022	$10,600,000	5.000%	2.190%	BF7
2023	11,500,000	5.000	2.340	BG5
2024	21,530,000	5.000	2.470†	BH3

* Registered trademark of American Bankers Association. CUSIP numbers are provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by S&P Global Market Intelligence through its S&P Capital IQ platform. The CUSIP numbers listed above are being provided solely for the convenience of holders of the Series 2018 Bonds only at the time of issuance of the Series 2018 Bonds and neither the Authority nor the Underwriter make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2018 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2018 Bonds.

† Priced at the stated yield to the first optional redemption date of June 1, 2023 at a redemption price of 100%. See "THE SERIES 2018 BONDS-Redemption Provisions" herein.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE OR MAINTAIN THE PRICE OF THE SECURITIES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET, OR OTHERWISE AFFECT THE PRICE OF THE SECURITIES OFFERED HEREBY, INCLUDING OVER-ALLOTMENT AND STABILIZING TRANSACTIONS. SUCH STABILIZING IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

NO DEALER, BROKER, SALESPERSON OR OTHER PERSON IS AUTHORIZED IN CONNECTION WITH ANY OFFERING MADE HEREBY TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION OTHER THAN AS CONTAINED HEREIN, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE AUTHORITY, THE STATE OR THE UNDERWRITER. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY OF THE SECURITIES OFFERED HEREBY BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH AN OFFER OR SOLICITATION.

THERE IS CURRENTLY A LIMITED SECONDARY MARKET FOR SECURITIES SUCH AS THE SERIES 2018 BONDS PAYABLE FROM TOBACCO SETTLEMENT PAYMENTS MADE UNDER THE MSA. THERE CAN BE NO ASSURANCE THAT A SECONDARY MARKET FOR THE SERIES 2018 BONDS WILL DEVELOP, OR IF ONE DEVELOPS, THAT IT WILL PROVIDE BONDHOLDERS WITH LIQUIDITY OR THAT IT WILL CONTINUE FOR THE LIFE OF THE SERIES 2018 BONDS.

This Official Statement has been prepared by the Authority and contains information furnished by various sources, all of which the Authority believes to be reliable. The information concerning the tobacco industry and participants therein has been obtained from certain publicly available information provided by certain participants and certain other sources. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY." The participants in the tobacco industry have not provided any information to the Authority for use in connection with this offering. In certain cases, tobacco industry information set forth herein (such as market share data) may be derived from inconsistent sources. The Authority has no independent knowledge of any facts indicating that the information contained under the caption "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY" is inaccurate in any material respect, but has not independently verified this information and cannot and does not warrant the accuracy or completeness of this information.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, or under the caption "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY" in this Official Statement since the date hereof, or that the information contained herein is correct as of any date subsequent to the date hereof. Such information and expressions of opinion are included herein for the purpose of providing information to prospective investors and are not to be used for any other purpose or relied on by any other person.

This Official Statement contains projections and estimates that are based on current expectations or assumptions. In light of the important factors that may materially affect the amount of Pledged TSRs (see "RISK FACTORS" and "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT"), the inclusion in this Official Statement of such projections and estimates should not be regarded as a representation by the Authority, the State or the Underwriter that such projections and estimates will occur. Such projections and estimates are not intended as representations of fact or guarantees of results.

References in this Official Statement to the Indenture, the Sale Agreement and the Continuing Disclosure Agreement do not purport to be complete. Refer to the Indenture, the Sale Agreement and the

Continuing Disclosure Agreement for full and complete details of their provisions. Copies of the Indenture, the Sale Agreement and the Continuing Disclosure Agreement are on file with the Authority and the Indenture Trustee.

The order and placement of material in this Official Statement, including its appendices are not to be deemed a determination of relevance, materiality or importance, and all materials in this Official Statement, including its appendices, must be considered in its entirety.

If and when included in this Official Statement, the words "expects," "projects," "intends," "anticipates," "estimates" and "assumes" and analogous expressions are intended to identify forward-looking statements. Any such forward-looking statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, all of which are beyond the control of the Authority. These forward-looking statements speak only as of the date of this Official Statement. The Authority and the Underwriter disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the Authority's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

THE PROPOSED SECURITIES TRANSACTIONS DESCRIBED HEREIN WILL BE MADE ON THE BASIS OF EXEMPTIONS FROM REGISTRATION PROVIDED IN THE SECURITIES ACT OF 1933, AS AMENDED.

THE SERIES 2018 BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION OR ANY OTHER REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Table of Contents

	Page
SUMMARY STATEMENT	**S-1**
INTRODUCTORY STATEMENT	**1**
SECURITY	**2**
Sale of Pledged TSRs; Pledge of Collateral	2
Payment by MSA Escrow Agent to Indenture Trustee	3
Application of Revenues	3
THE SERIES 2018 BONDS	**7**
Payments of Interest	7
Redemption Provisions	8
Additional Bonds	9
Events of Default and Remedies	9
THE AUTHORITY	**10**
PLAN OF FINANCE	**12**
ESTIMATED SOURCES AND USES OF FUNDS	**13**
TABLES OF PROJECTED DEBT SERVICE COVERAGE	**13**
TABLES OF PROJECTED DEBT SERVICE	**18**
BREAKEVEN CONSUMPTION AND REVENUE DECLINE RATES BY MATURITY	**23**
Breakeven Consumption Decline Rates By Maturity	24
PLEDGED TSRS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS	**25**
Introduction	25
Pledged TSRs Projection Methodology and Assumptions	25
Projection of Pledged TSRs to be Received by the Indenture Trustee	27
Bond Structuring Assumptions	32
RISK FACTORS	**33**
Payment Decreases Under the Terms of the MSA	33
Declines in Cigarette Consumption	35
The Regulation of Tobacco Products by the FDA May Adversely Affect Overall Consumption of Cigarettes in the U.S. and the Operations of the PMs	36
Concerns That Mentholated Cigarettes May Pose Greater Health Risks That Could Result in Further Federal, State and Local Regulation Which Could Adversely Affect the Volume of Cigarettes Sold in the U.S. and Thus Payments Under the MSA	37
The Volume of Cigarettes Sold by PMs in the U.S. Cigarette Market is Expected to Continue to Decline as a Result of Increases in Cigarette Excise Taxes	38
The Volume of Cigarettes Sold by PMs in the U.S. Cigarette Market is Expected to Continue to Decline Because of Efforts to Raise the Minimum Age for Purchase and Possession of Cigarettes	39
Increased Restrictions on Smoking in Public Places Could Adversely Affect U.S. Tobacco Consumption and Therefore Amounts to be Paid Under the MSA	40
Several of the PMs and Their Competitors Have Developed Alternative Tobacco and Cigarette Products, Including Electronic Cigarettes and Vaporizers, Sales of Which Do Not Currently Result in Payments Under the MSA, and Have Announced Long-Term Goals of Ending the Sale of Traditional Cigarettes in Favor of Such Alternative Products	40
U.S. Tobacco Companies are Subject to Significant Limitations on Advertising and Marketing Cigarettes That Could Negatively Impact Sales Volume	42
The Distribution Chain for Cigarettes May Continue to be Curtailed, Which Could Negatively Impact Sales Volume	42
Smoking Cessation Products May Reduce Cigarette Sales Volumes and Adversely Affect Payments Under the MSA	43
The U.S. Cigarette Industry is Subject to Significant Law, Regulation and Other Requirements That Could Adversely Affect the Businesses, Results of Operations or Financial Condition of Tobacco Product Manufacturers	43
The Availability of Counterfeit Cigarettes Could Adversely Affect Payments by the PMs Under the MSA	43

Table of Contents (continued)

Page

General Economic and Other Conditions May Adversely Affect Consumption of Cigarettes and the Ability of the PMs to Continue to Operate, Reducing Their Sales of Cigarettes and Payments Under the MSA ... 44

If Litigation Challenging the MSA, the Qualifying Statutes and Related Legislation Were Successful, Payments Under the MSA Might be Suspended or Terminated ... 44

Litigation Seeking Monetary and Other Relief from Tobacco Industry Participants May Adversely Impact the Ability of the PMs to Continue to Make Payments Under the MSA ... 45

The PMs Have Substantial Payment Obligations Under Litigation Settlement Agreements Which, Together With Their Other Litigation Liabilities, May Adversely Affect the Ability of the PMs to Continue Operations in the Future ... 48

Other Risks Relating to the MSA and Related Statutes ... 48

Bankruptcy of a PM May Delay, Reduce or Eliminate Payments Under the MSA ... 49

Failures by PMs to Make Payments Under the MSA Could be Coupled with an Inability on the Part of the Settling States to Enforce and Collect Defaulted Payments ... 50

Series 2018 Bonds Secured Solely by the Pledged TSRs and Moneys in the Pledged Accounts; Limited Resources of the Authority ... 50

Limited Remedies ... 51

Limited Liquidity; Price Volatility ... 51

Limited Nature of Ratings; Reduction, Suspension or Withdrawal of a Rating ... 51

Structuring Assumptions Not Based on Expert Econometric Forecast ... 52

LEGAL CONSIDERATIONS ... 52

Bankruptcy of a PM ... 52

MSA and Qualifying Statute Enforceability ... 53

Limitations on Certain Opinions ... 53

Enforcement of Rights to Pledged TSRs ... 53

No Assurance As to the Outcome of Litigation or Arbitration Proceedings ... 54

SUMMARY OF THE MASTER SETTLEMENT AGREEMENT ... 55

General ... 55

Page

Parties to the MSA ... 55

Scope of Release ... 57

Overview of Payments by the Participating Manufacturers; MSA Escrow Agent ... 58

Initial Payments ... 58

Annual Payments ... 59

Strategic Contribution Payments ... 60

Adjustments to Payments ... 60

Subsequent Participating Manufacturers ... 65

Payments Made to Date ... 66

Most Favored Nation Provisions ... 67

Disbursement of Funds from Escrow ... 67

Advertising and Marketing Restrictions; Educational Programs ... 67

Remedies upon the Failure of a PM to Make a Payment ... 68

Termination of MSA ... 68

Severability ... 68

Amendments and Waivers ... 68

MSA Provisions Relating to Model/Qualifying Statutes ... 69

NPM Adjustment Claims ... 71

STATE LAWS RELATED TO THE MSA ... 78

Washington Qualifying Statute ... 78

Washington Complementary Legislation ... 79

State Statutory Enforcement Framework ... 80

Washington Office of the Attorney General ... 81

Washington Department of Revenue, Liquor Control Board ... 82

DOR Actions Seeking Penalties, Seizure and Forfeiture of Contraband Cigarettes ... 82

Nation or Tribal Reservation Cigarette Sales ... 83

CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY ... 83

Industry Overview ... 84

Industry Market Share ... 85

Cigarette Shipment Trends ... 86

Physical Plant, Raw Materials, Distribution and Competition ... 87

Table of Contents (continued)

Page

E-Cigarettes and Vapor Products 88
Heat-Not-Burn Tobacco Products 90
Smokeless Tobacco Products 91
Smoking Cessation Products 92
Gray Market 92
Regulatory Issues 93
Civil Litigation 110
CONTINUING DISCLOSURE AGREEMENT .. 122
TAX MATTERS 122
Opinions of Co-Bond Counsel 122
Certain Ongoing Federal Tax Requirements and Covenants 122

Page

Certain Collateral Federal Tax Consequences 123
Original Issue Discount 123
Bond Premium 124
Information Reporting and Backup Withholding 124
Miscellaneous 124
RATINGS 125
UNDERWRITING 125
LEGAL MATTERS 125
THE INDENTURE TRUSTEE 126
OTHER PARTIES 127
Municipal Advisor 127

Appendix A – Master Settlement Agreement
Appendix B – Arbitration Final Award Re: State of Washington in the 2003 NPM Adjustment Proceedings
Appendix C – Definitions and Summaries of the Transaction Documents
Appendix D – Proposed Forms of Opinions of Co-Bond Counsel
Appendix E – Form of Continuing Disclosure Agreement
Appendix F – Book-Entry Only System
Appendix G – Bonds to be Refunded

Index of Defined Terms

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SUMMARY STATEMENT

This Summary Statement is subject in all respects to more complete information contained in this Official Statement and should not be considered a complete statement of the facts material to making an investment decision. The offering of the Series 2018 Bonds to potential investors is made only by means of the entire Official Statement. Terms used herein and not previously defined have the meanings ascribed to them in APPENDIX C — "DEFINITIONS AND SUMMARIES OF THE TRANSACTION DOCUMENTS — Definitions." For locations of definitions of certain terms used herein, see the "Index of Defined Terms."

Overview..................................... The Tobacco Settlement Authority (the "**Authority**") is issuing $43,630,000 aggregate principal amount of its Tobacco Settlement Revenue Refunding Bonds, Series 2018 (the "**Series 2018 Bonds**").

The Series 2018 Bonds are to be issued by the Authority as Refunding Bonds (as defined below) pursuant to an Indenture between the Authority and U.S. Bank National Association, Seattle, Washington, as trustee (the "**Indenture Trustee**"), dated as of October 1, 2002, as amended and restated on October 17, 2013, and the Series 2018 Supplement between the Authority and the Indenture Trustee, dated as of the date of delivery of the Series 2018 Bonds (collectively, the "**Indenture**"). The Series 2018 Bonds are being issued to (i) refund on a current basis a portion equal to $47,645,000 aggregate principal amount of the Authority's outstanding Tobacco Settlement Revenue Refunding Bonds, Series 2013 (the "**Series 2013 Bonds**"), and (ii) pay the costs of issuance of the Series 2018 Bonds. Following the refunding of such portion of the Series 2013 Bonds, $134,835,000 aggregate principal amount of Series 2013 Bonds will remain outstanding under the Indenture. The Series 2018 Bonds, together with the Series 2013 Bonds and any other Refunding Bonds issued under the Indenture from time to time, are collectively referred to herein as the **"Bonds"**. See "PLAN OF FINANCE," "ESTIMATED SOURCES AND USES OF FUNDS" and APPENDIX G—"BONDS TO BE REFUNDED."

In 2002, pursuant to Chapter 365, Laws of Washington, 2002, codified at RCW §43.340.005 et seq., as amended (the "**Act**"), and a Purchase and Sale Agreement, dated as of October 1, 2002 (the "**Sale Agreement**"), between the State of Washington (the "**State**") and the Authority, the State sold to the Authority the Pledged TSRs (as defined below). The Authority has assigned and pledged the Pledged TSRs to the Indenture Trustee. The MSA Escrow Agent has been directed by the State to pay the Pledged TSRs directly to the Indenture Trustee. See "THE SALE AGREEMENT."

"**Pledged TSRs**" means 29.2% of:

(a) the payments received by the State under the MSA (as defined below) on and after July 1, 2003 (and all adjustments thereto);

(b) all amounts received by the State under the MSA on and after July 1, 2003 consisting of adjustments to payments made to the State under the MSA prior to July 1, 2003; and

(c) all Lump Sum Payments, Partial Lump Sum Payments and Total Lump Sum Payments.

The Master Settlement Agreement (the "**MSA**") was entered into by participating cigarette manufacturers, 46 states (including the State) and six other U.S. jurisdictions in November 1998 to settle certain smoking-related litigation.

Pledged TSRs do not include "**Unpledged TSRs**", which are 70.8% of:

(a) the payments received by the State under the MSA on and after July 1, 2003 (and all adjustments thereto);

(b) all amounts received by the State under the MSA on and after July 1, 2003 consisting of adjustments to payments made to the State under the MSA prior to July 1, 2003; and

(c) all Lump Sum Payments, Partial Lump Sum Payments and Total Lump Sum Payments.

The right of the Authority to receive the Pledged TSRs is valid and enforceable and on a parity with the claim of the State to the Unpledged TSRs.

The Series 2018 Bonds shall not be obligations of the State and shall be obligations only of the Authority, payable solely from the special fund or funds created by the Authority for their payment. Payment of the principal of, interest on, and redemption premium, if any, on the Series 2018 Bonds shall be a valid claim only as against the special fund or funds relating thereto. Neither the faith and credit nor the taxing power of the State or any municipal corporation, subdivision, or agency of the State, other than the Authority as set forth in the Act, is pledged to the payment of the principal of, interest on and premium, if any, on the Series 2018 Bonds.

The Authority.............................. The Authority is a public instrumentality and agency of the State, separate and distinct from the State, exercising public and essential governmental functions. The Authority was organized, and the Series 2018 Bonds are being issued, pursuant to the Act. Under authority of the Act, the State sold the Pledged TSRs to the Authority.

Pursuant to the Act, the Authority is prohibited from filing a voluntary petition under Chapter 9 of the Bankruptcy Code as it may, from time to time, be in effect, prior to 366 days after the Authority's bonds are no longer outstanding.

Securities Offered .... The Series 2018 Bonds will be issued pursuant to the Indenture. It is expected that the Series 2018 Bonds will be delivered in book-entry form on or about June 20, 2018 (the "**Closing Date**") through the facilities of The Depository Trust Company, New York, New York ("**DTC**"). Individual purchases of beneficial ownership interests may be made in the principal amount of $5,000 or any integral multiple thereof. Beneficial Owners of the Series 2018 Bonds will not receive physical delivery of bond certificates. See APPENDIX F—"BOOK-ENTRY ONLY SYSTEM."

Security for the Bonds .... The Series 2018 Bonds, together with the Series 2013 Bonds and any other Refunding Bonds (as defined below) to be issued under the Indenture (collectively, the "**Bonds**"), are limited obligations of the Authority secured

by and payable from the "**Collateral**", consisting of all of the Authority's right, title and interest, whether now owned or later acquired, in, to and under: (1) the Pledged TSRs and all fees, charges, payments, proceeds, collections, investment earnings and other income and receipts paid or payable to the Authority or the Indenture Trustee for the account of the Bondholders (the "**Collections**"); (2) all rights to receive the Collections and the proceeds of such rights; (3) the accounts established and maintained by the Indenture Trustee under the Indenture (the "**Accounts**") (except for the Rebate Account) and assets thereof, including money, contract rights, general intangibles or other personal property, held by the Indenture Trustee under the Indenture; (4) subject to certain rights described in the following paragraph, all rights and interest of the Authority under the Sale Agreement, including the representations, warranties and covenants of the State in the Sale Agreement; (5) all present and future claims, demands, causes and things in action in respect of any or all of the foregoing and all payments on or under and all proceeds of every kind and nature whatsoever in respect of any or all of the foregoing, including all proceeds of the conversion, voluntary or involuntary, into cash or other liquid property, all cash proceeds, accounts, general intangibles, notes, drafts, acceptances, chattel paper, checks, deposit accounts, insurance proceeds, condemnation awards, rights to payment of any and every kind, and other forms of obligations and receivables, instruments and other property which at any time constitute all or part of or are included in the proceeds of any of the foregoing; (6) all proceeds of the foregoing; and (7) any and all other property of every kind and nature from time to time after the date of the Indenture, by delivery or by writing of any kind, conveyed, pledged, assigned or transferred as and for additional security under the Indenture.

The Collateral does not include: (i) the Unpledged TSRs, (ii) the rights of the Authority pursuant to provisions for consent or other similar action by the Authority, notice to the Authority, indemnity or the filing of documents with the Authority, or otherwise for its benefit and not for that of the Bondholders, or (iii) any right or power reserved to the Authority pursuant to the Act or other law. The assignment and pledge of the Collateral does not preclude the Authority's enforcement of its rights under and pursuant to the Sale Agreement for the benefit of the Bondholders.

Covenants. .... The Authority and the State have made certain covenants for the benefit of the Bondholders. The Authority has covenanted in the Sale Agreement and the Indenture not to impair the exclusion of interest on the Tax-Exempt Bonds from gross income for federal income tax purposes. The State has covenanted in the Sale Agreement, and the Authority has included in the Indenture the covenants of the State, to (1) irrevocably direct the Escrow Agent and Independent Auditor (as such terms are defined in the MSA) to transfer all Pledged TSRs, pursuant to paragraph 5 of section 7 of the Act, directly to the Indenture Trustee; (2) enforce, at the expense of the State, the Authority's rights to receive the Pledged TSRs to the full extent permitted by the MSA (it being understood that the State may satisfy its obligation under the Sale Agreement by taking such enforcement action through individual or joint or cooperative efforts with other states and their Attorneys General in a manner that it determines as most appropriate); (3) not agree to any amendment of the MSA in any manner that would materially and adversely affect the ability of the Authority to receive the Pledged TSRs; (4) not limit or alter the rights of

the Authority to fulfill the terms of its agreements with Bondholders or the Indenture Trustee until the Bonds, together with the interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of the Bondholders, are fully paid and discharged; (5) enforce the State's Qualifying Statute; (6) not amend, supersede or repeal the State's Qualifying Statute in any way that would materially and adversely affect the ability of the Authority to receive the Pledged TSRs; (7) promptly pay to the Indenture Trustee any Pledged TSRs received by the State; (8) take all actions as may be required by law and the MSA fully to preserve, maintain, defend, protect and confirm the interest of the Authority in the Pledged TSRs and in the proceeds thereof in all material respects; (9) not take any action that will materially and adversely affect the Authority's legal right to receive the Pledged TSRs; and (10) not (a) release any PM from any of its covenants or obligations to make payment under the MSA or (b) agree to the amendment, hypothecation, subordination, termination or discharge of, or impair the validity or effectiveness of, or waive timely performance or observance by PMs under, the MSA, in each case if the effect thereof would be to materially and adversely affect the Authority's ability to receive the Pledged TSRs; *provided*, that if a Rating Confirmation is received relating to such proposed action, then such proposed action will be deemed not to be material or adverse. See APPENDIX C—"DEFINITIONS AND SUMMARIES OF THE TRANSACTION DOCUMENTS—The Indenture" for a summary of the covenants made by the Authority and "—The Sale Agreement" for a summary of the covenants made by the State to the Authority in the Sale Agreement.

Master Settlement Agreement...... On November 23, 1998, the MSA was entered into by 46 states (including the State), the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Commonwealth of the Northern Mariana Islands (collectively, the "**Settling States**") and what were then the four largest United States tobacco manufacturers: Philip Morris Incorporated (now Philip Morris USA Inc., "**Philip Morris**"), R.J. Reynolds Tobacco Company ("**Reynolds Tobacco**"), Brown & Williamson Tobacco Corporation ("**B&W**") and Lorillard Tobacco Company ("**Lorillard**"). In January 2004, Reynolds American Inc. ("**Reynolds American**") was incorporated as a holding company to facilitate the combination of the U.S. assets, liabilities and operations of B&W with those of Reynolds Tobacco. On June 12, 2015, Reynolds American acquired Lorillard, Inc., of which Lorillard was a wholly-owned subsidiary, and Lorillard was merged into Reynolds Tobacco, with Reynolds Tobacco as the surviving entity. Contemporaneous with Reynolds American's acquisition of Lorillard, Inc., Imperial Tobacco Group PLC ("**Imperial Tobacco**") purchased certain of Reynolds Tobacco's and certain of Lorillard's cigarette brands, among other assets. The payment obligations under the MSA follow tobacco product brands if they are transferred; thus, Imperial Tobacco is required to make payments under the MSA as a result of its acquisition of those cigarette brands. On July 25, 2017, Reynolds American became a wholly-owned subsidiary of British American Tobacco p.l.c. ("**BAT**") following BAT's acquisition of the approximately 58% of Reynolds American stock not then owned by BAT. As a result of such acquisition, BAT is responsible for Reynolds Tobacco's payment obligations under the MSA.

References herein to the "**Original Participating Manufacturers**" or "**OPMs**" means (i) prior to July 30, 2004, collectively, Philip Morris,

Reynolds Tobacco, B&W and Lorillard, (ii) after July 30, 2004 and prior to June 12, 2015, collectively Philip Morris, Reynolds Tobacco and Lorillard, and (iii) on and after June 12, 2015, Philip Morris and Reynolds Tobacco, along with Imperial Tobacco with respect to those cigarette brands that Imperial Tobacco acquired from Reynolds Tobacco and Lorillard. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Industry Overview." The MSA provides for tobacco companies, other than the OPMs, to become parties to the MSA ("**Subsequent Participating Manufacturers**" or "**SPMs**").

The MSA is an industry-wide settlement of litigation between the OPMs and SPMs (collectively, the "**Participating Manufacturers**" or "**PMs**") and the Settling States, and resolved cigarette smoking-related litigation among the Settling States and the OPMs, released the PMs from past and present smoking-related claims by the Settling States and provides for a continuing release of future smoking-related claims in exchange for certain payments to be made to the Settling States. The MSA also provides for the imposition of certain tobacco advertising and marketing restrictions, among other things. The Authority is not a party to the MSA. "See "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT."

MSA Payments. .... Under the MSA, the OPMs are required to pay to the Settling States: (i) five initial payments (the "**Initial Payments**") (all of which have been previously made by the OPMs), (ii) annual payments (the "**Annual Payments**"), which are required to be made annually on each April 15, having commenced April 15, 2000, and continuing in perpetuity (subject to adjustment as described herein), and (iii) ten annual payments of $861 million (subject to adjustment as described herein) that were required to be made on each April 15 in the years 2008 through 2017 (the "**Strategic Contribution Payments**"). SPMs are also required to make Annual Payments (and were also required to make Strategic Contribution Payments) in certain circumstances. See "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Subsequent Participating Manufacturers."

The Annual Payments that are due under the MSA are subject to numerous adjustments, some of which are material. Such adjustments include reductions when the PMs experience a loss of market share to tobacco companies that do not become part of the MSA ("**Non-Participating Manufacturers**" or "**NPMs**"), as a result of the PMs' participation in the MSA (the "**NPM Adjustment**"). The NPM Adjustment has been the subject of disputes between Settling States and PMs since at least 2004. As discussed further herein, the State and certain other Settling States are currently in arbitration regarding the 2004 NPM Adjustment, and numerous jurisdictions, not including the State, have entered into a settlement with the OPMs and certain SPMs regarding claims related to the 2003 through 2012 NPM Adjustments and the determination of subsequent NPM Adjustments. See "RISK FACTORS—Payment Decreases Under the Terms of the MSA," "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Adjustments to Payments" and "—NPM Adjustment Claims".

Other adjustments to payments due under the MSA include reductions for decreased domestic cigarette shipments, reductions for amounts paid by OPMs to four states which had previously settled their claims against the PMs

independently of the MSA, and increases related to inflation of not less than 3% each year, and offsets for disputed and/or miscalculated payments, as described herein.

Under the MSA, each OPM is required to pay an allocable portion of each Annual Payment based on its relative market share of cigarettes shipped in the United States by the OPMs during the preceding calendar year. Each SPM has Annual Payment obligations under the MSA (separate from the payment obligations of the OPMs) according to its market share (as determined in accordance with the MSA, "**Market Share**"). However, any SPM that became a party to the MSA within 90 days after it became effective pays only if its Market Share exceeds the higher of its 1998 Market Share or 125% of its 1997 Market Share.

Payments by the PMs are required to be made to Citibank, N.A., as the MSA Escrow Agent appointed pursuant to the MSA (the "**MSA Escrow Agent**"), which is required, in turn, to remit an allocable share of such payments to the parties entitled thereto. Upon the sale of the Pledged TSRs, the State directed the MSA Escrow Agent to remit the Pledged TSRs directly to the Indenture Trustee. Such direction is irrevocable until the Bonds have been repaid. The MSA Escrow Agent has distributed the MSA payments due through April 15, 2018 to the Settling States.

Under the MSA, the State is entitled to 2.0532582% of the Annual Payments made by PMs under the MSA and distributed through the National Escrow Agreement, entered into on December 23, 1998 (the "**National Escrow Agreement**"), among the Settling States, the OPMs and the MSA Escrow Agent.

See "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT."

Industry Overview .... Philip Morris and Reynolds Tobacco (both OPMs) are the largest manufacturers of cigarettes in the United States (based on 2017 market share). The market for cigarettes is highly competitive and is characterized by brand recognition. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY."

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As reported by the National Association of Attorneys General ("**NAAG**"), based upon OPM shipments reported to Management Science Associates, Inc., an independent third-party database management organization that collects wholesale shipment data ("**MSAI**"), the OPMs accounted for approximately 83.99%[*] of the U.S. domestic cigarette market in payment year 2018 (sales year 2017), based upon shipments and measuring roll-your-own cigarettes at 0.0325 ounces per cigarette conversion rate. Also as reported by NAAG, based upon shipments reported to MSAI, the SPMs accounted for approximately 9.13%[*] of the U.S. domestic cigarette market in payment year 2018 (sales year 2017), based upon shipments and measuring roll-your-own cigarettes at 0.09 ounces per cigarette conversion rate.

Cigarette Consumption .... Domestic cigarette consumption reached a peak of 640 billion cigarettes in 1981. Consumption declined in the 1980s, 1990s and 2000s. According to NAAG and measuring roll-your-own shipments at 0.0325 ounces per cigarette conversion rate, shipments totaled approximately 404 billion cigarettes in 2003 and less than 266 billion cigarettes in 2014, before increasing slightly to 271 billion cigarettes in 2015 and then decreasing to 248 billion cigarettes in 2017. It is projected that consumption declines will continue in subsequent years.

Washington Consent Decree .... On November 23, 1998, the Consent Decree and Final Judgment (the "**Consent Decree**"), which governs the State's action against the tobacco companies, was entered in the Superior Court of Washington for King County. The Consent Decree is final and not subject to further appeal. As a result, the State has achieved State-Specific Finality as defined in the MSA.

Liquidity Reserve Account. .... A reserve account (the "**Liquidity Reserve Account**") has been established by the Indenture Trustee under the Indenture in an amount equal to $31,997,719.44 (the "**Liquidity Reserve Requirement**"). Amounts on deposit in the Liquidity Reserve Account will be available to pay interest and Principal Maturities and Sinking Fund Installments, if any, to the extent amounts in the Capitalized Interest Subaccount (in the case of interest), the Debt Service Account, the Partial Lump Sum Payment Account and the Surplus Account are insufficient for such purpose. Any amount remaining after such payments in excess of the Liquidity Reserve Requirement will be deposited in the Collections Account. See "SECURITY—Application of Revenues" herein.

Unless an Event of Default has occurred, amounts withdrawn from the Liquidity Reserve Account will be replenished from Collections available in

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[*] OPMs make payments under the MSA based upon the 0.0325 ounce per cigarette conversion rate, and SPMs make payments under the MSA based upon the 0.09 ounce per cigarette conversion rate. The aggregate market share information is based on information as reported by NAAG and may differ materially from the market share information as reported by the OPMs for purposes of their filings with the Securities and Exchange Commission. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY." The aggregate market share information for sales year 2017 from NAAG used in the Pledged TSRs Projection Methodology and Assumptions may differ materially in the future from the market share information used by the MSA Auditor in calculating the adjustments to MSA payments in future years. See "PLEDGED TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" and "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Adjustments to Payments."

accordance with the order of priority set forth in "SECURITY— Application of Revenues—*Transfers to Accounts*."

Flow of Funds .... The State has provided irrevocable directions to the MSA Escrow Agent to disburse the amounts constituting the Pledged TSRs from the Washington-Specific Account directly to the Indenture Trustee. Promptly upon receipt, the Indenture Trustee will deposit all such amounts in an account established and maintained by the Indenture Trustee under the Indenture (the "**Collections Account**"). No later than five Business Days following each deposit of Pledged TSRs to the Collections Account (but in no event later than the next Distribution Date), the Indenture Trustee (unless an Event of Default has occurred) will withdraw funds on deposit in the Collections Account and transfer such amounts to the accounts and in the order of priority set forth in the Indenture. After making the transfers required by the order of priority set forth in the Indenture, the Indenture Trustee (unless an Event of Default has occurred) will transfer the remaining balance in the Collections Account into the Surplus Account. On each Distribution Date, the Indenture Trustee will apply amounts in such accounts in the order of priority set forth in the Indenture (and, upon the occurrence of an Event of Default, as defined herein, the Indenture Trustee will apply all funds in the Debt Service Account, the Liquidity Reserve Account and the Partial Lump Sum Payment Account as set forth in the Indenture). See "SECURITY—Application of Revenues" herein.

Additional Bonds .... One or more series of Refunding Bonds may be issued to refund Bonds (including the funding of defeasance escrows and deposits to Accounts in connection with such issuance) but only if upon the issuance of such Refunding Bonds (1) the amount on deposit in the Liquidity Reserve Account will be at least equal to the Liquidity Reserve Requirement; (2) no Event of Default has occurred; and (3) based upon updated cash flow projections, the amounts expected to be delivered to the owner of the Residual Certificate, assuming delivery of such Refunding Bonds, are greater than the amounts expected to be delivered to the owner of the Residual Certificate, assuming such Refunding Bonds are not issued. See "SECURITY—Additional Bonds". No bonds other than the Series 2013 Bonds and Refunding Bonds may be issued under the Indenture.

"**Refunding Bonds**" means Bonds other than the Series 2013 Bonds, including the Series 2018 Bonds, issued pursuant to the Indenture for the purposes of refunding any Outstanding Bonds.

"**Residual Certificate**" means an instrument in the form attached to the Indenture, evidencing the right to receive any amounts remaining in any Account after all deposits and payments set forth in the Indenture have been made and there are no Bonds Outstanding.

Events of Default .... For a description of the Events of Default under the Indenture and the remedies available therefor, see "THE SERIES 2018 BONDS—Events of Default and Remedies."

Interest on the Series 2018 Bonds. .... Interest on the Outstanding principal amount of the Series 2018 Bonds will be payable on each June 1 and December 1 or the next succeeding Business Day

if such day is not a Business Day (each, a "**Distribution Date**"), commencing December 1, 2018. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months. Failure to pay the full amount of interest on the Series 2018 Bonds when due is an Event of Default under the Indenture. See "SECURITY—Flow of Funds" and "THE SERIES 2018 BONDS—Events of Default and Remedies."

Optional Redemption.................. The Series 2018 Bonds maturing on or prior to June 1, 2023 are not subject to optional redemption.

The Series 2018 Bonds maturing on June 1, 2024 are subject to redemption in whole or in part, at any time on or after June 1, 2023, at the option of the Authority at a redemption price equal to 100% of the principal amount being redeemed, plus accrued interest to the date fixed for redemption.

Mandatory Clean Up Call........... The Bonds, including the Series 2018 Bonds, are subject to mandatory redemption in whole at a redemption price equal to 100% of the principal amount being redeemed at any time that the available amounts on deposit in the Accounts (other than the Rebate Account, the Operating Account, the Operating Contingency Account and the Costs of Issuance Account) exceed the aggregate principal amount of, and accrued interest on, all Outstanding Bonds.

Surplus Account.......................... Except for an amount not greater than $5,000, amounts deposited in the Surplus Account will be applied or set aside by the Indenture Trustee, in the following order of priority and in accordance with directions in an Officer's Certificate, at any time not later than the Distribution Date following such deposit: (1) in chronological order of maturity, to pay or provide for the payment of the redemption price of Outstanding Bonds then subject to optional redemption, or to become subject to optional redemption as of the next succeeding June 1, if any, or to purchase such Outstanding Bonds at a price no greater than 100% of the principal amount thereof plus accrued interest thereon, (2) to the extent that, as set forth in an Officer's Certificate, Outstanding Bonds are not available for optional redemption or purchase pursuant to clause (1) hereof, to pay the purchase price of Outstanding Bonds of any maturity in accordance with the Indenture, or (3) to the extent that, as set forth in an Officer's Certificate, Outstanding Bonds are not available for optional redemption or purchase pursuant to clause (2) hereof, to transfer any remaining balance to the Debt Service Account to pay or provide for the debt service on Bonds on any date; provided, however, that between April 15 and the next Distribution Date in each year, no amounts in the Surplus Account will be applied or set aside pursuant to clauses (1) through (3) above unless there is held in the Collections Account, the Debt Service Account and the Partial Lump Sum Payment Account sufficient amounts to pay all interest, Principal Maturities and Sinking Fund Installments due on such Distribution Date and on the next succeeding Distribution Date.

Tax Matters................................. In the opinions of Hawkins Delafield & Wood LLP and Pacifica Law Group LLP, as Co-Bond Counsel to the Authority ("**Co-Bond Counsel**"), under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (1) interest on the Series 2018 Bonds is excluded from gross income for federal income tax purposes pursuant to section 103 of the Internal Revenue Code of 1986, as amended

(the "**Tax Code**"), and (2) interest on the Series 2018 Bonds is not treated as a preference item in calculating the alternative minimum tax under the Tax Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed for taxable years beginning prior to January 1, 2018. See "TAX MATTERS."

Continuing Disclosure Agreement.................................... In accordance with the provisions of Rule 15c2-12, as amended, promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, the Authority will, prior to the issuance of the Series 2018 Bonds, enter into a Continuing Disclosure Agreement (the "**Continuing Disclosure Agreement**") for the Series 2018 Bonds with the Indenture Trustee, substantially in the form set forth in APPENDIX E hereto.

Ratings. .... S&P Global Ratings ("**S&P**" or the "**Rating Agency**") is expected to assign a rating of "A (sf)" to the Series 2018 Bonds.

Such rating reflects only the views of S&P, and explanations of the significance of such rating may be obtained only from S&P. The Authority makes no representation as to the appropriateness of the rating. The rating for the Series 2018 Bonds addresses (i) the payment of interest on the Series 2018 Bonds when due, and (ii) the payment of Principal Maturities when due. A credit rating is not a recommendation to buy, sell or hold securities, and such ratings may be subject to downward revision or withdrawal at any time. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price or marketability of the Series 2018 Bonds. See "RATINGS."

Risk Factors and Legal Considerations. .... Reference is made to "RISK FACTORS" and "LEGAL CONSIDERATIONS" for a description of certain risks and legal issues relevant to an investment in the Series 2018 Bonds.

INTRODUCTORY STATEMENT

This Official Statement sets forth information concerning the issuance by the Tobacco Settlement Authority (the "**Authority**") of $43,630,000 aggregate principal amount of its Tobacco Settlement Revenue Refunding Bonds, Series 2018 (the "**Series 2018 Bonds**"). The Series 2018 Bonds are being issued pursuant to an Indenture between the Authority and U.S. Bank National Association, Seattle, Washington, as trustee (the "**Indenture Trustee**"), dated as of October 1, 2002, as amended and restated on October 17, 2013, and the Series 2018 Supplement between the Authority and the Indenture Trustee, dated as of the date of delivery of the Series 2018 Bonds (collectively, the "**Indenture**").

The Authority is a public instrumentality and agency of the State of Washington (the "**State**"), separate and distinct from the State, exercising public and essential governmental functions. The Authority consists of five members appointed by the governor of the State. For additional information regarding the organization of the Authority, see "THE AUTHORITY."

The Authority has previously purchased from the State, pursuant to the Purchase and Sale Agreement, dated as of October 2, 2002 (the "**Sale Agreement**"), by and between the State and the Authority, all right, title and interest of the State in and to the Pledged TSRs (as such term is defined below) required to be paid to the State under the Master Settlement Agreement (the "**MSA**") entered into by participating tobacco product manufacturers (the "**PMs**"), 46 states and six other U.S. jurisdictions on November 23, 1998 in settlement of certain smoking-related litigation, including the State's rights to receive certain annual and strategic contribution payments to be made by the PMs under the MSA and under the Consent Decree (as defined herein). Pursuant to the Indenture, the Authority has pledged all of the Authority's right, title and interest in and to receive the "**Pledged TSRs**" which consist of 29.2% of:

(a) the payments received by the State under the MSA on and after July 1, 2003 (and all adjustments thereto);

(b) all amounts received by the State under the MSA on and after July 1, 2003 consisting of adjustments to payments made to the State under the MSA prior to July 1, 2003; and

(c) all Lump Sum Payments, Partial Lump Sum Payments and Total Lump Sum Payments.

The Pledged TSRs are subject to numerous adjustments, offsets and recalculations, some of which are material, including the NPM Adjustment discussed herein. The State and certain other Settling States are currently in arbitration regarding the 2004 NPM Adjustment. See "BONDHOLDERS" RISKS—Potential Payment Decreases Under the Terms of the MSA—*NPM Adjustment*" and "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Potential Payment Decreases Under the Terms of the MSA—*NPM Adjustment*—Application of NPM Adjustment." A copy of the Arbitration Final Award Re: State of Washington in the 2003 NPM Adjustment Proceedings is attached hereto as APPENDIX B.

The proceeds of the Series 2018 Bonds will be applied, together with certain amounts available under the Indenture, to (i) refund on a current basis a portion equal to $47,645,000 aggregate principal amount of the Authority's outstanding Tobacco Settlement Revenue Refunding Bonds, Series 2013 (the "**Series 2013 Bonds**") which were issued to refund the Authority's outstanding Tobacco Settlement Asset-Backed Bonds, Series 2002 (the "**Series 2002 Bonds**"), and (ii) pay the costs of issuance incurred in connection with the issuance of the Series 2018 Bonds. See "PLAN OF FINANCE," "ESTIMATED SOURCES AND USES OF FUNDS" and APPENDIX G—"BONDS TO BE REFUNDED."

Pursuant to Chapter 365, Laws of Washington, 2002, codified at RCW §43.340.005 et seq., as amended (the "**Act**") and under the Indenture, the Series 2013 Bonds, the Series 2018 Bonds and any Refunding Bonds (as defined below) in addition to the Series 2018 Bonds to be issued under the Indenture (collectively, the "**Bonds**") are secured by a first-priority pledge of the Collections and certain funds and accounts, and amounts therein, established for the Bonds under the Indenture. See "SECURITY" herein.

Interest on the Outstanding principal amount of the Series 2018 Bonds will be payable on each June 1 and December 1 or the next succeeding Business Day if such June 1 or December 1 is not a Business Day (each, a "**Distribution Date**"), commencing December 1, 2018. Principal of the Series 2018 Bonds is payable according to the schedules of Principal Maturities, all as described under "THE SERIES 2018 BONDS."

Failure to pay interest, Principal Maturities and Sinking Fund Installments, if any, when due will constitute an Event of Default under the Indenture.

The MSA resolved cigarette smoking-related litigation between the Settling States and the OPMs and released the PMs from past and present smoking-related claims, and provides for a continuing release of future smoking-related claims in exchange for payments to be made to the Settling States, as well as, among other things, certain tobacco advertising and marketing restrictions. Under the MSA, the State is entitled to 2.0532582% of the Annual Payments made by the PMs under the MSA.

Certain methodologies and assumptions were utilized to establish the amounts and Maturity Dates of the Series 2018 Bonds, as described under "PLEDGED TSRS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS." The amount and timing of payments on the Series 2018 Bonds may be affected by various factors. See "RISK FACTORS" herein.

SECURITY

Sale of Pledged TSRs; Pledge of Collateral

Pursuant to the Act and the Sale Agreement, the State sold to the Authority the Pledged TSRs. See "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Payments Made to Date" for information with respect to payments required to be paid under the MSA and the State's share thereof that was received by the State.

Pursuant to the Indenture, the Bonds will be secured by the "**Collateral**", consisting of all of the Authority's right, title and interest, whether now owned or later acquired, in, to and under: (1) the Pledged TSRs and all fees, charges, payments, proceeds, collections, investment earnings and other income and receipts paid or payable to the Authority or the Indenture Trustee for the account of the Bondholders (the "**Collections**"); (2) all rights to receive the Collections and the proceeds of such rights; (3) the Accounts (except for the Rebate Account) and assets thereof, including money, contract rights, general intangibles or other personal property, held by the Indenture Trustee under the Indenture; (4) subject to certain rights described in the following paragraph, all rights and interest of the Authority under the Sale Agreement, including the representations, warranties and covenants of the State in the Sale Agreement; (5) all present and future claims, demands, causes and things in action in respect of any or all of the foregoing and all payments on or under and all proceeds of every kind and nature whatsoever in respect of any or all of the foregoing, including all proceeds of the conversion, voluntary or involuntary, into cash or other liquid property, all cash proceeds, accounts, general intangibles, notes, drafts, acceptances, chattel paper, checks, deposit accounts, insurance proceeds, condemnation awards, rights to payment of any and every kind, and other forms of obligations and receivables, instruments and other property which at any time constitute all or part of or are included in the proceeds of any of the foregoing; (6) all proceeds of the foregoing; and (7)

any and all other property of every kind and nature from time to time after the date of the Indenture, by delivery or by writing of any kind, conveyed, pledged, assigned or transferred as and for additional security under the Indenture.

Except as specifically provided in the Indenture, the Collateral does not include: (i) the "**Unpledged TSRs**" (which are 70.8% of: (a) the payments received by the State under the MSA on and after July 1, 2003 (and all adjustments thereto); (b) all amounts received by the State under the MSA on and after July 1, 2003 consisting of adjustments to payments made to the State under the MSA prior to July 1, 2003; and (c) all Lump Sum Payments, Partial Lump Sum Payments and Total Lump Sum Payments), (ii) the rights of the Authority pursuant to provisions for consent or other similar action by the Authority, notice to the Authority, indemnity or the filing of documents with the Authority, or otherwise for its benefit and not for that of the Bondholders, or (iii) any right or power reserved to the Authority pursuant to the Act or other law; nor does the assignment and pledge of the Collateral preclude the Authority's enforcement of its rights under and pursuant to the Sale Agreement for the benefit of the Bondholders. The Unpledged TSRs, and the proceeds of the Bonds, other than the amounts deposited in one or more of the Accounts, do not constitute any portion of the Pledged TSRs, are not pledged to the Bondholders and are not subject to the lien of the Indenture. The right of the Authority to receive the Pledged TSRs is valid and enforceable and on a parity with the claim of the State to the Unpledged TSRs. Neither the Authority nor the Indenture Trustee has the right to make a claim to make up all or any portion of an actual or perceived deficiency in Pledged TSRs from the Unpledged TSRs and, likewise, the State has no right to make a claim to make up all or any portion of an actual or perceived deficiency in the Unpledged TSRs from the Pledged TSRs.

The Authority has no authority to and does not intend or purport to pledge the faith, credit, or taxing power or any other asset or revenues of the State or any of its political subdivisions in connection with the issuance of the Series 2018 Bonds. The Authority has no taxing power. **The Series 2018 Bonds are limited obligations of the Authority. The Series 2018 Bonds shall not be obligations of the State and shall be obligations only of the Authority, payable solely from the special fund or funds created by the Authority for their payment. Payment of the principal of, interest on, and redemption premium, if any, on the Series 2018 Bonds shall be a valid claim only as against the special fund or funds relating thereto. Neither the faith and credit nor the taxing power of the State or any municipal corporation, subdivision, or agency of the State, other than the Authority as set forth in the Act, is pledged to the payment of the principal of, interest on, and premium, if any, on the Series 2018 Bonds.**

Payment by MSA Escrow Agent to Indenture Trustee

Upon the sale by the State of the Pledged TSRs to the Authority, the State directed the MSA Escrow Agent to disburse the Pledged TSRs directly to the Indenture Trustee. Under the MSA, the disbursement of Pledged TSRs is required to be made to the Indenture Trustee by the MSA Escrow Agent ten business days after the MSA Escrow Agent receives the related Annual Payments from the PMs.

Application of Revenues

Promptly upon receipt, the Indenture Trustee will deposit all Collections (excluding investment earnings on amounts on deposit with the Indenture Trustee under the Indenture) in the Collections Account. All Collections that have been identified by an Officer's Certificate as consisting of Partial Lump Sum Payments will be promptly (and in any event, no later than the Business Day immediately preceding the next Distribution Date) transferred to the Partial Lump Sum Payment Account, in accordance with the instructions received by the Indenture Trustee pursuant to an Officer's Certificate. All Collections that have been identified by an Officer's Certificate as consisting of Total Lump Sum Payments will be promptly (and in any event, no later than the Business Day immediately preceding the next Distribution Date) applied in the manner described in the seventh paragraph under "*Distribution Date Transfers*" below, in accordance

with the instructions received by the Indenture Trustee pursuant to an Officer's Certificate. In addition, on the Business Day immediately preceding each Distribution Date, the Indenture Trustee will deposit in the Collections Account and apply as described in "*Transfers to Accounts*" below (1) all Collections consisting of investment earnings on amounts on deposit with the Indenture Trustee under the Indenture (excluding amounts in the Costs of Issuance Account, the Rebate Account and the Partial Lump Sum Payment Account) and (2) all Collections consisting of realized gains from investments (other than investment earnings) determined pursuant to the valuation of investments in each Account by the Indenture Trustee as of each Deposit Date (excluding such gains in the Costs of Issuance Account, the Rebate Account and the Partial Lump Sum Payment Account).

To the extent that the Indenture Trustee receives an amount constituting Unpledged TSRs (as confirmed in writing to the Indenture Trustee in an Officer's Certificate), the Indenture Trustee will promptly remit such amount to or upon the order of the State and thereupon notify the State of such remittance in accordance with an Officer's Certificate.

"**Lump Sum Payment**" means a final payment from a PM that results in, or is due to, a release of that PM from all of its future payment obligations under the MSA. Lump Sum Payments do not include Partial Lump Sum Payments.

"**Partial Lump Sum Payment**" means any payment from a PM that results in, or is due to, a release of that PM from a portion, but not all, of its future payment obligations under the MSA.

"**Total Lump Sum Payment**" means a final payment from all of the PMs that results in, or is due to, a release of all of the PMs from all of their future payment obligations under the MSA.

Transfers to Accounts. As soon as is possible following each deposit of Collections to the Collections Account, but no later than the earlier of (1) the fifth Business Day following each Deposit Date, or (2) the start of business of the Indenture Trustee on the Distribution Date following each Deposit Date, the Indenture Trustee will withdraw the funds on deposit in the Collections Account and transfer such amounts in the priority set forth below:

(a) to the Operating Account, an amount sufficient to cause the amount therein to equal the amount specified by the Officer's Certificate most recently delivered (or deemed delivered) pursuant to the Indenture in order to pay, for the Fiscal Year applicable to such Officer's Certificate, the Operating Expenses to the extent that the aggregate amount thereof does not exceed the Operating Cap in effect as of the date of such deposit (as certified or deemed certified in accordance with the Indenture);

(b) to the Debt Service Account, an amount sufficient to cause the amount therein to equal the sum of (i) interest on the Outstanding Bonds that will come due on the next two Distribution Dates, plus (ii) any such unpaid interest on the Bonds from prior Distribution Dates (including interest at the stated rate on such unpaid interest, to the extent legally permissible); provided, that the amount to be deposited pursuant to this subparagraph (b) will be calculated assuming that principal of the Bonds will have been paid as described in subparagraphs (b), (c) and (d) under "*Distribution Date Transfers*" below;

(c) to the Debt Service Account, an amount sufficient to cause the amount therein to equal the amount specified in subparagraph (b) above plus the sum of (i) the Principal Maturities and Sinking Fund Installments, if any, due in or scheduled for the next succeeding Bond Year, plus (ii) any such Principal Maturities and Sinking Fund Installments unpaid from prior Distribution Dates; provided, that there will be applied to or credited against any such Sinking Fund Installment,

in chronological order, the principal amount of any Bonds subject to redemption therefrom that have been defeased, purchased or redeemed and not previously so applied or credited;

(d) unless an Event of Default has occurred, to the Liquidity Reserve Account, an amount sufficient to cause the amount on deposit therein to equal the Liquidity Reserve Requirement;

(e) to the Operating Contingency Account, an amount specified by an Officer's Certificate delivered pursuant to the Indenture in order to pay, for the Fiscal Year applicable to such Officer's Certificate, the Operating Expenses in excess of the Operating Cap; and

(f) unless an Event of Default has occurred, to the Surplus Account, the remaining amount.

"**Bond Year**" means, for so long as Bonds are Outstanding, the 12 month period ending each May 31.

"**Deposit Date**" means the date of each deposit of Collections in the Collections Account.

"**Fiscal Year**" means each 12 month period ending June 30.

"**Operating Expenses**" means operating and administrative expenses of the Authority (including, without limitation, the cost of preparation of accounting and other reports, costs of maintenance of the ratings on the Bonds, arbitrage payments and rebate penalties, insurance premiums, costs and expenses of indemnification pursuant to the Indenture and costs of annual meetings or other required activities of the Authority), fees and expenses incurred for the Indenture Trustee (including the reasonable fees and expenses of its counsel), any Paying Agents, professional consultants and fiduciaries, termination payments on investment contracts or investment agreements for Accounts, or on forward purchase contracts for investments in Accounts, enforcement related costs with federal and state agencies incurred, as determined by the Authority, in order to preserve the tax-exempt status of any Tax-Exempt Bonds, and the costs related to enforcement of the Authority's or the Indenture Trustee's enforcement rights with respect to the Indenture, the Sale Agreement, the Authority Tax Certificate or the Bonds, and all other expenses so identified as Operating Expenses in the Indenture.

"**Operating Cap**" means (i) $250,000 in the Fiscal Year ending June 30, 2003, inflated in each following Fiscal Year by the percentage representing the fraction "x" over "y", where "x" equals the Inflation Adjustment Percentage (as defined in the MSA) applicable to MSA payments due in the calendar year ending in such Fiscal Year, and "y" equals the Inflation Adjustment Percentage applicable to MSA payments due in the preceding Fiscal Year, plus (ii) in each Fiscal Year, arbitrage payments, rebate, and penalties specified in an Officer's Certificate.

"**Principal Maturity**" means the principal payment required to be made on a Bond on the final date on which all remaining principal of such Bonds is due and payable.

Distribution Date Transfers. Unless an Event of Default has occurred, the Indenture Trustee will apply amounts in the various Accounts in the following order of priority:

(a) on each Distribution Date, from the Capitalized Interest Subaccount, the Debt Service Account, the Partial Lump Sum Payment Account, the Surplus Account and the Liquidity Reserve Account, in that order, to pay interest on the Bonds due on such Distribution Date;

(b) on each Distribution Date, from the Debt Service Account, the Partial Lump Sum Payment Account, the Surplus Account and the Liquidity Reserve Account, in that order, to pay, in the following order, the Principal Maturities and the Sinking Fund Installments, if any, due on or scheduled for such Distribution Date; *provided*, that there will be applied to or credited against any such Sinking Fund Installment, in chronological order, the principal amount of any Bonds subject to redemption therefrom that have been defeased, purchased or redeemed and not previously so applied or credited;

(c) on each Distribution Date, from the Partial Lump Sum Payment Account, to the Surplus Account for the purchase or redemption of Bonds, but only as directed in an Officer's Certificate delivered by the Authority and accompanied by evidence from each rating agency that has a rating then in effect for the Bonds that no rating then in effect with respect to the Bonds will be withdrawn, reduced or suspended solely as a result of such application of amounts in the Partial Lump Sum Payment Account; and

(d) except for an amount not greater than $5,000, from the Surplus Account, to be applied or set aside by the Indenture Trustee in the following order of priority and in accordance with directions in an Officer's Certificate, at any time not later than the Distribution Date following such deposit: (1) in chronological order of maturity, to pay or provide for the payment of the redemption price of Outstanding Bonds then subject to optional redemption, or to become subject to optional redemption as of the next succeeding June 1, if any, or to purchase such Outstanding Bonds at a price no greater than 100% of the principal amount thereof plus accrued interest thereon, (2) to the extent that, as set forth in an Officer's Certificate, Outstanding Bonds are not available for optional redemption or purchase pursuant to subclause (1) of this clause (d), to pay the purchase price of Outstanding Bonds of any maturity in accordance with the open market purchase provisions described below, or (3) to the extent that, as set forth in an Officer's Certificate, Outstanding Bonds are not available for optional redemption or purchase pursuant to subclause (2) of this clause (d), to transfer any remaining balance to the Debt Service Account to pay or provide for the debt service on Bonds on any date; provided, however, that between April 15 and the next Distribution Date in each year, no amounts in the Surplus Account will be applied or set aside pursuant to subclauses (1) through (3) hereof unless there is held in the Collections Account, the Debt Service Account and the Partial Lump Sum Payment Account sufficient amounts to pay all interest, Principal Maturities and Sinking Fund Installments due on such Distribution Date and on the next succeeding Distribution Date.

The Authority may cause the Indenture Trustee to purchase Bonds in the open market from money in the Surplus Account available therefor pursuant to subclause (1) of clause (d) above, at any price not exceeding 100% of the principal amount of the Outstanding Bonds being purchased at such time, plus accrued interest thereon.

The Authority may cause the Indenture Trustee to purchase Bonds in the open market from money in the Surplus Account available therefor pursuant to subclause (2) of clause (d) above, at any price not exceeding the sum of 100% of the principal amount of the Outstanding Bonds being purchased at such time, plus a premium not greater than the interest rate payable on such Bonds being purchased multiplied by a fraction (a) the numerator of which is the number of days from the purchase date thereof to the next date on which such Bonds are subject to optional redemption, and (b) the denominator of which is 360, plus accrued interest thereon, *provided* that such purchase price, including accrued interest, is no greater than the cost of purchasing a portfolio of securities on such purchase date consisting exclusively of investments described in the Indenture sufficient to defease and redeem such Bonds as of their first optional redemption date as set forth in an Officer's Certificate, which may rely on a report of a nationally recognized financial advisory firm or a firm of nationally recognized defeasance escrow verification agents.

Funds deposited in the Operating Account will be transferred, immediately upon such deposit, to or upon the order of the Authority and will be used by the Authority to pay Operating Expenses (other than termination payments on investment contracts or investment agreements for Accounts, or on forward purchase contracts for investments in Accounts).

Funds in the Operating Contingency Account will be applied by the Indenture Trustee at any time, in accordance with directions in an Officer's Certificate, to pay Operating Expenses not otherwise paid from the Operating Account (or to fund an account of the Authority free and clear of the lien of the Indenture for the purpose of paying such Operating Expenses).

On each Distribution Date after the occurrence of any Event of Default the Indenture Trustee will apply all funds in the Debt Service Account, the Liquidity Reserve Account and the Partial Lump Sum Payment Account to pay Pro Rata, first, the accrued interest on the Bonds (including, in each case, interest at the stated rate on any unpaid interest, to the extent legally permissible) and, second, principal on all Bonds then Outstanding, whether or not such principal is then scheduled to be paid.

Upon the receipt of a sum that has been identified by an Officer's Certificate as a Total Lump Sum Payment, the Indenture Trustee will, after making provision for the amounts required to be deposited pursuant to subparagraph (a) under "*Transfers to Accounts*" above, use all remaining proceeds of such Total Lump Sum Payment to pay Pro Rata, *first*, the accrued interest on the Bonds (including, in each case, interest at the stated rate on any unpaid interest, to the extent legally permissible) and, *second*, principal on all Bonds then Outstanding, whether or not such principal is then scheduled to be paid.

After making all the deposits and payments set forth above, and provided there are no Outstanding Bonds, the Indenture Trustee will deliver any amounts remaining in an Account to the registered owner of the Residual Certificate.

See APPENDIX C—"DEFINITIONS AND SUMMARIES OF THE TRANSACTION DOCUMENTS."

THE SERIES 2018 BONDS

The following summary describes certain terms of the Series 2018 Bonds. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture and the Series 2018 Bonds. Copies of the Indenture may be obtained upon written request to the Indenture Trustee.

The Series 2018 Bonds will initially be represented by one or more bond certificates registered in the name of The Depository Trust Company, New York, New York ("**DTC**") or its nominee. DTC will act as securities depository for the Series 2018 Bonds. The Series 2018 Bonds will be available for purchase in denominations of $5,000 or any integral multiple thereof in book-entry form only. Except under the limited circumstances described herein, no Beneficial Owner (as defined herein) of the Series 2018 Bonds will be entitled to receive a physical certificate representing its ownership interest in such Series 2018 Bonds. See APPENDIX F—"BOOK-ENTRY ONLY SYSTEM" herein.

Payments of Interest

Interest on the Outstanding principal balance of the Series 2018 Bonds will be payable on each Distribution Date. Interest will accrue from and including the Closing Date. Interest on the Series 2018 Bonds will be computed on the basis of a 360-day year comprised of twelve 30-day months. Failure to pay the full amount of interest payable on any Distribution Date is an Event of Default under the Indenture.

If on any Distribution Date there are insufficient funds to pay all interest then due on the Bonds, available amounts will be allocated Pro Rata among all Bonds based on the respective amounts of interest due thereon. See "SECURITY—Application of Revenues—*Distribution Date Transfers.*"

For each Distribution Date, payments will be made to Bondholders of record as of the Record Date.

"**Record Date**" means the 15th day of the calendar month preceding a Distribution Date. The Authority or the Indenture Trustee may establish special record dates for the determination of the Bondholders for various purposes of the Indenture.

"**Business Day**" means any day other than a Saturday, a Sunday, a day on which banking institutions in New York, New York, Seattle, Washington, or the city in which the Corporate Trust Office of the Indenture Trustee is located are required or authorized by law to be closed; a day on which the New York Stock Exchange is closed; or a day on which the payment system of the Federal Reserve System is not operational.

Redemption Provisions

Optional Redemption

The Series 2018 Bonds maturing on or prior to June 1, 2023 are not subject to optional redemption.

The Series 2018 Bonds maturing on June 1, 2024 are subject to redemption in whole or in part, at any time on or after June 1, 2023, at the option of the Authority at a redemption price equal to 100% of the principal amount being redeemed, plus accrued interest to the date fixed for redemption.

Mandatory Clean Up Call

The Bonds, including the Series 2018 Bonds, are subject to mandatory redemption in whole at a redemption price equal to 100% of the principal amount being redeemed, at any time that the available amounts on deposit in the Accounts (other than the Rebate Account, the Operating Account, the Operating Contingency Account and the Costs of Issuance Account) exceed the aggregate principal amount of, and accrued interest on, all Outstanding Bonds.

Notice of Redemption

When a Series 2018 Bond is to be redeemed prior to its stated Maturity Date, the Indenture Trustee will give notice in the name of the Authority, which notice will identify the Series 2018 Bonds to be redeemed, state the date fixed for redemption and state that such Series 2018 Bonds will be redeemed at the Corporate Trust Office of the Indenture Trustee or a Paying Agent. The notice will further state that on such date there will become due and payable upon each Series 2018 Bond to be redeemed the redemption price thereof, together with interest accrued to the redemption date, and that money therefor having been deposited with the Indenture Trustee or Paying Agent, from and after such date, interest thereon will cease to accrue. The Indenture Trustee will give 20 days' notice (or such shorter period permitted by DTC if DTC or its nominee is the Bondholder at the time such notice is given), by mail or otherwise transmit the redemption notice in accordance with any appropriate provisions of the Indenture, to the registered owners of any Series 2018 Bonds which are to be redeemed, at their addresses shown on the registration books of the Authority. Such notice may be waived by any Bondholders holding Series 2018 Bonds to be redeemed. Failure by a particular Bondholder to receive notice, or any defect in the notice to such Bondholder, will not affect the redemption of any other Series 2018 Bond. Any notice of redemption given pursuant to the Indenture may be rescinded by written notice to the Indenture Trustee by the Authority no later than 5 days

prior to the date specified for redemption. The Indenture Trustee will give notice of such rescission as soon thereafter as practicable in the same manner and to the same persons, as notice of such redemption was given as described above. The Indenture Trustee is required to comply with the rules, procedures, customs or practices of DTC in order to achieve a result consistent with the meaning and intent of the Indenture.

Additional Bonds

One or more series of Refunding Bonds may be issued to refund Bonds (including the funding of defeasance escrows and deposits to Accounts in connection with such issuance) but only if upon the issuance of such Refunding Bonds (1) the amount on deposit in the Liquidity Reserve Account will be at least equal to the Liquidity Reserve Requirement; (2) no Event of Default has occurred; and (3) based upon updated cash flow projections, the amounts expected to be delivered to the owner of the Residual Certificate, assuming delivery of such Refunding Bonds, are greater than the amounts expected to be delivered to the owner of the Residual Certificate, assuming such Refunding Bonds are not issued. In determining compliance with clause (3) above, the Authority may rely conclusively on a certificate of a financial advisory or underwriting firm with respect to calculating amounts anticipated to be delivered to the owner of the Residual Certificate. Such calculations are to be based on new projections of Pledged TSRs and assume that projected balances in the Surplus Account are periodically utilized pursuant to the Indenture to optionally redeem, purchase, pay debt service on or defease Bonds. Further, the financial advisory or underwriting firm may rely on a report of a nationally recognized firm of economic experts on matters related to projected or forecasted cigarette consumption in the United States in order to develop new projections of Pledged TSRs.

The Authority may from time to time request the authentication and delivery of a series of Bonds by providing to the Indenture Trustee (at or prior to such authentication and delivery) the following: (1) copies of the applicable Series Supplement, certified by an Authorized Officer of the Authority; (2) in the case of Refunding Bonds, an Officer's Certificate showing compliance with the provisions set forth in the preceding paragraph; (3) an opinion of Counsel (a) as to the due authorization, execution and delivery by the Authority of the Indenture and each relevant Supplemental Indenture, (b) to the effect that the Bonds being issued are valid and binding obligations of the Authority payable from the sources specified in the Indenture, (c) to the effect that the Indenture creates the valid pledge of, and first-priority lien on, the Collateral (including, without limitation, the Pledged TSRs) that it purports to create, and (d) in the case of Refunding Bonds, to the effect that the issuance of such Refunding Bonds will not adversely affect the exclusion from gross income for federal income tax purposes of interest on Tax-Exempt Bonds theretofore issued (as set forth in the opinions delivered with such prior Bonds); (4) such other documents as may be required by the applicable Series Supplement; and (5) an Officer's Certificate to the effect that the applicable conditions to the issuance of Bonds set forth in the Indenture and in each applicable Series Supplement have been met, and requesting the Indenture Trustee's authentication of the series of Bonds.

No bonds other than the Series 2013 Bonds and Refunding Bonds may be issued under the Indenture. "**Refunding Bonds**" means Bonds, other than the Series 2013 Bonds, issued pursuant to the Indenture for the purposes of refunding any Outstanding Bonds, including the Series 2018 Bonds.

Events of Default and Remedies

Events of Default

The occurrence of any of the following events will constitute an "**Event of Default**" under the Indenture: (1) failure to pay, when due, any Principal Maturity, Sinking Fund Installment or interest on any Bond (a "**Payment Default**"); (2) failure of the Authority to observe or perform any other provision of the Indenture which is not remedied within 60 days after written notice thereof is given to the Authority by

the Indenture Trustee or to the Authority and the Indenture Trustee by the Holders of at least 25% in principal amount of the Bonds then Outstanding; or (3) a material breach by the State of certain specified covenants contained or referred to in the Indenture, which breach is not remedied within 60 days after written notice, specifying such default and requiring the same to be remedied, has been given to the Authority and the State by the Indenture Trustee or to the Indenture Trustee, the Authority and the State by the Holders of at least 25% in principal amount of the Bonds then Outstanding. In the case of a default specified in clause (2) or (3), if the default is such that it cannot be corrected within the said 60-day period, it will not constitute an Event of Default if corrective action is instituted by the Authority or the State, as applicable, within said 60-day period and diligently pursued until the default is corrected.

Remedies

If an Event of Default occurs and is continuing, the Indenture Trustee may, and upon written request of the Holders of at least 25% in principal amount of the Bonds then Outstanding will, in its own name by action or proceeding in accordance with law: (1) enforce all rights of the Bondholders and require the Authority and the State to carry out their respective agreements with the Bondholders; (2) sue upon the Bonds; (3) require the Authority to account as if it were the trustee of an express trust for the Bondholders; and (4) enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

Upon a Payment Default, or a failure actually known to an Authorized Officer of the Indenture Trustee to make any other payment required by the Indenture within seven days after the same becomes due and payable, the Indenture Trustee will give written notice thereof to the Authority. The Indenture Trustee will give default notices under certain provisions of the Indenture when instructed to do so by the written direction of another Fiduciary or the Holders of at least 25% in principal amount of the Outstanding Bonds. The Indenture Trustee will proceed for the benefit of the Bondholders in accordance with the written direction of the Holders of a majority in principal amount of the Outstanding Bonds. The Indenture Trustee will not be required to take any remedial action (other than the giving of notice) unless reasonable indemnity is furnished for any expense or liability to be incurred therein. Upon receipt of written notice, direction and indemnity, and after making such investigation, if any, as it deems appropriate to verify the occurrence of any event of which it is notified as aforesaid, the Indenture Trustee will promptly pursue the remedies provided by the Indenture or any such remedies (not contrary to any such direction) as it deems appropriate for the protection of the Bondholders, and will act for the protection of the Bondholders with the same promptness and prudence as would be expected of a prudent person in the conduct of such person's own affairs.

On each Distribution Date after the occurrence of an Event of Default, the Bonds will be paid on a Pro Rata basis as described in the sixth paragraph under "SECURITY—Application of Revenues—*Distribution Date Transfers*."

THE AUTHORITY

The Authority was created in 2002 as a public instrumentality and agency of the State of Washington, separate and distinct from the State, exercising public and essential governmental functions. The Authority is authorized to issue revenue bonds and refunding bonds secured by a portion of the future revenue stream available to the State under the MSA.

Pursuant to the Act, prior to 366 days after the Authority's bonds are no longer outstanding, the Authority is prohibited from filing a voluntary petition under Chapter 9 of the Bankruptcy Code as it may, from time to time, be in effect.

The Authority's address is 1000 Second Avenue, Seattle, Washington 98104 and its telephone number is (206) 464-7139. Additional information regarding the Authority and can be accessed at www.tsa-wa.org. Neither the information on the Authority's website, nor any links from that website, is part of this Official Statement, and such information cannot be relied upon to be accurate as of the date of this Official Statement, nor should any such information be relied upon to make investment decisions regarding the Series 2018 Bonds.

The powers of the Authority are vested in and exercised by a board which consists of five members appointed by the Governor of the State. The Chair of the Authority serves at the pleasure of the Governor. The other members of the Authority serve for overlapping terms of four years.

As of June 4, 2018, the members of the Authority and their principal occupations are as follows:

Name	**Principal Occupation**
Carla M. DewBerry, Chair	Partner, K&L Gates, Seattle; practicing law in the areas of healthcare, mergers and acquisitions, and federal, state and local tax. A member of the Washington State Bar, the National Bar Association and the National Health Lawyers Association.
Tim Kerr, Secretary	Retired investment banker and financial consultant. Worked in the State Treasurer's Office where he served as State Finance Officer, Administrator of the State Bond Program, and Deputy State Treasurer for Debt Management. Served as the Treasurer's designee on various bond issuing boards.
Marlis Petersen Spawn, Treasurer	Finance Director/Chief Financial Officer at Gonzaga Preparatory School. Licensed as a certified public accountant since 1989. Former Director of Accounting and Finance for Spokane Teachers Credit Union. Formerly served on the Board of Directors of Northwest Farm Credit Services, ACA and Spokane Teachers Credit Union.
Mike Roberts	Retired former State Senior Budget Assistant in the areas of transportation and capital construction/finance in the Office of Financial Management. Acted as the State's representative to the finance team and the Authority board for the Series 2002 Bonds issuance. Served as former Governor Locke's representative to the Transportation Improvement Board.
Gavin J. Cooley	Chief Financial Officer for the City of Spokane serving five mayors. Former CFO for North Coast Life Insurance Company and R.J. Martin Mortgage Co. Previously with Coopers & Lybrand in Spokane and Price Waterhouse in Seattle.

The Authority's Executive Director is Kim Herman. Mr. Herman also serves as the Executive Director of the Washington State Housing Finance Commission (the "**Commission**") and the Washington Higher Education Facilities Authority. Mr. Herman is a native of Washington State and has served as a member of the Commission, as Washington Project Director of HUD's Rural Assistance Initiative Program in the Carter Administration, as Executive Director of the Housing Authority of the City of Yakima and as Manager of Single-Family Housing for the Portland Development Commission. Mr. Herman serves on the Board of the National Council of State Housing Agencies and served as the association's President from

September 2006 to October 2008. He formerly served on the Board of Trustees for the Washington Center for Real Estate Research; on Fannie Mae's Western Regional Advisory Board; and, on the Boards of the Rural Community Assistance Corporation. He was a founding member of the Washington Low Income Housing Alliance. He currently serves on the Board of the National Rural Housing Coalition, and is a board member at Impact Capital in Seattle. Mr. Herman is a graduate of Washington State University (B.A. 1967) and a former Peace Corps Volunteer.

The Authority's Deputy Director is Paul R. Edwards. Mr. Edwards also serves in this capacity for the Washington State Housing Finance Commission and the Washington Higher Education Facilities Authority. Mr. Edwards joined the Commission in November of 1998 as Director of Capital Projects, and became Deputy Director on November 1, 1999. He is a graduate of Morehouse College in Atlanta, Georgia (B.A. in Economics & Business Administration 1970), and received his Master of Science Industrial Administration degree from Carnegie-Mellon University in Pittsburgh, Pennsylvania (M.S.I.A. 1973). Mr. Edwards has held positions in corporate and real estate lending for more than twenty years. Prior to joining the Commission, Mr. Edwards was the Community Reinvestment Act Compliance Officer for Pacific First Bank and Manager of its Community Development Department. Mr. Edwards currently serves on the Board of the Washington Community Reinvestment Association.

The Authority's Senior Director of Finance and IT Services is Robert D. Cook. Mr. Cook also serves in this capacity for the Washington State Housing Finance Commission and the Washington Higher Education Facilities Authority. Mr. Cook joined the Commission in June 1996 with 18 years of accounting and finance experience in cooperative and nonprofit organizations. He is a graduate of the University of Missouri-Columbia (B.S., Business Administration-Accountancy 1978) and Northern Illinois University-DeKalb (M.B.A. 1990).

PLAN OF FINANCE

The Authority will use proceeds from the issuance of the Series 2018 Bonds, together with certain amounts available under the Indenture, to (i) refund on July 2, 2018 a portion equal to $47,645,000 aggregate principal amount of the Series 2013 Bonds and (ii) pay costs of issuance in connection with the issuance of the Series 2018 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and APPENDIX G—"BONDS TO BE REFUNDED." Following the refunding of such portion of the Series 2013 Bonds, $134,835,000 aggregate principal amount of Series 2013 Bonds will remain outstanding under the Indenture.

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ESTIMATED SOURCES AND USES OF FUNDS

Estimated sources and uses of funds are as follows:

Sources of Funds:

Principal Amount:	$43,630,000.00
Original Issue Premium:	5,062,962.60
Other Available Funds:	276,520.57
Total Sources	$48,969,483.17

Uses of Funds:

Refunding Deposit for Series 2013 Bonds to be Refunded:	$47,857,854.06
Costs of Issuance*:	811,392.65
Underwriter's Discount:	300,236.46
Total Uses	$48,969,483.17

*Includes legal fees, printing costs, rating fees and certain other expenses related to the issuance of the Series 2018 Bonds.

TABLES OF PROJECTED DEBT SERVICE COVERAGE

The following tables set forth the debt service requirements and projected debt service coverage for the Bonds based on the application of the Pledged TSRs Projection Methodology and Assumptions and the Bond Structuring Assumptions described herein under "PLEDGED TSRS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS". Further, the tables assume that the Series 2018 Bonds are not optionally redeemed prior to their stated maturity.

No assurance can be given that actual cigarette consumption in the U.S. will be as assumed, or that the other assumptions underlying the Pledged TSRs Projection Methodology and Assumptions, including the market shares of the OPMs and the SPMs, will be consistent with future events. If actual events deviate from one or more of the assumptions underlying the Pledged TSRs Projection Methodology and Assumptions and Bond Structuring Assumptions, the amount of Pledged TSRs available to the Authority to pay the principal of and interest on the Series 2018 Bonds could be adversely affected. See "RISK FACTORS" herein.

Projected Debt Service Coverage for the Bonds
3.910% Constant Annual Consumption Declines

Year	Projected Pledged TSRs[1]	Operating Expenses [1]	Net Revenues Available for Debt Service[2]	Series 2013 Bonds and Series 2018 Bonds Principal[3]	Interest	Debt Service	Account Earnings[1]	Net Debt Service	Debt Service Coverage[4]
2018	-	-	$4,457,875	-	$4,425,959	$4,425,959	($319,977)	$4,105,982	1.09x
2019	$41,224,864	($408,034)	40,816,830	$13,665,000	8,740,563	22,405,563	(639,954)	21,765,608	1.88x
2020	40,877,999	(420,275)	40,457,724	13,970,000	8,049,688	22,019,688	(639,954)	21,379,733	1.89x
2021	40,536,997	(432,883)	40,104,114	13,880,000	7,353,438	21,233,438	(639,954)	20,593,483	1.95x
2022	40,201,865	(445,870)	39,755,995	25,110,000	6,378,688	31,488,688	(639,954)	30,848,733	1.29x
2023	39,872,615	(459,246)	39,413,369	26,735,000	5,082,563	31,817,563	(639,954)	31,177,608	1.26x
2024	39,549,261	(473,023)	39,076,238	21,530,000	3,875,938	25,405,938	(639,954)	24,765,983	1.58x
2025	39,231,814	(487,214)	38,744,601	-	3,337,688	3,337,688	(639,954)	2,697,733	14.36x
2026	38,920,294	(501,830)	38,418,464	-	3,337,688	3,337,688	(639,954)	2,697,733	14.24x
2027	38,614,721	(516,885)	38,097,836	-	3,337,688	3,337,688	(639,954)	2,697,733	14.12x
2028	38,315,114	(532,392)	37,782,722	-	3,337,688	3,337,688	(639,954)	2,697,733	14.01x
2029	38,021,497	(548,363)	37,473,133	-	3,337,688	3,337,688	(639,954)	2,697,733	13.89x
2030	37,733,897	(564,814)	37,169,082	18,125,000	2,861,906	20,986,906	(639,954)	20,346,952	1.83x
2031	37,452,340	(581,759)	36,870,582	18,940,000	1,888,950	20,828,950	(639,954)	20,188,996	1.83x
2032	37,176,859	(599,212)	36,577,647	19,060,000	891,450	19,951,450	(639,954)	19,311,496	1.89x
2033	36,907,486	(617,188)	36,290,298	7,450,000	195,563	7,645,563	(319,977)	7,325,585	4.95x
Total	$584,637,624	($7,588,988)	$581,506,511	$178,465,000	$66,433,140	$244,898,140	($9,599,316)	$235,298,824	

(1) Based on application of the Pledged TSRs Projection Methodology and Assumptions described in "PLEDGED TSRS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" herein.

(2) Includes amounts on hand in the Debt Service Account and the Collections Account at closing.

(3) Excludes application of the Mandatory Clean Up Call.

(4) Debt Service Coverage equals Net Revenues Available for Debt Service divided by Net Debt Service.

Projected Debt Service Coverage for the Bonds
5.0% Constant Annual Consumption Declines

				Series 2013 Bonds and Series 2018 Bonds					
Year	Projected Pledged TSRs[1]	Operating Expenses [1]	Net Revenues Available for Debt Service[2]	Principal[3]	Interest	Debt Service	Account Earnings[1]	Net Debt Service	Debt Service Coverage[4]
2018	-	-	$4,457,875	-	$4,425,959	$4,425,959	($319,977)	$4,105,982	1.09x
2019	$40,778,814	($408,034)	40,370,780	$13,665,000	8,740,563	22,405,563	(639,954)	21,765,608	1.85x
2020	40,000,073	(420,275)	39,579,798	13,970,000	8,049,688	22,019,688	(639,954)	21,379,733	1.85x
2021	39,241,014	(432,883)	38,808,131	13,880,000	7,353,438	21,233,438	(639,954)	20,593,483	1.88x
2022	38,501,302	(445,870)	38,055,432	25,110,000	6,378,688	31,488,688	(639,954)	30,848,733	1.23x
2023	37,780,614	(459,246)	37,321,368	26,735,000	5,082,563	31,817,563	(639,954)	31,177,608	1.20x
2024	37,078,633	(473,023)	36,605,610	21,530,000	3,875,938	25,405,938	(639,954)	24,765,983	1.48x
2025	36,395,053	(487,214)	35,907,839	-	3,337,688	3,337,688	(639,954)	2,697,733	13.31x
2026	35,729,578	(501,830)	35,227,748	-	3,337,688	3,337,688	(639,954)	2,697,733	13.06x
2027	35,081,923	(516,885)	34,565,038	-	3,337,688	3,337,688	(639,954)	2,697,733	12.81x
2028	34,451,807	(532,392)	33,919,415	-	3,337,688	3,337,688	(639,954)	2,697,733	12.57x
2029	33,838,963	(548,363)	33,290,600	-	3,337,688	3,337,688	(639,954)	2,697,733	12.34x
2030	33,243,132	(564,814)	32,678,318	18,125,000	2,861,906	20,986,906	(639,954)	20,346,952	1.61x
2031	32,664,062	(581,759)	32,082,303	18,940,000	1,888,950	20,828,950	(639,954)	20,188,996	1.59x
2032	32,101,512	(599,212)	31,502,300	19,060,000	891,450	19,951,450	(639,954)	19,311,496	1.63x
2033	31,555,249	(617,188)	30,938,061	7,450,000	195,563	7,645,563	(319,977)	7,325,585	4.22x
Total	$538,441,730	($7,588,988)	$535,310,617	$178,465,000	$66,433,140	$244,898,140	($9,599,316)	$235,298,824	

(1) Based on application of the Pledged TSRs Projection Methodology and Assumptions described in "PLEDGED TSRS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" herein.

(2) Includes amounts on hand in the Debt Service Account and the Collections Account at closing.

(3) Excludes application of the Mandatory Clean Up Call.

(4) Debt Service Coverage equals Net Revenues Available for Debt Service divided by Net Debt Service.

Projected Debt Service Coverage for the Bonds
7.0% Constant Annual Consumption Declines

				Series 2013 Bonds and Series 2018 Bonds					
Year	Projected Pledged TSRs[1]	Operating Expenses [1]	Net Revenues Available for Debt Service[2]	Principal[3]	Interest	Debt Service	Account Earnings[1]	Net Debt Service	Debt Service Coverage[4]
2018	-	-	$4,457,875	-	$4,425,959	$4,425,959	($319,977)	$4,105,982	1.09x
2019	$39,960,375	($408,034)	39,552,341	$13,665,000	8,740,563	22,405,563	(639,954)	21,765,608	1.82x
2020	38,415,247	(420,275)	37,994,972	13,970,000	8,049,688	22,019,688	(639,954)	21,379,733	1.78x
2021	36,939,285	(432,883)	36,506,402	13,880,000	7,353,438	21,233,438	(639,954)	20,593,483	1.77x
2022	35,529,699	(445,870)	35,083,829	25,110,000	6,378,688	31,488,688	(639,954)	30,848,733	1.14x
2023	34,183,824	(459,246)	33,724,578	26,735,000	5,082,563	31,817,563	(639,954)	31,177,608	1.08x
2024	32,899,108	(473,023)	32,426,085	21,530,000	3,875,938	25,405,938	(639,954)	24,765,983	1.31x
2025	31,673,111	(487,214)	31,185,897	-	3,337,688	3,337,688	(639,954)	2,697,733	11.56x
2026	30,503,500	(501,830)	30,001,670	-	3,337,688	3,337,688	(639,954)	2,697,733	11.12x
2027	29,388,045	(516,885)	28,871,160	-	3,337,688	3,337,688	(639,954)	2,697,733	10.70x
2028	28,324,612	(532,392)	27,792,221	-	3,337,688	3,337,688	(639,954)	2,697,733	10.30x
2029	27,311,164	(548,363)	26,762,801	-	3,337,688	3,337,688	(639,954)	2,697,733	9.92x
2030	26,345,753	(564,814)	25,780,939	18,125,000	2,861,906	20,986,906	(639,954)	20,346,952	1.27x
2031	25,426,518	(581,759)	24,844,759	18,940,000	1,888,950	20,828,950	(639,954)	20,188,996	1.23x
2032	24,551,679	(599,212)	23,952,468	19,060,000	891,450	19,951,450	(639,954)	19,311,496	1.24x
2033	23,719,541	(617,188)	23,102,353	7,450,000	195,563	7,645,563	(319,977)	7,325,585	3.15x
Total	$465,171,462	($7,588,988)	$462,040,349	$178,465,000	$66,433,140	$244,898,140	($9,599,316)	$235,298,824	

(1) Based on application of the Pledged TSRs Projection Methodology and Assumptions described in "PLEDGED TSRS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" herein.

(2) Includes amounts on hand in the Debt Service Account and the Collections Account at closing.

(3) Excludes application of the Mandatory Clean Up Call.

(4) Debt Service Coverage equals Net Revenues Available for Debt Service divided by Net Debt Service.

Projected Debt Service Coverage for the Bonds
9.088% Constant Annual Consumption Declines

Year	Projected Pledged TSRs[1]	Operating Expenses [1]	Net Revenues Available for Debt Service[2]	Series 2013 Bonds and Series 2018 Bonds					Debt Service Coverage[4]
				Principal[3]	Interest	Debt Service	Account Earnings[1]	Net Debt Service	
2018	-	-	$4,457,875	-	$4,425,959	$4,425,959	($319,977)	$4,105,982	1.09x
2019	$39,105,925	($408,034)	38,697,891	$13,665,000	8,740,563	22,405,563	(639,954)	21,765,608	1.78x
2020	36,796,667	(420,275)	36,376,392	13,970,000	8,049,688	22,019,688	(639,954)	21,379,733	1.70x
2021	34,639,636	(432,883)	34,206,753	13,880,000	7,353,438	21,233,438	(639,954)	20,593,483	1.66x
2022	32,625,310	(445,870)	32,179,440	25,110,000	6,378,688	31,488,688	(639,954)	30,848,733	1.04x
2023	30,744,777	(459,246)	30,285,531	26,735,000	5,082,563	31,817,563	(639,954)	31,177,608	0.97x
2024	28,989,698	(473,023)	28,516,675	21,530,000	3,875,938	25,405,938	(639,954)	24,765,983	1.15x
2025	27,352,267	(487,214)	26,865,053	-	3,337,688	3,337,688	(639,954)	2,697,733	9.96x
2026	25,825,182	(501,830)	25,323,352	-	3,337,688	3,337,688	(639,954)	2,697,733	9.39x
2027	24,401,611	(516,885)	23,884,726	-	3,337,688	3,337,688	(639,954)	2,697,733	8.85x
2028	23,075,160	(532,392)	22,542,768	-	3,337,688	3,337,688	(639,954)	2,697,733	8.36x
2029	21,839,849	(548,363)	21,291,485	-	3,337,688	3,337,688	(639,954)	2,697,733	7.89x
2030	20,690,084	(564,814)	20,125,270	18,125,000	2,861,906	20,986,906	(639,954)	20,346,952	0.99x
2031	19,620,634	(581,759)	19,038,875	18,940,000	1,888,950	20,828,950	(639,954)	20,188,996	0.94x
2032	18,626,604	(599,212)	18,027,393	19,060,000	891,450	19,951,450	(639,954)	19,311,496	0.93x
2033	17,703,421	(617,188)	17,086,233	7,450,000	195,563	7,645,563	(319,977)	7,325,585	2.33x
Total	$402,036,824	($7,588,988)	$398,905,711	$178,465,000	$66,433,140	$244,898,140	($9,599,316)	$235,298,824	

(1) Based on application of the Pledged TSRs Projection Methodology and Assumptions described in "PLEDGED TSRS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" herein.

(2) Includes amounts on hand in the Debt Service Account and the Collections Account at closing.

(3) Excludes application of the Mandatory Clean Up Call.

(4) Debt Service Coverage equals Net Revenues Available for Debt Service divided by Net Debt Service.

TABLES OF PROJECTED DEBT SERVICE

The following tables set forth the debt service requirements for the Bonds based on the application of the Pledged TSRs Projection Methodology and Assumptions and the Bond Structuring Assumptions described herein under "PLEDGED TSRS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS". Further, the tables assume that the Series 2018 Bonds are optionally redeemed annually prior to their stated maturity from amounts available in the Surplus Account.

No assurance can be given that actual cigarette consumption in the U.S. will be as assumed, or that the other assumptions underlying the Pledged TSRs Projection Methodology and Assumptions, including the market shares of the OPMs and the SPMs, will be consistent with future events. If actual events deviate from one or more of the assumptions underlying the Pledged TSRs Projection Methodology and Assumptions and Bond Structuring Assumptions, the amount of Pledged TSRs available to the Authority to pay the principal of and interest on the Series 2018 Bonds could be adversely affected. See "RISK FACTORS" herein.

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Projected Debt Service for the Bonds
3.910% Constant Annual Consumption Declines

Year	Projected Net Revenues Available for Debt Service[(1)(2)]	Series 2013 Bonds Principal: Non-Callable Serial Bonds	Series 2013 Bonds Principal: Callable Serial Bonds[(3)]	Series 2018 Bonds Principal: Non-Callable Serial Bonds	Series 2018 Bonds Principal: Callable Serial Bonds[(3)]	Interest	Account Earnings and Debt Service Reserve Account Draws[(1)(3)]	Total Net Debt Service	Surplus Account Balance
2018	$4,457,875	-	-	-	-	$4,425,959	($319,977)	$4,105,982	$351,893
2019	40,816,830	$13,665,000	$18,125,000	-	-	8,264,781	(639,954)	39,414,827	1,753,896
2020	40,457,724	13,970,000	18,940,000	-	-	6,600,950	(639,954)	38,870,996	3,340,625
2021	40,104,114	13,880,000	19,060,000	-	-	4,907,200	(639,954)	37,207,246	6,237,493
2022	39,755,995	14,510,000	7,450,000	10,600,000	-	3,236,563	(639,954)	35,156,608	10,836,880
2023	39,413,369	15,235,000	-	11,500,000	21,530,000	1,206,625	(32,317,697)	17,153,928	33,096,321
2024	39,549,261	-	-	-	-	-	-	-	N/A
2025	39,231,814	-	-	-	-	-	-	-	N/A
2026	38,920,294	-	-	-	-	-	-	-	N/A
2027	38,614,721	-	-	-	-	-	-	-	N/A
2028	38,315,114	-	-	-	-	-	-	-	N/A
2029	38,021,497	-	-	-	-	-	-	-	N/A
2030	37,733,897	-	-	-	-	-	-	-	N/A
2031	37,452,340	-	-	-	-	-	-	-	N/A
2032	37,176,859	-	-	-	-	-	-	-	N/A
2033	36,907,486	-	-	-	-	-	-	-	N/A
Total	$586,929,191	$71,260,000	$63,575,000	$22,100,000	$21,530,000	$28,642,078	($35,197,491)	$171,909,586	

(1) Based on application of the Pledged TSRs Projection Methodology and Assumptions described in "PLEDGED TSRS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" herein.

(2) Includes amounts on hand in the Debt Service Account and the Collections Account at closing.

(3) Reflects application of the Mandatory Clean Up Call.

Projected Debt Service for the Bonds
5.0% Constant Annual Consumption Declines

Year	Projected Net Revenues Available for Debt Service[1][2]	Series 2013 Bonds Principal: Non-Callable Serial Bonds	Series 2013 Bonds Principal: Callable Serial Bonds[3]	Series 2018 Bonds Principal: Non-Callable Serial Bonds	Series 2018 Bonds Principal: Callable Serial Bonds[3]	Interest	Account Earnings and Debt Service Reserve Account Draws[1][3]	Total Net Debt Service	Surplus Account Balance
2018	$4,457,875	-	-	-	-	$4,425,959	($319,977)	$4,105,982	$351,893
2019	40,370,780	$13,665,000	$18,125,000	-	-	8,264,781	(639,954)	39,414,827	1,307,847
2020	39,579,798	13,970,000	18,940,000	-	-	6,600,950	(639,954)	38,870,996	2,016,649
2021	38,808,131	13,880,000	19,060,000	-	-	4,907,200	(639,954)	37,207,246	3,617,534
2022	38,055,432	14,510,000	7,450,000	10,600,000	-	3,236,563	(639,954)	35,156,608	6,516,358
2023	37,321,368	15,235,000	-	11,500,000	21,530,000	1,206,625	(32,317,697)	17,153,928	26,683,798
2024	37,078,633	-	-	-	-	-	-	-	N/A
2025	36,395,053	-	-	-	-	-	-	-	N/A
2026	35,729,578	-	-	-	-	-	-	-	N/A
2027	35,081,923	-	-	-	-	-	-	-	N/A
2028	34,451,807	-	-	-	-	-	-	-	N/A
2029	33,838,963	-	-	-	-	-	-	-	N/A
2030	33,243,132	-	-	-	-	-	-	-	N/A
2031	32,664,062	-	-	-	-	-	-	-	N/A
2032	32,101,512	-	-	-	-	-	-	-	N/A
2033	31,555,249	-	-	-	-	-	-	-	N/A
Total	$540,733,298	$71,260,000	$63,575,000	$22,100,000	$21,530,000	$28,642,078	($35,197,491)	$171,909,586	

(1) Based on application of the Pledged TSR Projection Methodology and Assumptions described in "PLEDGED TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" herein.
(2) Includes amounts on hand in the Debt Service Account and the Collections Account at closing.
(3) Reflects application of the Mandatory Clean Up Call.

Projected Debt Service for the Bonds
7.0% Constant Annual Consumption Declines

Year	Projected Net Revenues Available for Debt Service[(1)(2)]	Series 2013 Bonds Principal: Non-Callable Serial Bonds	Series 2013 Bonds Principal: Callable Serial Bonds[(3)]	Series 2018 Bonds Principal: Non-Callable Serial Bonds	Series 2018 Bonds Principal: Callable Serial Bonds[(3)]	Interest	Account Earnings and Debt Service Reserve Account Draws[(1)(3)]	Total Net Debt Service	Surplus Account Balance
2018	$4,457,875	-	-	-	-	$4,425,959	($319,977)	$4,105,982	$351,893
2019	39,552,341	$13,665,000	$18,125,000	-	-	8,264,781	(639,954)	39,414,827	489,407
2020	37,994,972	13,970,000	18,540,000	-	-	6,611,450	(639,954)	38,481,496	2,884
2021	36,506,402	13,880,000	18,320,000	-	-	4,947,625	(639,954)	36,507,671	1,615
2022	35,083,829	14,510,000	7,315,000	10,600,000	-	3,299,956	(639,954)	35,085,002	442
2023	33,724,578	15,235,000	1,275,000	11,500,000	21,530,000	1,240,094	(32,317,697)	18,462,397	15,262,623
2024	32,899,108	-	-	-	-	-	-	-	N/A
2025	31,673,111	-	-	-	-	-	-	-	N/A
2026	30,503,500	-	-	-	-	-	-	-	N/A
2027	29,388,045	-	-	-	-	-	-	-	N/A
2028	28,324,612	-	-	-	-	-	-	-	N/A
2029	27,311,164	-	-	-	-	-	-	-	N/A
2030	26,345,753	-	-	-	-	-	-	-	N/A
2031	25,426,518	-	-	-	-	-	-	-	N/A
2032	24,551,679	-	-	-	-	-	-	-	N/A
2033	23,719,541	-	-	-	-	-	-	-	N/A
Total	$467,463,029	$71,260,000	$63,575,000	$22,100,000	$21,530,000	$28,789,865	($35,197,491)	$172,057,374	

(1) Based on application of the Pledged TSR Projection Methodology and Assumptions described in "PLEDGED TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" herein.
(2) Includes amounts on hand in the Debt Service Account and the Collections Account at closing.
(3) Reflects application of the Mandatory Clean Up Call.

Projected Debt Service for the Bonds
9.088% Constant Annual Consumption Declines

Year	Projected Net Revenues Available for Debt Service[1][2]	Series 2013 Bonds Principal: Non-Callable Serial Bonds	Series 2013 Bonds Principal: Callable Serial Bonds[3]	Series 2018 Bonds Principal: Non-Callable Serial Bonds	Series 2018 Bonds Principal: Callable Serial Bonds[3]	Interest	Account Earnings and Debt Service Reserve Account Draws[1][3]	Total Net Debt Service	Surplus Account Balance
2018	$4,457,875	-	-	-	-	$4,425,959	($319,977)	$4,105,982	$351,893
2019	38,697,891	$13,665,000	$17,750,000	-	-	8,274,625	(639,954)	39,049,671	113
2020	36,376,392	13,970,000	16,355,000	-	-	6,688,494	(639,954)	36,373,539	2,966
2021	34,206,753	13,880,000	15,820,000	-	-	5,147,650	(639,954)	34,207,696	2,023
2022	32,179,440	14,510,000	4,060,000	10,600,000	-	3,651,050	(639,954)	32,181,096	367
2023	30,285,531	15,235,000	9,590,000	11,500,000	21,530,000	1,458,363	(32,317,697)	26,995,666	3,290,233
2024	28,989,698	-	-	-	-	-	-	-	N/A
2025	27,352,267	-	-	-	-	-	-	-	N/A
2026	25,825,182	-	-	-	-	-	-	-	N/A
2027	24,401,611	-	-	-	-	-	-	-	N/A
2028	23,075,160	-	-	-	-	-	-	-	N/A
2029	21,839,849	-	-	-	-	-	-	-	N/A
2030	20,690,084	-	-	-	-	-	-	-	N/A
2031	19,620,634	-	-	-	-	-	-	-	N/A
2032	18,626,604	-	-	-	-	-	-	-	N/A
2033	17,703,421	-	-	-	-	-	-	-	N/A
Total	$404,328,391	$71,260,000	$63,575,000	$22,100,000	$21,530,000	$29,646,140	($35,197,491)	$172,913,649	

(1) Based on application of the Pledged TSR Projection Methodology and Assumptions described in "PLEDGED TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" herein.

(2) Includes amounts on hand in the Debt Service Account and the Collections Account at closing.

(3) Reflects application of the Mandatory Clean Up Call.

BREAKEVEN CONSUMPTION AND REVENUE DECLINE RATES BY MATURITY

The following table sets forth the "breakeven" annual rate of consumption decline at which each maturity of the Bonds would be paid in full at maturity.

The table below assumes that Pledged TSRs are received based on the application of the Pledged TSRs Projection Methodology and Assumptions and the Bond Structuring Assumptions described herein under "PLEDGED TSRS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" with the exception that the Volume Adjustment utilizes the "breakeven" assumption for cigarette consumption in the U.S. as described in the table. Further, the table assumes that the Series 2018 Bonds are not optionally redeemed prior to their maturity.

No assurance can be given that actual cigarette consumption in the U.S. will be as assumed, or that the other assumptions underlying the Pledged TSRs Projection Methodology and Assumptions, including the market shares of the OPMs and the SPMs, will be consistent with future events. If actual events deviate from one or more of the assumptions underlying the Pledged TSRs Projection Methodology and Assumptions and Bond Structuring Assumptions, the amount of Pledged TSRs available to the Authority to pay the principal of and interest on the Series 2018 Bonds could be adversely affected. See "RISK FACTORS" herein.

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Breakeven Consumption Decline Rates By Maturity [(1)(2)]

	Maturity Date	Principal	Type	Maximum Consumption Declines
Series 2013 Bonds:	6/1/2019	$13,665,000	Serial	-100.00%
	6/1/2020	13,970,000	Serial	-90.00%
	6/1/2021	13,880,000	Serial	-62.05%
	6/1/2022	14,510,000	Serial	-38.09%
	6/1/2023	15,235,000	Serial	-25.57%
	6/1/2024	-	N/A	N/A
	6/1/2025	-	N/A	N/A
	6/1/2026	-	N/A	N/A
	6/1/2027	-	N/A	N/A
	6/1/2028	-	N/A	N/A
	6/1/2029	-	N/A	N/A
	6/1/2030	18,125,000	Serial	-23.77%
	6/1/2031	18,940,000	Serial	-19.75%
	6/1/2032	19,060,000	Serial	-19.75%
	6/1/2033	7,450,000	Serial	-19.75%
	TOTAL	$134,835,000		
Series 2018 Bonds:	6/1/2022	$10,600,000	Serial	-37.98%
	6/1/2023	11,500,000	Serial	-25.49%
	6/1/2024	21,530,000	Serial	-19.65%
	TOTAL	$43,630,000		

(1) Assumes the Liquidity Reserve Account is used to pay debt service on or prior to maturity of each Bond without a payment default.

(2) With the exception that the Volume Adjustment utilizes the above listed annual declines in cigarette consumption for 2018 and in each year thereafter, the table assumes that Pledged TSRs are received based on the application of the Pledged TSRs Projection Methodology and Assumptions and the Bonds Structuring Assumptions described herein under "PLEDGED TSRS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS".

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PLEDGED TSRS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS

Introduction

The following discussion describes the methodology and assumptions used to project the amount of Pledged TSRs to be received by the Authority (the "**Pledged TSRs Projection Methodology and Assumptions**") as well as the methodology and assumptions used to calculate debt service coverage on the Bonds (the "**Bond Structuring Assumptions**").

The assumptions set forth herein are only assumptions and no guarantee can be made as to the ultimate outcome of certain events assumed herein. Actual results will differ from those assumed, and any such difference could have a material effect on the receipt of Pledged TSRs. See "RISK FACTORS" and "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT – Adjustments to Payments" herein. The discussions are followed by a table of projected Pledged TSRs to be received by the Indenture Trustee.

In projecting the amount of Pledged TSRs, an assumed number of cigarettes shipped in and to the U.S., the District of Columbia and Puerto Rico is used to calculate Annual Payments to be made by the PMs pursuant to the MSA. The calculation of payments required to be made was performed in accordance with the terms of the MSA; however, as described below, certain further assumptions were made with respect to shipments of cigarettes in the U.S. and the applicability to such payments of certain adjustments and offsets set forth in the MSA. Such further assumptions may differ materially from the actual information utilized by the MSA Auditor in calculating payments due under the MSA.

It was assumed, among other things described below, that:

- the PMs make all payments required to be made by them pursuant to the MSA,
- the aggregate Market Share of the OPMs remains constant through 2033 at 83.98874%, based on the NAAG-reported market share for OPMs in sales year 2017 (measuring roll-your-own shipments at 0.0325 ounces per cigarette conversion rate), and
- the aggregate Market Share of the SPMs remains constant at 9.12574%, based on the NAAG-reported market share for SPMs in sales year 2017 (measuring roll-your-own shipments at 0.09 ounces per cigarette conversion rate).

Pledged TSRs Projection Methodology and Assumptions

Cigarette Shipments under the MSA

The number of cigarettes shipped in and to the U.S., the District of Columbia and Puerto Rico as reported by NAAG (measuring roll-your-own cigarettes at 0.0325 ounces per cigarette conversion rate, or "**Domestic Cigarette Shipments**") are assumed to decline at a constant annual rate from the amount shipped in sales year 2017 (248,544,765,996). Several scenarios of constant annual rates of decline have been assumed, including 3.910% (the average annual rate of decline of Domestic Cigarette Shipments from 2008 through 2017), 5.0%, 7.0% and 9.088% (the maximum annual rate of decline of Domestic Cigarette Shipments from 2008 through 2017). See "RISK FACTORS – Structuring Assumptions Not Based on Expert Econometric Forecast" herein.

Annual Payments

In accordance with the Pledged TSRs Projection Methodology and Assumptions, the anticipated amounts of Annual Payments for the years 2019-2033 to be made by the OPMs were calculated by applying the adjustments applicable to the base amounts of Annual Payments set out in the MSA, in order, as described below. The anticipated amounts of Annual Payments for the years 2019-2033 to be made by the SPMs were calculated by (i) multiplying the base amounts of Annual Payments by the Adjusted SPM Market Share (as described below) and (ii) then applying the adjustments applicable to the Annual Payments for SPMs set out in the MSA, in order, as described below.

Inflation Adjustment. First, the Inflation Adjustment was applied to the schedule of base amounts for the Annual Payments set forth in the MSA. The inflation adjustment rate is compounded annually at the greater of 3.0% or the percentage increase in the actual Consumer Price Index for all Urban Consumers ("**CPI-U**") in the prior calendar year as published by the Bureau of Labor Statistics (released each January). The calculations of Annual Payments for the years 2019-2033 assumes the minimum Inflation Adjustment Percentage provided in the MSA of 3.0% in every year since inception, except for calendar years 2000, 2004, 2005, and 2007 where the actual percentage increases in CPI-U of approximately 3.387%, 3.256%, 3.416%, and 4.081%, respectively, were used. Thereafter, the annual Inflation Adjustment Percentage was assumed to be the 3.0% minimum provided in the MSA. See "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Adjustments to Payments–*Inflation Adjustment*" for a description of the formula used to calculate the Inflation Adjustment.

Volume Adjustment. Next, the Annual Payments calculated for the years 2019-2033 in each case after application of the Inflation Adjustment were adjusted for the Volume Adjustment by multiplying the number of Domestic Cigarette Shipments by the assumed aggregate OPM Market Share of the OPMs (83.98874% as described above) in order to calculate the Actual Volume for each year. No add-back or benefit was assumed from any Income Adjustment. See "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Adjustments to Payments–*Volume Adjustment*" for a description of the formula used to calculate the Volume Adjustment.

Previously Settled States Reduction. Next, amounts calculated for each year after application of the Inflation Adjustment and the Volume Adjustment were reduced by the Previously Settled States Reduction, which applies only to the payments owed by the OPMs. The Previously Settled States Reduction is not applicable to Annual Payments owed by the SPMs. The Previously Settled States Reduction is 11.0666667% for each year.

Non-Settling States Reduction. The Non-Settling States Reduction was not applied to the Annual Payments because such reduction has no effect on the amount of payments to be received by states that remain parties to the MSA. Thus, the Pledged TSRs Projection Methodology and Assumptions include an assumption that the State will remain a party to the MSA.

NPM Adjustment. Pursuant to the MSA, the NPM Adjustment will not apply to the Annual Payments payable to any state that enacts and diligently enforces a Qualifying Statute so long as such statute is not held to be unenforceable. The PMs have disputed Annual Payments attributable to sales years 2003 through 2017 and a portion of such payments have either been withheld or deposited in the Disputed Payments Account in each year since 2006. See "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Payments Made to Date." The Bond Structuring Assumptions assume that the State has diligently enforced and will diligently enforce a Qualifying Statute that is not held to be unenforceable. Therefore, the NPM Adjustment is assumed not to reduce Annual Payments. For a discussion of the State's Qualifying Statute, see "STATE LAWS RELATED TO THE MSA."

Offset for Miscalculated or Disputed Payments. The Pledged TSRs Projection Methodology and Assumptions include an assumption that there will be no adjustments to the Annual Payments due to miscalculated or disputed payments.

Litigating Releasing Parties Offset. The Pledged TSRs Projection Methodology and Assumptions include an assumption that the Litigating Releasing Parties Offset will have no effect on payments.

Offset for Claims-Over. The Pledged TSRs Projection Methodology and Assumptions include an assumption that the Offset for Claims-Over will have no effect on payments.

Subsequent Participating Manufacturers. The Pledged TSRs Projection Methodology and Assumptions treat the SPMs as a single manufacturer having executed the MSA on or prior to February 22, 1998 for purposes of calculating Annual Payments under Section IX(i) of the MSA. Further, the Market Share (as defined in the MSA) of the SPMs remains constant at 9.12574% (measuring roll your own cigarettes at 0.09 ounces per cigarette conversion rate) as described above. Because the 9.12574% Market Share exceeds the greater of (i) the SPM's 1998 Market Share or (ii) 125% of its 1997 Market Share, the SPMs are assumed to make Annual Payments in each year. For purposes of calculating Annual Payments owed by the SPMs, their aggregate adjusted Market Share ("**Adjusted SPM Market Share**") is equal to (y) the SPM Market Share (assumed at 9.12574%) less the Base Share (assumed at 3.48818%) divided by (z) the aggregate Market Share of the OPMs at 84.18047% (measuring roll your own cigarettes at 0.09 ounces per cigarette conversion rate), or 6.69699%.

Projection of Pledged TSRs to be Received by the Indenture Trustee

The following tables show the projections of total Pledged TSRs to be received by the Indenture Trustee through the year 2033, calculated in accordance with the Pledged TSRs Projection Methodology and Assumptions.

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Projections of Pledged TSRs to be Received by the Indenture Trustee
3.910% Constant Annual Consumption Declines

Sales Year	Payment Year	Consumption Decline Assumption	Cigarette Consumption	Estimated OPM Consumption	Base Annual Payment	Inflation Adjustment	Volume Adjustment	Previously Settled States Reduction	Total Adjusted Annual Payments by OPMs	Pledged TSR Allocation	OPM Annual Payments	SPM Annual Payments	Total Annual Payments to Trustee
2018	2019	-3.910%	238,826,665,646	200,587,507,260	$9,000,000,000	$7,594,937,100	($9,404,799,789)	($795,708,531)	$6,394,428,779	0.5995514%	$38,337,887	$2,886,977	$41,224,864
2019	2020	-3.910%	229,488,543,019	192,744,535,726	9,000,000,000	8,092,785,600	(9,963,145,850)	(789,013,468)	6,340,626,282	0.5995514%	38,015,313	2,862,686	40,877,999
2020	2021	-3.910%	220,515,540,987	185,208,224,379	9,000,000,000	8,605,569,600	(10,535,404,911)	(782,431,561)	6,287,733,128	0.5995514%	37,698,192	2,838,806	40,536,997
2021	2022	-3.910%	211,893,383,334	177,966,582,806	9,000,000,000	9,133,736,400	(11,122,023,042)	(775,962,947)	6,235,750,411	0.5995514%	37,386,529	2,815,336	40,201,865
2022	2023	-3.910%	203,608,352,046	171,008,089,418	9,000,000,000	9,677,748,600	(11,723,460,534)	(769,607,882)	6,184,680,185	0.5995514%	37,080,336	2,792,279	39,872,615
2023	2024	-3.910%	195,647,265,481	164,321,673,122	9,000,000,000	10,238,081,400	(12,340,190,433)	(763,366,603)	6,134,524,364	0.5995514%	36,779,626	2,769,634	39,549,261
2024	2025	-3.910%	187,997,457,401	157,896,695,703	9,000,000,000	10,815,223,500	(12,972,699,180)	(757,239,360)	6,085,284,960	0.5995514%	36,484,411	2,747,404	39,231,814
2025	2026	-3.910%	180,646,756,816	151,722,934,901	9,000,000,000	11,409,679,800	(13,621,488,497)	(751,226,506)	6,036,964,796	0.5995514%	36,194,707	2,725,588	38,920,294
2026	2027	-3.910%	173,583,468,625	145,790,568,146	9,000,000,000	12,021,970,500	(14,287,075,008)	(745,328,437)	5,989,567,056	0.5995514%	35,910,533	2,704,189	38,614,721
2027	2028	-3.910%	166,796,355,001	140,090,156,932	9,000,000,000	12,652,629,300	(14,969,989,130)	(739,545,514)	5,943,094,656	0.5995514%	35,631,907	2,683,207	38,315,114
2028	2029	-3.910%	160,274,617,521	134,612,631,796	9,000,000,000	13,302,207,900	(15,670,778,249)	(733,878,217)	5,897,551,434	0.5995514%	35,358,852	2,662,645	38,021,497
2029	2030	-3.910%	154,007,879,976	129,349,277,892	9,000,000,000	13,971,274,200	(16,390,005,671)	(728,327,053)	5,852,941,476	0.5995514%	35,091,392	2,642,504	37,733,897
2030	2031	-3.910%	147,986,171,869	124,291,721,127	9,000,000,000	14,660,412,300	(17,128,250,735)	(722,892,549)	5,809,269,016	0.5995514%	34,829,553	2,622,787	37,452,340
2031	2032	-3.910%	142,199,912,549	119,431,914,831	9,000,000,000	15,370,224,300	(17,886,110,213)	(717,575,294)	5,766,538,792	0.5995514%	34,573,364	2,603,495	37,176,859
2032	2033	-3.910%	136,639,895,968	114,762,126,961	9,000,000,000	16,101,331,200	(18,664,199,132)	(712,375,951)	5,724,756,117	0.5995514%	34,322,855	2,584,631	36,907,486

Projections of Pledged TSRs to be Received by the Indenture Trustee
5.0% Constant Annual Consumption Declines

Sales Year	Payment Year	Consumption Decline Assumption	Cigarette Consumption	Estimated OPM Consumption	Base Annual Payment	Inflation Adjustment	Volume Adjustment	Previously Settled States Reduction	Total Adjusted Annual Payments by OPMs	Pledged TSR Allocation	OPM Annual Payments	SPM Annual Payments	Total Annual Payments to Trustee
2018	2019	-5.000%	236,117,527,696	198,312,136,431	$9,000,000,000	$7,594,937,100	($9,482,596,439)	($787,099,036)	$6,325,241,626	0.5995514%	$37,923,074	$2,855,740	$40,778,814
2019	2020	-5.000%	224,311,651,311	188,396,529,610	9,000,000,000	8,092,785,600	(10,116,267,320)	(772,068,025)	6,204,450,255	0.5995514%	37,198,868	2,801,205	40,000,073
2020	2021	-5.000%	213,096,068,746	178,976,703,129	9,000,000,000	8,605,569,600	(10,761,440,726)	(757,416,931)	6,086,711,943	0.5995514%	36,492,966	2,748,048	39,241,014
2021	2022	-5.000%	202,441,265,309	170,027,867,973	9,000,000,000	9,133,736,400	(11,418,622,666)	(743,139,255)	5,971,974,478	0.5995514%	35,805,056	2,696,246	38,501,302
2022	2023	-5.000%	192,319,202,043	161,526,474,574	9,000,000,000	9,677,748,600	(12,088,332,025)	(729,228,770)	5,860,187,805	0.5995514%	35,134,838	2,645,776	37,780,614
2023	2024	-5.000%	182,703,241,941	153,450,150,845	9,000,000,000	10,238,081,400	(12,771,099,085)	(715,679,378)	5,751,302,936	0.5995514%	34,482,017	2,596,616	37,078,633
2024	2025	-5.000%	173,568,079,844	145,777,643,303	9,000,000,000	10,815,223,500	(13,467,466,191)	(702,485,144)	5,645,272,165	0.5995514%	33,846,308	2,548,745	36,395,053
2025	2026	-5.000%	164,889,675,852	138,488,761,138	9,000,000,000	11,409,679,800	(14,177,989,716)	(689,640,371)	5,542,049,712	0.5995514%	33,227,436	2,502,142	35,729,578
2026	2027	-5.000%	156,645,192,059	131,564,323,081	9,000,000,000	12,021,970,500	(14,903,239,694)	(677,139,545)	5,441,591,261	0.5995514%	32,625,136	2,456,787	35,081,923
2027	2028	-5.000%	148,812,932,456	124,986,106,927	9,000,000,000	12,652,629,300	(15,643,798,664)	(664,977,259)	5,343,853,377	0.5995514%	32,039,147	2,412,660	34,451,807
2028	2029	-5.000%	141,372,285,833	118,736,801,581	9,000,000,000	13,302,207,900	(16,400,264,988)	(653,148,351)	5,248,794,561	0.5995514%	31,469,221	2,369,742	33,838,963
2029	2030	-5.000%	134,303,671,542	112,799,961,502	9,000,000,000	13,971,274,200	(17,173,251,771)	(641,647,817)	5,156,374,612	0.5995514%	30,915,116	2,328,016	33,243,132
2030	2031	-5.000%	127,588,487,965	107,159,963,427	9,000,000,000	14,660,412,300	(17,963,386,971)	(630,470,805)	5,066,554,524	0.5995514%	30,376,598	2,287,464	32,664,062
2031	2032	-5.000%	121,209,063,566	101,801,965,255	9,000,000,000	15,370,224,300	(18,771,314,876)	(619,612,645)	4,979,296,779	0.5995514%	29,853,443	2,248,069	32,101,512
2032	2033	-5.000%	115,148,610,388	96,711,866,992	9,000,000,000	16,101,331,200	(19,597,696,960)	(609,068,858)	4,894,565,382	0.5995514%	29,345,435	2,209,814	31,555,249

Projections of Pledged TSRs to be Received by the Indenture Trustee
7.0% Constant Annual Consumption Declines

Sales Year	Payment Year	Consumption Decline Assumption	Cigarette Consumption	Estimated OPM Consumption	Base Annual Payment	Inflation Adjustment	Volume Adjustment	Previously Settled States Reduction	Total Adjusted Annual Payments by OPMs	Pledged TSR Allocation	OPM Annual Payments	SPM Annual Payments	Total Annual Payments to Trustee
2018	2019	-7.000%	231,146,632,376	194,137,144,085	$9,000,000,000	$7,594,937,100	($9,625,342,584)	($771,301,795)	$6,198,292,720	0.5995514%	$37,161,950	$2,798,425	$39,960,375
2019	2020	-7.000%	214,966,368,110	180,547,543,999	9,000,000,000	8,092,785,600	(10,392,680,962)	(741,478,249)	5,958,626,389	0.5995514%	35,725,028	2,690,219	38,415,247
2020	2021	-7.000%	199,918,722,342	167,909,215,919	9,000,000,000	8,605,569,600	(11,162,891,413)	(712,989,722)	5,729,688,466	0.5995514%	34,352,427	2,586,858	36,939,285
2021	2022	-7.000%	185,924,411,778	156,155,570,805	9,000,000,000	9,133,736,400	(11,936,907,831)	(685,782,364)	5,511,046,205	0.5995514%	33,041,554	2,488,144	35,529,699
2022	2023	-7.000%	172,909,702,954	145,224,680,849	9,000,000,000	9,677,748,600	(12,715,657,632)	(659,804,736)	5,302,286,232	0.5995514%	31,789,931	2,393,893	34,183,824
2023	2024	-7.000%	160,806,023,747	135,058,953,189	9,000,000,000	10,238,081,400	(13,500,061,046)	(635,007,588)	5,103,012,766	0.5995514%	30,595,184	2,303,924	32,899,108
2024	2025	-7.000%	149,549,602,085	125,604,826,466	9,000,000,000	10,815,223,500	(14,291,032,585)	(611,343,796)	4,912,847,119	0.5995514%	29,455,043	2,218,068	31,673,111
2025	2026	-7.000%	139,081,129,939	116,812,488,613	9,000,000,000	11,409,679,800	(15,089,483,876)	(588,768,351)	4,731,427,574	0.5995514%	28,367,340	2,136,160	30,503,500
2026	2027	-7.000%	129,345,450,843	108,635,614,410	9,000,000,000	12,021,970,500	(15,896,323,991)	(567,238,215)	4,558,408,293	0.5995514%	27,330,000	2,058,045	29,388,045
2027	2028	-7.000%	120,291,269,284	101,031,121,402	9,000,000,000	12,652,629,300	(16,712,458,900)	(546,712,193)	4,393,458,208	0.5995514%	26,341,040	1,983,572	28,324,612
2028	2029	-7.000%	111,870,880,434	93,958,942,904	9,000,000,000	13,302,207,900	(17,538,795,642)	(527,150,958)	4,236,261,300	0.5995514%	25,398,564	1,912,601	27,311,164
2029	2030	-7.000%	104,039,918,804	87,381,816,900	9,000,000,000	13,971,274,200	(18,376,241,801)	(508,516,920)	4,086,515,478	0.5995514%	24,500,761	1,844,993	26,345,753
2030	2031	-7.000%	96,757,124,488	81,265,089,717	9,000,000,000	14,660,412,300	(19,225,706,212)	(490,774,142)	3,943,931,947	0.5995514%	23,645,899	1,780,619	25,426,518
2031	2032	-7.000%	89,984,125,773	75,576,533,437	9,000,000,000	15,370,224,300	(20,088,101,088)	(473,888,304)	3,808,234,908	0.5995514%	22,832,325	1,719,354	24,551,679
2032	2033	-7.000%	83,685,236,969	70,286,176,097	9,000,000,000	16,101,331,200	(20,964,343,484)	(457,826,642)	3,679,161,074	0.5995514%	22,058,462	1,661,079	23,719,541

Projections of Pledged TSRs to be Received by the Indenture Trustee

9.088% Constant Annual Consumption Declines

Sales Year	Payment Year	Consumption Decline Assumption	Cigarette Consumption	Estimated OPM Consumption	Base Annual Payment	Inflation Adjustment	Volume Adjustment	Previously Settled States Reduction	Total Adjusted Annual Payments by OPMs	Pledged TSR Allocation	OPM Annual Payments	SPM Annual Payments	Total Annual Payments to Trustee
2018	2019	-9.088%	225,957,017,662	189,778,452,076	$9,000,000,000	$7,594,937,100	($9,774,369,560)	($754,809,477)	$6,065,758,063	0.5995514%	$36,367,337	$2,738,588	$39,105,925
2019	2020	-9.088%	205,422,043,897	172,531,386,351	9,000,000,000	8,092,785,600	(10,674,981,816)	(710,236,954)	5,707,566,830	0.5995514%	34,219,797	2,576,870	36,796,667
2020	2021	-9.088%	186,753,288,548	156,851,733,960	9,000,000,000	8,605,569,600	(11,563,979,180)	(668,602,675)	5,372,987,745	0.5995514%	32,213,823	2,425,813	34,639,636
2021	2022	-9.088%	169,781,149,685	142,597,048,378	9,000,000,000	9,133,736,400	(12,443,470,007)	(629,722,816)	5,060,543,577	0.5995514%	30,340,560	2,284,750	32,625,310
2022	2023	-9.088%	154,351,438,801	129,637,828,621	9,000,000,000	9,677,748,600	(13,315,470,861)	(593,425,405)	4,768,852,334	0.5995514%	28,591,721	2,153,056	30,744,777
2023	2024	-9.088%	140,323,980,043	117,856,342,756	9,000,000,000	10,238,081,400	(14,181,911,618)	(559,549,458)	4,496,620,325	0.5995514%	26,959,550	2,030,148	28,989,698
2024	2025	-9.088%	127,571,336,737	107,145,558,326	9,000,000,000	10,815,223,500	(15,044,642,407)	(527,944,309)	4,242,636,784	0.5995514%	25,436,788	1,915,479	27,352,267
2025	2026	-9.088%	115,977,653,654	97,408,169,986	9,000,000,000	11,409,679,800	(15,905,441,651)	(498,469,023)	4,005,769,126	0.5995514%	24,016,645	1,808,537	25,825,182
2026	2027	-9.088%	105,437,604,490	88,555,715,497	9,000,000,000	12,021,970,500	(16,766,021,129)	(470,991,732)	3,784,957,639	0.5995514%	22,692,766	1,708,845	24,401,611
2027	2028	-9.088%	95,855,434,994	80,507,772,073	9,000,000,000	12,652,629,300	(17,628,029,786)	(445,389,014)	3,579,210,500	0.5995514%	21,459,206	1,615,953	23,075,160
2028	2029	-9.088%	87,144,093,062	73,191,225,747	9,000,000,000	13,302,207,900	(18,493,062,227)	(421,545,456)	3,387,600,218	0.5995514%	20,310,404	1,529,444	21,839,849
2029	2030	-9.088%	79,224,437,884	66,539,607,151	9,000,000,000	13,971,274,200	(19,362,661,972)	(399,353,088)	3,209,259,140	0.5995514%	19,241,158	1,448,926	20,690,084
2030	2031	-9.088%	72,024,520,969	60,492,487,653	9,000,000,000	14,660,412,300	(20,238,325,758)	(378,710,912)	3,043,375,631	0.5995514%	18,246,601	1,374,033	19,620,634
2031	2032	-9.088%	65,478,932,504	54,994,930,375	9,000,000,000	15,370,224,300	(21,121,509,092)	(359,524,484)	2,889,190,724	0.5995514%	17,322,183	1,304,421	18,626,604
2032	2033	-9.088%	59,528,207,118	49,996,991,103	9,000,000,000	16,101,331,200	(22,013,630,871)	(341,705,504)	2,745,994,825	0.5995514%	16,463,650	1,239,770	17,703,421

Bond Structuring Assumptions

Delivery Date

The Series 2018 Bonds are assumed to be delivered on June 20, 2018.

Issue Size

The objective in issuing the Series 2018 Bonds is to provide proceeds in an amount sufficient, after application of certain amounts available in the Debt Service Account and the Surplus Account, to: (1) refund a portion equal to $47,645,000 aggregate principal amount of the Series 2013 Bonds and (2) pay the costs of issuance of the Series 2018 Bonds.

Maturities

The schedules of stated maturity dates of the Series 2018 Bonds are set forth on the inside cover page hereof.

Series 2013 Bonds

$134,835,000 aggregate principal amount of Series 2013 Bonds will remain Outstanding under the Indenture after the issuance of the Series 2018 Bonds and the redemption of such portion of the Series 2013 Bonds described above.

Interest Rates

The Series 2018 Bonds bear interest at the rates shown on the inside cover page hereof. Interest is calculated on the basis of a 360-day year consisting of twelve 30-day months.

Collections Account

The Bond Structuring Assumptions assume that the Indenture Trustee will receive the Authority's share of the Annual Payments owed by the PMs ten days after April 15th in 2019 and each year thereafter. Additionally, $31,915.85 will be on deposit in the Collections Account on the Closing Date of the Series 2018 Bonds.

Debt Service Account

$4,425,959.03 will be on deposit in the Debt Service Account on the Closing Date of the Series 2018 Bonds.

Liquidity Reserve Account

The Liquidity Reserve Account will be fully funded on the Closing Date of the Series 2018 Bonds at the Liquidity Reserve Requirement of $31,997,719.44. It has been assumed that no surety, guaranty or similar agreement will be deposited in lieu of cash in the Liquidity Reserve Account.

Operating Expense Assumptions

Annual operating expenses of the Authority have been assumed at the Operating Cap limit, which is $408,033.92 for the Fiscal Year ending June 30, 2019 and is assumed to be inflated at 3% per year for each year thereafter. No operating expenses in excess of the annual Operating Cap are assumed.

Interest Earnings

Amounts on deposit in the Liquidity Reserve Account are assumed to be invested at a rate of 2.00% per annum. Amounts in all other Accounts under the Indenture are assumed to be invested at a rate of 0.00% per annum.

Miscellaneous

The Bond Structuring Assumptions assume that no Event of Default occurs, that no PM makes a Lump Sum Payment or Partial Lump Sum Payment under the MSA, that no Refunding Bonds are issued and that no amounts on deposit in the Surplus Account are used to purchase Series 2013 Bonds or Series 2018 Bonds in the open market. It is further assumed that all Distribution Dates occur on the first day of each June and December, whether or not such date is a Business Day.

RISK FACTORS

The Series 2018 Bonds differ from many other state and local governmental securities in a number of respects. Prospective investors should carefully consider the factors set forth below regarding an investment in the Series 2018 Bonds, as well as the other information contained in this Official Statement. One or a combination of the risk factors set forth below, and other risks, may materially adversely affect the ability of the Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full and could have a material adverse effect on the liquidity and/or market value of the Series 2018 Bonds.

The discussion of certain risks has been compiled from certain publicly available documents of the tobacco companies and their current or former parent companies, certain publicly available analyses of the tobacco industry and other public sources. Certain of those companies currently file annual, quarterly and certain other reports with the SEC. Such reports are available on the SEC's website (www.sec.gov) and upon request from the SEC's Investor Information Service, 100 F Street, NE, Washington, D.C. 20549 (phone: (800) SEC-0330 or (202) 551-8090; e-mail: publicinfo@sec.gov). To the extent that any risk discussed in this section describes the domestic tobacco industry and litigation relating thereto, the Authority does not warrant the accuracy or completeness of such information.

The list of risks set forth herein is not a complete list of the risks associated with the Pledged TSRs, nor does the order of presentation necessarily reflect the relative importance of the various and separate risks. Certain general categories of risks discussed below include, among others, payment decreases under the terms of the MSA, declines in cigarette consumption, litigation and bankruptcy. There can be no assurance that other risk factors will not become material in the future. See also "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT," and "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY". Additional risk factors are set forth in "LEGAL CONSIDERATIONS."

Payment Decreases Under the Terms of the MSA

Adjustments to MSA Payments

The MSA provides that the amounts payable by the PMs are subject to numerous adjustments, offsets and recalculations, some of which are material, including without limitation the NPM Adjustment discussed below. Any such adjustment could trigger the Offset for Miscalculated or Disputed Payments. See "—Disputed MSA Payments and Potential for Significant Future Year Offsets to MSA Payments" and "—NPM Adjustment" below for a description of disputes concerning MSA payments and the calculation

thereof, including pending arbitration regarding the 2004 NPM Adjustment. Any such adjustments, offsets and recalculations could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of the Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full.

An amendment to the MSA (as described further herein, the "**PSS Credit Amendment**") has been proposed that would allow SPMs to elect to receive a reduction in their MSA payments in an amount equal to a percentage of the fees paid to Previously Settled States pursuant to state legislation in the Previously Settled States requiring tobacco product manufacturers that did not sign on to the Previously Settled State Settlements to pay a fee to such Previously Settled States. The State executed the PSS Credit Amendment on November 21, 2008 and reaffirmed on December 16, 2009. By its terms, the PSS Credit Amendment will only take effect if and when all Settling States having aggregate Allocable Shares equal to at least 99.937049% (the equivalent of the aggregate Allocable Share of the 46 states that are Settling States), and all OPMs and Commonwealth Brands, Inc., have executed the PSS Credit Amendment. No assurance can be given as to if or when such an amendment will take effect. Further, no assurance can be given as to whether the PSS Credit Amendment, if and when it takes effect, will reduce the amount of Pledged TSRs available to the Authority to pay debt service on the Series 2018 Bonds. See "RISK FACTORS—Other Risks Relating to the MSA and Related Statutes—Amendments, Waivers and Termination" and "—Reliance on State Enforcement of the MSA; State Impairment" and "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Adjustments to Payments—Previously Settled States Reduction—PSS Credit Amendment."

Disputed MSA Payments and Potential for Significant Future Year Offsets to MSA Payments

Disputes concerning Annual Payments (as well as Strategic Contribution Payments) and their calculations may be raised up to four years after the respective Payment Due Date (as defined in the MSA). The resolution of disputed payments that arise in prior years may result in the application of offsets against subsequent payments. Disputes could result in the future diversion of disputed payments to the Disputed Payments Account under the MSA (the "**DPA**"), the withholding of all or a portion of any disputed amounts, or the application of offsets against future payments. Any such disputes or the resolution thereof could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of the Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full.

Miscalculations or recalculations by the MSA Auditor or disputed calculations by any of the parties to the MSA have resulted and could in the future result in offsets to, or delays in disbursements of, payments to the Settling States pending resolution of the disputed item in accordance with the provisions of the MSA, which could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of the Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full. See "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Adjustments to Payments—*Offset for Miscalculated or Disputed Payments*".

The cash flow assumptions used to prepare the coverage tables herein do not factor in an offset for miscalculated or disputed payments or any release of funds currently held in the DPA. See "PLEDGED TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS". Adjustments in future Pledged TSRs could be different from those projected.

Growth of NPM Market Share and Other Factors

Should a decline in cigarette consumption occur, but be accompanied by a material increase in the relative aggregate market share of the NPMs, shipments by PMs would decline at a rate greater than the decline in consumption. This would result in greater reductions of Annual Payments by the PMs due to

application of the Volume Adjustment, even for Settling States that have negotiated with the PMs alternative arrangements to the NPM Adjustment (the State has not negotiated any alternative arrangements) or have adopted enforceable Qualifying Statutes and are diligently enforcing such statutes and are thus exempt from the NPM Adjustment. Such reductions of Annual Payments could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of the Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full.

NPM market share could grow due to a variety of reasons, including, among others, a failure of Settling States to enforce their Qualifying Statutes and Allocable Share Release Amendments (see "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—MSA Provisions Relating to Model/Qualifying Statutes"), relative ease of entry into the market, and increased profit margins on account of lower sales prices, operating costs and litigation costs.

NPM Adjustment

General. One of the adjustments under the MSA is the "**NPM Adjustment**", which operates in certain circumstances to reduce the payments of the PMs under the MSA in the event of losses in Market Share by PMs (who are subject to the payment obligations and marketing restrictions of the MSA) to non-participating manufacturers ("**NPMs**") (who are not subject to such obligations and restrictions), during a calendar year as a result of such PMs' participation in the MSA. Under the MSA, three conditions must be met in order to trigger an NPM Adjustment for one or more Settling States: (1) a Market Share loss for the applicable year must exist (as described herein); (2) a nationally recognized firm of economic consultants must determine that the disadvantages experienced as a result of the provisions of the MSA were a "significant factor" contributing to the Market Share loss for the year in question; and (3) the Settling States in question must be found to not have diligently enforced their Qualifying Statutes. If the PMs make a claim for an NPM Adjustment for any particular year and a Settling State is determined to be one of a few states (or the only state) not to have diligently enforced its Qualifying Statute in such year, the amount of the NPM Adjustment applied to such Settling State in the year following such determination could be as great as the amount of Annual Payments that could otherwise have been received by such Settling State in such year.

The State and certain other Settling States are currently in arbitration regarding the 2004 NPM Adjustment. No assurance can be given that the State will be found by the relevant arbitration panel to have diligently enforced its Qualifying Statute for such sales year or any subsequent sales year. The Pledged TSRs Projection Methodology and Assumptions and Bond Structuring Assumptions contain an assumption that the State will diligently enforce its Qualifying Statute in all years that the Series 2018 Bonds are Outstanding and therefore that the State will not be subject to the NPM Adjustment. No assurance can be given that the assumptions underlying the Pledged Settlement Payments Projection Methodology and Assumptions and Bond Structuring Assumptions will be consistent with future events.

Declines in Cigarette Consumption

Cigarette consumption in the U.S. has declined significantly over the last several decades. According to the Centers for Disease Control ("**CDC**"), the smoking rate for adults in the United States fell to approximately 15.5% in 2016 from 20.9% in 2005. NAAG reported that total industry domestic cigarette shipment volume was 248.5 billion cigarettes in sales year 2017 and 260.2 billion cigarettes in sales year 2016, as compared to shipments of approximately 390.3 billion in 2005. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Cigarette Shipment Trends."

Payments under the MSA are determined in part by the volume of cigarettes sold by the PMs in the U.S. cigarette market. U.S. cigarette consumption in recent years has been reduced because of price

increases, restrictions on advertising and promotions, increases in excise taxes, smoking bans in public places, the raising of the minimum age to possess or purchase tobacco products, other increased regulation such as state and local bans on characterizing flavors, a decline in the social acceptability of smoking, health concerns, funding of smoking prevention campaigns, increased pressure from anti-tobacco groups, increased usage of alternative products such as e-cigarettes and other vapor products, curtailments in the chain of distribution, and other factors. U.S. cigarette consumption is expected to continue to decline for the reasons stated above and others. Continuing declines in cigarette consumption could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of the Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full. The following factors, among others, may negatively impact cigarette consumption in the U.S.

The Regulation of Tobacco Products by the FDA May Adversely Affect Overall Consumption of Cigarettes in the U.S. and the Operations of the PMs

The Family Smoking Prevention and Tobacco Control Act (the "**FSPTCA**"), signed by President Obama on June 22, 2009, granted the U.S. Food and Drug Administration (the "**FDA**") broad authority over the manufacture, sale, marketing and packaging of tobacco products. The legislation, among other things, requires larger and more severe health warnings on cigarette packs and cartons, bans the use of certain descriptors on tobacco products, requires the disclosure of ingredients and additives to consumers, requires FDA pre-market review for new or modified products, and allows the FDA to place more severe restrictions on the advertising, marketing and sales of cigarettes. Since the passage of the FSPTCA, the FDA has, among other things, prohibited fruit, candy or clove flavored cigarettes (menthol is currently exempted from this ban), prohibited misleading marketing terms ("Light," "Low," and "Mild") for tobacco products, rejected applications for the introduction of new tobacco products into the market, and issued its final rule subjecting e-cigarettes and certain other tobacco products to FDA regulations. In July 2017, the FDA announced its intent to develop a comprehensive plan for tobacco and nicotine regulation and is considering the issues surrounding the presence of menthol and the level of nicotine in cigarettes. On March 15, 2018, as part of this comprehensive plan, the FDA announced an Advance Notice of Proposed Rulemaking ("**ANPRM**") to explore and seek comment on lowering the nicotine in cigarettes to minimally or non-addictive levels. On March 20, 2018, the FDA issued an additional ANPRM regarding the role that flavors, including menthol, play in initiation, use and cessation of use of tobacco products. In the March 15, 2018 announcement, the FDA also stated that it is starting new work to re-evaluate and modernize its approach to the development and regulation of medicinal nicotine replacement products such as gums, patches and lozenges; and plans to issue a series of foundational rules and guidance that will delineate key requirements of the regulatory process, such as the demonstration of substantial equivalence and the submission of applications for new tobacco products, as well as a framework for addressing substantial equivalence applications for provisional products that entered the market during applicable grace periods. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Regulatory Issues—FSPTCA."

Tobacco manufacturers have filed suit regarding certain provisions of the FSPTCA and actions taken thereunder. In August 2009, a group of tobacco manufacturers and a tobacco retailer filed a complaint against the United States in the U.S. District Court for the Western District of Kentucky, *Commonwealth Brands, Inc. v. U.S.*, in which they asserted that various provisions of the FSPTCA violate their free speech rights under the First Amendment, constitute an unlawful taking under the Fifth Amendment, and are an infringement on their Fifth Amendment due process rights. In March 2012, the U.S. Court of Appeals for the Sixth Circuit affirmed the district court's earlier decision upholding the FSPTCA's restrictions on the marketing of modified-risk tobacco products, the FSPTCA's bans on event sponsorship, branding non-tobacco merchandise, and free sampling, and the requirement that tobacco manufacturers reserve significant packaging space for textual health warnings. However, the Sixth Circuit affirmed the district court's grant of summary judgment to plaintiff manufacturers on the unconstitutionality of the FSPTCA's restriction of

tobacco advertising to black and white text. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Regulatory Issues" for a discussion of this case.

On June 22, 2011, the FDA issued a final regulation for the imposition of larger, graphic health warnings on cigarette packaging and advertising, which was scheduled to take effect September 22, 2012 (but which the FDA is currently enjoined from enforcing, as described below). On August 16, 2011, tobacco companies filed a lawsuit against the FDA in the U.S. District Court for the District of Columbia, *R. J. Reynolds Tobacco Co. v. U.S. Food and Drug Administration*, challenging the FDA's final regulation specifying nine new graphic "warnings" pursuant to the FSPTCA and seeking a declaratory judgment that the final regulation violates the plaintiffs' rights under the First Amendment to the U.S. Constitution and the Administrative Procedure Act ("**APA**"). On August 24, 2012, the U.S. Court of Appeals for the District of Columbia Circuit affirmed a February 29, 2012 decision of the district court that invalidated the graphic warning rule. On March 19, 2013, the FDA announced that it would undertake research to support a new rulemaking on different warning labels consistent with the FSPTCA and would propose a new graphic warnings rule in the future. The FDA has not provided a timeline for a new rule. In October 2016, several public health groups filed suit in federal court to force the FDA to issue final rules requiring graphic warnings on cigarette packs and advertising. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Regulatory Issues" for a discussion of this case and several other cases.

The FDA has yet to issue final guidance with respect to many provisions of the FSPTCA. It is likely that future regulations promulgated by the FSPTCA, including regulation of menthol (including an outright ban thereof) or decreasing the permitted level of nicotine (though not to zero), as discussed herein, could result in a decrease in cigarette sales in the U.S., and an increase in costs to PMs, potentially resulting in a material adverse effect on the PMs' financial condition, results of operations and cash flows. Altria reported in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018 that, in addition to the payment of user fees required by the FSPTCA, compliance with the FSPTCA's regulatory requirements has resulted and will continue to result in additional costs and that although the amount of additional compliance and related costs has not been material in any given quarter or year to date period, such compliance could become material, either individually or in the aggregate, to one or more of its tobacco subsidiaries. Additionally, the FDA's rules regarding clearance for new or modified cigarette products could adversely impact PMs' access to the market and could result in the removal of products from the market. The impact of the foregoing factors could be to reduce consumption of cigarettes in the U.S. and adversely affect the operations of the PMs, thereby reducing payments under the MSA, which could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of the Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full.

Concerns That Mentholated Cigarettes May Pose Greater Health Risks That Could Result in Further Federal, State and Local Regulation Which Could Adversely Affect the Volume of Cigarettes Sold in the U.S. and Thus Payments Under the MSA

Some plaintiffs and constituencies, including public health agencies and non-governmental organizations, have claimed or expressed concerns that mentholated cigarettes may pose greater health risks than non-mentholated cigarettes, including concerns that mentholated cigarettes may make it easier to start smoking and harder to quit, and increase smoking initiation among youth and the incidence of smoking among youth. Such plaintiffs and constituencies may seek restrictions or a ban on the production and sale of mentholated cigarettes. On November 8, 2013, twenty-seven states, including the State, sent a letter to the FDA in support of a ban on menthol-flavored cigarettes. In an August 2016 letter, the African American Tobacco Control Leadership Council asked President Obama to direct the FDA to issue a proposed rule to remove all flavored tobacco products, including mentholated cigarettes, from the marketplace. Any ban or material limitation on the use of menthol in cigarettes could materially adversely affect the results of

operations, cash flow and financial condition of the PMs that sell large quantities of mentholated cigarettes, especially Reynolds Tobacco, a significant portion of whose sales, after the merger with Lorillard, are dependent on the Newport brand of mentholated cigarettes.

The FSPTCA established the Tobacco Products Scientific Advisory Committee ("**TPSAC**") and directs the TPSAC to evaluate issues surrounding the use of menthol as a flavoring or ingredient in cigarettes. In addition, the legislation permits the FDA to ban menthol upon a finding that such a prohibition would be appropriate for the public health. The TPSAC or the Menthol Report Subcommittee held meetings throughout 2010 and 2011 to consider the issues surrounding the use of menthol in cigarettes. At a March 2011 meeting, TPSAC presented its findings that menthol likely increases experimentation and regular smoking, menthol likely increases the likelihood and degree of addiction for youth smokers, non-white menthol smokers (particularly African-Americans) are less likely to quit smoking and are less responsive to certain cessation medications, and consumers continue to believe that smoking menthol cigarettes is less harmful than smoking nonmenthol cigarettes as a result of the cigarette industry's historical marketing. TPSAC's overall recommendation to the FDA was that "removal of menthol cigarettes from the marketplace would benefit public health in the United States." In July 2013, the FDA released a preliminary evaluation on menthol cigarettes, finding among other things that menthol cigarettes likely pose a public health risk above that seen with non-menthol cigarettes. On March 20, 2018, as part of the FDA's comprehensive plan for tobacco and nicotine regulation, the FDA issued an ANPRM regarding the role that flavors (including menthol) play in initiation, use and cessation of use of tobacco products. The FDA is not required to follow the TPSAC's recommendations, and the FDA has not yet taken any final action with respect to menthol use. There is no timeline or statutory requirement for the FDA to act on the TPSAC's recommendations. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Regulatory Issues–*FSPTCA Litigation*" for a discussion on litigation regarding the TPSAC.

If the FDA determines that the regulation of menthol is warranted, the FDA could promulgate regulations that, among other things, could result in a ban on or a restriction on the use of menthol in cigarettes. Several jurisdictions have already enacted bans on menthol and other characterizing flavors. The State of Maine, in 2007, became the first state to enact a statute that prohibits the sale of cigarettes and cigars that have a characterizing flavor, including menthol. In June 2017, San Francisco amended its city health code to prohibit tobacco retailers from selling flavored tobacco products, including flavored e-cigarettes and menthol cigarettes. The ordinance was set to take effect on April 1, 2018 but the tobacco industry funded a referendum to decide whether the ordinance would take effect. On June 5, 2018, San Francisco voters approved the proposition. In February 2018, New Jersey introduced a bill that would add menthol to its list of prohibited characterizing flavors. According to a report by the Federal Trade Commission released in 2016, menthol cigarettes made up 31% of the U.S. cigarette market in 2013. A ban or any material restriction on the use of menthol in cigarettes could adversely affect the overall sales volume of cigarettes by the PMs, thereby reducing payments under the MSA, which could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of the Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full.

The Volume of Cigarettes Sold by PMs in the U.S. Cigarette Market is Expected to Continue to Decline as a Result of Increases in Cigarette Excise Taxes

In the U.S., tobacco products are subject to substantial and increasing federal and state excise taxation, which has a negative effect on consumption. On April 2, 2009, Congress increased the federal excise tax per pack of cigarettes to $1.01 per pack (an increase of $0.62), and significantly increased taxes on other tobacco products. All of the states, the District of Columbia, Puerto Rico, Guam and the Northern Mariana Islands currently impose cigarette taxes, which in calendar year 2017 ranged from $0.17 per pack in Missouri to $4.35 per pack in New York and Connecticut, according to the Campaign for Tobacco-Free Kids. Since January 1, 2002, 48 states, the District of Columbia and several U.S. territories have raised

their cigarette taxes, many of them more than once. In particular, in California, a $2.00 per pack increase in that state's cigarette excise tax (in addition to that state's then current $0.87 per pack excise tax) was passed by voters on November 8, 2016, effective April 1, 2017. In addition to federal and state excise taxes, certain city and county governments also impose substantial excise taxes on tobacco products sold, such as New York, Philadelphia and Chicago. In November 2013, New York City passed an ordinance that set a minimum price of $10.50 for every pack of cigarettes sold in New York City, and in August 2017, New York City raised the minimum price of a pack of cigarettes to $13, effective June 1, 2018. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018, between the end of 1998 (the year that the MSA was executed) and April 23, 2018, the weighted-average state and certain local cigarette excise taxes increased from $0.36 to $1.75 per pack. During 2017, Rhode Island, Delaware, Connecticut and Puerto Rico enacted legislation to increase their cigarette excise taxes. As of April 23, 2018, Kentucky and Oklahoma have enacted cigarette excise tax increases which are effective July 1, 2018, and proposed increases are pending in other states, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Regulatory Issues—*Excise Taxes*" for a further description of excise taxes on cigarettes.

It is expected that states and local governments will continue to raise excise taxes on cigarettes in future years. Increased excise taxes are likely to result in declines in overall sales volume and shifts by consumers to less expensive brands, deep discount brands, untaxed cigarettes sold on certain Native American reservations and duty-free shops, counterfeit brands or pipe tobacco for roll-your-own consumers. Such trends and reductions in consumption will lead to reductions of payments under the MSA, which could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of the Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full.

The Volume of Cigarettes Sold by PMs in the U.S. Cigarette Market is Expected to Continue to Decline Because of Efforts to Raise the Minimum Age for Purchase and Possession of Cigarettes

U.S. cigarette consumption is expected to continue to decline due to legislative efforts to raise the minimum age to possess or purchase tobacco products. All states and the District of Columbia have enacted statutes generally prohibiting the sale of tobacco products to individuals under the age of 18. In 2016, Hawaii became the first state to make 21 the minimum age to purchase tobacco products, and subsequently, California, Maine (effective July 2018), New Jersey and Oregon have raised the minimum age to purchase tobacco products to 21. According to the Campaign for Tobacco-Free Kids, at least 320 localities have raised the tobacco age to 21, including New York City, Chicago, San Antonio, Boston, Cleveland, and both Kansas Cities. Proposals to raise the minimum age to 21 continue to be introduced in other states. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018, the minimum age in Alabama, Alaska and Utah is 19. On March 12, 2015, the Institute of Medicine of the National Academy of Sciences released a report recommending that the minimum age of legal access to tobacco products be raised to 21 and concluding that raising the minimum legal age to 21 would likely decrease smoking prevalence by 12% among today's teenagers when they become adults. In October 2015, the American Academy of Pediatrics issued a policy statement strongly recommending that the age for the purchase of tobacco products be raised to 21 as a means to reduce youth smoking rates. In November 2017, U.S. Congresswoman Diana DeGette introduced the Tobacco to 21 Act (H.R. 4273), legislation that would prohibit the sale of tobacco products to anyone under age 21. Declines in consumption due to increasing the minimum age to possess or purchase tobacco products could lead to reductions of payments under the MSA, which could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of the Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full.

Increased Restrictions on Smoking in Public Places Could Adversely Affect U.S. Tobacco Consumption and Therefore Amounts to be Paid Under the MSA

In recent years, federal, state and many local and municipal governments and agencies, as well as private businesses, have adopted legislation, regulations, insurance provisions or policies which prohibit, restrict, or discourage smoking generally, smoking in public buildings and facilities, public housing, stores, restaurants and bars, and smoking on airline flights and in the workplace. Other similar laws and regulations are currently under consideration and may be enacted by state and local governments in the future. Restrictions on smoking in public and other places may lead to a decrease in the number of people who smoke or a decrease in the number of cigarettes smoked or both. Smoking bans have recently been extended by many state and local governments to outdoor public areas, such as beaches, parks and space outside restaurants, and others may do so in the future. Increased restrictions on smoking in public and other places have caused a decrease, and may continue to cause a decrease, in the volume of cigarettes that would otherwise be sold in the U.S. absent such restrictions, which could lead to reductions of payments under the MSA and could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of the Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Regulatory Issues—*State and Local Regulation.*"

Several of the PMs and Their Competitors Have Developed Alternative Tobacco and Cigarette Products, Including Electronic Cigarettes and Vaporizers, Sales of Which Do Not Currently Result in Payments Under the MSA, and Have Announced Long-Term Goals of Ending the Sale of Traditional Cigarettes in Favor of Such Alternative Products

Certain of the major cigarette makers and other manufacturers have developed (or acquired) and marketed alternative cigarette products the shipments of which do not give rise to payment obligations under the MSA. For example, numerous manufacturers have developed and are marketing "**electronic cigarettes**" or "**e-cigarettes**," which are not tobacco products but are battery powered devices that vaporize liquid nicotine which is then inhaled. E-cigarettes do not currently constitute "cigarettes" within the meaning of the MSA (as deemed by the manufacturers and certain states) because they do not contain or burn or heat tobacco. The fastest growth in this area comes from devices called "vaporizers", which are larger, customizable devices that hold more liquid, produce larger vapor clouds and last longer. They allow users to mix and match hardware and refill cartridges with liquid bought in bulk, so that they are cheaper than e-cigarettes. E-cigarettes and other vapor products are currently not subject to the advertising restrictions to which tobacco products are subject. In addition, most jurisdictions do not subject electronic cigarettes or other vapor products to excise taxes.

According to news reports, 2015 sales of electronic cigarettes in the U.S. were estimated at over $3 billion, though growth slowed after years of rapid gains. News reports indicate growth of e-cigarette use in 2017. The CDC in September 2014 reported results of a survey that indicated that in 2013 approximately 8.5% of the adult population (representing approximately two-and-a-half times the 2010 estimates), and 36.5% of smokers (representing approximately four times the 2010 estimates), had tried e-cigarettes at some time. In April 2016, the CDC's National Youth Tobacco Survey found that e-cigarette use among high school students had increased to 16% in 2015, from 1.5% in 2011. The CDC in June 2016 released survey results showing that 45% of high school students had tried e-cigarettes in 2015, compared with only 32% who had tried cigarettes. Findings from the 2017 National Youth Tobacco Survey, released by the FDA and the CDC on June 7, 2018, show that for the fourth year in a row, e-cigarettes continued to be the most commonly used tobacco product among high school and middle school students. The survey found that in 2017, while among both high school and middle school students there was a decrease since 2011 in the use of cigarettes, cigars, smokeless tobacco, and other tobacco products, there was an increase in e-cigarette use, with 11.7% of high school students and 3.3% of middle school students reported to be

currently using e-cigarettes. In December 2014, the University of Michigan's Survey for Research Center reported its findings that e-cigarette use exceeded traditional cigarette smoking among teens in 2014. The National Health Survey of the CDC reported that in 2016, 15.4% of adults had tried e-cigarettes, and 3.2% were current users.

In September 2017, Philip Morris International announced that it would contribute approximately $80 million each year for the following 12 years to a non-profit organization called the Foundation for a Smoke-Free World, to fund research on smoke-free alternatives, among other things. In addition, in January 2018, Philip Morris International announced that its long-term goal is to replace its traditional cigarettes with smoke-free alternative products.

On May 5, 2016, the FDA released its final rule which subjects manufacturers, importers and/or retailers of e-cigarettes and certain other tobacco related products (including cigars and pipe tobacco) to the same and, in some cases additional, regulations applicable to cigarettes, cigarette tobacco and smokeless tobacco. Among other things, the rule bans sales of e-cigarettes and other vapor products, cigars, hookah tobacco, pipe tobacco and other products to people under 18 and requires new health warnings for these products. In addition, manufacturers must seek federal permission to continue marketing all e-cigarettes and other such products launched since 2007 (making up virtually all of the market). The rule does not restrict flavored products, online sales or advertising. On March 28, 2018, as part of the FDA's comprehensive plan for tobacco and nicotine regulation, the FDA announced that it is considering over-the-counter regulation of e-cigarettes. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Regulatory Issues—*FSPTCA*." No assurance can be given that regulation of e-cigarettes by the FDA will alter the trend of increased sales of e-cigarettes.

Cigarette manufacturers also market other types of alternative products, such as moist snuff, "snus" (a smokeless, spitless tobacco product that originated in Sweden), disposable nicotine discs, and dissolvable tobacco tablets, orbs, strips and sticks. Sales of moist snuff products increased by 65.6% between 2005 and 2011, according to the National Center for Biotechnology Information. A June 2014 report by the CDC found that smokeless tobacco use among U.S. workers has remained relatively steady since 2005, with 2.7% of U.S. workers using smokeless tobacco products in 2005 and 3.0% of U.S. workers using smokeless tobacco products in 2010, while cigarette use has declined since 2005.

Electronic cigarettes, other vapor products and smokeless tobacco products are viewed by some as alternatives to cigarette smoking that may lead to cigarette smoking cessation. It has been reported that increases in cigarette taxes have caused an increase in the sale of e-cigarettes and other alternatives to cigarettes. Studies have shown that e-cigarette use is associated with quit-attempts by smokers; that youth use of e-cigarettes is unlikely to increase the number of future cigarette smokers; and that the substantial increase in e-cigarette use among U.S. adult smokers this decade was associated with a statistically significant increase in the smoking cessation rate at the population level. Growth in the electronic cigarette, vapor product and smokeless tobacco product markets may have an adverse effect on the traditional cigarette market. If consumers use such alternative products in lieu of traditional cigarettes containing nicotine or to quit smoking, it could reduce the size of the cigarette market. In addition, recreational marijuana, which has been legalized in Alaska, Colorado, Oregon, Washington, California, Maine, Massachusetts, Nevada and Vermont, may be an alternative to cigarette smoking and reduce the size of the cigarette market. Furthermore, while many alternative cigarette products continue to be deemed not to constitute "cigarettes" under the MSA and gain market share of the domestic cigarette market to the detriment of traditional cigarettes, payments under the MSA may decrease, which could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of the Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—E-Cigarettes and Vapor Products", "—Heat-Not-Burn Tobacco Products" and "—Smokeless Tobacco Products."

U.S. Tobacco Companies are Subject to Significant Limitations on Advertising and Marketing Cigarettes That Could Negatively Impact Sales Volume

Television and radio advertisements of tobacco products have been prohibited since 1971. U.S. tobacco companies generally cannot use billboard advertising, cartoon characters, sponsorship of concerts, non-tobacco merchandise bearing brand names and various other advertising and marketing techniques. In addition, the MSA prohibits the targeting of youth in advertising, promotion or marketing of tobacco products. Accordingly, the tobacco companies have determined not to advertise cigarettes in magazines with large readership among people under the age of 18. Under the FSPTCA, which grants authority over the regulation of tobacco products to the FDA, the FDA has issued rules restricting access and marketing of cigarettes and smokeless tobacco products to youth, and announced its plans to propose a new rule in the future for the imposition of larger, graphic health warnings on cigarette packaging and advertising, as discussed herein. In addition, many states, cities and counties have enacted legislation or regulations further restricting tobacco advertising, marketing and sales promotions, and others may do so in the future. Additional restrictions may be imposed or agreed to in the future. These limitations significantly impair the ability of tobacco product manufacturers to launch new premium brands. Moreover, these limitations may make it difficult for PMs to maintain sales volume of cigarettes in the U.S., which could lead to reductions of payments under the MSA and could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of the Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full.

As discussed above, electronic cigarettes and other vapor products are not currently subject to the advertising restrictions to which tobacco products are subject, and the FDA did not include advertising restrictions in its final regulations on e-cigarettes and other vapor products. Therefore, e-cigarettes and other vapor products, which can currently be marketed more extensively than traditional cigarettes and other tobacco products, could gain market share to the detriment of the traditional cigarette market. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—E-Cigarettes and Vapor Products."

The Distribution Chain for Cigarettes May Continue to be Curtailed, Which Could Negatively Impact Sales Volume

Certain stores have ceased the sale of tobacco products. The retail chain store Target reportedly stopped selling tobacco products in 1996. In September 2014 the national pharmacy chain CVS reportedly stopped selling all cigarettes and other tobacco products in all of its stores (following a February 2014 announcement), citing that such sales were inconsistent with its mission. A group of state attorneys general have pressured large retail stores with pharmacies to take similar actions, and in April 2014 several members of Congress called on these retailers to stop selling cigarettes and other items containing tobacco. According to the American Nonsmokers' Rights Foundation ("**ANRF**"), as of April 1, 2018, 173 municipalities have tobacco-free pharmacy laws. In addition, Costco has also reportedly reduced the number of locations that sell cigarettes because of slowing demand, according to news reports in March 2016. Furthermore, certain municipalities, such as New York City, Philadelphia, Boston and San Francisco, have enacted laws limiting the number or density of cigarette retailers. Continued curtailment in the distribution of cigarettes could negatively impact sales volume, which could lead to reductions of payments under the MSA and could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of the Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full.

Smoking Cessation Products May Reduce Cigarette Sales Volumes and Adversely Affect Payments Under the MSA

Large pharmaceutical companies have developed and increasingly expanded their marketing of smoking cessation products. Companies such as GlaxoSmithKline, Johnson & Johnson, Novartis and Pfizer are well capitalized public companies that have entered this market and have the capability to fund significant investments in research and development and marketing of these products. Smoking cessation products can be obtained both in prescription and over-the-counter forms. From Nicorette gum in 1984, to nicotine patches, nicotine inhalers and tablets, as well as other non-pharmaceutical smoking cessation products, this market has evolved into a $1 billion business in the U.S., according to some estimates. Studies have shown that these programs are effective, and that excise taxes and smoking restrictions drive additional expenditures to the smoking cessation market. On March 15, 2018, as part of the FDA's comprehensive plan for tobacco and nicotine regulation, the FDA announced that it is starting new work to re-evaluate and modernize its approach to the development and regulation of medicinal nicotine replacement products such as gums, patches and lozenges. Certain health insurance policies, including Medicaid and Medicare, cover various forms of smoking cessation treatments, making smoking cessation treatments more affordable for covered smokers. To the extent that existing smoking cessation products, new products or products used in combination become more effective and more widely available, or that more smokers use these products, sales volumes of cigarettes in the U.S. may decline, which could lead to reductions of payments under the MSA and could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of the Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Smoking Cessation Products".

The U.S. Cigarette Industry is Subject to Significant Law, Regulation and Other Requirements That Could Adversely Affect the Businesses, Results of Operations or Financial Condition of Tobacco Product Manufacturers

The consumption of cigarettes in the U.S., and therefore the amounts payable under the MSA and the Pledged TSRs available to the Authority to pay debt service on the Series 2018 Bonds, could be materially adversely affected by new or future legal requirements imposed by legislative or regulatory initiatives, including but not limited to those relating to health care reform, climate change and environmental matters affecting the PMs and their manufacturing practices or business operations, which could adversely affect the businesses, results of operations or financial condition of the PMs.

The Availability of Counterfeit Cigarettes Could Adversely Affect Payments by the PMs Under the MSA

Sales of counterfeit cigarettes in the U.S. could adversely impact sales by the PMs of the brands that are counterfeited and potentially damage the value and reputation of those brands. Smokers who mistake counterfeit cigarettes for cigarettes of the PMs may attribute quality and taste deficiencies in the counterfeit product to the actual branded products brands and discontinue purchasing such brands. Most significantly, the availability of counterfeit cigarettes together with substantial increases in excise taxes and other potential price increases of branded products could result in increased demand for counterfeit products that could have a material adverse effect on the sales volume of the PMs, resulting in lower payments under the MSA, which could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of the Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full.

General Economic and Other Conditions May Adversely Affect Consumption of Cigarettes and the Ability of the PMs to Continue to Operate, Reducing Their Sales of Cigarettes and Payments Under the MSA

The volume of cigarette sales in the U.S. is adversely affected by general economic downturns as smokers tend to reduce expenditures on cigarettes, especially premium brands, in times of economic hardship. For example, there is a correlation between an increase in the price of gasoline and a reduction in tobacco consumption as household disposable income declines. In addition, consumers may become more price-sensitive, which may result in some consumers switching to lower priced, deep discount NPM brands, or counterfeit brands, or travelling to purchase untaxed NPM cigarettes on Native American reservations. Reductions in cigarette consumption or changes in consumption habits to NPM cigarettes could lead to reductions of payments under the MSA, which could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of the Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full.

The ability of the PMs to continue their operations selling cigarettes in the U.S. generally is dependent on the health of the overall economy and their ability to access the capital markets on favorable terms. In addition, the ability of the PMs to continue their operations manufacturing cigarettes is dependent on, among other things, their production facilities, shifts in crops, government mandated prices, economic trade sanctions, geopolitical instability and production control programs. To the extent that overall economic or other conditions or constrained capital access materially adversely impacts their operations, the PMs may manufacture and sell fewer cigarettes, potentially resulting in reduced payments under the MSA and reduced Pledged TSRs available to the Authority to pay debt service on the Series 2018 Bonds.

If Litigation Challenging the MSA, the Qualifying Statutes and Related Legislation Were Successful, Payments Under the MSA Might be Suspended or Terminated

Certain parties, including smokers, smokers' rights organizations, consumer groups, cigarette manufacturers, cigarette wholesalers, cigarette importers, cigarette distributors, Native American tribes, taxpayers, taxpayers' groups and other parties have filed actions against some, and in certain cases all, of the signatories to the MSA, alleging, among other things, that the MSA and related legislation including the Settling States' Qualifying Statutes, Allocable Share Release Amendments and Complementary Legislation (as each term is defined herein) as well as other legislation such as "Contraband Statutes" are void or unenforceable under certain provisions of law, such as the U.S. Constitution, state constitutions, federal antitrust laws, federal civil rights laws, state consumer protection laws, bankruptcy laws, federal cigarette advertising and labeling laws, unfair competition laws, and the North American Free Trade Agreement ("**NAFTA**"). Certain of the lawsuits further sought, among other relief, an injunction against one or more of the Settling States from collecting any moneys under the MSA, an injunction barring the PMs from collecting cigarette price increases related to the MSA, a determination that the MSA is void or unenforceable, and an injunction against the enforcement of the Qualifying Statutes and the related legislation. In addition, class action lawsuits have been filed in several federal and state courts alleging that under the federal Medicaid law, any amount of tobacco settlement funds that the Settling States receive in excess of what they paid through the Medicaid program to treat tobacco related diseases should be paid directly to Medicaid recipients.

All of the judgments rendered to date on the merits have rejected challenges to the MSA, Qualifying Statutes and Complementary Legislation presented in the cases. Courts rendering those decisions include the U.S. Courts of Appeals for the Second Circuit in *Freedom Holdings v. Cuomo* and *Grand River Enterprises Six Nations, Ltd. v. King*; the Third Circuit in *Mariana v. Fisher*, and *A.D. Bedell Wholesale Co. v. Philip Morris Inc.*; the Fourth Circuit in *Star Sci., Inc. v. Beales*; the Fifth Circuit in *Xcaliber Int'l Ltd. v. Caldwell* and *S&M Brands v. Caldwell*; the Sixth Circuit in *S&M Brands v. Cooper, S&M Brands,*

Inc. v. Summers, *Tritent Inter'l Corp. v. Commonwealth of Kentucky* and *Vibo Corporation, Inc. d/b/a/ General Tobacco v. Conway, et al.*; the Eighth Circuit in *Grand River Enterprises v. Beebe*; the Ninth Circuit, in *Sanders v. Brown*; the Tenth Circuit in *KT & G Corp. v. Edmondson*, and *Hise v. Philip Morris Inc.*; and multiple lower courts. In addition, in January 2011, an international arbitration tribunal rejected claims brought against the United States challenging MSA-related legislation in various states under NAFTA.

The MSA, Qualifying Statutes and related state legislation may continue to be challenged in the future, on the theories described above or for other reasons that are not described herein. A determination by a court that the MSA, the Qualifying Statutes or related state legislation is void or unenforceable could have a material adverse effect on the payments by the PMs under the MSA, which could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of the Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full. No assurance can be given that a court will not find the MSA, a Qualifying Statute, or related legislation to be unenforceable, unconstitutional, or void.

Although a determination that a Qualifying Statute is unconstitutional would have no effect on the enforceability of the MSA, such a determination could have a material adverse effect on payments to be made under the MSA and Pledged TSRs available to the Authority if an NPM were to gain market share in the future and there occurred an impact on the market share of the PMs under the MSA. A determination that an Allocable Share Release Amendment is unenforceable would not constitute a breach of the MSA but could permit NPMs to exploit differences among states, and thereby potentially increase their market share at the expense of the PMs. A determination that the State's Complementary Legislation is unenforceable would not constitute a breach of the MSA or affect the enforceability of the State's Qualifying Statute; such a determination could, however, make enforcement of the State's Qualifying Statute against NPMs more difficult for the State. See "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT".

Litigation Seeking Monetary and Other Relief from Tobacco Industry Participants May Adversely Impact the Ability of the PMs to Continue to Make Payments Under the MSA

The tobacco industry has been the target of litigation for many years. Numerous legal actions, proceedings and claims arising out of the sale, distribution, manufacture, development, advertising, marketing and claimed health effects of cigarettes are pending against the PMs and it is likely that similar claims will continue to be filed for the foreseeable future. Both individual and class action lawsuits have been brought by or on behalf of smokers alleging various theories of recovery including that smoking has been injurious to their health, by non-smokers alleging harm from environmental tobacco smoke ("**ETS**"), also known as "secondhand smoke", and by the federal, state and local governments seeking recovery of expenditures relating to the adverse effects on the public health caused by smoking. The claimants have sought recovery on a variety of legal theories, including, among others, negligence, fraud, misrepresentation, strict liability in tort, design defect, breach of warranty, enterprise liability (including claims asserted under the Racketeer Influenced and Corrupt Organizations Act ("**RICO**")), civil conspiracy, intentional infliction of harm, injunctive relief, indemnity, restitution, unjust enrichment, public nuisance, unfair trade practices, claims based on antitrust laws and state consumer protection acts, and claims based on failure to warn of the harmful or addictive nature of tobacco products. Various forms of relief are sought, including compensatory and, where available, punitive damages in amounts ranging in some cases into the hundreds of millions or even billions of dollars. Claimants in some of the cases have sought treble damages, statutory damages, disgorgement of rights, equitable and injunctive relief and medical monitoring and smoking cessation programs, among other damages. It is possible that the outcome of these and similar cases, individually or in the aggregate, could result in bankruptcy or cessation of operations by one or more of the PMs. It is also possible that the PMs may be unable to post a surety bond

in an amount sufficient to stay execution of a judgment in jurisdictions that require such bond pending an appeal on the merits of the case. Furthermore, even if the PMs are successful in defending some or all of the tobacco-related lawsuits against them, these types of cases are expensive to defend. The ultimate outcome of pending or future lawsuits is uncertain. Verdicts of substantial magnitude that are enforceable as to one or more PMs, if they occur, could encourage commencement of additional litigation, or the perceptions of potential triers of fact with respect to the tobacco industry could be negatively affected, possibly to the detriment of the PMs' positions in pending litigation. A material increase in the number of pending claims could significantly increase defense costs and have a material adverse effect on the results of operations and financial condition of the PMs and could result in one or more PMs becoming insolvent. Adverse decisions in litigation against the tobacco companies could have an adverse impact on the industry overall. Any of the foregoing possible results could potentially lower the volume of cigarette sales and could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of the Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Civil Litigation" for more information regarding the litigation described below.

Engle Progeny

The case of *Engle v. R.J. Reynolds Tobacco Co., et al.* (Circuit Court, Dade County, Florida, filed May 5, 1994) was certified in 1996 as a class action on behalf of Florida residents, and survivors of Florida residents, who were injured or died from medical conditions allegedly caused by addiction to smoking and a multi-phase trial resulted in verdicts in favor of the class. During a three-phase trial, a Florida jury awarded compensatory damages to three individuals and approximately $145 billion in punitive damages to the certified class. In 2006, although the Florida Supreme Court vacated the punitive damages award and determined that the case could not proceed further as a class action, it permitted members of the *Engle* class to file individual claims, including claims for punitive damages, and held that these individual plaintiffs are entitled to rely on a number of the jury's findings in favor of the plaintiffs in the first phase of the *Engle* trial, including that smoking cigarettes causes a number of diseases; that cigarettes are addictive or dependence-producing; and that the defendants were negligent, breached express and implied warranties, placed cigarettes on the market that were defective and unreasonably dangerous, and concealed or conspired to conceal the risks of smoking. In the wake of the Florida Supreme Court ruling, thousands of individuals filed separate lawsuits seeking to benefit from the *Engle* findings. Altria and/or Philip Morris are defendants in approximately 2,300 cases involving approximately 3,000 plaintiffs (according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018) pending in various state and federal courts in Florida that were filed by members of the Engle class (the "***Engle* Progeny Cases**") (although most federal cases were settled, as discussed herein).

At the beginning of the *Engle* Progeny Cases litigation, a central issue was the proper use of the preserved *Engle* findings. The tobacco manufacturers had argued that use of the *Engle* findings to establish individual elements of progeny claims (such as defect, negligence and concealment) was a violation of federal due process, but in 2013, both the Florida Supreme Court (in the *Douglas* case) and the Eleventh Circuit (in the *Duke* and *Walker* cases) rejected that argument, and the U.S. Supreme Court denied the tobacco manufacturers' petitions for writ of certiorari in all of those cases. As discussed herein, in May 2017, in the *Graham* case, the en banc Eleventh Circuit rejected the due process and implied preemption arguments of the tobacco manufacturer, holding that giving preclusive effect to the findings of negligence and strict liability by the *Engle* jury in individual *Engle* Progeny Case actions against the tobacco companies is not preempted by federal tobacco laws and does not deprive the tobacco companies of due process. Other issues with respect to the *Engle* Progeny Cases were decided or remain pending on appeal. It is not possible to predict the final outcomes of any of the *Engle* Progeny Cases, but such outcomes may materially adversely affect the operations of the defendants and thus payments under the MSA and the Pledged TSRs

available to the Authority to pay debt service on the Series 2018 Bonds. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Civil Litigation—*Engle* Progeny Cases".

The DOJ Case

In August 2006, a final judgment and remedial order was entered in *United States of America v. Philip Morris USA, Inc., et al.* (U.S. District Court, District of Columbia, filed September 22, 1999) (the "**DOJ Case**") and in June 2010 the U.S. Supreme Court denied all petitions for review of the case. The district court based its final judgment and remedial order on the government's only remaining claims, which were based on the tobacco industry defendants' alleged violations of RICO. Although the verdict did not award monetary damages to the plaintiff U.S. government, the final judgment and remedial order imposed a number of requirements on the defendants. Such requirements include, but are not limited to, corrective statements by defendants related to the health effects of smoking. The remedial order also placed certain prohibitions on the manner in which defendants market their cigarette products and enjoined any use of "lights" or similar product descriptors. On November 27, 2012, the district court released the text of the corrective statements that the defendants must make. In January 2013, defendants appealed to the U.S. Court of Appeals for the District of Columbia Circuit the district court's November 2012 ruling on the text of the corrective statements, claiming a violation of free speech rights. On June 2, 2014, the U.S. District Court for the District of Columbia approved a joint motion by the U.S. government and the defendant tobacco companies, pursuant to which, for specified time periods following the date when all appeals are exhausted, corrective statements would be disseminated in newspapers (print and online), on television, on the tobacco companies' websites, and on "onserts" affixed to cigarette packs. On February 8, 2016, the district court issued an order on the content of the corrective statements, in April and May 2016, the defendants filed notices of appeal to the U.S. Court of Appeals, including on the content of the corrective statements. In April 2017, the U.S. Court of Appeals reversed in part the district court's decision on the content of the corrective communications, striking certain content (the statement "Here is the Truth") and remanding to the district court the decision on how to revise certain other content. In June 2017, the U.S. District Court for the District of Columbia issued an order adopting modified corrective statements, featuring a preamble to the effect that a federal court has ordered the OPMs to make the specified statements, and featuring statements regarding the adverse health effects of smoking, the addictiveness of smoking and nicotine, the lack of significant health benefit from smoking "low tar", "light", "ultra light", "mild" and "natural" cigarettes, the manipulation of cigarette design and composition to ensure optimum nicotine delivery, and the adverse health effects of exposure to second hand smoke. A remaining issue pending on appeal is whether the corrective statements must be placed on point-of-sale displays.

According to an October 2017 court order, in November 2017 the OPMs began running court-mandated announcements containing the agreed-upon corrective statements. Television announcements are between 30 and 45 seconds long and run in prime time five days a week for 52 weeks. Full-page print ads appeared in at least 45 newspapers and ran on five weekends spread over approximately four months, and also appeared on the newspapers' websites. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018, the parties reached agreement in April 2018 on the implementation details of the corrective statements remedy for "onserts" affixed to cigarette packs and for company-owned websites. Under the agreement, the corrective statements will begin appearing on websites in the second quarter of 2018 and the onserts will begin appearing in the fourth quarter of 2018. Altria has stated that it will spend $31 million to implement the court-ordered corrective statements. It is possible that the district court's order, including the prohibitions on the use of the descriptors relating to low tar cigarettes and the stark text required in the corrective statements, will negatively affect the PMs' sales of and profits from cigarettes, as well as result in significant compliance costs, which could materially adversely affect their payments under the MSA, which in turn could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of the Authority to pay debt service on all or a portion of

the Series 2018 Bonds on a timely basis or in full. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Civil Litigation—*Health-Care Cost Recovery Cases*."

Non-Preemption of Claims

In December 2008, the U.S. Supreme Court in a purported "lights" class action, *Good v. Altria Group, Inc.*, issued a decision that neither the Federal Cigarette Labeling and Advertising Act nor the Federal Trade Commission's ("**FTC**") regulation of cigarettes' tar and nicotine disclosures preempts (or bars) some of plaintiffs' claims. The decision also more broadly addresses the scope of preemption based on the Federal Cigarette Labeling and Advertising Act, and could significantly limit cigarette manufacturers' arguments that certain of plaintiffs' other claims in smoking and health litigation, including claims based on the alleged concealment of information with respect to the hazards of smoking, are preempted. In addition, the Supreme Court's ruling could encourage litigation against cigarette manufacturers regarding the sale of cigarettes labeled as "lights" or "low tar", and it may limit cigarette manufacturers' ability to defend such claims with regard to the use of these descriptors prior to the FDA's ban thereof in June 2010. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Civil Litigation—*Class Action Cases and Aggregated Claims*."

The PMs Have Substantial Payment Obligations Under Litigation Settlement Agreements Which, Together With Their Other Litigation Liabilities, May Adversely Affect the Ability of the PMs to Continue Operations in the Future

In 1998, the OPMs entered into the MSA with 46 states and 6 other U.S. jurisdictions to settle asserted and unasserted health care cost recovery and other claims. Certain U.S. tobacco product manufacturers had previously settled similar claims brought by Mississippi, Florida, Texas and Minnesota (the "**Previously Settled State Settlements**" and, together with the MSA, are referred to as the "**State Settlement Agreements**").

Under the State Settlement Agreements, the PMs are obligated to pay billions of dollars each year. Annual payments under the State Settlement Agreements are required to be paid in perpetuity and are based, among other things, on domestic market share and unit volume of domestic shipments. With respect to the MSA, payments are based on data from the year preceding the year in which payment is due, and, with respect to the Previously Settled State Settlements, payments are based on data from the year in which payment is due. If the volume of cigarette sales by the PMs were materially reduced, these payment obligations, together with PMs' other litigation liabilities, could materially adversely affect the business operations and financial condition of the PMs and potentially the ability of PMs to make payments under the MSA, which could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of the Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full. See "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT".

Other Risks Relating to the MSA and Related Statutes

Severability

Most of the major provisions of the MSA are not severable. If a court materially modifies, renders unenforceable or finds unlawful any non-severable provision, the attorneys general of the Settling States and the OPMs are required by the MSA to attempt to negotiate substitute terms. If, however, any OPM does not agree to the substitute terms, the MSA terminates in all Settling States affected by the court's ruling. Even if substitute terms are agreed upon, payments under such terms may be less than payments under the MSA or otherwise could be made according to or subject to different terms and conditions, which could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of the

Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full. See "—If Litigation Challenging the MSA, the Qualifying Statutes and Related Legislation Were Successful, Payments under the MSA Might be Suspended or Terminated" and "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Severability".

Amendments, Waivers and Termination

As a settlement agreement between the PMs and the Settling States, the MSA is subject to amendment in accordance with its terms, and may be terminated upon consent of the parties thereto. Parties to the MSA, including the State, may waive the performance provisions of the MSA. The Authority is not a party to the MSA; accordingly, the Authority does not have any right to challenge any such amendment, waiver or termination. No assurance can be given that such an amendment, waiver or termination of the MSA would not have a material adverse effect on the Authority and its ability to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full. See "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Amendments and Waivers".

Reliance on State Enforcement of the MSA; State Impairment

The State may not convey and has not conveyed to the Authority or the Bondholders any right to enforce the terms of the MSA. Pursuant to its terms, the MSA, as it relates to the State, can only be enforced by the State. A failure by the State to enforce the MSA or an impairment by the State of the rights and remedies of the Holders of the Series 2018 Bonds or the security for such Bonds could have a materially adverse effect on the amount and/or timing of the receipt of Pledged TSRs by the Authority. In the Sale Agreement, the State has covenanted that it will enforce, at the expense of the State, the Authority's right to receive the Pledged TSRs to the full extent permitted by the MSA and take all actions as may be required by law and the MSA to preserve, maintain, defend, protect and confirm the interests of the Authority in and to the Pledged TSRs and in the proceeds thereof in all material respects. No assurance can be given that the State will enforce any particular provision of the MSA. It is also possible that the State could attempt to claim some or all of the Pledged TSRs for itself or otherwise interfere with the security for the Series 2018 Bonds. In that event, the Bondholders, the Indenture Trustee or the Authority may assert claims based on statutory, contractual, fiduciary or constitutional theories, but no prediction can be made as to the disposition of such claims. See "LEGAL CONSIDERATIONS."

Amendment to the State's Qualifying Statute

The MSA provides that if a state adopts the Model Statute or a Qualifying Statute but then repeals it or amends it in such fashion that it is no longer a Qualifying Statute, then such state will no longer be entitled to any protection from the NPM Adjustment. No assurance can be provided that a PM would not assert that, or a court or arbitrator would not determine that, the State's Qualifying Statute as may be so amended would not continue to constitute a Qualifying Statute. Should it be determined that any prior or future amendments to the State's Qualifying Statute cause it to no longer be a Qualifying Statute, then the State would no longer be entitled to any protection from the NPM Adjustment, and there could be substantial reductions in the amount of Pledged TSRs available to the Authority to make payments on the Series 2018 Bonds. See "LEGAL CONSIDERATIONS—MSA and Qualifying Statute Enforceability."

Bankruptcy of a PM May Delay, Reduce or Eliminate Payments Under the MSA

If one or more PMs were to become a debtor in a case under Title 11 of the United States Code (the "**Bankruptcy Code**") and, as a result, there were delays in or reductions or elimination of the debtor PMs payments under the MSA, the annual Pledged TSRs received by the Authority could be reduced.

In the event of the bankruptcy of a PM, unless relief from the bankruptcy court is obtained, the automatic stay provisions of the Bankruptcy Code could prevent any action by the State, the Authority, the Indenture Trustee or the holders or the beneficial owners of the Series 2018 Bonds to collect any tobacco settlement payments or any other amounts owing by the bankrupt PM. In addition, even if the bankrupt PM wanted to continue paying the tobacco settlement payments, it could be prohibited as a matter of law from making such payments. In particular, if it were to be determined that the MSA was not an "executory contract" under the Bankruptcy Code, then the PM may be unable to make further payments of tobacco settlement payments. If the MSA is determined in a bankruptcy case to be an "executory contract" under the Bankruptcy Code, the bankrupt PM could seek court approval to reject the MSA and stop making payments under it. No assurance can be given as to whether a court will find that the MSA is or is not an executory contract, and either determination could result in delays and/or reductions in payments on, or other losses with respect to, the Series 2018 Bonds.

Furthermore, payments previously made to the holders or beneficial owners of the Series 2018 Bonds could be avoided as preferential payments, so that such holders or beneficial owners would be required to return such payments to the bankrupt PM. Also, the bankrupt PM may have the power to alter the terms of its payment obligations under the MSA without the consent, and even over the objection of the State, the Authority, the Indenture Trustee or the holders and beneficial owners of the Series 2018 Bonds. Finally, while there are provisions of the MSA purporting to deal with the situation when a PM goes into bankruptcy (including provisions regarding the termination of that PM's obligations) (see "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Termination of MSA"), such provisions may be unenforceable. NAAG has stated that it actively monitors any bankruptcy-related activity of the PMs with the goals of preventing the debtors from using bankruptcy law to avoid their MSA payment obligations to the Settling States and ensuring that Settling States can continue to perform their regulatory duties despite the bankruptcy filing, but there can be no assurance that the actions of NAAG will be successful. There may be other possible effects of a bankruptcy of a PM that could result in delays and/or reductions in, or elimination of, tobacco settlement payments under the MSA. Regardless of any specific adverse determination in a PM bankruptcy proceeding, the fact of a PM bankruptcy proceeding in and of itself could have a material adverse effect on the timing of receipt, amount and value of the Pledged TSRs.

Failures by PMs to Make Payments Under the MSA Could be Coupled with an Inability on the Part of the Settling States to Enforce and Collect Defaulted Payments

A PM could discontinue making required payments under the MSA for any reason. Any attempts to enforce payments under the MSA from a PM in breach of the MSA could be costly and time consuming as well as likely to include litigation. For example, Vibo Corporation, Inc., d/b/a General Tobacco ("**General Tobacco**") ceased production of cigarettes in 2010 and has defaulted upon certain of its MSA payments. General Tobacco has stated that it will be unable to make any back payments it owes under the MSA. Two Settling States brought suit on behalf of all of the Settling States seeking full payment by General Tobacco of its MSA obligations. The ability of the Settling States to enforce and collect such payments in instances such as this is limited by the ability of the defaulting PM to meet its obligations and may be costly. Failure by other PMs to make payments could be coupled with an inability on the part of the Settling States to enforce and collect defaulted payments under the MSA, which could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of the Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full.

Series 2018 Bonds Secured Solely by the Pledged TSRs and Moneys in the Pledged Accounts; Limited Resources of the Authority

Investors in the Series 2018 Bonds must look solely to the Pledged TSRs and moneys in the Accounts pledged under the Indenture for repayment of their investment. Payment of the principal of,

interest on, and redemption premium, if any, on the Series 2018 Bonds will be a valid claim only as against the special fund or funds relating thereto. Neither the faith and credit nor the taxing power of the State or any municipal corporation, subdivision, or agency of the State, other than the Authority as set forth in the Act, is pledged to the payment of the principal of, interest on and premium, if any, on the Series 2018 Bonds. The Authority has no taxing power.

The Series 2018 Bonds are payable only from the assets of the Authority pledged under the Indenture. In the event that such assets of the Authority have been exhausted, no amounts will thereafter be available to be paid on the Series 2018 Bonds. The Series 2018 Bonds are not legal or moral obligations of the State and no recourse may be had with respect thereto for payment of amounts owing on the Series 2018 Bonds. Investors in the Series 2018 Bonds must look solely to the assets of the Authority pledged under the Indenture for repayment of their investment. The Authority's only source of funds for payments on the Series 2018 Bonds is the Collateral. The Authority has no taxing power and no assets are available to pay Series 2018 Bonds other than the assets acquired pursuant to the Sale Agreement, pledged under the Indenture. No assets of the State are pledged to secure or will be available to pay debt service on the Series 2018 Bonds.

Limited Remedies

The Indenture Trustee is limited under the terms of the Sale Agreement to enforcing the terms of the agreement and to receiving the Pledged TSRs and applying them in accordance with the Indenture. If an Event of Default occurs, the Indenture Trustee cannot sell its rights under the Sale Agreement. The Authority is not a party to the MSA and has not made any representation or warranty that the MSA is enforceable. Remedies under the Sale Agreement do not include the repurchase by the State of the Pledged TSRs under any circumstances, including unenforceability of the MSA, the State's Qualifying Statute or breach of any representation or warranty. The remedies of the Series 2018 Bondholders are no greater than those afforded to the Indenture Trustee.

Limited Liquidity; Price Volatility

There is currently a limited secondary market for securities such as the Series 2018 Bonds. The Underwriter is under no obligation to make a secondary market for the Series 2018 Bonds. There can be no assurance that a secondary market for the Series 2018 Bonds will develop, or if a secondary market does develop, that it will provide holders of the Series 2018 Bonds with liquidity or that it will continue for the life of the Series 2018 Bonds. Tobacco settlement revenue bonds generally have also exhibited greater price volatility than traditional municipal bonds. Any purchaser of the Series 2018 Bonds must be prepared to hold such securities for an indefinite period of time or until redemption or final payment of such securities.

Limited Nature of Ratings; Reduction, Suspension or Withdrawal of a Rating

In recent years, rating agencies, including S&P Global Ratings (the rating agency rating the Series 2018 Bonds) ("**S&P**" or the "**Rating Agency**"), have revised their assumptions regarding their ratings of unenhanced tobacco settlement bonds on account of the continuing decline in MSA payments resulting from cigarette sales volume decline, withholdings by PMs of MSA payments, and disputes and settlements relating to MSA payments.

S&P revised its assumptions for all tobacco settlement securitizations in October 2011 and then placed 86 classes from 23 tobacco settlement securitizations on CreditWatch Negative. On January 27, 2012, S&P lowered its ratings on 87 classes from 22 tobacco settlement securitizations, among other actions. There is no assurance that S&P, the sole rating agency rating the Series 2018 Bonds, will not

change its assessment of unenhanced tobacco settlement bonds as a class of securities in a way that would result in a reduction, suspension or withdrawal of the rating of the Series 2018 Bonds.

Most recently, in June 2016, Fitch Ratings withdrew its outstanding structured finance ratings on all of its rated U.S. tobacco asset-backed securities. In its May 2016 announcement of its intention to withdraw the ratings, Fitch Ratings said the primary reason for the withdrawal was that individual, custom modifications (by several participants) to material calculations originally part of the MSA eroded Fitch Ratings' confidence that ratings "can be consistently maintained, as insufficient information exists to predict the likelihood and effect of future modifications or that insufficient information will exist to support new, material variables included in them."

The rating for the Series 2018 Bonds address only the likelihood that the Authority will pay the interest on and principal of the Series 2018 Bonds when due. The rating of the Series 2018 Bonds are not a recommendation to purchase, hold or sell such Series 2018 Bonds and such rating will not address the marketability of such Series 2018 Bonds, any market price of such Series 2018 Bonds or the suitability for a particular investor of purchasing such Series 2018 Bonds. No assurance can be given that any rating will remain for any given period of time or that any rating will not be lowered, suspended or withdrawn entirely by S&P if, in its judgment, circumstances so warrant based on factors prevailing at the time, including, but not limited to, the evaluation by S&P of the financial outlook for the tobacco industry. See "RATINGS" herein.

Structuring Assumptions Not Based on Expert Econometric Forecast

The scenarios of domestic cigarette consumption declines upon which the Series 2018 Bonds are structured were not provided by an independent expert in econometric forecasting. The Pledged TSR projections are provided using the methodology and assumptions described herein under "PLEDGED TSRS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS—Pledged TSRs Projection Methodology and Assumptions—*Cigarette Shipments Under the MSA*". Certain assumptions were made with respect to consumption of cigarettes in the United States. Actual consumption decline will differ, and may differ materially, from the scenarios presented herein, and no assurance can be given that actual cigarette consumption in the United States during the term of the Series 2018 Bonds will be as assumed. See "PLEDGED TSRS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS—Pledged TSRs Projection Methodology and Assumptions—*Cigarette Shipments Under the MSA*".

LEGAL CONSIDERATIONS

The following discussion summarizes some, but not all, of the possible legal issues that could adversely affect the ability of the Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full and could have an adverse effect on the liquidity and/or market value of the Series 2018 Bonds. The discussion does not address every possible legal challenge that could result in a decision that would cause the Pledged TSRs to be reduced or eliminated. Any reference in the discussion to an opinion is an incomplete summary of such opinion and is qualified in its entirety by reference to the actual opinion.

Bankruptcy of a PM

The enforceability of the rights and remedies of the State (and thus the Bondholders) and of the obligations of a PM under the MSA (on which the debt service payments of the Authority depend) are subject to the Bankruptcy Code and to other applicable insolvency, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally. See "RISK FACTORS—Bankruptcy of a PM

May Delay, Reduce or Eliminate Payments Under the MSA" for risks relating to the automatic stay provisions of the Bankruptcy Code, "executory contracts," preferential payments, alteration of the terms of payment obligations, and other factors.

MSA and Qualifying Statute Enforceability

Certain parties have filed lawsuits against some, and in certain cases all, of the signatories to the MSA, alleging, among other things, that the MSA, Qualifying Statutes and Complementary Legislation violate and are void or unenforceable under certain provisions of law. See "RISK FACTORS—If Litigation Challenging the MSA, the Qualifying Statutes and Related Legislation Were Successful, Payments under the MSA Might be Suspended or Terminated".

No assurance can be given that a particular court would not hold that the MSA is not valid or enforceable, or that the State's Qualifying Statute is not valid, enforceable, or constitutional, thus resulting in delays and/or reductions in, or elimination of, payments of the Pledged TSRs available to the Authority to pay debt service on the Series 2018 Bonds.

See "RISK FACTORS—Other Risks Relating to the MSA and Related Statutes—Amendment to the State's Qualifying Statute."

Limitations on Certain Opinions

A court's decision regarding the matters upon which a lawyer is opining would be based on such court's own analysis and interpretation of the factual evidence before it and of applicable legal principles. Thus, if a court reached a different result from that expressed in an opinion, it would not necessarily constitute reversible error or be inconsistent with that opinion. An opinion of counsel is not a prediction of what a particular court (including any appellate court) that reached the issue on the merits would hold, but, instead, is the opinion of such counsel as to the proper result to be reached by a court applying existing legal rules to the facts as properly found after appropriate briefing and argument and, in addition, is not a guarantee, warranty or representation, but rather reflects the informed professional judgment of such counsel as to specific questions of law. Opinions of counsel are not binding on any court or party to a court proceeding. The descriptions of the opinions set forth herein are summaries, do not purport to be complete, and are qualified in their entirety by the opinions themselves.

Enforcement of Rights to Pledged TSRs

It is possible that the State could in the future attempt to claim some or all of the Pledged TSRs for itself, or otherwise interfere with the security for the Series 2018 Bonds. In that event, the Bondholders, the Indenture Trustee or the Authority may assert claims based on statutory, contractual, fiduciary or constitutional theories, but no prediction can be made as to the disposition of such claims. See "RISK FACTORS—Other Risks Relating to the MSA and Related Statutes—Reliance on State Enforcement of MSA; State Impairment."

Contractual Remedies

Under State law, settlements are treated as contracts and may be enforced according to their terms. The Consent Decree coupled with the MSA is a court-approved settlement of lawsuits that establishes the State's right to receive the Pledged TSRs. Pursuant to the Act and the Sale Agreement, the State has covenanted, among other things, to enforce, at the expense of the State, the Authority's rights to receive the Pledged TSRs to the full extent permitted by the MSA, to take all actions as may be required by law and the MSA fully to preserve, maintain, defend, protect and confirm the interest of the Authority in the Pledged

TSRs and in the proceeds thereof in all material respects, and not to take any action that will materially and adversely affect the Authority's legal right to receive the Pledged TSRs. Thus, if the State violates such agreement so as to impair the Authority's right to the Pledged TSRs, the Indenture Trustee, as assignee of the Authority's rights under the Sale Agreement, could seek to compel the State to honor such agreement. In general, as interested parties, the Authority on its own behalf, and the Indenture Trustee on behalf of the Bondholders, could also seek to enforce the State's rights under the MSA, although, as third parties to the MSA, their rights to do so are uncertain.

Based on the U.S. Supreme Court's standard of review for Contract Clause challenges in *Energy Reserves Group, Inc. v. Kansas Power Light Co.*, 459 U.S. 400 (1983), the State must justify the exercise of its inherent police power to safeguard the vital interests of its people before the State may alter contracts similar to the MSA or the financing arrangements in a manner that would substantially impair the rights of the holders of the Series 2018 Bonds to be paid from the Pledged TSRs. In those instances, however, where a state's own contractual obligations involving financing will be substantially impaired, the U.S. Supreme Court applies a stricter standard of judgment to a state's actions due to the risk that a state's self-interest rather than any public necessity will be the motivation for its actions. Indeed, in *United States Trust Company of New York v. New Jersey*, 431 U.S. 1 (1977), the U.S. Supreme Court noted that only once in an entire century had the U.S. Supreme Court upheld the alteration of a municipal bond contract. Thus, in order to justify the enactment by the State of legislation that substantially impairs the contractual rights of the holders of the Series 2018 Bonds to be paid from the Pledged TSRs, the State not only must demonstrate a significant and legitimate public purpose, such as the remedying of a broad and general social or economic problem, but must also demonstrate that its actions under such circumstances satisfy the U.S. Supreme Court's strict standard of judgment employed in United States Trust Company and also that the impairment of the rights of the holders of the Series 2018 Bonds are based upon reasonable conditions and are of a character appropriate to the public purpose justifying the legislation's adoption.

Constitutional Claims. Holders of the Series 2018 Bonds may also have constitutional claims under the Due Process Clauses of the United States Constitution and State Constitution in the event the State attempts to claim some or all of the Pledged TSRs for itself, or otherwise interferes with the security for the Series 2018 Bonds.

No Assurance As to the Outcome of Litigation or Arbitration Proceedings

With respect to all matters of litigation or arbitration proceedings mentioned above that have been brought and may in the future be brought against the PMs, or involving the enforceability or constitutionality of the MSA, and/or the State's related legislation, Qualifying Statute or the enforcement of the right to the Pledged TSRs or otherwise filed in connection with the tobacco industry, the outcome of such litigation or arbitration proceedings, in general, cannot be predicted with certainty and depends, among other things, on (i) the issues being appropriately presented and argued before the courts (including the applicable appellate courts) and arbitration panels and (ii) the courts or panels, having been presented with such issues, correctly applying applicable legal principles in reaching appropriate decisions regarding the merits. In addition, courts and panels may, in their exercise of equitable jurisdiction, reach judgments based not upon the legal merits but upon a balancing of the equities among the parties. Accordingly, no assurance can be given as to the outcome of any such litigation or arbitration and any such adverse outcome could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of the Authority to pay debt service on all or a portion of the Series 2018 Bonds on a timely basis or in full.

SUMMARY OF THE MASTER SETTLEMENT AGREEMENT

The following is a brief summary of certain provisions of the MSA and related information. This summary is not complete and is subject to, and qualified in its entirety by reference to, the MSA as amended. A copy of the MSA in its original form is attached hereto as APPENDIX A. Several amendments have been made to the MSA which are not included in APPENDIX A. Except for those amendments pursuant to which certain tobacco companies became SPMs, such amendments involve technical and administrative provisions. See "RISK FACTORS" and "LEGAL CONSIDERATIONS" herein for a discussion of certain risks related to the MSA.

General

The MSA is an industry-wide settlement of litigation between the Settling States (including the State) and the four original OPMs that was entered into between the attorneys general of the Settling States and the original OPMs on November 23, 1998. The MSA provides for other tobacco companies (the "**SPMs**") to become parties to the MSA. The OPMs together with the SPMs are referred to as the "**PMs**". The settlement represents the resolution of a large potential financial liability of the PMs for smoking-related injuries, the costs of which have been borne and will likely continue to be borne by states. Pursuant to the MSA, the Settling States agreed to settle all their past, present and future smoking-related claims against the PMs in exchange for agreements and undertakings by the PMs concerning a number of issues. These issues include, among others, making payments to the Settling States, abiding by more stringent advertising restrictions and funding educational programs, all in accordance with the terms and conditions set forth in the MSA. Distributors of PMs' products are also covered by the settlement of such claims to the same extent as the PMs.

Parties to the MSA

The Settling States are all of the states, territories and the District of Columbia, except for the four states (Florida, Minnesota, Mississippi and Texas) that separately settled with the original OPMs prior to the adoption of the MSA (the "**Previously Settled States**"). According to NAAG, the following PMs are parties to the MSA (as of May 31, 2018, NAAG's most recent reference date):

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OPMs	SPMs	
Philip Morris USA Inc. (formerly Philip Morris Incorporated) R.J. Reynolds Tobacco Company (formerly R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation (2004 merger) and Lorillard Tobacco Company (2015 merger))	Bekenton, S.A. [(1)] Canary Islands Cigar Co. Caribbean-American Tobacco Corp. (CATCORP) The Chancellor Tobacco Company, UK Ltd. Commonwealth Brands, Inc. Daughters & Ryan, Inc. M/s. Dhanraj International [(1)] Eastern Company S.A.E. Ets L Lacroix Fils NV S.A. (Belgium) Farmers Tobacco Company of Cynthiana, Inc. General Jack's Incorporated General Tobacco (Vibo Corporation d/b/a General Tobacco) [(2)] House of Prince A/S Imperial Tobacco Limited/ITL (USA) Limited Imperial Tobacco Limited/ITL (UK) Imperial Tobacco Mullingar (Ireland) Imperial Tobacco Polska S.A. (Poland) Imperial Tobacco Production Ukraine Imperial Tobacco Sigara ve Tutunculuk Sanayi Ve Ticaret S.A. (Turkey) International Tobacco Group (Las Vegas), Inc. ITG Brands, LLC (formerly known as Lignum-2, LLC) [(3)] Japan Tobacco International USA, Inc. King Maker Marketing Konci Group (USA) Inc. (formerly known as Konci G&D Management Group (USA) Inc.) Kretek International Liberty Brands, LLC [(1)]	Liggett Group, LLC Mac Baren Tobacco Company A/S Monte Paz (Compania Industrial de Tabacos Monte Paz S.A.) NASCO Products, LLC [(4)] OOO Tabaksfacrik Reemtsma Wolga (Russia) P.T. Djarum Pacific Stanford Manufacturing Corporation Peter Stokkebye Tobaksfabrik A/S Planta Tabak-manufaktur Gmbh & Co. Poschl Tabak GmbH & Co. KG Premier Manufacturing Incorporated Reemtsma Cigarettenfacbriken GmbH (Reemtsma) Santa Fe Natural Tobacco Company, Inc. Scandinavian Tobacco Group Lane Ltd. (formerly Lane Limited and Tobacco Exporters International (USA) Ltd.) Sherman's 1400 Broadway N.Y.C., LLC [(5)] Societe National d'Exploitation Industrielle des Tabacs et Allumettes (SEITA) Tabacalera del Este, S.A. (TABESA) Top Tobacco, LP U.S. Flue-Cured Tobacco Growers, Inc. Van Nelle Tabak Nederland B.V. (Netherlands) Vector Tobacco Inc. (formerly Vector Tobacco Inc. and Medallion Company, Inc.) Virginia Carolina Corporation, Inc. Von Eicken Group Wind River Tobacco Company, LLC VIP Tobacco USA, LTD. (formerly Winner Sales Company) ZNF International, LLC

[(1)] Has filed for bankruptcy relief. There may be other PMs that have filed for bankruptcy relief, of which the Authority is not aware. NAAG reports that other tobacco manufacturers that had been SPMs are no longer SPMs due to dissolution from bankruptcy or otherwise.

[(2)] Ceased production of cigarettes and other tobacco products.

[(3)] OPM with respect to those cigarette brands purchased from Reynolds Tobacco and Lorillard.

[(4)] Acquired by 22nd Century Group, Inc. in August 2014, with 22nd Century Group, Inc. and its subsidiaries becoming signatories to an adherence agreement to the MSA, according to news reports.

[(5)] Altria acquired Sherman Group Holdings, LLC and its subsidiaries in January 2017.

The MSA restricts PMs from transferring their tobacco product brands, cigarette product formulas and cigarette businesses (unless they are being transferred exclusively for use outside the United States) to any entity that is not a PM under the MSA, unless the transferee agrees to assume the obligations of the

transferring PM under the MSA related to such brands, formulas or businesses. The MSA expressly provides that the payment obligations of each PM are not the obligation or responsibility of any affiliate of such PM or any other PM and, further, that the remedies, penalties and sanctions that may be imposed or assessed in connection with a breach or violation of the MSA will only apply to the PMs and not against any other person or entity. Obligations of the SPMs, to the extent that they differ from the obligations of the OPMs, are described below under "–Subsequent Participating Manufacturers".

Scope of Release

Under the MSA, the PMs and the other "Released Parties" (defined below) are released from:

- claims based on past conduct, acts or omissions (including any future damages arising therefrom) in any way relating to the use, sale, distribution, manufacture, development, advertising, marketing or health effects of, or exposure to, or research, statements, or warnings regarding, tobacco products; and

- monetary claims based on future conduct, acts or omissions in any way relating to the use of or exposure to tobacco products manufactured in the ordinary course of business, including future claims for reimbursement of healthcare costs.

This release is binding upon each Settling State and any of its past, present and future agents, officials acting in their official capacities, legal representatives, agencies, departments, commissions and divisions. The MSA is further stated to be binding on the following persons, to the full extent of the power of the signatories to the MSA to release past, present and future claims on their behalf: (i) any Settling State's subdivisions (political or otherwise, including, but not limited to, municipalities, counties, parishes, villages, unincorporated districts and hospital districts), public entities, public instrumentalities and public educational institutions; and (ii) persons or entities acting in a *parens patriae*, sovereign, quasi-sovereign, private attorney general, *qui tam*, taxpayer, or any other capacity, whether or not any of them participate in the MSA (a) to the extent that any such person or entity is seeking relief on behalf of or generally applicable to the general public in such Settling State or the people of such Settling State, as opposed solely to private or individual relief for separate and distinct injuries, or (b) to the extent that any such entity (as opposed to an individual) is seeking recovery of healthcare expenses (other than premium or capitation payments for the benefit of present or retired state employees) paid or reimbursed, directly or indirectly, by a Settling State. All such persons or entities are referred to collectively in the MSA as "**Releasing Parties**".

To the extent that the attorney general of a Settling State does not have the power or authority to bind any of the Releasing Parties in such state, the release of claims contemplated by the MSA may be ineffective as to the Releasing Parties and any amounts that become payable by the PMs on account of their claims, whether by way of settlement, stipulated judgment or litigated judgment, will trigger the Litigating Releasing Parties Offset. See "–Adjustments to Payments".

The release inures to the benefit of all PMs and their past, present and future affiliates, and the respective divisions, officers, directors, employees, representatives, insurers, lenders, underwriters, tobacco-related organizations, trade associations, suppliers, agents, auditors, advertising agencies, public relations entities, attorneys, retailers and distributors of any PM or any such affiliate (and the predecessors, heirs, executors, administrators, successors and assigns of each of the foregoing). They are referred to in the MSA individually as a "**Released Party**" and collectively as the "**Released Parties**". However, the term "Released Parties" does not include any person or entity (including, but not limited to, an affiliate) that is itself an NPM at any time after the MSA execution date, unless such person or entity becomes a PM.

Overview of Payments by the Participating Manufacturers; MSA Escrow Agent

The MSA requires that the PMs make several types of payments, including Initial Payments, Annual Payments and Strategic Contribution Payments, as discussed below.* These payments (with the exception of the upfront Initial Payment) are subject to various adjustments and offsets, some of which could be material. See "–Adjustments to Payments" and "–Subsequent Participating Manufacturers" below. SPMs were not required to make Initial Payments. The OPMs have made all of the Initial Payments. Thus far, most of the PMs† have made the Annual Payments due in 2000 through and including 2018, and Strategic Contribution Payments due in 2008 through, and including, 2017, which was the last year in which such Strategic Contribution Payments were due (subject, in each case, to certain withholdings and payments into the DPA, including as described in "—NPM Adjustment Claims"). See "—Payments Made to Date".

Payments required to be made by the OPMs are calculated annually based on actual domestic shipments of cigarettes in the prior calendar year by reference to the OPMs' domestic shipment of cigarettes in 1997, with consideration under certain circumstances for the profitability of each OPM. Payments to be made by the SPMs are recalculated each year based on the Market Share of each individual SPM in relation to the Market Share of the OPMs. For SPMs that became signatories to the MSA within 90 days of its execution, payments are recalculated each year based on the Market Share less the Base Share of such SPM in relation to the Market Share of the OPMs. See "—Subsequent Participating Manufacturers" below. Pursuant to an escrow agreement (the "**MSA Escrow Agreement**") established in conjunction with the MSA, Annual Payments are to be made to Citibank, N.A., as escrow agent (the "**MSA Escrow Agent**"), which in turn will disburse the funds to the parties entitled thereto. The State has irrevocably directed the MSA Escrow Agent and the MSA Auditor (as defined in the MSA) to transfer all Pledged TSRs directly to the Indenture Trustee.

Beginning with the payments due in the year 2000, PricewaterhouseCoopers LLP, the independent auditor under the MSA (the "**MSA Auditor**"), has, among other things, calculated and determined the amount of all payments owed pursuant to the MSA, the adjustments, reductions and offsets thereto (and all resulting carry-forwards, if any) and the allocation of such payments, adjustments, reductions, offsets and carry-forwards among the PMs and among the Settling States. This information is not publicly available and the MSA Auditor has agreed to maintain the confidentiality of all such information, except that the MSA Auditor may provide such information to PMs and the Settling States as set forth in the MSA.

Initial Payments

Initial Payments were made only by the OPMs. In December 1998, the OPMs collectively made an up-front Initial Payment of $2.40 billion. The 2000 Initial Payment, which had a scheduled base amount of approximately $2.47 billion, was paid in December 1999 in the approximate amount of $2.13 billion due to various adjustments. The 2001 Initial Payment, which had a scheduled base amount of approximately $2.55 billion, was paid in December 2000 in the approximate amount of $2.04 billion after taking into account various adjustments and an earlier overpayment. The 2002 Initial Payment, which had a scheduled base amount of approximately $2.62 billion, was paid in December 2001, in the approximate amount of $1.89 billion after taking into account various adjustments and a deposit made to the DPA. Approximately

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* Other payments that are required to be made by the PMs, such as payments of attorneys' fees and payments to a national foundation established pursuant to the MSA, are not allocated to the Settling States (and thus not allocated to the Authority) and are not available to the Bondholders, and consequently are not discussed herein.

† Vibo Corporation, Inc., d/b/a General Tobacco, ceased production of cigarettes in 2010 and has defaulted upon certain of its MSA payments. General Tobacco has stated that it will be unable to make any back payments it owes under the MSA.

$204 million, which was substantially all of the money previously deposited in the DPA for payment to the Settling States, was distributed to the Settling States with the Annual Payment due April 15, 2002. The 2003 Initial Payment, which had a scheduled base amount of approximately $2.70 billion, was paid in December 2002 and January 2003, in the approximate amount of $2.14 billion after taking into account various adjustments. No Initial Payments were due after the 2003 Initial Payment.

Annual Payments

The OPMs and the other PMs are required to make Annual Payments on each April 15, beginning in 2000, in perpetuity. Most of the PMs made the Annual Payments due April 15 in each of the years 2000 through 2018. The scheduled base amounts of Annual Payments are set forth in the following table:

Base Amounts of Annual Payments[(1)]

Payment Year	Base Amount	Payment Year	Base Amount
2000	$4,500,000,000	2010	$8,139,000,000
2001	5,000,000,000	2011	8,139,000,000
2002	6,500,000,000	2012	8,139,000,000
2003	6,500,000,000	2013	8,139,000,000
2004	8,000,000,000	2014	8,139,000,000
2005	8,000,000,000	2015	8,139,000,000
2006	8,000,000,000	2016	8,139,000,000
2007	8,000,000,000	2017	8,139,000,000
2008	8,139,000,000	Thereafter	9,000,000,000
2009	8,139,000,000		

(1) The Annual Payments from 2000 through 2018 have been made. Adjustments to Annual Payments for a given year may impact Annual Payments due in subsequent years. This table reflects base amounts of Annual Payments only, and does not reflect adjustments. Actual payments received have been substantially lower than the base amounts due to the application of adjustments. See "—Payments Made to Date" below.

The respective portion of each base amount applicable to each OPM is calculated by multiplying the base amount by the OPM's Relative Market Share (defined below) during the preceding calendar year. The base annual payments in the above table will be increased by at least the minimum 3% Inflation Adjustment, adjusted by the Volume Adjustment, reduced by the Previously Settled States Reduction, and further adjusted by the other adjustments described below. Each SPM has Annual Payment obligations under the MSA (separate from the payment obligations of the OPMs) according to its market share. However, any SPM that became a party to the MSA within 90 days after it became effective pays only if its market share exceeds the higher of its 1998 market share or 125% of its 1997 market share (such higher share, the "**Base Share**").

"**Relative Market Share**" is defined as an OPM's respective share (expressed as a percentage) of the number of individual cigarettes shipped by all OPMs in or to the 50 states, the District of Columbia and Puerto Rico (defined hereafter as the "**United States**"), as measured by the OPM's reports of shipments to Management Science Associates, Inc. ("**MSAI**") (or any successor acceptable to all the OPMs and a majority of the attorneys general of the Settling States who are also members of the NAAG executive committee). The term "**cigarette**" is defined in the MSA to mean any product that contains nicotine, is intended to be burned or heated under ordinary conditions of use, contains tobacco and is likely to be offered to, or purchased by, consumers as a cigarette and includes "roll-your-own" tobacco.

The base amounts shown in the table above are subject to the following adjustments applied in the following order:

- the Inflation Adjustment,
- the Volume Adjustment,
- the Previously Settled States Reduction,
- the Non-Settling States Reduction,
- the NPM Adjustment,
- the Offset for Miscalculated or Disputed Payments,
- the Litigating Releasing Parties Offset, and
- the Offset for Claims-Over.

Application of these adjustments resulted in a material reduction of the Annual Payments due to the State under the MSA from the scheduled base amounts for the years 2000 through 2018, as discussed below under the caption "—Payments Made to Date".

Strategic Contribution Payments

The OPMs were required to make Strategic Contribution Payments on April 15 of each year from 2008 through 2017. Most of the PMs made the Strategic Contribution Payments due April 15 in each of the years 2008 through 2017. The base amount of each Strategic Contribution Payment was $861 million. The respective portion of the base amount applicable to each OPM was calculated by multiplying the base amount by the OPM's Relative Market Share during the preceding calendar year. The SPMs were required to make Strategic Contribution Payments if their Market Share increased above their respective Base Shares. See "—Subsequent Participating Manufacturers" below.

The base amounts of the Strategic Contribution Payments were subject to the adjustments as described in "—Annual Payments" above, except for the Previously Settled States Reduction, which was not applicable to Strategic Contribution Payments. Application of the adjustments resulted in a material reduction of the Strategic Contribution Payments due to the State under the MSA from the scheduled base amount for the years 2000 through 2017, as discussed below under the caption "—Payments Made to Date". No Strategic Contribution Payments were due after the 2017 Strategic Contribution Payment.

Adjustments to Payments

The base amounts of the Annual Payments are subject to certain adjustments to be applied sequentially and in accordance with formulas contained in the MSA.

Inflation Adjustment

The base amounts of the Annual Payments are increased each year to account for inflation. The increase in each year will be 3% or a percentage equal to the percentage increase in the Consumer Price Index (the "**CPI**") (or such other similar measures as may be agreed to by the Settling States and the PMs) for the preceding year, whichever is greater (the "**Inflation Adjustment**"). The inflation adjustment percentages are compounded annually on a cumulative basis beginning in 1999 and were first applied in 2000.

Volume Adjustment

Each of the Annual Payments is increased or decreased by an adjustment which accounts for fluctuations in the number of cigarettes shipped by the OPMs in or to the United States (the "**Volume Adjustment**").

If the aggregate number of cigarettes shipped in or to the United States by the OPMs in any given year (the "**Actual Volume**") is greater than 475,656,000,000 cigarettes (the "**Base Volume**"), the base amount allocable to the OPMs is adjusted to equal the base amount (after application of the Inflation Adjustment) multiplied by a ratio, the numerator of which is the Actual Volume and the denominator of which is the Base Volume.

If the Actual Volume in a given year is less than the Base Volume, the base amount due from the OPMs (after application of the Inflation Adjustment) is decreased by 98% of the percentage by which the Actual Volume is less than the Base Volume, multiplied by such base amount. If, however, the aggregate operating income of the OPMs from sales of cigarettes in the United States during the year (the "**Actual Operating Income**") is greater than $7,195,340,000, as adjusted for inflation in accordance with the Inflation Adjustment (the "**Base Operating Income**"), all or a portion of the volume reduction is added back (the "**Income Adjustment**"). The amount by which the Actual Operating Income of the OPMs exceeds the Base Operating Income is multiplied by the percentage of the allocable shares under the MSA represented by Settling States in which State-Specific Finality (as defined in the MSA) has been reached and divided by four, then added to the payment due. However, in no case will the amount added back due to the increase in operating income exceed the amount deducted due to the decrease in domestic volume. Any add-back due to an increase in Actual Operating Income will be allocated among the OPMs on a Pro Rata basis in accordance with their respective increases in Actual Operating Income over 1997 Base Operating Income.

Certain PMs and Settling States were in dispute regarding whether the "roll-your-own" tobacco conversion for OPMs of 0.0325 ounces for one individual cigarette should continue to be used for purposes of calculating the downward Volume Adjustments to the MSA payments (as Settling States contended), or, rather, a 0.09 ounce conversion (as PMs contended). Forty-three jurisdictions (including the State) entered into arbitration, and in an award dated January 21, 2013, the arbitration panel held that the MSA Auditor is to use the 0.0325 ounce conversion method for OPMs for purposes of roll-your-own tobacco.

Previously Settled States Reduction

The base amounts of the Annual Payments (as adjusted by the Inflation Adjustment and the Volume Adjustment, if any) are subject to a reduction reflecting the four states that had settled with the OPMs prior to the adoption of the MSA (Mississippi, Florida, Texas and Minnesota) (the "**Previously Settled States Reduction**"). The Previously Settled States Reduction reduces by 12.4500000% each applicable payment on or before December 31, 2007, by 12.2373756% each applicable payment between January 1, 2008 and December 31, 2017, and by 11.0666667% each applicable payment on or after January 1, 2018. The SPMs are not entitled to any reduction pursuant to the Previously Settled States Reduction.

PSS Credit Amendment. Most of the Settling States have executed documentation approving an amendment to the MSA that would allow SPMs to elect to receive a reduction in their MSA payments in an amount equal to a percentage (100% or a lesser percentage, depending on the SPM's election and the number of years the amendment has been in effect) of the fees paid to Previously Settled States pursuant to state legislation in the Previously Settled States, which legislation requires tobacco product manufacturers that did not sign on to the Previously Settled State Settlements to pay a fee to such Previously Settled States (the "**PSS Credit Amendment**"). The PSS Credit Amendment would also provide for certain increases in

the electing SPMs' MSA payments. Three Previously Settled States impose a fee on tobacco product manufacturers that did not sign onto the applicable state's Previously Settled State Settlement ($0.50 per pack of 20 cigarettes in Minnesota, $0.27, adjusted for inflation, per pack of 20 cigarettes in Mississippi, and $0.55 per pack of 20 cigarettes in Texas; see "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Regulatory Issues—Excise Taxes" for a discussion of litigation relating to the Texas fee). The State executed the PSS Credit Amendment on November 21, 2008 and reaffirmed on December 16, 2009. The PSS Credit Amendment is not currently in effect, because by its terms it would only take effect if and when all Settling States having aggregate Allocable Shares equal to at least 99.937049% (the equivalent of the aggregate Allocable Share of the 46 states that are Settling States), and all OPMs and Commonwealth Brands, Inc., have executed the PSS Credit Amendment. No assurance can be given as to if or when the PSS Credit Amendment will take effect. Further, no assurance can be given as to whether the PSS Credit Amendment, if and when it takes effect, would reduce the amount of Pledged TSRs available to the Authority to pay debt service on the Series 2018 Bonds. See "RISK FACTORS—Other Risks Relating to the MSA and Related Statutes—Amendments, Waivers and Termination" and "—Reliance on State Enforcement of the MSA; State Impairment."

Non-Settling States Reduction

In the event that the MSA terminates as to any Settling State, the remaining Annual Payments, if any, due from the PMs shall be reduced to account for the absence of such state. This adjustment has no effect on the amounts to be collected by states which remain a party to the MSA, and the reduction is therefore not detailed.

Non-Participating Manufacturers Adjustment

The "**NPM Adjustment**" under the MSA is based upon market share increases, measured by domestic sales of cigarettes by NPMs, and operates to reduce the payments of the PMs under the MSA in the event that the PMs incur losses in market share to NPMs during a calendar year as a result of the MSA.

Under the MSA, three conditions must be met in order to trigger an NPM Adjustment: (1) the aggregate market share of the PMs in any year must fall more than 2% below the aggregate market share held by those same PMs in 1997, (2) a nationally recognized firm of economic consultants must determine that the disadvantages experienced as a result of the provisions of the MSA were a significant factor contributing to the market share loss for the year in question, and (3) the Settling States in question must be proven to not have diligently enforced their Model Statutes. Once a significant factor determination in favor of the PMs for a particular year has been made by an economic consulting firm, or the states' agreement not to contest that the disadvantages of the MSA were a significant factor contributing to the PMs' collective loss of market share in a particular year has become effective (as occurred with respect to certain years discussed below under "*—NPM Adjustment Settlement Non-Signatories' Ongoing NPM Adjustment Claims*"), a PM has the right under the MSA to pay the disputed amount of the NPM Adjustment for that year into the DPA or withhold it altogether. The NPM Adjustment, after conclusion of the applicable arbitration regarding diligent enforcement for the relevant sales year, is applied to the subsequent year's Annual Payment and the decrease in total funds available as a result of the NPM Adjustment is then allocated on a Pro Rata basis among those Settling States that have been found (i) to not diligently enforce their Qualifying Statutes, or (ii) to have enacted the Model Statute or a Qualifying Statute that is declared invalid or unenforceable by a court of competent jurisdiction.

According to OPM SEC filings, certain PMs, including the OPMs, and the Settling States entered into three separate agreements (covering sales years 2007 to 2009, 2010 to 2012, and 2013 to 2014, respectively) wherein the Settling States would not contest that the disadvantages of the MSA were a significant factor contributing to the Market Share loss experienced by the PMs in those years. The

stipulation pertaining to each of the years covered by the agreements became effective in February of the year a final determination by the firm of independent economic consultants would otherwise have been expected if the issue had been arbitrated on the merits. Pursuant to such agreements, the parties agreed that all the conditions for the NPM Adjustment were met for 2014 on February 1, 2017, permitting those PMs, including the OPMs, to deposit their portion of the 2014 NPM Adjustment into the Disputed Payments Account in April 2017.

In April 2017, certain PMs and certain Settling States, including the State, entered into a fourth agreement for the period 2015 to 2017. Similar to the prior agreements, the parties agreed that all the conditions for the NPM Adjustment will have been met for 2015 on February 1, 2018, for 2016 on February 1, 2019, and for 2017 on February 1, 2020.

The 1997 market share percentage for the PMs, less 2%, is defined in the MSA as the "**Base Aggregate Participating Manufacturer Market Share**". If the PMs' actual aggregate market share is between 0% and 16⅔% less than the Base Aggregate Participating Manufacturer Market Share, the amounts paid by the PMs would be decreased by three times the percentage decrease in the PMs' actual aggregate market share. If, however, the aggregate market share loss from the Base Aggregate Participating Manufacturer Market Share is greater than 16⅔%, the NPM Adjustment will be calculated as follows:

NPM Adjustment =
50% + ([50% / (Base Aggregate Participating Manufacturer Market Share – 16⅔%)] x [market share loss – 16⅔%])

Regardless of how the NPM Adjustment is calculated, it is always subtracted from, and may not exceed, the total Annual Payments due from the PMs in any given year. The NPM Adjustment for any given year for a specific state cannot exceed the amount of Annual Payments due to such state. The NPM Adjustment does not apply at all if the number of cigarettes shipped in or to the United States in the year prior to the year in which the payment is due by all manufacturers that were PMs prior to December 7, 1998 exceeds the number of cigarettes shipped in or to the United States by all such PMs in 1997.

The NPM Adjustment is also state-specific in that a Settling State may avoid or mitigate the effects of an NPM Adjustment by enacting and diligently enforcing the Model Statute or a Qualifying Statute. Any Settling State that adopts and diligently enforces the Model Statute or a Qualifying Statute is exempt from the NPM Adjustment. The decrease in total funds available due to the NPM Adjustment is allocated on a Pro Rata basis among those Settling States that either (i) did not enact and diligently enforce the Model Statute or Qualifying Statute, or (ii) enacted the Model Statute or a Qualifying Statute that is declared invalid or unenforceable by a court of competent jurisdiction. The practical effect of a decision by a PM to claim an NPM Adjustment for a given year and pay its portion of the amount of such claimed NPM Adjustment into the DPA, or withhold payment of such amount, would be to reduce the payments to all Settling States on a pro rata basis until a resolution is reached regarding the diligent enforcement dispute for all Settling States for such year, or until a settlement is reached for some or all such disputes for such year (such as in the NPM Adjustment Settlement discussed below). If the PMs make a claim for an NPM Adjustment for any particular year and a state is determined to be one of a few states (or the only state) not to have diligently enforced its Model Statute or Qualifying Statute in such year, the amount of the NPM Adjustment applied to such state in the year following such determination could be as great as the amount of Annual Payments that could otherwise have been received by such state in such year. In the view of the Office of the Attorney General of the State, the State has been and is diligently enforcing its Qualifying Statute. See "STATE LAWS RELATED TO THE MSA—State Statutory Enforcement Framework" herein. See also "PLEDGED TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS".

If a Settling State enacts and diligently enforces a Qualifying Statute that is the Model Statute but it is declared invalid or unenforceable by a court of competent jurisdiction, the NPM Adjustment for any given year will not exceed 65% of the amount of such state's allocated payment for the subsequent year. If a Qualifying Statute that is not the Model Statute is held invalid or unenforceable, however, such state is not entitled to any protection from the NPM Adjustment. Moreover, if a state adopts the Model Statute or a Qualifying Statute but then repeals it or amends it in such fashion that it is no longer a Qualifying Statute, then such state will no longer be entitled to any protection from the NPM Adjustment. At all times, a state's protection from the NPM Adjustment is conditioned upon the diligent enforcement of its Model Statute or Qualifying Statute, as the case may be. See "RISK FACTORS—Payment Decreases Under the Terms of the MSA" above and "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—MSA Provisions Relating to Model/Qualifying Statutes" below. See also "—Most Favored Nation Provisions". For a discussion of the State's Qualifying Statute, Complementary Legislation and enforcement framework, see "STATE LAWS RELATED TO THE MSA."

Offset for Miscalculated or Disputed Payments

If information becomes available to the MSA Auditor not later than four years after the scheduled due date of any payment due pursuant to the MSA showing an underpayment or overpayment by a PM, the MSA Auditor will recalculate the payment and make provisions for rectifying the error (the "**Offset for Miscalculated or Disputed Payments**"). There are no time limits specified for recalculations although the MSA Auditor is required to determine amounts promptly. Disputes as to determinations by the MSA Auditor may be submitted to binding arbitration governed by the Federal Arbitration Act. In the event that mispayments have been made, they will be corrected through payments with interest (in the event of underpayments) or withholdings with interest (in the event of overpayments). Interest will be at the prime rate, except where a party fails to pay undisputed amounts or fails to provide necessary information readily available to it, in which case a penalty rate of prime plus 3% applies. If a PM disputes any required payment, it must determine whether any portion of the payment is undisputed and pay that amount for disbursement to the Settling States. The disputed portion may be paid into the DPA pending resolution of the dispute, or may be withheld. Failure to pay such disputed amounts into the DPA can result in liability for interest at the penalty rate if the disputed amount was in fact properly due and owing. See "RISK FACTORS—Payment Decreases Under the Terms of the MSA".

Litigating Releasing Parties Offset

If any Releasing Party initiates litigation against a PM for any of the claims released in the MSA, the PM may be entitled to an offset against such PM's payment obligation under the MSA (the "**Litigating Releasing Parties Offset**"). A defendant PM may offset dollar-for-dollar any amount paid in settlement, stipulated judgment or litigated judgment against the amount to be collected by the applicable Settling State under the MSA only if the PM has taken all ordinary and reasonable measures to defend that action fully and only if any settlement or stipulated judgment was consented to by the state attorney general. The Litigating Releasing Parties Offset is state-specific. Any reduction in MSA payments as a result of the Litigating Releasing Parties Offset would apply only to the Settling State of the Releasing Party.

Offset for Claims-Over

If a Releasing Party pursues and collects on a released claim against an NPM or a retailer, supplier or distributor arising from the sale or distribution of tobacco products of any NPM or the supply of component parts of tobacco products to any NPM (collectively, the "**Non-Released Parties**"), and the Non-Released Party in turn successfully pursues a claim for contribution or indemnification against a Released Party (as defined herein), the Releasing Party must (i) reduce or credit against any judgment or settlement such Releasing Party obtains against the Non-Released Party the full amount of any judgment

or settlement such Non-Released Party may obtain against the Released Party, and (ii) obtain from such Non-Released Party for the benefit of such Released Party a satisfaction in full of such Non-Released Party's judgment or settlement against the Released Party. In the event that such reduction or satisfaction in full does not fully relieve the Released Party of its duty to pay to the Non-Released Party, the PM is entitled to a dollar-for-dollar offset from its payment to the applicable Settling State (the "**Offset for Claims-Over**"). For purposes of the Offset for Claims-Over, any person or entity that is enumerated in the definition of Releasing Party set forth above is treated as a Releasing Party without regard to whether the applicable attorney general had the power to release claims of such person or entity. The Offset for Claims-Over is state-specific and would apply only to MSA payments owed to the Settling State of the Releasing Party.

Subsequent Participating Manufacturers

SPMs are obligated to make Annual Payments, which are made at the same times as the corresponding payments to be made by OPMs. Such payments for SPMs are calculated differently, however, from such payments for OPMs. Each SPM's payment obligation is determined according to its market share if, and only if, its "**Market Share**" (defined in the MSA to mean a manufacturer's share, expressed as a percentage, of the total number of cigarettes sold in the United States in a given year, as measured by excise taxes (or similar taxes, in the case of Puerto Rico)), for the year preceding the payment exceeds its Base Share. If an SPM executes the MSA after February 22, 1999 (*i.e.*, 90 days after the effective date of the MSA), its Base Share, is deemed to be zero. Fourteen of the current 52 SPMs signed the MSA on or before the February 22, 1999 deadline, according to NAAG.

For each Annual Payment, each SPM is required to pay an amount equal to the base amount of the Annual Payment owed by the OPMs, collectively, adjusted for the Volume Adjustment described above but prior to any other adjustments, reductions or offsets, multiplied by the quotient produced by dividing (i) the difference between that SPM's Market Share for the preceding year and its Base Share, by (ii) the aggregate Market Share of the OPMs for the preceding year. Other than the application of the Volume Adjustment, payments by the SPMs are also subject to the same adjustments (including the Inflation Adjustment), reductions and offsets as are the payments made by the OPMs, with the exception of the Previously Settled States Reduction.

Because the Annual Payments to be made by the SPMs are calculated differently from the calculations for Annual Payments to be made by the OPMs, a change in market share between the OPMs and the SPMs could cause the amount of Annual Payments required to be made by the PMs in the aggregate to be greater or less than the amount that would be payable if their market share remained the same. In certain circumstances, an increase in the market share of the SPMs could increase the aggregate amount of Annual Payments because the Annual Payments to be made by the SPMs are not adjusted for the Previously Settled States Reduction. However, in other circumstances, an increase in the market share of the SPMs could decrease the aggregate amount of Annual Payments because the SPMs are not required to make any Annual Payments unless their market share increases above their Base Share, or because of the manner in which the Inflation Adjustment is applied to each SPM's payments.

Certain PMs and Settling States were in dispute regarding whether the payment obligations of one SPM (Liggett Group LLC) should continue to be determined based on the "net" number of cigarettes on which federal excise tax is paid (as Settling States contended), or, rather, an "adjusted gross" number of cigarettes (as PMs contended). Forty-three jurisdictions (including the State) entered into arbitration, and in an award dated January 21, 2013, the arbitration panel held that the MSA Auditor is to use the market share for Liggett Group LLC on a net basis, but increase that calculation by a specified factor to avoid unfairness given the gross basis used for Liggett Group LLC in the MSA Auditor's March 30, 2000 calculation.

Payments Made to Date

As required, the OPMs made all of the Initial Payments due in the years 1998 to 2003 (the last year such payments were due), and most PMs made the Strategic Contribution Payments due in the years 2008 to 2017 (the last year such payments were due). Most PMs have made Annual Payments each year since 2000, the first year that Annual Payments were due. The MSA Escrow Agent has disbursed to the State (and following the execution of the Purchase Agreements, to the Authority) its allocable portions thereof and certain other amounts under the MSA. Under the MSA, the computation of Annual Payments by the MSA Auditor is confidential and may not be used for purposes other than those stated in the MSA. The Authority's sole sources of information regarding the computation of such payments are the reports and accountings furnished to it by the State.

The following table sets forth for each of the preceding 10 years the base amount of Annual Payments and Strategic Contribution Payments allocable to the State pursuant to the MSA, and the amounts actually received in such year, as described below. The amounts actually received may reflect adjustments attributable to prior years' payments.

Year[(1)]	Base Payment Allocable to the State[(2)]	Actual Receipts[(3)]
2008 Annual Payment and Strategic Contribution Payment	$216.75 million	$172.99 million
2009 Annual Payment and Strategic Contribution Payment	216.75 million	187.20 million
2010 Annual Payment and Strategic Contribution Payment	216.75 million	157.47 million
2011 Annual Payment and Strategic Contribution Payment	216.75 million	147.80 million
2012 Annual Payment and Strategic Contribution Payment	216.75 million	150.68 million
2013 Annual Payment and Strategic Contribution Payment	216.75 million	150.63 million
2014 Annual Payment and Strategic Contribution Payment	216.75 million	164.81 million[(4)]
2015 Annual Payment and Strategic Contribution Payment	216.75 million	146.32 million[(4)]
2016 Annual Payment and Strategic Contribution Payment	216.75 million	152.88 million[(4)]
2017 Annual Payment and Strategic Contribution Payment	216.75 million	151.18 million[(4)]
2018 Annual Payment	184.79 million	120.73 million[(4)]

(1) Annual Payments are, and Strategic Contribution Payments were, due from the PMs on April 15 of the applicable calendar year (payment year) pursuant to the MSA. Actual receipts are listed as of June 30 (the end of the State's fiscal year) of each year, except 2018, for which actual receipts are listed as of April 19, 2018.

(2) Rounded. The State's allocable portion of base payments as represented in this table consists of the State's 2.0532582% share of Annual Payments under the MSA, and the State's 5.7647432% share of Strategic Contribution Payments under the MSA. The final Strategic Contribution Payment was paid to the State in April 2017.

(3) Rounded. Reflects adjustments. Amounts are set forth to the best of the State's knowledge. Any adjustment is reflected in the period in which it was actually made.

(4) Source: NAAG (as of April 19, 2018).

The terms of the MSA relating to such payments and various adjustments thereto are described above under the captions "–Annual Payments", "–Strategic Contribution Payments" and "–Adjustments to Payments". One or more of the PMs are disputing or have disputed the calculations of some of the Annual Payments for the years 2000 through 2018 and Strategic Contribution Payments for the years 2008 through 2017, as described further herein. In addition, subsequent revisions in the information delivered to the MSA Auditor (on which the MSA Auditor's calculations of the Annual Payments are based) have in the past and may in the future result in a recalculation of the payments shown above. Such revisions may also result in routine recalculation of future payments. No assurance can be given as to the magnitude of any such recalculation and such recalculation could trigger the Offset for Miscalculated or Disputed Payments.

Most Favored Nation Provisions

In the event that any non-foreign governmental entity other than the federal government should reach a settlement of released claims with PMs that provides more favorable terms to the governmental entity than does the MSA to the Settling States, the terms of the MSA will be modified to match those of the more favorable settlement. Only the non-economic terms may be considered for comparison.

In the event that any Settling State should reach a settlement of released claims with NPMs that provides more favorable terms to the NPMs than the MSA does to the PMs, or relieves in any respect the obligation of any PM to make payments under the MSA, the terms of the MSA will be deemed modified to match the NPM settlement or such payment terms, but only with respect to the particular Settling State. In no event will the adjustments discussed in this paragraph modify the MSA with regard to other Settling States. See "RISK FACTORS—Payment Decreases Under the Terms of the MSA".

Disbursement of Funds from Escrow

The MSA Auditor makes all calculations necessary to determine the amounts to be paid by each PM, as well as the amounts to be disbursed to each of the Settling States. Not less than 40 days prior to the date on which any payment is due, the MSA Auditor must provide copies of the disbursement calculations to all parties to the MSA, who must within 30 days prior to the date on which such payment is due advise the other parties if it questions or challenges the calculations. The final calculation is due from the MSA Auditor not less than 15 days prior to the payment due date. The calculation is subject to further adjustments if previously missing information is received. In the event of a challenge to the calculations, the non-challenged part of a payment shall be processed in the normal course. Challenges will be submitted to binding arbitration. The information provided by the MSA Auditor to the State with respect to calculations of amounts to be paid by PMs is confidential under the terms of the MSA and may not be disclosed to the Authority or the Bondholders.

Disbursement of the funds by the MSA Escrow Agent from the escrow accounts shall occur within ten business days of receipt of the particular funds. The MSA Escrow Agent will disburse the funds due to, or as directed by, each Settling State in accordance with instructions received from that state.

Advertising and Marketing Restrictions; Educational Programs

The MSA prohibits the PMs from certain advertising, marketing and other activities that may promote the sale of cigarettes and smokeless tobacco products ("**Tobacco Products**"). Under the MSA, the PMs are generally prohibited from targeting persons under 18 years of age within the Settling States in the advertising, promotion or marketing of Tobacco Products and from taking any action to initiate, maintain or increase smoking by underage persons within the Settling States. Specifically, the PMs may not: (i) use any cartoon characters in advertising, promoting, packaging or labeling Tobacco Products; (ii) distribute any free samples of Tobacco Products except in a restricted facility where the operator thereof is able to ensure that no underage persons are present; or (iii) provide to any underage person any item in exchange for the purchase of Tobacco Products or for the furnishing of proofs-of-purchase coupons. The PMs are also prohibited from placing any new outdoor and transit advertising, and are committed to remove any existing outdoor and transit advertising for Tobacco Products in the Settling States. Other examples of prohibited activities include, subject to limited exceptions: (i) the sponsorship of any athletic, musical, artistic or other social or cultural event in exchange for the use of tobacco brand names as part of the event; (ii) the making of payments to anyone to use, display, make reference to or use as a prop any Tobacco Product or item bearing a tobacco brand name in any motion picture, television show, theatrical production, music performance, commercial film or video game; and (iii) the sale or distribution in the Settling States of any non-tobacco items containing tobacco brand names or selling messages.

In addition, the OPMs have agreed under the MSA to provide funding for the organization and operation of a charitable foundation (the "**Foundation**") and educational programs to be operated within the Foundation. The main purpose of the Foundation is to support programs to reduce the use of Tobacco Products by underage persons and to prevent diseases associated with the use of Tobacco Products. Each OPM may be required to pay its Relative Market Share of $300,000,000 on April 15 of each year on and after 2004 (as may be adjusted) in perpetuity if, during the year preceding the year when payment is due, the sum of the Market Shares of the OPMs equals or exceeds 99.05%.

Remedies upon the Failure of a PM to Make a Payment

Each PM is obligated to pay when due the undisputed portions of the total amount calculated as due from it by the MSA Auditor's final calculation. Failure to pay such portion shall render the PM liable for interest thereon from the date such payment is due to (but not including) the date paid at the prime rate published from time to time by *The Wall Street Journal* or, in the event *The Wall Street Journal* is no longer published or no longer publishes such rate, an equivalent successor reference rate determined by the MSA Auditor, plus three percentage points. In addition, any Settling State may bring an action in court to enforce the terms of the MSA. Before initiating such proceeding, the Settling State is required to provide thirty (30) days' written notice to the attorney general of each Settling State, to NAAG and to each PM of its intent to initiate proceedings.

Termination of MSA

The MSA is terminated as to a Settling State if (i) the MSA or consent decree in that jurisdiction is disapproved by a court and the time for an appeal has expired, the appeal is dismissed or the disapproval is affirmed, or (ii) the representations and warranties of the attorney general of that jurisdiction relating to the ability to release claims are breached or not effectively given. In addition, in the event that a PM enters bankruptcy and fails to perform its financial obligations under the MSA, the Settling States, by vote of at least 75% of the Settling States, both in terms of number and of entitlement to the proceeds of the MSA, may terminate certain financial obligations of that particular manufacturer under the MSA, although this provision may not be enforceable. See "LEGAL CONSIDERATIONS—Bankruptcy of a PM".

The MSA provides that if it is terminated, then the statute of limitations with respect to released claims will be tolled from the date the Settling State signed the MSA until the later of the time permitted by applicable law or one year from the date of termination and the parties will jointly move for the reinstatement of the claims and actions dismissed pursuant to the MSA. The parties will return to the positions they were in prior to the execution of the MSA.

Severability

By its terms, most of the major provisions of the MSA are not severable from its other terms. If a court materially modifies, renders unenforceable or finds unlawful any non-severable provision, the attorneys general of the Settling States and the OPMs are to attempt to negotiate substitute terms. If any OPM does not agree to the substitute terms, the MSA terminates in all Settling States affected by the court's ruling.

Amendments and Waivers

The MSA may be amended by all of the PMs affected by the amendment and by all of the Settling States affected by the amendment. The terms of any amendment will not be enforceable against any PM or Settling State which is not a party to the amendment. Any waiver will be effective only against the parties to such waiver and only with respect to the breach specifically waived.

MSA Provisions Relating to Model/Qualifying Statutes

General

The MSA sets forth the schedule and calculation of payments to be made by OPMs to the Settling States. As described above, the Annual Payments are subject to, among other adjustments and reductions, the NPM Adjustment, which may reduce the amount of money that a Settling State receives pursuant to the MSA. The NPM Adjustment will reduce payments of a PM if such PM experiences certain losses of market share in the United States in a particular year as a result of participation in the MSA and any of the Settling States fail to prove that they have diligently enforced their Qualifying Statutes in such year.

Settling States may eliminate or mitigate the effect of the NPM Adjustment by taking certain actions, including the adoption and diligent enforcement of a statute, law, regulation or rule (a "**Qualifying Statute**" or "**Escrow Statute**") which eliminates the cost disadvantages that PMs experience in relation to NPMs as a result of the provisions of the MSA. "Qualifying Statute", as defined in Section IX(d)(2)(E) of the MSA, means a statute, regulation, law, and/or rule adopted by a Settling State that "effectively and fully neutralizes the cost disadvantages that PMs experience vis-à-vis NPMs within such Settling State as a result of the provisions of the MSA". Exhibit T to the MSA sets forth a model form of Qualifying Statute (a "**Model Statute**") that will qualify as a Qualifying Statute so long as the statute is enacted without modification or addition (except for particularized state procedural or technical requirements) and is not enacted in conjunction with any other legislative or regulatory proposal. The State has enacted the Model Statute, which is a Qualifying Statute. The MSA also provides a procedure by which a Settling State may enact a statute that is not the Model Statute and receive a determination from a nationally recognized firm of economic consultants that such statute is a Qualifying Statute. See "RISK FACTORS—Payment Decreases under the Terms of the MSA" and "RISK FACTORS—If Litigation Challenging the MSA, the Qualifying Statutes and Related Legislation Were Successful, Payments under the MSA Might be Suspended or Terminated".

If a Settling State continuously has a Qualifying Statute in full force and effect and diligently enforces the provisions of such statute, the MSA states that the payments allocated to such Settling State will not be subject to a reduction due to the NPM Adjustment. Furthermore, the MSA dictates that the aggregate amount of the NPM Adjustment is to be allocated, in a Pro Rata manner, among all Settling States that do not adopt and diligently enforce a Qualifying Statute. In addition, if the NPM Adjustment allocated to a particular Settling State exceeds its allocated payment that excess is to be reallocated equally among the remaining Settling States that have not adopted and diligently enforced a Qualifying Statute. Thus, Settling States that do not adopt and diligently enforce a Qualifying Statute will receive reduced allocated payments if an NPM Adjustment is in effect. The MSA provides an economic incentive for most states to adopt and diligently enforce a Qualifying Statute.

The MSA provides that if a Settling State enacts a Qualifying Statute that is the Model Statute and uses its best efforts to keep the Model Statute in effect, but a court invalidates the statute, then, although that state remains subject to the NPM Adjustment, the NPM Adjustment is limited to no more, on a yearly basis, than 65% of the amount of such state's allocated payment (including reallocations described above). The determination from a nationally recognized firm of economic consultants that a statute constitutes a Qualifying Statute is subject to reconsideration in certain circumstances and such statute may later be deemed not to constitute a Qualifying Statute. In the event that a Qualifying Statute that is not the Model Statute is invalidated or declared unenforceable by a court, or, upon reconsideration by a nationally recognized firm of economic consultants, is determined not to be a Qualifying Statute, the Settling State that adopted such statute will become fully subject to the NPM Adjustment. Moreover, if a state adopts the Model Statute or a Qualifying Statute but then repeals it or amends it in such fashion that it is no longer a Qualifying Statute, then such state will no longer be entitled to any protection from the NPM Adjustment.

At all times, a state's protection from the NPM Adjustment is conditioned upon the diligent enforcement of its Model Statute or Qualifying Statute, as the case may be.

See "STATE LAWS RELATED TO THE MSA—Washington Qualifying Statute" herein.

Summary of the Model Statute

One of the objectives of the MSA (as set forth in the Findings and Purpose section of the Model Statute) is to shift the financial burdens of cigarette smoking from the Settling States to the tobacco product manufacturers. The Model Statute provides that any tobacco manufacturer who does not join the MSA would be subject to the provisions of the Model Statute because, as provided under the MSA,

> [i]t would be contrary to the policy of the state if tobacco product manufacturers who determine not to enter into such a settlement could use a resulting cost advantage to derive large, short-term profits in the years before liability may arise without ensuring that the state will have an eventual source of recovery from them if they are proven to have acted culpably. It is thus in the interest of the state to require that such manufacturers establish a reserve fund to guarantee a source of compensation and to prevent such manufacturers from deriving large, short-term profits and then becoming judgment-proof before liability may arise.

Accordingly, pursuant to the Model Statute, a tobacco manufacturer that is an NPM under the MSA must deposit an amount for each cigarette that constitutes a "unit sold" into an escrow account (which amount increases on a yearly basis, as set forth in the Model Statute).

The amounts deposited into the escrow accounts by the NPMs may only be used in limited circumstances. Although the NPM receives the interest or other appreciation on such funds, the principal may only be released (i) to pay a judgment or settlement on any claim of the type that would have been released by the MSA brought against such NPM by the applicable Settling State or any Releasing Party located within such state; (ii) with respect to Settling States that have enacted and have in effect Allocable Share Release Amendments (described in the next paragraph), to the extent that the NPM establishes that the amount it was required to deposit into the escrow account was greater than the total payments that such NPM would have been required to make if it had been a PM under the MSA (as determined before certain adjustments or offsets) or, with respect to Settling States that do not have in effect such Allocable Share Release Amendments, to the extent that the NPM establishes that the amount it was required to deposit into the escrow account was greater than such state's allocable share of the total payments that such NPM would have been required to make if it had been a PM under the MSA (as determined before certain adjustments or offsets); or (iii) 25 years after the date that the funds were placed into escrow (less any amounts paid out pursuant to (i) or (ii)).

The Model Statute, in its original form, required an NPM to make escrow deposits approximately in the amount that the NPM would have had to pay to all of the states had it been a PM and further authorized the NPM to obtain from the applicable Settling State the release of the amount by which the escrow deposit in that state exceeded that state's allocable share of the total payments that the NPM would have made as a PM. In recent years legislation has been enacted in the State and all other Settling States, except Missouri,[*]

[*] The Missouri Attorney General reported February 8, 2016 that Missouri had negotiated with the PMs to resolve Missouri's dispute with the PMs with respect to the NPM Adjustment for years 2003-2014, contingent upon the Missouri legislature adopting an Allocable Share Release Amendment. However, the Missouri legislature failed to adopt an Allocable Share Release Amendment by the April 15, 2016 deadline in an agreement negotiated by the Missouri Attorney General.

to amend the Qualifying or Model Statutes in those states by eliminating the reference to the allocable share and limiting the possible release an NPM may obtain under the Model Statute to the excess above the total payment that the NPM would have paid for its cigarettes had it been a PM (each an "**Allocable Share Release Amendment**"). NAAG has endorsed these legislative efforts. A majority of the PMs, including all OPMs, have indicated their agreement in writing that in the event a Settling State enacts legislation substantially in the form of the model Allocable Share Release Amendment, such Settling State's previously enacted Model Statute or Qualifying Statute will continue to constitute the Model Statute or a Qualifying Statute within the meaning of the MSA.

If the NPM fails to place funds into escrow as required by the applicable Qualifying Statute, the attorney general of the applicable Settling State may bring a civil action on behalf of the state against the NPM. If a court finds that an NPM violated the statute, it may impose civil penalties in the following amounts: (i) an amount not to exceed 5% of the amount improperly withheld from escrow per day of the violation and in an amount not to exceed 100% of the original amount improperly withheld from escrow; (ii) in the event of a knowing violation, an amount not to exceed 15% of the amount improperly withheld from escrow per day of the violation and in an amount not to exceed 300% of the original amount improperly withheld from escrow; and (iii) in the event of a second knowing violation, the court may prohibit the NPM from selling cigarettes to consumers within such state (whether directly or through a distributor, retailer or similar intermediary) for a period not to exceed two years.

NPMs include foreign tobacco manufacturers that intend to sell cigarettes in the United States that do not themselves engage in an activity in the United States but may not include the wholesalers of such cigarettes. NPMs also include Native American tobacco manufacturers that manufacture and sell, directly or through other Native American retailers, cigarettes to consumers from their own or other Native American reservations and who assert their rights under various treaties and agreements with the United States and with states to manufacture and sell the cigarettes free of state and local taxes and, generally, free from the constraints and burdens of state and local laws. Enforcement of the Model Statute against any of such manufacturers may be difficult. See "STATE LAWS RELATED TO THE MSA".

Complementary Legislation

Most of the Settling States (including the State) have passed legislation (often termed "**Complementary Legislation**") to further ensure that NPMs are making escrow payments required by the states' respective Qualifying Statutes, as well as other legislation to assist in the regulation of tobacco sales. See "STATE LAWS RELATED TO THE MSA—Washington Complementary Legislation".

All of the OPMs and other PMs have provided written assurances that the Settling States have no duty to enact Complementary Legislation, that the failure to enact such legislation will not be used in determining whether a Settling State has diligently enforced its Qualifying Statute pursuant to the terms of the MSA, and that diligent enforcement obligations under the MSA shall not apply to the Complementary Legislation. In addition, the written assurances contain an agreement that the Complementary Legislation will not constitute an amendment to a Settling State's Qualifying Statute. However, a determination that a Settling State's Complementary Legislation is invalid may make enforcement of its Qualifying Statute more difficult.

NPM Adjustment Claims

Settlement of 1999 through 2002 NPM Adjustment Claims

In June 2003, the OPMs, certain SPMs and the Settling States settled all NPM Adjustment claims for the payment years 1999 through 2002, subject, however, under limited circumstances, to the

reinstatement of a PM's right to an NPM Adjustment for the payment years 2001 and 2002. In connection therewith, such PMs and the Settling States agreed prospectively that PMs claiming an NPM Adjustment for any year will not make a deposit into the DPA or withhold payment with respect thereto unless and until the selected economic consultants determine that the disadvantages of the MSA were a significant factor contributing to the Market Share loss giving rise to the alleged NPM Adjustment. If the selected economic consultants make such a "significant factor" determination regarding a year for which one or more PMs have claimed an NPM Adjustment, such PMs may, in fact, either make a deposit into the DPA or withhold payment reflecting the claimed NPM Adjustment. As discussed below under "*—NPM Adjustment Settlement Non-Signatories' Ongoing NPM Adjustment Claims*," the Settling States have since agreed that no "significant factor" determination will be necessary for certain years.

NPM Adjustment Claims for 2003 Onward, Generally

According to NAAG, one or more of the PMs are disputing or have disputed the calculations of some Annual Payments and Strategic Contribution Payments, totaling over $13 billion, for the sales years 2003 through 2017 (payment years 2004 through 2018) as part of the NPM Adjustment. No provision of the MSA attempts to define what activities, if undertaken by a Settling State, would constitute diligent enforcement. Furthermore, the MSA does not explicitly state which party bears the burden of proving or disproving whether a Settling State has diligently enforced its Qualifying Statute, or whether any diligent enforcement dispute would be resolved in state courts or through arbitration. However, regarding the 2003 NPM Adjustment dispute, the MSA courts of the Settling States (except that of Montana, as discussed under "*—2003 NPM Adjustment Claims*" below) determined that the 2003 NPM Adjustment dispute was to be determined by a panel of arbitrators, and such panel of arbitrators determined that, when contested, a state bears the burden of proving its diligence. As discussed further below, the State had been a contested state in the 2003 NPM Adjustment dispute and was determined by the Arbitration Panel to have diligently enforced its Qualifying Statute during sales year 2003 and was thus not subject to the 2003 NPM Adjustment. The State and certain other Settling States are currently in arbitration regarding the 2004 NPM Adjustment. No assurance can be given as to the outcome of any pending or future arbitration regarding NPM Adjustment claims. The State's Attorney General's office maintains that the State has been and is diligently enforcing its Qualifying Statute. The Pledged TSRs Projection Methodology and Assumptions and Bond Structuring Assumptions contain an assumption that the State will diligently enforce its Qualifying Statute in all years that the Series 2018 Bonds are Outstanding and therefore that the State will not be subject to the NPM Adjustment. No assurance can be given that the assumptions underlying the Pledged TSRs Projection Methodology and Assumptions and Bond Structuring Assumptions will be consistent with future events. If the assumptions are not realized and future NPM Adjustments, withholdings or Disputed Payments are taken against MSA payments to the State, it could have a material adverse effect on the payments by PMs under the MSA, and could have a material adverse effect on the amount and/or timing of Pledged TSRs available to the Authority to pay debt service on the Series 2018 Bonds.

2003 NPM Adjustment Claims

An independent economic consulting firm, jointly selected by the MSA parties, determined that the disadvantages of the MSA were a significant factor contributing to the PMs' collective loss of market share for 2003. Following the "significant factor" determination with respect to 2003, each of 38 Settling States filed a declaratory judgment action in state court seeking a declaration that such Settling State diligently enforced its Qualifying Statute during 2003. The OPMs and SPMs responded to these actions by filing motions to compel arbitration in accordance with the terms of the MSA, including motions to compel arbitration in 11 states and territories that did not file declaratory judgment actions. With one exception (Montana), the courts ruled that the states' claims of diligent enforcement are to be submitted to arbitration. The Montana Supreme Court ruled that Montana did not agree to arbitrate the question of whether it

diligently enforced a Qualifying Statute and that diligent enforcement claims of that state must be litigated in state court, rather than in arbitration. Subsequently, in June 2012, Montana and the PMs reached an agreement whereby the PMs agreed not to contest Montana's claim that it diligently enforced the Qualifying Statute during 2003 and therefore Montana would not be subject to the 2003 NPM Adjustment.

The MSA provides that arbitration, if required by the MSA, will be governed by the United States Federal Arbitration Act. The decision of an arbitration panel under the Federal Arbitration Act may only be overturned under limited circumstances, including a showing of a manifest disregard of the law by the panel.

The OPMs and approximately 25 other PMs entered into an agreement regarding arbitration with 45 states and territories concerning the 2003 NPM Adjustment. The agreement effectively provided for a partial liability reduction for the 2003 NPM Adjustment for states that entered into the agreement by January 30, 2009 and were determined in the arbitration not to have diligently enforced a Qualifying Statute during 2003. Based on the number of states that entered into the agreement by January 30, 2009 (45), the partial liability reduction for those states was 20%. This partial liability reduction was effectuated by the PMs jointly reimbursing such states 20% of their respective amounts of the NPM Adjustment. The selection of a three-judge panel arbitrating the 2003 NPM Adjustment claims (the "**Arbitration Panel**") was completed in July 2010.

Following the completion of discovery, the PMs determined to continue to contest the 2003 diligent enforcement claims of 33 states (including the State), the District of Columbia and Puerto Rico and to no longer contest such claims by 12 other states and four U.S. territories (the "**non-contested states**"). Eighteen of these contested states, the District of Columbia and Puerto Rico, as well as two non-contested states, subsequently entered into the NPM Adjustment Settlement with the OPMs and certain of the SPMs as discussed below under "*—NPM Adjustment Settlement and Award*", leaving 15 states contested in the 2003 NPM Adjustment arbitration proceedings. A common issues hearing was held in April 2012 and state-specific evidentiary hearings began in May 2012 and were completed in May 2013. The decisions of the Arbitration Panel with regard to those 15 states (including the State) and their enforcement in 2003 of their Qualifying Statutes are discussed below under "*—2003 NPM Adjustment Arbitration Results and Disputes Concerning the NPM Adjustment Settlement Term Sheet and Stipulated Partial Settlement and Award*". A copy of the Arbitration Final Award Re: State of Washington in the 2003 NPM Adjustment Proceedings is attached hereto as APPENDIX B. Several of those 15 states (not including the State) subsequently joined the NPM Adjustment Settlement, as discussed below.

NPM Adjustment Settlement and Award

On December 17, 2012, terms of a settlement were agreed to in the form of a term sheet (the "**NPM Adjustment Settlement Term Sheet**") by 19 jurisdictions, the OPMs and certain SPMs regarding claims related to the 2003 through 2012 NPM Adjustments and the determination of subsequent NPM Adjustments. The 19 jurisdictions that signed the NPM Adjustment Settlement Term Sheet on December 17, 2012 were Alabama, Arizona, Arkansas, California, the District of Columbia, Georgia, Kansas, Louisiana, Michigan, Nebraska, Nevada, New Hampshire, New Jersey, North Carolina, Puerto Rico, Tennessee, Virginia, West Virginia and Wyoming. In April 2013, Oklahoma joined the NPM Adjustment Settlement Term Sheet; in May 2013, Connecticut and South Carolina joined the NPM Adjustment Settlement Term Sheet; in June 2014, Kentucky and Indiana joined the NPM Adjustment Settlement Term Sheet (on modified terms); and in April 2017, Rhode Island and Oregon joined the NPM Adjustment Settlement Term Sheet. In October 2017, a final settlement agreement (the "**NPM Adjustment Settlement Agreement**") became effective, incorporating the terms of, and superseding, the NPM Adjustment Settlement Term Sheet. Altria reported in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018 that Alaska, Colorado, Delaware, Hawaii, Maine, North Dakota, South Dakota, Utah

and Vermont joined the NPM Adjustment Settlement Agreement. The signatory jurisdictions to the NPM Adjustment Settlement Term Sheet and NPM Adjustment Settlement Agreement, as applicable, are referred to herein as the "**NPM Adjustment Settlement Signatories**" (which term, where appropriate, includes any additional jurisdictions that may in the future sign the settlement), and the settlement effected by the NPM Adjustment Settlement Term Sheet and the NPM Adjustment Settlement Agreement, as applicable, is referred to herein as the "**NPM Adjustment Settlement**". Additional jurisdictions were permitted to join the settlement up to the end date of the last individual state-specific diligent enforcement hearings for the 2003 NPM Adjustment claims, although with potentially different and potentially less favorable payment obligations than those detailed in the NPM Adjustment Settlement. After such time, additional jurisdictions may join the settlement only if the signatory PMs, in their sole discretion, agree. The State has not signed onto the NPM Adjustment Settlement.

The NPM Adjustment Settlement Term Sheet was subject to approval by the Arbitration Panel. On March 12, 2013, the Arbitration Panel issued its Stipulated Partial Settlement and Award (the "**NPM Adjustment Stipulated Partial Settlement and Award**"). In the NPM Adjustment Stipulated Partial Settlement and Award, the Arbitration Panel, as a threshold matter, ruled that it had jurisdiction (i) to enter the NPM Adjustment Stipulated Partial Settlement and Award, (ii) to rule on the objections of those jurisdictions that did not join the settlement (the "**NPM Adjustment Settlement Non-Signatories**") (including the State), (iii) to determine how the 2003 NPM Adjustment Settlement would be allocated among the NPM Adjustment Settlement Non-Signatories in light of the settlement and (iv) to incorporate and direct the MSA Auditor to implement the provisions of the NPM Adjustment Settlement Term Sheet, including as they pertain to years beyond 2003. The Arbitration Panel noted that it was neither "approving" the NPM Adjustment Settlement Term Sheet nor assessing the merits of any NPM Adjustment dispute, but giving effect to the NPM Adjustment Settlement Signatories' and signatory PMs' agreed settlement payments as among themselves, by directing the MSA Auditor to implement the settlement provisions at issue.

In the NPM Adjustment Stipulated Partial Settlement and Award, the Arbitration Panel specifically directed the MSA Auditor (i) to release approximately $1.76 billion (plus accumulated earnings thereon) from the DPA to the NPM Adjustment Settlement Signatories, allocating such released amount among the NPM Adjustment Settlement Signatories as they directed in connection with the April 2013 MSA payment and (ii) to apply a credit in the aggregate amount of approximately $1.65 billion to the OPMs' MSA payments, allocating such credit among the OPMs as they directed with 50% of the credit applied against the April 2013 MSA payment and 12.5% to be applied against each of the April 2014 through 2017 MSA payments. Such release to NPM Adjustment Settlement Signatories from the DPA and such application of credits to PMs' MSA payments effected the settlement of the 2003 through 2012 NPM Adjustment claims. Under the NPM Adjustment Settlement, parallel provisions exist for SPMs, which stipulated a credit of approximately $31 million to the SPMs' April 2013 MSA payments. The NPM Adjustment Settlement provided for the NPM Adjustment Settlement Signatories to allocate the settlement amount for the 2003 NPM Adjustment among themselves (through the application of the credits to PMs or the receipt by the NPM Adjustment Settlement Signatories of amounts released from the DPA, or both) so as to fully compensate those NPM Adjustment Settlement Signatories whose diligent enforcement for 2003 was non-contested.

While not ruling on years subsequent to the 2003 NPM Adjustment, the Arbitration Panel ruled that the reduction of the 2003 NPM Adjustment, in light of the NPM Adjustment Stipulated Partial Settlement and Award (for purposes of allocating the 2003 NPM Adjustment to the NPM Adjustment Settlement Non-Signatories), would be on a *pro rata* basis: the dollar amount of the 2003 NPM Adjustment would be reduced by a percentage equal to the aggregate allocable share of the NPM Adjustment Settlement Signatories. In addition, the Arbitration Panel directed the MSA Auditor to treat the NPM Adjustment Settlement Signatories as not being subject to the 2003 NPM Adjustment, resulting in a reallocation of the

NPM Adjustment Settlement Signatories' share of the 2003 NPM Adjustment among those NPM Adjustment Settlement Non-Signatories that are found not to have diligently enforced their Qualifying Statutes during 2003. This framework would create an incentive for NPM Adjustment Settlement Non-Signatories to contest the diligent enforcement of NPM Adjustment Settlement Signatories for years 2004 onward. The Arbitration Panel concluded that the NPM Adjustment Settlement Term Sheet and the NPM Adjustment Stipulated Partial Settlement and Award do not legally prejudice or adversely affect the NPM Adjustment Settlement Non-Signatories, but that, should an NPM Adjustment Settlement Non-Signatory found by the Arbitration Panel to be non-diligent have a good faith belief that the *pro rata* reduction method did not adequately compensate it for an NPM Adjustment Settlement Signatory's removal from the reallocation pool, its relief, if any, is by appeal to its individual MSA state court. The NPM Adjustment Settlement Non-Signatories that were found to be non-diligent with respect to the 2003 NPM Adjustment claims filed motions in their MSA state courts objecting to the *pro rata* reduction method; see "—2003 NPM Adjustment Arbitration Results and Disputes Concerning the NPM Adjustment Settlement Term Sheet and Stipulated Partial Settlement and Award" below for a discussion of such motions. The Arbitration Panel further concluded that neither the NPM Adjustment Stipulated Partial Settlement and Award nor the NPM Adjustment Settlement Term Sheet constitutes an amendment to the MSA that would require the consent of any NPM Adjustment Settlement Non-Signatory.

In addition to settling the 2003 through 2012 NPM Adjustment claims as described above, the NPM Adjustment Settlement sets forth the terms by which NPM Adjustments for sales years 2013 onward are to be determined. Under the NPM Adjustment Settlement, sales years 2013-2014 were transition years for which an adjustment was applied in payment years 2014-2015 for SET-Paid NPM Sales, as described below, and for which an adjustment for Non-SET-Paid NPM Sales, as described below, did not apply. In October 2017, pursuant to the NPM Adjustment Settlement Agreement, the NPM Adjustment Settlement Signatories and signatory PMs agreed similarly to settle sales year 2015 as a transition year, and the signatory PMs will receive an adjustment for SET-Paid NPM Sales to the MSA payments due in April 2018 as a result of the settlement of 2015 as a transition year (such adjustment being 25% of the maximum 2015 NPM Adjustment of the NPM Adjustment Settlement Signatories). Furthermore, pursuant to the NPM Adjustment Settlement, beginning with the 2022 NPM Adjustment, the OPMs shall not receive any part of the NPM Adjustment allocated to any NPM Adjustment Settlement Signatory for any year for which the aggregate Market Share of all the PMs, as determined by the MSA Auditor using the 0.0325 roll-your-own conversion factor, is equal to or exceeds 97%.

Beginning in 2013, there is a state-specific adjustment that applies to sales of SET-paid NPM cigarettes ("**SET-Paid NPM Sales**"). "**SET**" consists of state cigarette excise tax or other state tax on the distribution or sale of cigarettes (other than a state or local sales tax that is applicable to consumer products generally and is not in lieu of an excise tax) and, after 2014, any excise or other tax imposed by a state or federally recognized tribe on the distribution or sale of cigarettes (other than a tribal sales tax that is applicable to consumer products generally and is not in lieu of an excise tax). For SET-Paid NPM Sales of "**Non-Compliant NPM Cigarettes**" (defined in the NPM Adjustment Settlement, with certain exceptions, as any NPM cigarette on which SET was paid but for which escrow is not deposited as required by the Model Statute, either by payment by the NPM or by collection upon a bond, or for which escrow was impermissibly released or refunded), the adjustment of PM payments due from signatory PMs is three times the per-cigarette escrow deposit rate contained in the Model Statute for the year of the sale, including the inflation adjustment in the statute. There is a proportional adjustment for each signatory SPM in proportion to the size of its MSA payment for that year. An NPM Adjustment Settlement Signatory will not be subject to this revised adjustment (thus, creating a safe harbor) if (i) the total number of Non-Compliant NPM Cigarettes sold in such state during the sales year in question did not exceed 4% of all NPM cigarettes on which such state's SET was paid during such year, or (ii) the total number of Non-Compliant NPM Cigarettes sold in such state during such sales year did not exceed 2 million cigarettes.

Non-SET-Paid NPM Sales ("**Non-SET-Paid NPM Sales**") will be handled as to the NPM Adjustment Settlement Signatories per the terms of the MSA, with the following adjustments. A data clearinghouse (the "**Data Clearinghouse**") will calculate the total FET-paid NPM volume in the Settling States and nationwide. "**FET**" means the federal excise tax. Beginning in 2016, for Non-SET-Paid NPM Sales, the total NPM Adjustment liability, if any, of each NPM Adjustment Settlement Signatory under the original formula for a year would be reduced by a percentage as set forth in the NPM Adjustment Settlement.

2003 NPM Adjustment Arbitration Results and Disputes Concerning the NPM Adjustment Settlement Term Sheet and Stipulated Partial Settlement and Award

On September 11, 2013, the Arbitration Panel released its decisions in connection with the 2003 NPM Adjustment disputes with respect to each of the fifteen contested states that were NPM Adjustment Settlement Non-Signatories. The Arbitration Panel determined that nine states (including the State) diligently enforced their respective Qualifying Statutes during 2003, and six states (Indiana, Kentucky, Maryland, Missouri, New Mexico and Pennsylvania, which have an aggregate allocable share of approximately 14.68%) did not diligently enforce their respective Qualifying Statutes during 2003. As a result, the nine states that were determined to have diligently enforced their respective Qualifying Statutes (including the State), as well as the jurisdictions that were either not contested or were not subject to the arbitration proceedings, were not to be subject to the 2003 NPM Adjustment, and their share of the 2003 NPM Adjustment was to be reallocated in accordance with the MSA to the six states found by the Arbitration Panel to have not diligently enforced their respective Qualifying Statutes during 2003.

The Arbitration Panel's decisions regarding 2003 diligent enforcement defined diligent enforcement as "an ongoing and intentional consideration of the requirements of a Settling State's Qualifying Statute, and a significant attempt by the Settling State to meet those requirements, taking into account a Settling State's competing laws and policies that may conflict with its MSA contractual obligations." The Arbitration Panel considered various factors in deciding whether or not a state met the diligent enforcement standard, including, in no particular order, (i) such state's collection rate of amounts to be deposited by NPMs into escrow accounts, (ii) the number of lawsuits against manufacturers brought by such state, (iii) how the state gathered reliable data, (iv) resources allocated to enforcement, (v) prevention of non-compliant NPMs from future sales, (vi) legislation enacted by the state, (vii) actions short of legislation taken by the state, and (viii) efforts made to be aware of NAAG and other states' enforcement efforts. The Arbitration Panel stated that such factors were not necessarily given equal weight, but were considered as a whole. Where certain terms defined in the Model Statute were disputed, the Arbitration Panel relied on the plain meaning of the defined terms and did not penalize states for a rational interpretation of the terms in enforcing their Qualifying Statutes. The Arbitration Panel did not penalize states that provided rational reasons for implementing policies and legislation with respect to enforcement of their Qualifying Statutes, finding that a good faith effort to address an issue where there is no evidence of intentional escrow evasion was an indication of diligent enforcement. The Arbitration Panel also stated that although the Settling States are required under the MSA to diligently enforce their Qualifying Statutes, the Settling States are not required "to elevate those obligations above other statutory or rational policy considerations." A copy of the Arbitration Final Award Re: State of Washington in the 2003 NPM Adjustment Proceedings is attached hereto as APPENDIX B.

Several states, including all six states that were found to be non-diligent in the 2003 NPM Adjustment claims arbitration, disputed the NPM Adjustment Settlement Term Sheet and Stipulated Partial Settlement and Award. As an initial step, on March 13, 2013, the Office of the Attorney General of the State of Illinois sent a letter, on behalf of itself and 23 other NPM Adjustment Settlement Non-Signatories, including the State (to which letter several additional NPM Adjustment Settlement Non-Signatories later joined), to the MSA Auditor, affirming their position that the Arbitration Panel lacked jurisdiction and that

the NPM Adjustment Stipulated Partial Settlement and Award was inconsistent with the terms of the MSA, and informing the MSA Auditor that they objected to and would contest any action by the MSA Auditor to release funds from the DPA or to reallocate the 2003 NPM Adjustment under the terms of the NPM Adjustment Stipulated Partial Settlement and Award. Subsequently, motions were filed by various NPM Adjustment Settlement Non-Signatories in their respective MSA courts to vacate and/or modify the NPM Adjustment Stipulated Partial Settlement and Award. Two of the states (Colorado and Ohio) had also unsuccessfully sought to preliminarily enjoin the implementation of the NPM Adjustment Stipulated Partial Settlement and Award (but the MSA Auditor carried out the implementation of the NPM Adjustment Stipulated Partial Settlement and Award over the objections of the NPM Adjustment Settlement Non-Signatories, as discussed above).

The status of the motions filed by the six states that were determined by the Arbitration Panel in the 2003 NPM Adjustment dispute not to have diligently enforced their Qualifying Statutes in sales year 2003, is as follows. Indiana and Kentucky joined the NPM Adjustment Settlement in 2014 and those states stayed any further proceedings on their motions. In Pennsylvania, the state court entered an order that modified the judgment reduction method that had been adopted by the Arbitration Panel: the Pennsylvania court ruled that the states that signed the NPM Adjustment Settlement and had been contested in the 2003 NPM Adjustment arbitration would be deemed non-diligent for purposes of calculating Pennsylvania's share of the 2003 NPM Adjustment, resulting in a partial reduction of Pennsylvania's share of the 2003 NPM Adjustment allocation. Upon appeal, in April 2015, the intermediate appellate court in Pennsylvania upheld the trial court ruling. The Pennsylvania Supreme Court declined to take the PMs' appeal of that ruling. The defendant PMs filed a petition for writ of certiorari with the U.S. Supreme Court in April 2016, which was denied in October 2016. Similar to Pennsylvania, the state court in Missouri entered an order that modified the judgment reduction method that had been adopted by the Arbitration Panel, which order reduced Missouri's share of the NPM Adjustment allocation. Upon appeal, in September 2015, the intermediate appellate court in Missouri reversed the trial court ruling. Missouri appealed that ruling to the Missouri Supreme Court, and on February 14, 2017, the Supreme Court of Missouri issued a ruling affirming the trial court decision and overturning the intermediate appellate court decision. The Missouri Supreme Court's decision found in part that the Arbitration Panel exceeded its authority by deeming the NPM Adjustment Settlement Signatories diligent for purposes of reallocation and applying the pro rata judgment reduction. The Supreme Court of Missouri, in its February 14, 2017 decision, also denied Missouri's motion to order the PMs to arbitrate the question of Missouri's diligent enforcement in a single-state arbitration for 2004. In addition, Missouri had negotiated a settlement with PMs regarding the NPM Adjustment but failed to consummate that settlement because the Missouri legislature did not adopt an Allocable Share Release Amendment by the April 15, 2016 deadline that had been a condition to the settlement. In Maryland, that state's motion challenging the judgment reduction method adopted by the Arbitration Panel was denied by its state court. Upon appeal, in October 2015, the intermediate appellate court in Maryland reversed the trial court, the effect of which was to reduce Maryland's share of the NPM Adjustment allocation. The Maryland Supreme Court declined to take the PMs' appeal of that ruling. The PMs filed a petition for writ of certiorari with the U.S. Supreme Court in June 2016, which was denied in October 2016. Lastly, the New Mexico court granted that state's motion challenging the judgment reduction method that had been adopted by the Arbitration Panel, thereby reducing that state's share of the NPM Adjustment allocation.

No assurance can be given that other challenges to the NPM Adjustment Stipulated Partial Settlement and Award or NPM Adjustment Settlement will not be commenced in other MSA courts.

NPM Adjustment Settlement Non-Signatories' Ongoing NPM Adjustment Claims

For 2003-2014, all conditions for the NPM Adjustment were met, either by determination or agreement among the parties, and, in April 2017, the parties agreed that all the conditions for the NPM

Adjustment will have been met for 2015 on February 1, 2018, for 2016 on February 1, 2019, and for 2017 on February 1, 2020, according to Altria in its SEC filings.

According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018, the 2004 multi-state arbitration is currently pending with all of NPM Adjustment Settlement Non-Signatories other than Montana (which obtained a ruling from the Montana Supreme Court that the issue of diligent enforcement under the MSA must be heard before that state's MSA court) and New Mexico (which is currently appealing a trial court ruling that the state must participate in the multi-state arbitration for 2004). The 2004 NPM Adjustment arbitration is pending before two separate arbitration panels. The two arbitration panels have two arbitrators in common. Decisions in the 2004 NPM Adjustment arbitration are not expected until the middle of 2019 at the earliest, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018.

According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018, no assurance can be given as to when proceedings for 2005 and subsequent years will be scheduled or the precise form those proceedings will take.

Altria stated in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018 that it has continued to pursue the NPM Adjustments against jurisdictions that have not signed onto settlements.

Other Settlements

In October 2015, New York State entered into a settlement agreement with the OPMs and certain SPMs pursuant to which the 2004-2014 NPM Adjustment disputes were settled with respect to New York and pursuant to which a methodology for the NPM Adjustments for sales years 2015 onward is determined for such state, involving an adjustment for NPM cigarettes on which New York SET is paid, and credits to PMs for tribal NPM sales.

No prediction can be given as to whether or when any other NPM Adjustment Settlement Non-Signatories will enter into settlements with respect to their NPM Adjustment disputes and what form those settlements may take.

STATE LAWS RELATED TO THE MSA

Washington Qualifying Statute

The Qualifying Statute adopted by the State, in the form of the Model Statute attached to the MSA as Exhibit T with certain modifications approved by the OPMs, is codified at Revised Code of Washington §70.157 and became effective on May 18, 1999. By letter agreement from counsel to the OPMs dated February 7, 2001, the OPMs confirmed that Washington has in effect a Model Statute within the meaning of MSA. See "RISK FACTORS– If Litigation Challenging the MSA, the Qualifying Statutes and Related Legislation Were Successful, Payments under the MSA Might be Suspended or Terminated."

In 2003, the State enacted an Allocable Share Release Amendment to amend its Qualifying Statute. The amendment changed the release calculation from being based on the State's allocable share of the payments the NPM would have made if it were a signatory to the MSA to being based on the payments that the NPM would have made as a signatory to the MSA on account of units sold in the State by the NPM. A majority of the PMs, including all three OPMs, had indicated in writing that in the event a Settling State enacted legislation substantially in the form of the Model Allocable Share Release Amendment, the Settling State's previously enacted Qualifying Statute would continue to constitute a Model Statute and a Qualifying

Statute within the meaning of the MSA. The State's Allocable Share Release Amendment is in the form of the Model Allocable Share Release Amendment.

Pursuant to RCW §70.157 of the State's Qualifying Statute, each tobacco product manufacturer that elects to place funds into escrow pursuant to the State's Qualifying Statute will annually certify to the Attorney General of the State that it is in compliance with the State's Qualifying Statute. The Attorney General of the State may bring a civil action on behalf of the State against any tobacco product manufacturer that fails to place into escrow the funds required under the State's Qualifying Statute. Any tobacco product manufacturer that fails in any year to place into escrow the funds required under the State's Qualifying Statute will: (a) be required within fifteen days to place such funds into escrow as will bring it into compliance and the court, upon a finding of a violation of the State's Qualifying Statute, may impose a civil penalty in an amount not to exceed 5% of the amount improperly withheld from escrow per day of the violation and in a total amount not to exceed 100% of the original amount improperly withheld from escrow; (b) in the case of a knowing violation, be required within fifteen days to place such funds into escrow as will bring it into compliance with the State's Qualifying Statute; the court, upon a finding of a knowing violation of the State's Qualifying Statute, may impose a civil penalty in an amount not to exceed 15% of the amount improperly withheld from escrow per day of the violation and in a total amount not to exceed 300% of the original amount improperly withheld from escrow; and (c) in the case of a second knowing violation, be prohibited from selling cigarettes to consumers within the State whether directly or through a distributor, retailer, or similar intermediary for a period not to exceed two years. Each failure to make an annual deposit required under the State's Qualifying Statute constitutes a separate violation.

Washington Complementary Legislation

Pursuant to the provisions of RCW §70.158 (the "**State's Complementary Legislation**"), every tobacco product manufacturer whose cigarettes are sold in the State, whether directly or through a wholesaler, distributor, retailer, or similar intermediary or intermediaries, will execute and deliver on a form prescribed by the Attorney General of the State a certification to the Attorney General of the State, no later than April 30 of each year, certifying under penalty of perjury that, as of the date of such certification, such tobacco product manufacturer either: is a PM; or is in full compliance with the State's Qualifying Statute, including all payments required by the State's Complementary Legislation. A PM will include in its certification a list of its brand families. The PM will update such list 30 calendar days prior to any addition to or modification of its brand families by executing and delivering a supplemental certification to the Attorney General of the State. An NPM will include in its certification: (i) a list of all of its brand families and the number of units sold for each brand family that were sold in the State during the preceding calendar year; (ii) a list of all of its brand families that have been sold in the State at any time during the current calendar year; (iii) indicating, by an asterisk, any brand family sold in the State during the preceding calendar year that is no longer being sold in the State as of the date of such certification; (iv) identifying by name and address any other manufacturer of such brand families in the preceding or current calendar year; and (v) any other information required by the State's Complementary Legislation. The NPM will update such list thirty calendar days prior to any addition to or modification of its brand families by executing and delivering a supplemental certification to the Attorney General of the State. In the case of an NPM, the State's Complementary Legislation requires further certifications as to, among other details, establishment and maintenance of a qualified escrow fund. Furthermore, the State's Complementary Legislation provides that not later than twenty-five calendar days after the end of each calendar month, and more frequently if so directed by the Director of the State's Department of Revenue (the "**DOR**"), each wholesaler and distributor will submit such information as the Director of the DOR requires to facilitate compliance with the State's Complementary Legislation, including but not limited to a list by brand family of the total number of cigarettes, or, in the case of roll your own, the equivalent stick count, for which the wholesaler or distributor affixed stamps during the previous calendar month or otherwise paid the tax due for such cigarettes.

In addition, the State's Complementary Legislation requires that the Attorney General of the State develop and publish on its website a directory listing all tobacco product manufacturers that have provided current and accurate certifications conforming to the requirements described in the immediately preceding paragraph and all brand families that are listed in such certifications (the directory), except as specified in the State's Complementary Legislation. No person may sell or distribute cigarettes, or acquire, hold, own, possess, transport, import, or cause to be imported cigarettes that the person knows or should know are intended for distribution or sale in the State in violation of the State's Complementary Legislation. Any cigarettes that have been sold or distributed, or acquired, held, owned, possessed, transported, imported, or caused to be imported with the intent to distribute or sell in the State in violation of the State's Complementary Legislation will be subject to seizure and forfeiture.

All of the OPMs and other PMs have provided written assurances that the Settling States have no duty to enact Complementary Legislation, that the failure to enact such legislation will not be used in determining whether a Settling State has diligently enforced its Qualifying Statute pursuant to the terms of the MSA, and that diligent enforcement obligations under the MSA will not apply to the Complementary Legislation. In addition, the written assurances contain an agreement that the Complementary Legislation will not constitute an amendment to a Settling State's Qualifying Statute. However, a determination that a Settling State's Complementary Legislation is invalid may make enforcement of its Qualifying Statute more difficult, which could lead to an increase in the market share of NPMs, resulting in a reduction of Annual Payments and Strategic Contribution Payments under the MSA. The Qualifying Statutes and related Complementary Legislation in many Settling States have been challenged on various constitutional grounds, including claims based on preemption by federal antitrust laws. See "—If Litigation Challenging the MSA, the Qualifying Statutes and Related Legislation Were Successful, Payments under the MSA Might be Suspended or Terminated" and "—MSA Provisions Relating to Model/Qualifying Statutes."

State Statutory Enforcement Framework

State Statutory Enforcement Provisions

The State's statutory framework for enforcing laws relating to the manufacture, distribution, sale, possession and taxation of cigarettes within the State of Washington includes, but is not limited to the State's Qualifying Statute (RCW §70.157 as amended, including the Allocable Share Release Amendment to the Qualifying Statute previously described herein), known as the National Uniform Tobacco Settlement - Nonparticipating Tobacco Product Manufacturers Act, and the State's Complementary Legislation, as well as the following:

- Tax on Cigarettes Act (RCW §82.24) (including cigarette stamping requirements, licensing requirements and cigarette and roll-your-own tobacco tax rates),

- Cigarette Ignition Propensity Act (RCW §19.305, effective August 1, 2009) (requiring "self-extinguishing" cigarettes, written certifications filed with the Washington State Director of Fire Protection, and Fire Standards Compliant markings on cigarettes that have been certified that indicate compliance with such requirements),

- Smoking in Public Places Act (RCW §70.160, formerly the Washington Clean Indoor Air Act) (prohibiting smoking in public places or places of employment);

- RCW §26.28.080 (prohibits selling or giving tobacco products to persons under the age of 18); and RCW §70.155 (Tobacco–Access to Minors Act) (regulates the sale or distribution of tobacco products to persons under the age of 18 and the purchase of tobacco products by such

minors, including prohibitions concerning shipment of cigarettes by mail, internet sales and the location of vending machines);

- Prohibition on Use of Tobacco Products on School Property Act (RCW §28A.210 and 310 prohibiting use of tobacco products on school property);

- Various implementing regulations promulgated by the Washington Office of the Attorney General (the "**AGO**") and the DOR.

Federal Laws

In addition to State laws, rules and regulations, state enforcement agencies have certain shared enforcement powers under various federal laws relating to tobacco control, including the Jenkins Act (regulating and restricting the mail order and internet sales of tobacco and other controlled products), as amended by the Prevent All Cigarette Trafficking ("**PACT**") Act of 2010 and the FSPTCA.

This statutory enforcement framework is administered and enforced by the AGO, the Liquor Control Board (the "**LCB**"), the DOR, and the Washington State Director of Fire Protection.

Washington Office of the Attorney General

The AGO enforces the provisions of the MSA. The AGO works closely with the National Association of Attorneys General and Attorney General offices from other states. The AGO's duties include:

- Handling litigation arising from or relating to the MSA;

- Monitoring compliance with the MSA;

- Monitoring the payment stream from the MSA;

- Monitoring and enforcing the statutory compliance of NPMs.

The AGO maintains the State of Washington Directory of Certified Tobacco Product Manufacturers (including brand-specific information), and receives the annual and quarterly compliance certifications from PMs and NPMs. Tobacco product manufacturers report directly to the Attorney General and senior officers or directors of the manufacturers must file quarterly certifications of compliance with the AGO; reporting under the penalties of perjury both the units of cigarettes sold and the payment of the amount calculated to be required and deposited into a qualified escrow fund. Cigarette and roll-your-own brands and manufacturers that are not listed on the State of Washington Directory of Certified Tobacco Product Manufacturers, and that do not bear Washington cigarette tax stamps, may not be sold in Washington. The directory is published on the AGO's website at www.atg.wa.gov/Tobacco/SuppliersandManufacturers.aspx. Additionally, the AGO serves the public by providing general information on the MSA and other tobacco-related issues.

The AGO has brought numerous enforcement actions and has been responsible since inception for pursuing non-compliant NPMs. The Qualifying Statute requires that an NPM deposit funds into an escrow account for the benefit of the State for all "units sold" in the State during the preceding year. The State estimates that the market share of NPMs in Washington in each year since 2004 has averaged less than 5% and believes that all NPMs currently certified are in compliance with their NPM escrow obligations under the State's Qualifying Statute.

The AGO also has taken action against PMs who have not complied with their MSA Payment obligations or to remedy violations of other provisions of the MSA. In 2006, Washington joined with other Settling States in reaching a settlement with a PM (House of Prince) for selling cigarettes in the State and other states without making MSA payments and obtained a $55.4 million settlement, including $1,101,864.44 for the State of Washington. Two states have filed suit seeking full payment by General Tobacco (*VIBO Corp. d/b/a General Tobacco*) of its MSA payment obligations. Such actions will benefit all Settling States, including the State, if payments are ordered and made. General Tobacco is no longer certified to sell cigarettes in the State. The AGO also has filed lawsuits and participated actively in various multi-state initiatives against certain OPMs to enforce the advertising and promotion restrictions in the MSA.

Washington Department of Revenue, Liquor Control Board

The DOR controls the sale of cigarettes and tobacco products in Washington through the issuance of wholesale dealer, retail dealer, tobacconist, Commercial Cigarette-Making Machines (RYO Machines) and vending machine operator permits. The Tobacco Tax Unit of the LCB covers the entire State of Washington and proactively enforces all tobacco laws as well as criminal laws. LCB officers are responsible for ensuring the lawful compliance of the spirits and alcohol outlets and tobacco outlets situated in Washington. The LCB officers inspect cigarette and Other Tobacco Product (OTP) retailers, wholesalers and distributors, and investigate and halt illegal acquisition and shipments of cigarettes and OTP by persons and businesses not licensed to sell them. The LCB strives to maintain a visible presence at retailers through inspections and observations. During inspections, officers present themselves in uniform to complete a checklist of qualifications of the licensed establishment. Observations are done undercover in attempts to observe instances of illegal sales to underage youth.

The mission of the Tobacco Tax Unit of the LCB is to ensure that businesses that sell tobacco in Washington are properly licensed, have paid the appropriate state taxes, and keep tobacco out of the hands of those under 18 years old. The Tobacco Tax Unit also maintains state and federal partnerships, educates wholesalers, distributors and retailers on tobacco laws, and works with Native American tribes.

The DOR is responsible for working with the AGO to enforce the MSA, the Qualifying Statute and the Complementary Legislation. The DOR enforces the State's cigarette and tobacco products excise tax and stamping regulations. Cigarette wholesaler licensees must file with the DOR a monthly report of sales of NPM brands and such sales must bear Washington cigarette tax stamps. Distributors that are licensed to pay the tobacco products tax must file monthly reports for sales of NPM roll-your-own tobacco.

The LCB is responsible for licensing all cigarette wholesalers. The LCB and the DOR both track cigarette shipments in and out of the State and enforce the collection of cigarette taxes, among other duties. All cigarette sales are subject to the state cigarette excise tax. The DOR keeps track of all shipments of cigarettes in and out of Washington, compares those records to the cigarette sales records of licensed wholesalers and maintains a computer matching program to identify data exceptions that may warrant further investigation.

The State also shares data with the U.S. Treasury's Alcohol and Tobacco Tax and Trade Bureau and with other state revenue departments, and has used the provisions of the Federal Jenkins Act to enforce its laws relating to Internet sales and taxation of cigarettes and other tobacco products.

DOR Actions Seeking Penalties, Seizure and Forfeiture of Contraband Cigarettes

The DOR and the LCB coordinate with the U.S. Bureau of Alcohol Tobacco and Firearms in investigating and seizing unstamped cigarettes and referring the results of its investigations to the AGO for

forfeiture proceedings. The LCB may revoke or suspend the license of any distributor that violates these laws, and any cigarettes that have been sold, offered for sale or possessed for sale in the State or imported for personal consumption in the State in violation of the law described in the preceding sentence are deemed "contraband" and subject to seizure and forfeiture.

Nation or Tribal Reservation Cigarette Sales

Under federal case law, Indian nations and tribes are exempt from a state's taxes on cigarettes that they purchase on their own reservation for their own personal consumption. But the State has authority to tax "[o]n reservation cigarette sales to persons other than reservation Indians." *Dep't of Taxation & Finance of N.Y. v. Milhelm Attea & Bros*., 512 U.S. 61, 64 (1994). According to the State, there are two tribal manufacturers of cigarettes located in the State. Other in-state tribes engage in the distribution and sale of cigarettes and other tobacco products. In 2001, the Washington Legislature authorized the Governor to enter into cigarette contracts with tribal governments. (RCW §43.06.450-466.) Under the Cigarette Tax Contracts, the State agrees not to impose its State cigarette tax in exchange for the tribes' agreement to collect a tribal tax equal to the State cigarette tax. These Cigarette Tax Contracts allow the tribes to retain the cigarette taxes, which must be used for essential government services as defined by law.

CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY

The following description of the domestic tobacco industry has been compiled from certain publicly available documents of the tobacco companies and their current or former parent companies, certain publicly available analyses of the tobacco industry, and other public sources. Certain of those companies currently file annual, quarterly and certain other reports with the SEC. Such reports are available on the SEC's website and upon request from the SEC's Investor Information Service, 100 F Street, NE, Washington, D.C. 20549 (phone: (800) SEC-0330 or (202) 551-8090; e-mail: publicinfo@sec.gov). The following information does not, nor is it intended to, provide a comprehensive description of the domestic tobacco industry, the business, legal and regulatory environment of the participants therein, or the financial performance or capability of such participants. Although the Authority has no independent knowledge of any facts indicating that the following information is inaccurate in any material respect, the Authority has not independently verified this information and cannot and does not warrant the accuracy or completeness of this information. To the extent that reports submitted to the MSA Auditor by the PMs pursuant to the requirements of the MSA provide information that is pertinent to the following discussion, including market share information, the Attorney General of the State has not consented to the release of such information pursuant to the confidentiality provisions of the MSA. Prospective investors in the Series 2018 Bonds should conduct their own independent investigations of the domestic tobacco industry to determine if an investment in the Series 2018 Bonds is consistent with their investment objectives.

MSA payments are computed based in part on cigarette shipments in or to the 50 states of the United States, the District of Columbia and Puerto Rico. The quantities of cigarettes shipped and cigarettes consumed within the 50 states of the United States, the District of Columbia and Puerto Rico may not match at any given point in time as a result of various factors, such as inventory adjustments, but are substantially the same when compared over a period of time.

Retail market share information, based upon shipments or sales as reported by the OPMs for purposes of their filings with the SEC, may be different from Relative Market Share for purposes of the MSA and the respective obligations of the PMs to contribute to Annual Payments. The Relative Market Share information reported is confidential under the MSA, except to the extent reported by NAAG. See "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Overview of Payments by the Participating Manufacturers; MSA Escrow Agent" and "—Annual Payments". Additionally, aggregate market share information, based upon shipments as reported by OPMs and reflected in the chart below

entitled "Manufacturers' Domestic Market Share of Cigarettes" is different from that utilized in the bond structuring assumptions. See "PLEDGED TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS".

Industry Overview

According to NAAG, the OPMs accounted for approximately 83.99% (based upon shipments and measuring roll-your-own cigarettes at 0.0325 ounces per cigarette conversion rate) of the U.S. domestic cigarette market in payment year 2018 (sales year 2017). See also "—Industry Market Share" below. The market for cigarettes in the U.S. divides generally into premium and discount sales.

Philip Morris USA Inc. ("**Philip Morris**"), a wholly-owned subsidiary of Altria Group, Inc. ("**Altria**"), is the largest tobacco company in the U.S. Prior to a name change on January 27, 2003, Altria was named Philip Morris Companies Inc. In its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018, Altria reported that Philip Morris's domestic cigarette market share for the three months ended March 31, 2018 was 50.3% (based on retail sales data from IRI/MSAI, a tracking service that uses a sample of stores and certain wholesale shipments to project market share and depict share trends), compared to 51.0% for the three months ended March 31, 2017. Also in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018, Altria reported that Philip Morris's domestic cigarette market share for calendar year 2017 was 50.7%, compared to 51.2% in calendar year 2016. Philip Morris's major premium brands are Marlboro, Virginia Slims and Parliament (with Marlboro representing approximately 85.7% of Philip Morris's domestic cigarette shipment volume during 2017, according to Altria's Form 10-K filed with the SEC for the calendar year 2017, and approximately 85.9% of Philip Morris's domestic cigarette shipment volume during the three months ended March 31, 2018, according to Altria's Form 10-Q filed with the SEC for the three-month period ended March 31, 2018). Marlboro is also the largest selling cigarette brand in the U.S., with approximately 43.4% and 43.8% of the U.S. domestic retail share for the calendar years 2017 and 2016, respectively, and approximately 43.2% of the U.S. domestic retail share for the three months ended March 31, 2018, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018, and has been the world's largest-selling cigarette brand since 1972. Philip Morris's principal discount brands are Basic and L&M. In 2009, Altria acquired UST LLC, whose subsidiary, U.S. Smokeless Tobacco Company LLC ("**UST**"), is the leading producer of smokeless tobacco in the U.S.

R.J. Reynolds Tobacco Company ("**Reynolds Tobacco**") is the second-largest tobacco company in the U.S. Reynolds Tobacco is a wholly-owned subsidiary of Reynolds American Inc. ("**Reynolds American**"), which in turn is a wholly-owned subsidiary of British American Tobacco p.l.c. ("**BAT**") following BAT's acquisition on July 25, 2017 of the approximately 58% of Reynolds American stock not then owned by BAT. As a result of the acquisition by BAT, Reynolds American no longer files quarterly or annual reports with the SEC. BAT is subject to applicable SEC reporting obligations as a foreign private issuer. BAT is responsible for Reynolds Tobacco's payment obligations under the MSA as a result of the acquisition of Reynolds Tobacco's parent company Reynolds American. In an earlier merger, in June 2015, Reynolds American acquired Lorillard, Inc., the parent company of Lorillard Tobacco Company ("**Lorillard**"), the then third-largest tobacco company in the U.S., with Reynolds Tobacco continuing as the surviving entity. In yet an earlier merger, in July 2004, the U.S. operations of Brown & Williamson Tobacco Corporation ("**B&W**") (the then third-largest tobacco company in the U.S.) were combined with Reynolds Tobacco. In its preliminary results for calendar year 2017, released on February 22, 2018, BAT reported that its U.S. retail cigarette market share at December 31, 2017 was 34.7%. In its Form 10-K filed with the SEC for the calendar year 2016, Reynolds American reported that Reynolds Tobacco's domestic retail cigarette market share at December 31, 2016 and December 31, 2015 was 32.3%. Reynolds Tobacco's major premium brands are Newport (which it acquired in the 2015 merger with Lorillard) and Camel, and its discount brands include Pall Mall and Doral. BAT, through Reynolds American, is also the

parent company of American Snuff Company, LLC, the second-largest smokeless tobacco products manufacturer in the U.S., and Santa Fe Natural Tobacco Company, Inc. ("**Santa Fe Natural Tobacco Company**"), an SPM that manufactures a super-premium cigarette brand.

Contemporaneous with the 2015 merger of Lorillard, Inc. into Reynolds American, Imperial Tobacco Group PLC ("**Imperial Tobacco**") (through its subsidiary ITG Brands, LLC, an SPM under the MSA) purchased Reynolds Tobacco's Kool, Salem and Winston cigarette brands, Lorillard, Inc.'s Maverick cigarette brand and blu eCig electronic cigarette brand, and other assets. Imperial Tobacco is listed on the London Stock Exchange and does not file quarterly or annual reports with the SEC. According to Imperial Tobacco's announcement released November 7, 2017 containing preliminary results for the fiscal year ended September 30, 2017, Imperial Tobacco's market share in the U.S. tobacco market at fiscal year-end 2017 was 8.9% (representing a decrease from 9.2% at fiscal year-end 2016), making it the third-largest tobacco company in the U.S. market. Imperial Tobacco's annual report containing final results for the fiscal year ended September 30, 2017 did not disclose market share in the U.S. tobacco market. In accordance with Section XVIII(c) of the MSA, which states that "[n]o Original Participating Manufacturer may sell or otherwise transfer or permit the sale or transfer of any of its Cigarette brands, Brand Names, Cigarette product formulas or Cigarette businesses … to any person or entity unless such person or entity is an Original Participating Manufacturer or prior to the sale or acquisition agrees to assume the obligations of an Original Participating Manufacturer with respect to such Cigarette brands, Brand Names, Cigarette product formulas or businesses," the OPM payment obligations under the MSA with respect to the cigarette brands, brand names, cigarette product formulas and businesses acquired by Imperial Tobacco from Reynolds Tobacco and Lorillard have been assumed and continued by Imperial Tobacco. Imperial Tobacco also is the parent company of Commonwealth Brands, Inc. ("**CBI**"), an SPM under the MSA, which markets deep discount brands in the U.S., including USA Gold, Sonoma and Fortuna.

Based on the domestic retail market shares discussed above, the remaining share of the U.S. retail cigarette market in 2017 was held by a number of other cigarette manufacturers, including Liggett Group LLC ("**Liggett**") (the operating successor to the Liggett & Myers Tobacco Company) and Vector Tobacco Inc. ("**Vector Tobacco**"), each SPMs under the MSA and each wholly-owned subsidiaries of Vector Group Ltd. ("**Vector Group Ltd.**"). In its Form 10-K filed with the SEC for the calendar year 2017, Vector Group Ltd. reported that the domestic market share of its subsidiaries Liggett and Vector Tobacco in calendar year 2017 was 3.7% combined (as well as 3.7% for Liggett individually), measured by MSAI shipment volume data, and that all of Vector Group Ltd.'s tobacco sales in 2017 and 2016 were in the discount category. Vector Group Ltd. reported in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018 that Liggett and Vector Tobacco are required to make payments under the MSA to the extent such companies' market shares exceed approximately 1.65% and approximately 0.28%, respectively, of the U.S. cigarette market (with the MSA payment obligations based on each respective company's incremental market share above the aforementioned minimum thresholds). Vector Group Ltd.'s brands include Pyramid, Eagle 20's, Grand Prix and Liggett Select.

Industry Market Share

The following table sets forth the approximate comparative market share positions of the leading producers of cigarettes in the U.S. tobacco industry. Lorillard is included for historical comparison. Individual domestic manufacturers' market shares presented below are derived from the publicly available documents of the respective manufacturers and, as a result of differing methodologies used by the manufacturers to calculate market share, may not be accurate.

Manufacturers' Domestic Market Share of Cigarettes[1]

	Calendar Year					
Manufacturer	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Philip Morris	49.8%	50.7%	50.9%	51.3%	51.4%	50.7%
Reynolds Tobacco[2]	26.5	26.0	26.5	32.0	32.3	34.7
Imperial Tobacco[3]	----	----	----	9.5	9.2	8.9
Lorillard[4]	14.4	14.9	15.1	----	----	----
Other[5]	9.3	8.4	7.5	7.2	7.1	5.7

[1] Aggregate market share as reported above is different from that utilized in the Pledged TSRs Projection Methodology and Assumptions. In addition, aggregate market share for a given year is as reported in SEC filings for such year and has not been restated due to changes in reporting for subsequent years, if any, or otherwise. Shipments to retail outlets as reported by MSAI do not reflect actual consumer sales and do not track all volume and trade channels, and accordingly, the data may overstate or understate actual market share.

[2] Reynolds Tobacco's market share for 2014 and prior years is based on market share information prior to the merger with Lorillard. Reynolds Tobacco's 2015 market share assumes that cigarette brands acquired in the merger were part of Reynolds Tobacco's portfolio for the entire period, and also reflects for that entire period the divestiture of assets to Imperial Tobacco. Data for calendar year 2017 is as reported by BAT.

[3] As of fiscal year-end September 30. According to Imperial Tobacco's annual report for its fiscal year ended September 30, 2015, the 2015 amount shown reflects the combined performance of U.S. operations before and after the acquisition of the above-described assets of Reynolds Tobacco and Lorillard, which occurred in such fiscal year. For fiscal years 2014 and prior, Imperial Tobacco is included in "Other".

[4] Lorillard utilized MSAI market share data in its SEC reports. MSAI divides the cigarette market into two price segments, the premium price segment and the discount or reduced price segment. MSAI's information relating to unit sales volume and market share of certain of the smaller, primarily deep discount, cigarette manufacturers is based on estimates derived by MSAI.

[5] The market share specified in "Other" has been determined by subtracting the total market share percentages of Philip Morris, Reynolds Tobacco, Imperial Tobacco and Lorillard as reported in their publicly available documents from 100%. Results may not be accurate and may not total 100% due to rounding and the differing sources and methodologies utilized to calculate market share.

Cigarette Shipment Trends

According to NAAG data, domestic U.S. cigarette shipments over the past 10 reported sales years were approximately as set forth in the table below.

Sales Year	**Overall No. of Cigarettes (in billions) (with 0.0325 oz. RYO conversion)**	**% Change From Prior Year (with 0.0325 oz. RYO conversion)**[1]	**OPM No. of Cigarettes (in billions) (with 0.0325 oz. RYO conversion)**	**% Change From Prior Year (with 0.0325 oz. RYO conversion)**[1]
2017	248.545	(4.47)%	209.584	(5.09)%
2016	260.169	(4.04)	220.818	(2.39)
2015	271.111	1.92	226.214	(0.15)
2014	265.992	(3.77)	226.553	(3.53)
2013	276.423	(4.85)	234.841	(4.34)
2012	290.520	(1.90)	245.486	(1.99)
2011	296.159	(2.75)	250.461	(3.09)
2010	304.547	(6.36)	258.440	(3.96)
2009	325.226	(9.09)	269.095	(10.35)
2008	357.738	(3.79)	300.161	(3.92)

[1] Percentage change calculated after rounding of shipment volume.

According to data from the U.S. Department of Treasury, Alcohol and Tobacco Tax and Trade Bureau (the "**TTB**"), the overall quantity of cigarettes shipped domestically (not including a conversion for roll-your-own tobacco) for the past 10 reported calendar years was approximately as set forth in the table below.

Calendar Year	No. of Cigarettes (in billions)	Percent Change From Prior Year[1]
2017	247.167	(3.99)%
2016	257.450	(3.88)
2015	267.835	1.95
2014	262.704	(4.05)
2013	273.787	(4.77)
2012	287.487	(1.80)
2011	292.769	(2.57)
2010	300.489	(5.52)
2009	318.029	(8.20)
2008	346.419	(4.22)

[1] Percentage change calculated after rounding of shipment volume.

According to Altria in its Form 10-K filed with the SEC for the calendar year 2017, total cigarette industry volumes declined by an estimated 4.0% in 2017 and according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018, total cigarette industry volumes declined by an estimated 5.5% in the first three months of 2018.

The MSA payments are calculated in part on shipments by the OPMs in or to the U.S., rather than total industry shipments (as shown in the tables above), and rather than consumption. The information in the foregoing tables, which has been obtained from publicly available documents but has not been independently verified, may differ materially from the amounts used by the MSA Auditor for calculating Annual Payments under the MSA.

Physical Plant, Raw Materials, Distribution and Competition

The production facilities of the OPMs tend to be highly concentrated. Material damage to these facilities could materially impact overall cigarette production. A prolonged interruption in the manufacturing operations of the cigarette manufacturers could have a material adverse effect on the ability of the cigarette manufacturers to effectively operate their respective businesses. In addition, shifts in crops (such as those driven by economic conditions and adverse weather patterns), government mandated prices, economic trade sanctions, geopolitical instability and production control programs may increase or decrease the cost or reduce the supply or quality of tobacco and other agricultural products used to manufacture tobacco products. Any significant change in the price, quality or availability of tobacco leaf or other agricultural products used to manufacture tobacco products could restrict the cigarette manufacturers' ability to continue marketing existing products.

Cigarette manufacturers sell tobacco products to wholesalers (including distributors), large retail organizations, including chain stores, and the armed services. However, certain stores have ceased the sale of tobacco products. The retail chain store Target reportedly stopped selling tobacco products in 1996. In September 2014, the national pharmacy chain CVS reportedly stopped selling all cigarettes and other tobacco products in all of its stores (following a February 2014 announcement), citing that such sales were inconsistent with its mission. CVS recently reported that a year after it stopped selling cigarettes, cigarette sales across all retailers have dropped in 13 states where it has a sizable market share. A group of state

attorneys general have pressured large retail stores with pharmacies to take similar actions, and in April 2014 several members of Congress called on these retailers to stop selling cigarettes and other items containing tobacco. According to the American Nonsmokers' Rights Foundation ("**ANRF**"), as of April 1, 2018, 173 municipalities have tobacco-free pharmacy laws. In addition, Costco has also reportedly removed tobacco products from a majority of its U.S. locations, according to news reports in March 2016. Furthermore, certain municipalities, such as New York City, Philadelphia, Boston and San Francisco, have enacted laws limiting the number or density of cigarette retailers.

Cigarette manufacturers and their affiliates and licensees also market cigarettes and other tobacco products worldwide, directly or through export sales organizations and other entities with which they have contractual arrangements.

The domestic market for cigarettes is highly competitive. Competition is primarily based on a brand's price, including the level of discounting and other promotional activities, positioning, product attributes and packaging, consumer loyalty, advertising, retail display, quality and taste. Promotional activities include, in certain instances, allowances, the distribution of incentive items, price reductions and other discounts. Considerable marketing support, merchandising display and competitive pricing are generally necessary to maintain or improve a brand's market position. Increased selling prices and taxes on cigarettes have resulted in additional price sensitivity of cigarettes at the consumer level and in a proliferation of discounts and of brands in the discount segment of the market. It has been reported that premium brands are typically $1.00 to $2.00 more expensive per pack than discount brands, allowing a margin for consumers to switch to less costly discount brands in the event of price increases.

The tobacco products of the cigarette manufacturers and their affiliates and licensees are advertised and promoted through various media, although television and radio advertising of cigarettes is prohibited in the U.S. The domestic tobacco manufacturers have agreed to additional marketing restrictions in the U.S. as part of the MSA and other settlement agreements. They are still permitted, however, to conduct advertising campaigns in magazines, at retail cigarette locations, in direct mail campaigns targeted at adult smokers, and in other adult media.

E-Cigarettes and Vapor Products

Numerous manufacturers have recently developed (or acquired) and are marketing "electronic cigarettes" (or "e-cigarettes"), which, while not tobacco products, are battery powered devices in the shape of a cigarette that vaporize liquid nicotine, which is then inhaled by the consumer. Because they do not contain or burn or heat tobacco, the manufacturers (and certain states) do not deem e-cigarettes to constitute "cigarettes" within the meaning of the MSA. Electronic nicotine products also include devices called "vaporizers", which are larger, customizable devices. They have larger batteries and cartridges, hold more liquid, produce larger vapor clouds and last longer. They allow users to mix and match hardware and refill cartridges with liquid bought in bulk, so that they generally are cheaper than e-cigarettes. As discussed below, in May 2016, the U.S. Food and Drug Administration ("**FDA**") released its final rule which subjects manufacturers, importers and/or retailers of e-cigarettes, other vapor products and certain other tobacco related products to the same and additional regulations applicable to cigarettes, cigarette tobacco, roll-your-own tobacco and smokeless tobacco. However, e-cigarettes and vapor products are currently not subject to the advertising restrictions to which tobacco products are subject. According to the American Lung Association, there are nearly 500 brands and 7,700 flavors of e-cigarettes on the market.

The parent companies of each of the OPMs have launched e-cigarette brands. Reynolds American markets the e-cigarette product VUSE and introduced its VUSE Fob power unit, which offers an on-device display with information about battery and cartridge levels, in March 2016, and began national distribution of its VUSE Vibe high-volume cartridge and closed-tank system, with a stronger and longer-lasting battery,

in November 2016. Altria's subsidiary Nu Mark introduced e-vapor products under the "MarkTen" brand in 2013 and expanded MarkTen nationally during 2014. MarkTen is an e-cigarette that can be reused with a separate battery recharging kit and additional cartridges in both tobacco and menthol flavors. In April 2014, Altria, through its Nu Mark subsidiary, acquired the e-vapor business of Green Smoke, Inc., an e-cigarette maker that sells both disposable and reusable products. In April 2012 Lorillard, Inc. acquired the blu eCigs brand, which it sold to Imperial Tobacco contemporaneously with the Lorillard, Inc. merger into Reynolds American in 2015. In addition, Vector Group Ltd.'s subsidiary Zoom E-Cigs LLC rolled out its Zoom e-cigarette brand nationally 2014. Other manufacturers also have e-cigarette brands on the market; for example, JUUL Labs, Inc. sells its JUUL brand of e-cigarettes, which was introduced in 2015 and is currently the most popular electronic cigarette.

In September 2017, Philip Morris International announced that it would contribute approximately $80 million each year for the following 12 years to a non-profit organization called the Foundation for a Smoke-Free World, to fund research on smoke-free alternatives, among other things. In addition, in January 2018, Philip Morris International announced that its long-term goal is to replace its traditional cigarettes with smoke-free alternative products.

E-cigarette and vapor product sales were an estimated $3.5 billion in 2015 and $4 billion in 2016, according to news reports. Altria reported in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018 that its subsidiaries believe that a significant number of adult tobacco consumers switch between tobacco categories, use multiple forms of tobacco products and try innovative tobacco products, such as e-vapor products and that, although the e-vapor category grew rapidly from 2012 through 2015, it then slowed, but the growth trend resumed in 2017. Altria's subsidiary Nu Mark believes that the e-vapor category will continue to be dynamic as adult tobacco consumers explore a variety of tobacco product options, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018.

The CDC in September 2014 reported results of a survey that indicated that in 2013 approximately 8.5% of the adult population (representing approximately two-and-a-half times the 2010 estimates), and 36.5% of smokers (representing approximately four times the 2010 estimates), had tried e-cigarettes at some time. In January 2016 the CDC reported that in 2014 approximately 2.4 million middle and high school students were users of electronic cigarettes in the preceding 30 days. The CDC also reported that 16% of high school students used e-cigarettes in 2015 (compared to 1.5% in 2011). The CDC in June 2016 released survey results showing that 45% of high school students had tried e-cigarettes in 2015, compared with only 32% who had tried cigarettes. Findings from the 2017 National Youth Tobacco Survey, released by the FDA and the CDC on June 7, 2018, show that for the fourth year in a row, e-cigarettes continued to be the most commonly used tobacco product among high school and middle school students. The survey found that in 2017, while among both high school and middle school students there was a decrease since 2011 in the use of cigarettes, cigars, smokeless tobacco, and other tobacco products, there was an increase in e-cigarette use, with 11.7% of high school students and 3.3% of middle school students reported to be currently using e-cigarettes. In December 2014, the University of Michigan's Survey for Research Center ("**UMSRC**") reported its findings that e-cigarette use exceeded traditional cigarette smoking among teens in 2014. In December 2015, the UMSRC reported its findings that in 2015, a substantially higher percentage of adolescents used e-cigarettes in the last 30 days than had smoked regular cigarettes and that cigarette smoking among teens continued a decades-long decline in 2015 and reached the lowest levels recorded since annual tracking began over 40 years ago. In addition, it has been reported that increases in taxes on traditional cigarettes have caused an increase in the sale of e-cigarettes. According to reports, certain sources have shown that e-cigarette use is associated with quit-attempts by smokers; that youth use of e-cigarettes is unlikely to increase the number of future cigarette smokers; and that the substantial increase in e-cigarette use among U.S. adult smokers this decade was associated with a statistically significant increase in the smoking cessation rate at the population level.

On May 5, 2016, the FDA released final rules that extend its regulatory authority to electronic cigarettes and certain other tobacco products under the FSPTCA (following an April 25, 2014 release of proposed rules). The rules ban sales of e-cigarettes and other vapor products, cigars, hookah tobacco, pipe tobacco and other products to people under 18, effective August 2016. The rules also require new health warnings for these products, and manufacturers must seek FDA permission to continue marketing all such products launched since 2007 (comprising virtually all of the market), as discussed below under "—Regulatory Issues—FSPTCA". Manufacturers have a grace period to submit their product information to the FDA. In addition, the rules require that product manufacturers register with the FDA and report product and ingredient listings; only make direct and implied claims of reduced risk if the FDA confirms that scientific evidence supports the claim and that marketing the product will benefit public health as a whole; not distribute free samples; and not sell products in vending machines, unless in a facility that never admits youth. The rules do not restrict flavored products, online sales or advertising for e-cigarettes and vapor products. Various manufacturers have sued the FDA over the final rules. On March 28, 2018, as part of the FDA's comprehensive plan for tobacco and nicotine regulation discussed below under "—*Regulatory Issues—FSPTCA*", the FDA announced that it is considering over-the-counter regulation of e-cigarettes. See also "—Heat-Not-Burn Tobacco Products" below.

On March 2, 2016, the U.S. Department of Transportation announced a final rule that explicitly bans the use of e-cigarettes and other vaping devices on commercial flights and applies to all scheduled flights of U.S. and foreign carriers involving transportation in, to, and from the U.S.; the U.S. Court of Appeals District of Columbia Circuit upheld the rule in July 2017. On January 28, 2016, President Obama signed the Child Nicotine Poisoning Prevention Act into law which requires containers for liquid nicotine used in e-cigarettes to have child-proof packaging.

Electronic cigarettes are currently not subject to federal excise taxes. For a description of state taxes imposed on vapor products, see "—Regulatory Issues—Excise Taxes" below.

Certain legislation has been passed by states and localities restricting the use and sale of electronic cigarettes and other vapor products. According to ANRF as of April 1, 2018, eleven U.S. states and two territories (California, Connecticut, Delaware, Hawaii, Maine, New Jersey, New York, North Dakota, Oregon, Utah, Vermont, the Northern Mariana Islands and Puerto Rico) and 725 municipalities have banned the use of e-cigarettes in smoke-free venues, and 15 states have restricted e-cigarette use in other venues. On December 19, 2013, the New York City Council approved legislation that prohibits the use of e-cigarettes in indoor public places and in places of employment (where smoking of traditional cigarettes is prohibited), and on January 3, 2017 a New York appellate panel affirmed the constitutionality of the ban. Chicago, Los Angeles, San Francisco and Philadelphia passed similar legislation in 2014.

In December 2014, Representatives Henry Waxman and Frank Pallone and Senator Dick Durbin sent letters to 29 Attorneys General urging them to classify e-cigarettes as cigarettes under the MSA in order to prevent e-cigarette companies from targeting youth and getting them addicted to their products. In February 2015, eight Attorneys General sent a response letter stating their position that the MSA does not cover e-cigarettes.

Heat-Not-Burn Tobacco Products

Certain tobacco product manufacturers have developed alternative products in which the tobacco is electronically heated rather than burned. Altria, through its subsidiaries, has developed the IQOS and TEEPS heat-not-burn tobacco products, and BAT has developed a similar product, Glo. Such products are currently sold in certain international markets. The FDA regulatory authority described under "—E-Cigarettes and Vapor Products" above extends to heat-not-burn tobacco products, and any state and local regulation on vapor products described under "—E-Cigarettes and Vapor Products" above would also

extend to heat-not-burn tobacco products. According to news reports, in December 2016 Philip Morris International filed a modified risk tobacco product application with the FDA to market IQOS in the U.S. as a "less harmful" tobacco product than traditional cigarettes. In March 2017 Philip Morris International filed the corresponding pre-market tobacco production application with the FDA, and in January 2018 an FDA advisory panel found that IQOS significantly reduces exposure to harmful or potentially harmful chemicals, but the panel rejected Philip Morris International's claim that the product is less harmful than traditional cigarettes. The FDA is not required to follow the advice of the advisory panel, and according to news reports, the FDA is expected to reach a final decision in the spring of 2018 regarding the product's marketing in the U.S. Altria has stated that it considers IQOS and other products in which tobacco is heated rather than burned as "tobacco products" under the MSA.

Smokeless Tobacco Products

Smokeless tobacco products, which are not "cigarettes" within the meaning of the MSA, have been available for centuries. Chewing tobacco and snuff are the most significant components of this market segment. Snuff is a ground or powdered form of tobacco that is placed under the lip to dissolve. It delivers nicotine effectively to the body. Moist snuff, including "snus" (originated in Sweden), is both smoke-free and potentially spit-free. As cigarette consumption expanded in the last century, the use of smokeless products declined. Recently, however, the industry has expanded its smokeless tobacco products in response to the general decline in cigarette consumption, the proliferation of smoking bans and the perception that smokeless use is a less harmful mode of tobacco and nicotine usage than cigarettes. Snuff, for example, is now being marketed to adult cigarette smokers as an alternative to cigarettes. UST, the largest producer of moist smokeless tobacco (and a subsidiary of Altria, Philip Morris's parent company), which manufactures Copenhagen and Skoal smokeless products, among others, is explicitly targeting adult smoker conversion in its growth strategy. In 2006, the OPMs entered the market of smokeless tobacco products, including Philip Morris's introduction of Taboka, a snuff product, and Reynolds American's introduction of Camel snus. Philip Morris also markets Marlboro snus and Marlboro Smokeless Tobacco Stick. In October 2007, Altria announced that it would accelerate the development of snuff and less-harmful cigarettes to counter a decline in smoking. In 2009, Reynolds American began testing dissolvable tobacco products Camel Sticks (a twisted, dissolvable stick made of tobacco), Camel Orbs (dissolvable tobacco tablets) and Camel Strips (dissolvable tobacco strips), but in recent years has scaled back marketing of these products. In January 2012, Altria announced that it entered into an agreement with Okono, an affiliate of Fertin Pharma, a Danish maker of nicotine chewing gum, to develop non-combustible tobacco products. In May 2012, Altria announced that its subsidiary Nu Mark introduced Verve nicotine discs, a mint-flavored, chewable, disposable tobacco product that contains tobacco-derived nicotine.

As a result of these efforts, smokeless tobacco products have been increasing market share of tobacco products overall at the expense of the market share captured by cigarettes. Sales of moist snuff products increased by 65.6% between 2005 and 2011, according to an October 2012 report by the National Center for Biotechnology Information. According to Altria's Form 10-K filed with the SEC for the calendar year 2017, smokeless tobacco products accounted for approximately 8.7% of Altria's tobacco product net revenues for 2017, compared with approximately 8.2% for 2016, and according to Altria's Form 10-Q filed with the SEC for the three-month period ended March 31, 2018, smokeless tobacco products accounted for approximately 8.8% of Altria's tobacco product net revenues for the three months ended March 31, 2018. A June 2014 report by the CDC found that smokeless tobacco use among U.S. workers has remained relatively steady since 2005, with 2.7% of U.S. workers using smokeless tobacco products in 2005 and 3.0% of U.S. workers using smokeless tobacco products in 2010, while cigarette use has declined since 2005. The U.S. Department of Health and Human Services reports that 3.5% of all adults use smokeless tobacco.

For a description of federal and state taxes imposed on smokeless tobacco products, see "—Regulatory Issues—Excise Taxes" below.

On June 10, 2014, Swedish Match submitted an application to the FDA to (i) authorize under the FDA's premarket tobacco application pathway the marketing and sale of updated versions of eight of its snus products under the "General" brand name and (ii) approve the snus products as a "modified risk tobacco product" ("**MRTP**") allowing the manufacturer to alter or remove certain warning labels from its packages and to make claims that its products present a lower risk than cigarettes. The FDA announced in November 2015 that it had for the first time authorized the marketing of a new tobacco product through the premarket tobacco application process by granting Swedish Match's application with respect to the marketing and sale of its snus products. In December 2016 the FDA denied Swedish Match's request to remove one of the required warning statements for eight snus products under the "General" brand name, and the FDA provided recommendations related to Swedish Match's other requests and provided an opportunity for Swedish Match to amend its MRTP applications.

Smoking Cessation Products

A variety of smoking cessation products and services have been developed to assist individuals to quit smoking. While some studies have shown that smokers who use a smoking cessation product to help them quit smoking are more likely to relapse, other studies have shown that these products and programs are effective, and that excise taxes and smoking restrictions and related tobacco regulation drive additional expenditures to the smoking cessation market. The smoking cessation industry is broadly divided into two segments, counseling services (*e.g.*, individual, group, or telephone), and pharmacological treatments (both prescription and over-the-counter). Several large pharmaceutical companies, including GlaxoSmithKline, Johnson & Johnson, Novartis and Pfizer are significant participants in the smoking cessation market. The FDA has approved a variety of smoking cessation products and these products include prescription medicine, such as Nicotrol, Chantix, and Zyban, as well as over-the-counter products such as skin patches, lozenges and chewing gum. Alternative therapies, such as psychotherapy and hypnosis, are also in use and available to individuals. On March 15, 2018, as part of the FDA's comprehensive plan for tobacco and nicotine regulation discussed below under "—Regulatory Issues—FSPTCA", the FDA announced that it is starting new work to re-evaluate and modernize its approach to the development and regulation of medicinal nicotine replacement products such as gums, patches and lozenges.

Private health insurance carriers are increasing premiums on smokers, which often are passed on by the employer to the smoker-employee. Certain of these and other health insurance policies, including Medicaid and Medicare, cover various forms of smoking cessation treatments, making smoking cessation treatments more affordable for covered smokers.

Results of a study by the CDC released in October 2015 found that in 2013, approximately two-thirds of smokers had made a quit-attempt in the past year (although state proportions ranged from 56.2% to 76.4%). The CDC in January 2017 released the results of a study of quitting smoking, which found that in 2015, 68.0% of smokers wanted to stop smoking, 55.4% had made a quit-attempt in the past year, 7.4% had recently quit, 57.2% had been advised by a health professional to quit, and 31.2% had used counseling and/or medications when they tried to quit. According to the CDC, the smoking rate for adults in the United States fell to approximately 15.5% in 2016 from 20.9% in 2005. It is possible that many former smokers were aided by smoking cessation products.

Gray Market

A price differential (principally resulting from differing tax rates) exists between cigarettes manufactured for sale abroad and cigarettes manufactured for U.S. sale. Such differential increases as

excise taxes in the U.S. are increased. Consequently, a domestic gray market has developed for cigarettes that are manufactured for sale abroad, but instead are diverted for domestic sales at substantially lower prices that compete with cigarettes manufactured for domestic sale. The U.S. federal government and all states, except Massachusetts, have enacted legislation prohibiting the sale and distribution of gray market cigarettes. Smuggling activities and other illicit trade in cigarettes can adversely impact the sale of cigarettes by PMs, and certain PMs engage in a variety of initiatives to help prevent illicit trade and have taken legal action against certain distributors and retailers who engage in such illicit trade practices.

Regulatory Issues

Regulatory Restrictions and Legislative Initiatives

The tobacco industry is subject to a wide range of laws and regulations regarding the marketing, sale, taxation and use of tobacco products imposed by local, state, federal and foreign governments. Various state governments have adopted or are considering, among other things, legislation and regulations that would increase their excise taxes on cigarettes, restrict displays and advertising of tobacco products, establish ignition propensity standards for cigarettes, raise the minimum age to possess or purchase tobacco products, ban the sale of "flavored" cigarette brands, require the disclosure of ingredients used in the manufacture of tobacco products, impose restrictions on smoking in public and private areas, and restrict the sale of tobacco products directly to consumers or other unlicensed recipients, including over the Internet. Several states charge higher health insurance premiums to state employee smokers than state employee non-smokers, and a number of states have implemented legislation that allows employers to provide incentives to employees who do not smoke. Federal law currently allows insurance companies to charge smokers up to 50% higher premiums than non-smokers, and several large corporations are now charging smokers higher premiums.

Federal Regulation

During the past five decades, various laws affecting the cigarette industry have been enacted. Since 1966, federal law has required a warning statement on cigarette packaging. Since 1971, television and radio advertising of cigarettes has been prohibited in the U.S. Cigarette advertising in other media in the U.S. is required to include information with respect to the "tar" and nicotine yield of cigarettes, as well as a warning statement. In 1984, Congress enacted the Comprehensive Smoking Education Act. Among other things, the Comprehensive Smoking Education Act established an interagency committee on smoking and health that is charged with carrying out a program to inform the public of any dangers to human health presented by cigarette smoking; required a series of four health warnings to be printed on cigarette packages and advertising on a rotating basis; increased type size and area of the warning required in cigarette advertisements; and required that cigarette manufacturers provide annually, on a confidential basis, a list of ingredients added to tobacco in the manufacture of cigarettes to the Secretary of the U.S. Department of Health and Human Services.

In 1992, the federal Alcohol, Drug Abuse, and Mental Health Administration Reorganization Act was signed into law. This act required states to adopt a law prohibiting any manufacturer, retailer, or distributor of tobacco products to sell or distribute any such product to any individual under the age of 18 and to establish a system to monitor, report and reduce the illegal sale of tobacco products to minors in order to continue receiving federal funding for mental health and drug abuse programs. Federal law prohibits smoking in scheduled passenger aircraft, and the U.S. Interstate Commerce Commission has banned smoking on buses transporting passengers interstate. Certain common carriers have imposed additional restrictions on passenger smoking. On March 31, 2010, President Obama signed into law the Prevent All Cigarette Trafficking (PACT) Act. This legislation, among other things, restricts the sale of

tobacco products directly to consumers or unlicensed recipients, including over the Internet, through expanded reporting requirements, requirements for delivery and sales, and penalties.

FSPTCA

The federal Family Smoking Prevention and Tobacco Control Act of 2009 ("**FSPTCA**") (amending the FDA's Food, Drug and Cosmetics Act) ("**FD&C Act**"), signed by President Obama on June 22, 2009, grants the FDA authority to regulate tobacco products. Among other provisions, the FSPTCA:

- establishes a Tobacco Products Scientific Advisory Committee ("**TPSAC**") to, among other things, evaluate the issues surrounding the use of menthol as a flavoring or ingredient in cigarettes;
- allows the FDA to impose a ban on the use of menthol and other flavors in cigarettes upon a finding that such a prohibition would be appropriate for the public health;
- allows the FDA to require the reduction of nicotine or any other compound in cigarettes;
- imposes restrictions on the advertising, promotion, sale and distribution of tobacco products, including at retail;
- requires larger and more severe health warnings on cigarette packs and cartons;
- requires pre-market approval by the FDA for claims made with respect to reduced risk or reduced exposure products and bans the use of descriptors on tobacco products, such as "low tar", "mild" and "light", when used as descriptors of modified risk, unless expressly authorized by the FDA;
- requires the disclosure of ingredients and additives to consumers;
- allows the FDA to mandate the use of reduced risk technologies in conventional cigarettes;
- permits inconsistent state regulation of the advertising or promotion of cigarettes and eliminates the existing federal preemption of such regulation;
- allows the FDA to subject new or modified tobacco products to application and premarket review and authorization requirements (the "**New Product Application Process**") if the FDA does not find them to be "substantially equivalent" to products commercially marketed as of February 15, 2007, and to deny any such new product application thus preventing the distribution and sale of any product affected by such denial; and
- grants the FDA the regulatory authority to consider and impose broad additional restrictions through a rule making process.

Since the passage of the FSPTCA, the FDA has taken the following actions, among others:

- established the collection of user fees from the tobacco industry;
- created and staffed the TPSAC;
- selected the Director of the Center for Tobacco Products;

- announced and began enforcing a ban on fruit, candy or clove flavored cigarettes (menthol is currently exempted from this ban);
- issued guidance on registration and product listing;
- issued final rules on tobacco marketing, including restricting access and marketing of cigarettes and smokeless tobacco products to youth;
- issued a prohibition on misleading marketing terms ("Light," "Low," and "Mild") for tobacco products;
- is considering new graphic warnings to appear on cigarette packages and in cigarette advertisements;
- required warning labels for smokeless tobacco products;
- authorized the sale and marketing of new tobacco products and rejected applications to introduce certain new tobacco products into the market;
- issued its final rule subjecting e-cigarettes, vapor products and certain other tobacco products to FDA regulation (as discussed under "—E-Cigarettes and Vapor Products" above); and
- is considering the issues surrounding the presence of menthol and the level of nicotine in cigarettes.

Marketing Rule. As required by the FSPTCA, the FDA re-promulgated in March 2010 a wide range of advertising and promotion restrictions in substantially the same form as regulations that were previously adopted in 1996 (but never imposed on tobacco manufacturers due to a United States Supreme Court ruling). This marketing rule banned the use of color and graphics in tobacco product labeling and advertising (which ban was ruled to be unenforceable, as described under "*–FSPTCA Litigation*" below); prohibits the sale of cigarettes and smokeless tobacco to underage persons; restricts the use of non-tobacco trade and brand names on cigarettes and smokeless tobacco products (the FDA is currently not issuing enforcement actions with regard to this restriction, as described under "*–FSPTCA Litigation*" below); requires the sale of cigarettes and smokeless tobacco in direct, face-to-face transactions; prohibits sampling of cigarettes and prohibits sampling of smokeless tobacco products except in qualified adult-only facilities; prohibits gifts or other items in exchange for buying cigarettes or smokeless tobacco products; prohibits the sale or distribution of items such as hats and tee shirts with tobacco brands or logos; and prohibits brand name sponsorship of any athletic, musical, artistic or other social or cultural event, or any entry or team in any event. Except as noted above, the marketing rule took effect in June 2010.

Warnings. Pursuant to requirements of the FSPTCA, the FDA issued a proposed rule in November 2010 to modify the required warnings that appear on cigarette packages and in cigarette advertisements. The proposed new warnings consisted of nine new textual warning statements accompanied by color pictures depicting the negative health consequences of smoking. The proposed warnings would appear on the upper portion of the front and rear panels of each cigarette package and comprise at least the top 50% of these panels, and would also appear in each cigarette advertisement and occupy at least 20% of the advertisement and be located at the top of the advertisement. The FDA took public comments on the proposed rule through January 2011, and in June 2011, the FDA unveiled nine new graphic health warnings that were required to appear on cigarette packages and advertisements no later than September 2012. As discussed below under "*–FSPTCA Litigation*," five tobacco companies in August 2011 filed a complaint

against the FDA in the U.S. District Court for the District of Columbia challenging the FDA's rule requiring new textual and graphic warning labels on cigarette packaging and advertisements. The district court enjoined the FDA from enforcing the rule, the appellate court affirmed the district court's decision invalidating the graphic warning rule, and the FDA did not seek further review. The FDA has announced that it would undertake research to support a new rulemaking on different warning labels consistent with the FSPTCA and would propose a new graphic warnings rule in the future.

Dissolvable Tobacco Products. In July 2010, the TPSAC conducted hearings on the impact of dissolvable tobacco products on public health. A report on these hearings was submitted to the FDA in 2011 and remains subject to continuing TPSAC hearings. Written comments regarding dissolvable tobacco products were submitted to the TPSAC ahead of its January 2012 meeting, at which the TPSAC continued its discussions of issues related to the nature and impact of dissolvable tobacco products on public health. The TPSAC's final report released to the FDA in March 2012 found that dissolvable tobacco products would reduce health risks compared to smoking cigarettes, but also have the potential to increase the number of tobacco users. The TPSAC could not reach any overall judgment as to whether or not the consequence of dissolvable tobacco products would be an increase or decrease in the number of people who successfully quit smoking. The FDA will consider the report and recommendations and determine what future action, if any, is warranted with respect to dissolvable tobacco products. There is no timeline or statutory requirement for the FDA to act on the TPSAC's recommendations.

Menthol. The TPSAC and the Menthol Report Subcommittee held meetings throughout 2010 and 2011 to consider the issues surrounding the use of menthol in cigarettes. At its March 2011 meeting, TPSAC presented its report and recommendations on menthol, which included that menthol likely increases experimentation and regular smoking, menthol likely increases the likelihood and degree of addiction for youth smokers, non-white menthol smokers (particularly African-Americans) are less likely to quit smoking and are less responsive to certain cessation medications, and consumers continue to believe that smoking menthol cigarettes is less harmful than smoking non-menthol cigarettes as a result of the cigarette industry's historical marketing. TPSAC's overall recommendation to the FDA was that "removal of menthol cigarettes from the marketplace would benefit public health in the United States." At the July 2011 meeting, TPSAC considered revisions to its report, and the voting members unanimously approved the final report for submission to the FDA with no change in its recommendation. On July 23, 2013, the FDA released its Independent Preliminary Scientific Evaluation of the Public Health Effects of Menthol Versus Non-menthol Cigarettes (the "**Preliminary Evaluation**") for public comment, and issued an Advance Notice of Proposed Rulemaking ("**ANPRM**") seeking additional information to help the FDA make informed decisions about menthol in cigarettes. The Preliminary Evaluation found that although there is little evidence to suggest menthol cigarettes are more toxic than regular cigarettes, the mint flavor of menthol masks the harshness of tobacco, which makes it easier to become addicted and harder to quit, and increases smoking initiation among youth. The FDA concluded that menthol cigarettes likely pose a public health risk above that seen with non-menthol cigarettes. During the public comment period, the FDA was to consider all comments, data and research submitted to determine what regulatory action, if any, with respect to menthol cigarettes is appropriate, including the establishment of product standards. In the meantime the FDA was to conduct and support research on the differences between menthol and non-menthol cigarettes as they relate to menthol's likely impact on smoking cessation. The FDA is allowed to rely on the TPSAC's report but is not required to follow the TPSAC's recommendations, and the FDA has not yet taken any final action with respect to menthol use. See "*Comprehensive Regulatory Plan for Tobacco and Nicotine*" below for a description of the FDA's ANPRM issued on March 20, 2018 regarding flavors, including menthol, in tobacco products. See "*FSPTCA Litigation*" below for a description of litigation regarding the composition of the TPSAC and reliance upon the menthol report.

On November 8, 2013, twenty-seven states (including the State) sent a letter to the FDA in support of a ban on menthol-flavored cigarettes. Any ban or material limitation on the use of menthol in cigarettes

could materially adversely affect the results of operations, cash flow and financial condition of the PMs, especially with respect to the *Newport* brand mentholated cigarettes, which is owned by BAT through its subsidiary Reynolds American (following the Reynolds American merger with Lorillard, Inc.). According to a report by the Federal Trade Commission released in 2016, menthol cigarettes made up 31% of the U.S. cigarette market in 2013.

Pre-Market Review for New and Modified Products. The FSPTCA imposes restrictions on marketing new and modified tobacco products, requiring FDA review in order for a manufacturer to begin marketing a new product or continue marketing a modified product. Unless a manufacturer can demonstrate that its products are "substantially equivalent" to products commercially marketed as of February 15, 2007, the FDA could require the removal of such products or subject them to the new product application process and, if any such new product applications are denied, prevent the continued distribution and sale of such products. Manufacturers intending to first introduce new and modified cigarette, cigarette tobacco and smokeless tobacco products into the market after March 22, 2011 or intending to first introduce other new and modified products such as e-cigarettes and other vapor products into the market after August 8, 2016 must submit substantial equivalence reports to the FDA and obtain "substantial equivalence orders" from the FDA, or submit new tobacco product applications to the FDA and obtain "new tobacco product marketing orders" from the FDA before introducing the products into the market. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018, new tobacco product applications would need to demonstrate that the marketing of the product would be appropriate for the protection of the public health, and it is uncertain how the FDA will interpret the requirements for obtaining a new tobacco product marketing order (although, as noted below, the FDA has indicated its intention to issue appropriate regulations to clarify the requirements).

According to FDA guidance issued in January 2011, for cigarettes, cigarette tobacco and smokeless tobacco products modified or first introduced into the market between February 15, 2007 and March 22, 2011 for which a manufacturer submitted substantial equivalence reports that the FDA determines are not "substantially equivalent" to products commercially marketed as of February 15, 2007, the FDA could require the removal of such products from the marketplace. In its May 2016 final rule on e-cigarettes and other vapor products, the FDA left the "grandfather" date of February 15, 2007 in place for e-cigarettes and vapor products. For e-cigarettes and other vapor products modified or first introduced into the market between February 15, 2007 and August 8, 2016, if a manufacturer submits substantial equivalence reports for products that the FDA determines are not "substantially equivalent" to products commercially marketed as of February 15, 2007, or rejects a new tobacco product application submitted by a manufacturer, the FDA could require the removal of such products from the marketplace. Few, if any, e-cigarettes and other vapor products were on the market as of February 15, 2007, and thousands of such products subsequently entered into commerce. To address this issue, the FDA established a compliance policy regarding its premarket review requirements for all products (such as e-cigarettes and other vapor products) deemed by the May 2016 final rule to be tobacco products that are not grandfathered products but were on the market as of August 8, 2016. The FDA will allow such products to remain on the market so long as the manufacturer has filed the appropriate premarket tobacco application ("**PMTA**") by a specific deadline. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018, in August 2017 the FDA extended the filing deadlines for combustible non-cigarette products, such as cigars and pipe tobacco, to August 8, 2021, and for non-combustible products, such as e-cigarettes, other vapor products and oral nicotine products, to August 8, 2022. The FDA will permit manufacturers to continue to market such products until the FDA renders a decision on the applicable substantial equivalence report or new tobacco product application.

In addition, modifications to currently-marketed products, including modifications that result from, for example, a supplier being unable to maintain the consistency required in ingredients or a manufacturer

being unable to obtain the ingredients with the required specifications, can trigger the FDA's pre-market review process described above.

In March 2015 and September 2015, the FDA issued draft guidance that announced that certain label changes and changes to the quantity of tobacco products in a package would each require submission of substantial equivalence reports and authorization from the FDA prior to marketing tobacco products with such changes, even when the tobacco product itself is not changed. As discussed under "—*FSPTCA Litigation*" below, in response to a legal challenge from the tobacco manufacturers, the United States District Court for the District of Columbia found that labeling changes do not require a substantial equivalence review, but product quantity changes require a substantial equivalence review. In December 2016, the FDA issued a revised final guidance document entitled, "Demonstrating the Substantial Equivalence of a New Tobacco Product: Response to Frequently Asked Questions (Edition 3)" as a result of the court decision.

Since the FSPTCA's enactment, the FDA has received thousands of applications for products that tobacco companies claimed were "substantially equivalent" to ones already on the market. The FDA began announcing decisions on substantial equivalence reports in 2013. The FDA announced on June 25, 2013 that it approved the applications and authorized the sale of two new non-menthol Newport cigarettes that were made by Lorillard (after determining that the cigarettes, while slightly different than previous products, would not pose new health issues) and rejected four other new tobacco products, based on new health concerns raised by some ingredients and a lack of detail about product design. It was the first instance of a federal agency rejecting an application by a tobacco manufacturer to bring a new tobacco product to the market based on the product's threat to public health. Four additional tobacco products were rejected by the FDA on August 28, 2013 because they were found to be "not substantially equivalent" to the predicate products to which they were compared, and in September 2013 four roll-your-own products were approved for marketing and sale by the FDA because the products were determined to be "substantially equivalent" to the predicate products to which they were compared. In February 2014, the FDA issued orders to prevent the further sale and distribution of four of the "not substantially equivalent" tobacco products that were currently on the market, marking the first time the FDA has used its authority to order a tobacco manufacturer to stop selling and distributing currently available tobacco products. In August 2014, the FDA ordered a tobacco product manufacturer to stop selling and distributing seven dissolvable tobacco products because they were not substantially equivalent to predicate products. Altria reported in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018 that there remain a significant number of substantial equivalence reports for which the FDA has not announced decisions, that it is not possible to predict how long reviews of the FDA of substantial equivalence reports or new tobacco product applications will take, and a "not substantially equivalent" determination or denial of a new tobacco product application could have a material adverse impact on its business, cash flows or financial position.

As noted below under "*Comprehensive Regulatory Plan for Tobacco and Nicotine*", as part of the FDA's comprehensive plan for tobacco and nicotine regulation, the FDA reported that it plans to develop foundational rules and guidance that will delineate key requirements of the regulatory process, such as the demonstration of substantial equivalence and the submission of applications for new tobacco products.

Modified Risk Products. The FSPTCA bans the use of descriptors on tobacco products such as "low tar", "mild" and "light" when used as descriptors of modified risk, unless expressly authorized by the FDA. On March 30, 2012 the FDA issued draft guidance on preparing and submitting applications for modified risk tobacco products pursuant to the FSPTCA.

On August 27, 2015, the FDA sent a warning letter to Reynolds American's subsidiary Santa Fe Natural Tobacco Company, claiming that its use of the terms "Natural" and "Additive Free" in the product labeling and advertising for Natural American Spirit cigarettes violates the modified risk tobacco products

provision of the FSPTCA. The FDA stated that in order for such terms to be used, these cigarettes must have an FDA modified-risk tobacco product order, which requires scientific evidence in order to legally make those claims. Following discussions between the parties, on January 23, 2017 the FDA and Santa Fe Natural Tobacco Company reached an agreement whereby, among other things, Santa Fe Natural Tobacco Company committed to phasing out use of the terms "Natural" and "Additive Free" from product labeling and advertising for Natural American Spirit cigarettes on an established timeframe, but it may continue to use the term "Natural" in the Natural American Spirit brand name and trademarks.

In July 2016, the Department of Justice, on behalf of the FDA, informed Altria's subsidiary John Middleton Co. ("**Middleton**") that the FDA does not intend to bring an enforcement action against Middleton for the use of the term "mild" in the trademark "Black & Mild" (Middleton's principal cigar brand), according to Altria's Form 10-Q filed with the SEC for the three-month period ended March 31, 2018.

As described above under "—Heat-Not-Burn Tobacco Products", in January 2018 an advisory panel to the FDA rejected Philip Morris International's claim that its product IQOS, in which tobacco is electronically heated rather than burned, is less harmful than traditional cigarettes, and according to news reports the FDA is expected to reach a final decision in the spring of 2018 regarding the product's marketing in the U.S.

Product Constituents and Product Standards. On March 30, 2012 the FDA issued draft guidance on the reporting of harmful and potentially harmful constituents in tobacco products and tobacco smoke pursuant to the FSPTCA. In January 2017, the FDA proposed a product standard for N-nitrosonornicotine (NNN) levels in finished smokeless tobacco products, and according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018, in March 2017, the FDA extended the comment period and acknowledged what it described as a typographical error in a formula it used in documentation supporting the proposed rule.

Comprehensive Regulatory Plan for Tobacco and Nicotine. On July 28, 2017, the FDA announced its intent to develop a comprehensive plan for tobacco and nicotine regulation that recognizes the continuum of risk for nicotine delivery. On March 15, 2018, as part of this comprehensive plan, the FDA announced an ANPRM to explore and seek comment on lowering the nicotine in cigarettes to minimally or non-addictive levels. On March 20, 2018, the FDA issued an additional ANPRM regarding the role that flavors, including menthol, play in initiation, use and cessation of use of tobacco products. In the March 15, 2018 announcement, the FDA also stated that it is starting new work to re-evaluate and modernize its approach to the development and regulation of medicinal nicotine replacement products such as gums, patches and lozenges; and plans to issue a series of foundational rules and guidance that will delineate key requirements of the regulatory process, such as the demonstration of substantial equivalence and the submission of applications for new tobacco products, as well as a framework for addressing substantial equivalence applications for provisional products that entered the market during applicable grace periods. The FDA also noted in the July 2017 announcement that it plans to develop product standards to protect against known public health risks such as issues with electronic nicotine delivery systems batteries and concerns about children's exposure to liquid nicotine. On March 28, 2018, the FDA announced, as part of the comprehensive plan, that it is considering over-the-counter regulation of e-cigarettes.

An announcement by the FDA on April 24, 2018 outlined a series of new enforcement actions as part of its Youth Tobacco Prevention Plan to curb youth use of electronic nicotine delivery systems. Among other initial actions, the FDA sent official requests for information to several e-cigarette manufacturers, requiring them to submit documents to enable the FDA to better understand the youth appeal of e-cigarettes, and conducted an undercover nationwide blitz to crack down on illicit sales of e-cigarettes. The Youth Tobacco Prevention Plan will also include efforts to make tobacco products less toxic, appealing and

addictive in order to deter youth use, which may include measures on flavors/designs that appeal to youth, child-resistant packaging and product labeling to prevent accidental child exposure to liquid nicotine. Additionally, the FDA plans to explore additional restrictions on the sale and promotion of electronic nicotine delivery systems to further reduce youth exposure and access to these products.

User Fees. The FSPTCA imposes quarterly user fees on cigarette, cigarette tobacco, smokeless tobacco, cigar and pipe tobacco manufacturers and importers to pay for the cost of regulation and other matters. The FSPTCA does not impose user fees on vapor product manufacturers. The cost of the FDA user fees is allocated first among tobacco product categories subject to FDA regulation and then among manufacturers and importers within each respective category based on their relative market shares, all as prescribed by the FSPTCA and FDA regulations. Payments for user fees are adjusted for several factors, including inflation, market share and industry volume.

Future Actions. On a going-forward basis, the FDA can issue additional regulations under the FSPTCA to impose broad additional restrictions on tobacco products. In addition, the FSPTCA requires that the FDA promulgate good manufacturing practice regulations for tobacco product manufacturers, but does not specify a timeframe for such regulations.

FSPTCA Litigation

Tobacco manufacturers have filed suit regarding certain provisions of the FSPTCA and actions taken thereunder. In August 2009, a group of tobacco manufacturers (including Reynolds Tobacco and Lorillard) and a tobacco retailer filed a complaint against the U.S. government in the U.S. District Court for the Western District of Kentucky, *Commonwealth Brands, Inc. v. U.S.*, 678 F.Supp.2d 512, in which they asserted that various provisions of the FSPTCA violate their free speech rights under the First Amendment, constitute an unlawful taking under the Fifth Amendment, and are an infringement on their Fifth Amendment due process rights. Plaintiffs sought a preliminary injunction and a judgment declaring the challenged provisions unconstitutional. Both plaintiffs and the government filed motions for summary judgment and on November 5, 2009, the district court denied certain plaintiffs' motion for preliminary injunction as to the modified risk tobacco products provision of the FSPTCA and in January 2010 granted partial summary judgment to plaintiffs on their claims that the ban on color and graphics in advertising and the ban on statements implying that tobacco products are safer due to FDA regulation violated their First Amendment speech rights. The district court granted partial summary judgment to the government on all other claims. Both parties appealed from the district court's order and on March 19, 2012, the U.S. Court of Appeals for the Sixth Circuit affirmed the district court's decision upholding the FSPTCA's restrictions on the marketing of modified-risk tobacco products, the FSPTCA's bans on event sponsorship, branding non-tobacco merchandise, and free sampling, and the requirement that tobacco manufacturers reserve significant packaging space for textual health warnings. The Sixth Circuit further affirmed the district court's grant of summary judgment to plaintiff manufacturers on the unconstitutionality of the FSPTCA's restriction of tobacco advertising to black and white text. The Sixth Circuit reversed the district court's determination that the FSPTCA's restriction on statements regarding the relative safety of tobacco products based on FDA regulation is unconstitutional and its determination that the FSPTCA's ban on tobacco continuity programs is permissible under the First Amendment. On May 31, 2012, the Sixth Circuit denied the plaintiffs' motion for rehearing en banc. On October 30, 2012, the plaintiffs filed a petition for writ of certiorari with the U.S. Supreme Court. On April 22, 2013, the U.S. Supreme Court denied plaintiffs' petition for certiorari. The government had not appealed the portion of the Court of Appeals ruling that affirmed the unconstitutionality of the FSPTCA's restriction of tobacco advertising to black and white text.

In a separate lawsuit that challenged the constitutionality of the FDA regulation that restricts tobacco manufacturers from using the trade or brand name of a non-tobacco product on cigarettes or smokeless tobacco products, the case was dismissed without prejudice pursuant to a stipulation by which

the FDA agreed not to enforce the current or any amended trade name rule against plaintiffs until at least 180 days after rulemaking on the amended rule concludes. This relief only applies to plaintiffs in the case. However, in May 2010, the FDA issued guidance on the use of non-tobacco trade and brand names applicable to all cigarette and smokeless tobacco product manufacturers. This guidance indicated the FDA's intention not to commence enforcement actions under the regulation while it considers how to address the concerns raised by various manufacturers. In November 2011, the FDA proposed an amended rule, but has not yet issued a final rule, according to Altria's Form 10-Q filed with the SEC for the three-month period ended March 31, 2018.

In February 2011, Lorillard, along with Reynolds Tobacco, filed a lawsuit in the U.S. District Court for the District of Columbia, *Lorillard, Inc. v. U.S. Food and Drug Administration*, against the FDA challenging the composition of the TPSAC because of the FDA's appointment of certain voting members with significant financial conflicts of interest. Lorillard believed these members were financially biased because they regularly testify as expert witnesses against tobacco-product manufacturers, and because they are paid consultants for pharmaceutical companies that develop and market smoking-cessation products. The suit similarly challenged the presence of certain conflicted individuals on the Constituents Subcommittee of the TPSAC. The complaint sought a judgment (i) declaring that, among other things, the appointment of the conflicted individuals to the TPSAC (and its Constituents Subcommittee) was arbitrary, capricious, an abuse of discretion, and otherwise not in compliance with the law because it prevented the TPSAC from preparing a report that was unbiased and untainted by conflicts of interest, and (ii) enjoining the FDA from, among other things, relying on the TPSAC's report. On July 21, 2014, the U.S. District Court for the District of Columbia granted plaintiffs' summary judgment motion, in part, and denied defendants' summary judgment motion, finding that three of the panel's members had conflicts of interest that biased them against the tobacco industry and that "the FDA's appointment of those members was arbitrary and capricious, in violation of the APA, and fatally tainted the composition of the TPSAC and its work product, including the Menthol Report." The district court ordered the FDA to reconstitute the TPSAC so that it complies with the applicable ethics laws and barred the FDA from relying on the TPSAC 2011 report on menthol, which the district court found to be, "at a minimum suspect, and at worst untrustworthy." The FDA appealed the district court's decision to the U.S. Court of Appeals for the District of Columbia in September 2014. On March 5, 2015, the FDA announced the resignation or termination of four members from the TPSAC and the addition of three members to the TPSAC, in response to the district court's order to reconstitute the committee. The FDA also announced that it would work expeditiously to fill the remaining vacancy. On January 15, 2016, the appellate court reversed the decision of the district court, finding that the plaintiffs did not have standing to challenge appointments of certain TPSAC members. Under the appellate court's order, the three former committee members can serve once again on the TPSAC and the FDA can rely on the TPSAC menthol report. On February 26, 2016, the plaintiff tobacco manufacturers filed a petition for a rehearing en banc, which was denied in May 2016.

On August 16, 2011, five tobacco companies (including OPMs Reynolds Tobacco and Lorillard as well as SPMs Commonwealth Brands, Inc., Liggett Group LLC, and Santa Fe Natural Tobacco Company) filed a complaint against the FDA in the U.S. District Court for the District of Columbia, *R.J. Reynolds Tobacco Co. v. U.S. Food and Drug Administration*, challenging the FDA's rule requiring new textual and graphic warning labels on cigarette packaging and advertisements. The tobacco companies sought a declaratory judgment that the FDA's final rule violates the First Amendment and the Administrative Procedure Act (the "**APA**"), and declarative and injunctive relief that the new textual and graphic warnings will not become effective until 15 months after the FDA issues regulations "that are permissible under the United States Constitution and federal laws." The plaintiffs alleged that the FDA's final rule regarding textual and graphic warnings requires them "to become a mouthpiece for the Government's emotionally-charged anti-smoking message." The plaintiffs also contended that the FDA's warnings are unjustified and unduly burdensome, as they do not further any compelling governmental purpose and are "unlikely to have any material impact on consumer understanding of smoking risks, consumer intentions regarding smoking,

or actual consumer smoking decisions." The FDA's final rule, according to the plaintiffs, "violates the First Amendment under any standard of review." On February 29, 2012, the district court granted the plaintiffs' motion for summary judgment and entered an order permanently enjoining the FDA, until 15 months following the issuance of new regulations implementing Section 201(a) of the FSPTCA that are substantively and procedurally valid and permissible under the United States Constitution and federal law, from enforcing against plaintiffs the new textual and graphic warnings required by Section 201 (a) of the FSPTCA. The district court ruled that the mandatory graphic warnings violated the First Amendment by unconstitutionally compelling speech, and that the FDA had failed to carry both its burden of demonstrating a compelling interest for its rule requiring the textual and graphic warning labels and its burden of demonstrating that the rule is narrowly tailored to achieve a constitutionally permissible form of compelled commercial speech. The FDA filed an appeal with the U.S. Court of Appeals for the District of Columbia Circuit on March 4, 2012, and moved the appellate court to consolidate this appeal with the FDA's appeal of the preliminary injunction decision. The Court of Appeals granted the FDA's motion and heard argument on both appeals on April 10, 2012. On August 24, 2012, the Court of Appeals affirmed the district court's decision invalidating the graphic warning rule. On October 9, 2012, the FDA filed a motion for rehearing en banc with the Court of Appeals, and on December 5, 2012, the Court of Appeals denied the FDA's petition for a rehearing en banc. The FDA, on December 5, 2012, issued a notice announcing its intention to collect information from consumers to determine the effectiveness of graphic warning labels, in apparent response to the Court of Appeal's August 2012 affirmation of the invalidation of the graphic warning rule, in which it cited the absence of evidence that the chosen labels furthered the FDA's stated goal of encouraging cessation and discouraging initiation of smoking. On March 19, 2013, the FDA announced that it would not file a petition for a *writ of certiorari* with the U.S. Supreme Court, but instead would undertake research to support a new rulemaking on different warning labels consistent with the FSPTCA and would propose a new graphic warnings rule in the future. The FDA has not provided a timeline for a new rule. In October 2016, several public health groups filed suit in federal court to force the FDA to issue final rules requiring graphic warnings on cigarette packs and advertising.

In 2015, cigarette manufacturers filed a lawsuit in the federal district court for the District of Columbia challenging the FDA's draft guidance that had announced that certain label changes and changes to the quantity of tobacco products in a package would each require submission of substantial equivalence reports and authorization from the FDA prior to marketing tobacco products with such changes. In August 2016, the district court held that a modification to an existing product's label does not result in a "new tobacco product" and therefore such a label change does not give rise to the substantial equivalence review process, but the district court upheld the guidance document's treatment of product quantity changes as modifications that give rise to a "new tobacco product" requiring substantial equivalence review. The parties did not appeal this decision, concluding the litigation.

Surgeon General Reports

In 1964, the Report of the Advisory Committee to the Surgeon General of the U.S. Public Health Service concluded that cigarette smoking was a health hazard of sufficient importance to warrant appropriate remedial action. Since this initial report in 1964, the Secretary of Health, Education and Welfare (now the Secretary of Health and Human Services) and the Surgeon General have issued a number of other reports that find the nicotine in cigarettes addictive and that link cigarette smoking and exposure to cigarette smoke with certain health hazards, including various types of cancer, coronary heart disease and chronic obstructive lung disease. These reports have recommended various governmental measures to reduce the incidence of smoking. Furthermore, there are various Surgeon General's warnings that are required on cigarette packages and advertisements.

In June 2006, the Office of the Surgeon General released a report, "The Health Consequences of Involuntary Exposure to Tobacco Smoke." It is a comprehensive review of health effects of involuntary

exposure to tobacco smoke. It concludes definitively that secondhand smoke causes disease and adverse respiratory effects. It also concludes that policies creating completely smoke-free environments are the most economical and efficient approaches to providing protection to non-smokers. On September 18, 2007, the Office of the Surgeon General released the report, "Children and Secondhand Smoke Exposure", which concludes that many children are exposed to secondhand smoke in the home and that establishing a completely smoke-free home is the only way to eliminate secondhand smoke exposure in that setting. The Surgeon General also addressed the health risks of second-hand smoke in its 2010 report entitled "How Tobacco Smoke Can Cause Disease: The Biology and Behavioral Basis for Smoking-Attributable Disease." In 2012, the Office of the Surgeon General released a report on preventing tobacco use among youth and young adults, and on January 17, 2014, the Office of the Surgeon General released a report on the health consequences of smoking, contending that smoking is linked in the U.S. to a higher number of deaths than previous estimates, that filtered cigarettes may increase the risk of certain diseases, and that cigarettes are a causal factor in certain conditions and diseases that had not previously been linked to cigarette smoking. These reports are expected to strengthen arguments in favor of further smoking restrictions across the country.

In December 2016, the Surgeon General issued a report on e-cigarettes, raising public health concerns regarding the use of e-cigarettes by U.S. youth and young adults. The report recommended that state, local, tribal, and territorial governments implement additional laws and regulations to address e-cigarette use among youth and young adults, including: incorporating e-cigarettes into existing smoke-free policies; preventing youth access to e-cigarettes through various restrictions on sales of e-cigarettes to minors (including age verification requirements, prohibitions against self-service displays, and active enforcement of existing laws); implementing taxation and other price policies for e-cigarettes; increasing regulation of e-cigarette marketing by expanding evidence and facilitating the development of constitutionally feasible restrictions on such marketing; and targeting youth and young adults with educational initiatives on e-cigarettes and their potential for nicotine addiction and adverse health consequences. The report also calls for expanded federal funding of e-cigarette research efforts, including research on health risks and the impact of governmental policies on initiation and use patterns for e-cigarettes and other tobacco products, and recommends continued surveillance of e-cigarette marketing to assess the link between exposure to e-cigarette marketing and use of these products.

Other Federal Action

In October 2011, the FDA and the National Institutes of Health (the "**NIH**") announced a joint national study called the "Tobacco Control Act National Longitudinal Study of Tobacco Users" to monitor and assess the behavioral and health impacts of new government tobacco regulations by following approximately 60,000 users of tobacco products and those who are 12 and over who are at risk of using tobacco products. The study is being coordinated by researchers at the NIH's National Institute on Drug Abuse and the FDA's Center for Tobacco Products. According to the NIH, data is expected to be collected between 2013 and 2016. The results of the study will be used to guide the FDA in targeting effective actions to reduce the effects of smoking on public health.

In November 2011, the FDA announced its plans for an integrated anti-smoking campaign targeting teenagers, with a combined budget of up to $600 million over five years. As part of this campaign, the FDA announced in February 2014 that advertisements would run for at least one year under the "Real Cost" campaign that targets young people aged 12-17 years and shows the costs and health consequences associated with tobacco use. The FDA reported that the "Real Cost" campaign prevented nearly 350,000 youth aged 11 to 18 nationwide from smoking. According to the FDA, subsequent campaigns will target young adults aged 18-24 years and people who influence teens, including parents, family members and peers. In May 2018, the FDA announced that it expanded the "Real Cost" public education campaign with

messages focused on preventing use by youth of e-cigarettes and that it will launch a full-scale campaign in the fall of 2018.

In March 2012, the CDC announced its first national anti-tobacco effort entitled "Tips From Former Smokers" (TIPS) which features graphic advertisements intended to shock smokers into quitting with stories of people damaged by tobacco products. The initial campaign's goal was to convince 500,000 people to try quitting smoking and 50,000 to quit long-term, and the CDC reported that as a result of the 2012 campaign an estimated 1.6 million smokers attempted to quit smoking and more than 200,000 Americans had quit smoking immediately following the campaign, of which researchers estimated that more than 100,000 would likely quit smoking permanently, according to the CDC. The TIPS advertising campaign was subsequently renewed in March of 2013, July of 2014 and March of 2015 with new advertisements showing in stark terms the negative health effects of smoking. The CDC announced the launch of another graphic anti-smoking campaign beginning in January 2016, to run for 20 weeks on television, radio, billboards online and in magazines and newspapers. The CDC has reported that the TIPS program helped prompt millions of smokers to try to quit since it began in 2012. Annual budgets of the CDC have consistently included funds for tobacco prevention and control, including in order to continue the national tobacco education campaigns that are meant to raise awareness about the health effects of tobacco use and prompt smokers to quit.

In November 2008, the FTC rescinded guidance it issued in 1966 which provided that tobacco manufacturers were allowed to make factual public statements concerning the tar, nicotine and carbon monoxide yields of their cigarettes without violating the Federal Trade Commission Act if they were based on the "**Cambridge Filter Method**." The Cambridge Filter Method is a machine-based test that "smokes" cigarettes according to a standard protocol and measures tar, nicotine and carbon monoxide yields. The FTC has determined that machine-based yields determined by the Cambridge Filter Method are relatively poor indicators of actual tar, nicotine and carbon monoxide exposure and may be misleading to individual consumers who rely on such information as indicators of the amount of tar, nicotine and carbon monoxide they will actually receive from smoking a particular cigarette and therefore do not provide a good basis for comparison among cigarettes. According to the FTC, this is primarily due to "smoker compensation," which is the tendency of smokers of lower nicotine rated cigarettes to alter their smoking behavior in order to obtain higher doses of nicotine. Now that the FTC has withdrawn its guidance, tobacco manufacturers may no longer make public statements that state or imply that the FTC has endorsed or approved the Cambridge Filter Method or other machine-based testing methods in determining the tar, nicotine and carbon monoxide yields of their cigarettes. Factual statements concerning cigarette yields are allowed by the FTC if they are truthful, non-misleading and adequately substantiated, which is the same basis on which the FTC evaluates other advertising or marketing claims that are subject to the FTC's jurisdiction. It is possible that the FTC's rescission of its guidance regarding the Cambridge Filter Method could be cited as support for allegations by plaintiffs in pending or future litigation, or could encourage additional litigation against cigarette manufacturers.

It has been reported that the U.S. Defense Department is making a concerted effort to reduce smoking among its members, and in June 2014 it formed an advisory committee to explore avenues for a reduction in smoking. A March 14, 2014 Defense Department memo encourages the services to eliminate tobacco sales and tobacco use on military bases, although it does not order specific actions. In July 2014, the Senate Appropriations defense subcommittee approved a defense spending bill that would eliminate the 25% discount that members of the armed services enjoy when buying tobacco products at commissaries and elsewhere.

Excise Taxes

Cigarettes are subject to substantial excise taxes in the U.S. On February 4, 2009, President Obama signed into law, effective April 1, 2009, an increase of $0.62 in the excise tax per pack of cigarettes, bringing the total federal excise tax to $1.01 per pack, and significant tax increases on other tobacco products. The federal excise tax rate for snuff increased $0.925 per pound to $1.51 per pound. The federal excise tax on small cigars, defined as those weighing three pounds or less per thousand, increased by $48.502 per thousand to $50.33 per thousand. In addition, the federal excise tax rate for roll-your-own tobacco increased from $1.097 per pound to $24.78 per pound. Press reports have noted that many consumers who previously purchased roll-your-own tobacco began using pipe tobacco to roll their own cigarettes in order to avoid the new excise tax, as pipe tobacco excise taxes were unaffected, and using new, mechanized rolling machines to process cigarettes in bulk. Press reports have also noted that increased excise taxes have led to an increase in cigarette smuggling. On July 6, 2012, President Obama signed into law a provision classifying retailers that operate roll-your-own machines as cigarette manufacturers, thus requiring those retailers to pay the same tax rate as other cigarette manufacturers.

All of the states, the District of Columbia, Puerto Rico, Guam and the Northern Mariana Islands currently impose cigarette taxes, which in 2017 ranged from $0.17 per pack in Missouri to $4.35 per pack in New York and Connecticut, according to the Campaign for Tobacco-Free Kids. Since January 1, 2002, 47 states and the District of Columbia have raised their cigarette taxes, many of them more than once, according to the American Lung Association's Tobacco Policy Project/State Legislated Actions on Tobacco Issues ("**SLATI**"). According to a report by the American Lung Association, in 2009, 14 states turned to cigarette taxes to increase revenue in response to record state deficits. As reported by SLATI, six states passed cigarette excise tax increases during 2010, two states (Connecticut and Vermont) passed cigarette excise tax increases during 2011, and in 2012, Illinois and Rhode Island enacted legislation to increase their cigarette excise taxes. During 2013, Massachusetts, Minnesota, Oregon and Puerto Rico had enacted legislation to increase their cigarette taxes. In particular, Minnesota increased its cigarette excise tax in July 2013 by $1.60 per pack, and Massachusetts raised its excise tax by $1.00 per pack, effective July 31, 2013, bringing its tax to $3.51 per pack. New Hampshire's cigarette tax also increased by $0.10 on August 1, 2013 due to legislation enacted in 2011. Vermont enacted a cigarette excise tax increase in 2014. During 2015, Alabama, Nevada, Kansas, Vermont, Louisiana, Ohio, Rhode Island and Connecticut enacted legislation to increase their cigarette excise taxes. During 2016, Louisiana, Pennsylvania, West Virginia and California enacted legislation to increase cigarette excise taxes. In particular, in California, a $2.00 per pack increase in that state's cigarette excise tax (in addition to that state's then current $0.87 per pack excise tax) was passed by voters on November 8, 2016, effective April 1, 2017. During 2017, Rhode Island, Delaware, Connecticut and Puerto Rico enacted legislation to increase their cigarette excise taxes. As of April 23, 2018, Kentucky and Oklahoma have enacted cigarette excise tax increases in 2018, which are effective July 1, 2018, and proposed increases are pending in other states according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018.

In addition to federal and state excise taxes, certain city and county governments also impose substantial excise taxes on tobacco products sold such as New York City, Philadelphia and Chicago. In November 2013, New York City passed an ordinance that set a minimum price of $10.50 for every pack of cigarettes sold in New York City, and in August 2017, New York City raised the minimum price of a pack of cigarettes to $13, effective June 1, 2018. Altria reported in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018 that between the end of 1998 (the year in which the MSA was executed) and April 23, 2018, the weighted-average state and certain local cigarette excise taxes increased from $0.36 to $1.75 per pack. It is expected that states and local governments will continue to raise excise taxes on cigarettes in future years.

All 50 states and the District of Columbia subject smokeless tobacco to excise taxes. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018, a majority of states currently tax smokeless tobacco products using an ad valorem method, which is calculated as a percentage of the price of the product, typically the wholesale price. As of April 23, 2018, the federal government, 23 states, Puerto Rico, Philadelphia, Pennsylvania and Cook County, Illinois have adopted a weight-based tax methodology for smokeless tobacco, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018. According to SLATI, six states (Kansas, Louisiana, Minnesota, North Carolina, Pennsylvania and West Virginia) and the District of Columbia have established separate taxes on electronic cigarettes and/or vapor products—Kansas, Louisiana, North Carolina and West Virginia tax by weight of the e-cigarette liquid used in the product, while Minnesota, Pennsylvania and the District of Columbia tax by the percentage of the wholesale price of the product.

According to the Campaign for Tobacco-Free Kids, six states have special taxes or fees on brands of manufacturers not participating in the State Settlement Agreements: Alaska, Michigan, Minnesota, Mississippi, Texas and Utah. Texas's tax took effect on September 1, 2013, but in November 2013, a district court judge in *Texas Small Tobacco Coalition. v. Combs* (Tex. Dist. Ct., Travis Cnty.) ruled that the tax violated the Equal and Uniform Taxation clause of the Texas Constitution. The Texas Comptroller of Public Accounts appealed this decision on November 13, 2013, and on August 15, 2014 the Texas Court of Appeals affirmed the district court judge's decision, holding that the tax violates the Texas Constitution, and enjoined Texas from collecting or assessing the tax. The State of Texas filed its petition for review with the Texas Supreme Court in October 2014, and on April 1, 2016, the Texas Supreme Court reversed the Texas Court of Appeals and ruled that the Texas equity fee legislation does not violate the Texas Constitution and remanded the case back to the Texas Court of Appeals for that court to consider the non-settling manufacturers' remaining challenges to the legislation. On March 24, 2017, the Texas Court of Appeals granted Texas' motion for summary judgment, ruling that the tax does not violate the equal protection and due process clauses of the U.S. Constitution.

In 2005, Minnesota enacted a 75-cent "health impact fee" on tobacco manufacturers for each pack of cigarettes sold, in order to recover Minnesota's health costs related to or caused by tobacco use. The imposition of this fee was contested by Philip Morris and upheld by the Minnesota Supreme Court as not in violation of Minnesota's settlement with the tobacco companies (and in February 2007, the U.S. Supreme Court denied Philip Morris's petition for writ of certiorari). In 2013, however, the Minnesota legislature repealed the health impact fee (the bill cited the contemporaneous increase in the cigarette excise tax as offsetting the repeal of the health impact fee).

In November 2013, New York City passed an ordinance that set a minimum price of $10.50 for every pack of cigarettes sold in New York City and prohibited the use of coupons or other promotional discounts to lower that price. On February 16, 2014, tobacco companies and trade groups representing cigarette retailers filed a motion for preliminary injunction in federal court to block that portion of the ordinance that prohibited the use of coupons and other promotional discounts (*National Association of Tobacco Outlets Inc. et al. v. City of New York et al.*), but in June 2014 the federal court upheld that portion of the ordinance.

Minimum Age to Possess or Purchase Tobacco Products

All states and the District of Columbia have enacted laws generally prohibiting the sale of tobacco products to individuals under the age of 18. Several jurisdictions have recently passed legislation, and other jurisdictions are considering proposals, to raise the minimum age for the purchase of tobacco products. In 2016, Hawaii became the first state to make 21 the minimum age to purchase tobacco products, and subsequently, California, Maine (effective July 2018), New Jersey and Oregon have raised the minimum age to purchase tobacco products to 21. According to the Campaign for Tobacco-Free Kids, at least 320

localities have raised the tobacco age to 21, including New York City, Chicago, San Antonio, Boston, Cleveland, and both Kansas Cities. It has been reported that proposals to raise the minimum age to 21 have been introduced in at least twenty-four states. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018, the minimum age in Alabama, Alaska and Utah is 19. On March 12, 2015, the Institute of Medicine of the National Academy of Sciences released a report recommending that the minimum age of legal access to tobacco products be raised to 21. The report concluded that raising the minimum legal age to 21 would likely decrease smoking prevalence by 12% among today's teenagers when they become adults. In November 2017, U.S. Congresswoman Diana DeGette introduced the Tobacco to 21 Act (H.R. 4273), legislation that would prohibit the sale of tobacco products to anyone under age 21.

The enactment of "minimum age" laws with respect to the sale of tobacco products is one of the factors that has led to decreasing smoking prevalence among teenagers. The CDC's Youth Risk Behavior Surveillance System found that the number of high school students who had smoked a cigarette in the previous month had dropped to 10.8% in 2015, from 15.7% in 2013, 18.1% in 2011, 21.9% in 2003 and 36.4% in 1997.

State and Local Regulation

Legislation imposing various restrictions on public smoking has been enacted in all of the states and many local jurisdictions. A number of states have enacted legislation designating a portion of increased cigarette excise taxes to fund either anti-smoking programs, healthcare programs or cancer research. In addition, educational and research programs addressing healthcare issues related to smoking are being funded from industry payments made or to be made under the MSA.

The FSPTCA substantially expanded federal tobacco regulation, but state regulation of tobacco is not necessarily preempted by federal law in this instance. Importantly, the FSPTCA specifically allows states and localities to impose restrictions on the time, place and manner, but not content, of advertising and promotion of tobacco products. The FSPTCA also eliminated the prior federal preemption of state regulation that, in certain circumstances, had been upheld by the U.S. Supreme Court.

In addition to the FSPTCA disclosure requirements and marketing and labeling restrictions, several states have enacted or proposed legislation or regulations that would require cigarette manufacturers to disclose the ingredients used in the manufacture of cigarettes to state health authorities. According to SLATI, six states currently require some form of tobacco product disclosure information, including, for example, requiring tobacco manufacturers to disclose any added constituent of tobacco products other than tobacco, water and reconstituted tobacco sheet made wholly from tobacco (Massachusetts and Texas); requiring disclosure of the nicotine yield for each brand of cigarettes (Massachusetts, Texas and Utah); and requiring tobacco manufacturers to disclose the presence of ammonia, any compound of ammonia, arsenic, cadmium, formaldehyde or lead in their unburned or burned states (Minnesota and Utah).

In 2003, New York was the first state to pass legislation requiring the introduction of cigarettes with a lower likelihood of starting a fire. Cigarette manufacturers responded by designing cigarettes that would extinguish quicker when left unattended. Since then, according to SLATI, fire-safety standards for cigarettes identical to those of New York are in effect in all 50 states and the District of Columbia.

In July 2007, the State of Maine became the first state to enact a statute that prohibits the sale of cigarettes and cigars that have a characterizing flavor. The legislation defines characterizing flavor as "a distinguishable taste or aroma that is imparted to tobacco or tobacco smoke either prior to or during consumption, other than a taste or aroma from tobacco, menthol, clove, coffee, nuts or peppers." In 2008, New Jersey passed similar legislation prohibiting the sale of cigarettes that have a characterizing flavor

(other than the flavors of tobacco, clove or menthol). In February 2018, New Jersey introduced a bill that would add menthol to its list of prohibited characterizing flavors. Numerous counties and municipalities have adopted laws prohibiting or restricting the sale of certain tobacco products containing "characterizing flavors." The scope of these laws varies from jurisdiction to jurisdiction; for example, some, but not all, of these laws exempt menthol from the definition of a "characterizing flavor," and certain laws apply to tobacco products other than cigarettes. The "characterizing flavor" ordinances in New York City and Providence, Rhode Island were each challenged on the grounds, among others, that the FSPTCA preempts such local laws. The U.S. Courts of Appeals for the Second Circuit and First Circuit have held that the FSPTCA does not preempt the New York City and Providence, Rhode Island ordinances, respectively. In June 2017, San Francisco amended its city health code to prohibit tobacco retailers from selling flavored tobacco products, including flavored e-cigarettes and menthol cigarettes. The ordinance was set to take effect on April 1, 2018 but the tobacco industry funded a referendum to decide whether the ordinance would take effect. On June 5, 2018, San Francisco voters approved the proposition.

According to ANRF, as of April 1, 2018, 41 states and territories have laws that require either 100% smoke-free non-hospitality workplaces or restaurants or bars (and only 14 states and territories do not have laws that require either 100% smoke-free non-hospitality workplaces or restaurants or bars, being Alabama, Alaska, Arkansas, Georgia, Kentucky, Mississippi, Missouri, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia and Wyoming). On September 4, 2014, Kentucky banned all uses of tobacco products on most government properties. Also according to ANRF, as of April 1, 2018, 27 states and territories have laws that require 100% smoke-free non-hospitality workplaces and restaurants and bars: Arizona, California, Delaware, Hawaii, Illinois, Iowa, Kansas, Maine, Maryland, Massachusetts, Michigan, Minnesota, Montana, Nebraska, New Jersey, New York, North Dakota, Ohio, Oregon, Puerto Rico, Rhode Island, South Dakota, the U.S. Virgin Islands, Utah, Vermont, Washington and Wisconsin. Restrictions in many jurisdictions also include a ban on outdoor smoking within a specified number of feet of the entrances of restaurants and other public places. ANRF also tracks clean indoor air ordinances by local governments throughout the U.S. Most states without a statewide smoking ban have some local municipalities that have enacted smoking regulations. As of April 1, 2018, there were 1,443 municipalities with local laws that require 100% smoke-free non-hospitality workplaces or restaurants or bars, of which 955 municipalities (including the District of Columbia) have local laws that require 100% smoke-free non-hospitality workplaces and restaurants and bars. In addition, according to ANRF, as of April 1, 2018, there are at least 783 state-regulated gambling facilities that are required to be 100% smokefree indoors, and there are at least 620 smokefree airports. It is expected that restrictions on indoor smoking will continue to proliferate.

Smoking bans have also extended outdoors. For example, according to ANRF, as of April 1, 2018:

- Puerto Rico prohibits smoking on beaches, Maine prohibits smoking on beaches in its state parks, and 317 municipalities specified that all city beaches and/or specifically named city beaches are smoke-free;

- Oklahoma prohibits tobacco and e-cigarette use on all state lands and parks, Puerto Rico prohibits smoking in all parks, and 1,531 municipalities specified that all city parks and/or specifically named city parks are smoke-free; in addition, on March 31, 2016, New York's highest court upheld a smoking ban in certain outdoor areas, state parks and historic sites;

- Hawaii, Maine, Michigan, Washington and Puerto Rico laws prohibit smoking in both outdoor dining areas and bar patios (while Iowa prohibits smoking only in outdoor dining areas), and 469 municipalities have enacted laws for 100% smoke-free outdoor dining, while 301 municipalities have enacted laws for 100% smoke-free outdoor dining areas and bar patios; and

- Iowa, New York, Wisconsin, Guam and the U.S. Virgin Islands prohibit smoking in outdoor public transit waiting areas, and there are 535 municipalities with smoke-free outdoor public transit waiting area laws.

Smoking bans have also been enacted for smaller governmental and private entities. According to the ANRF, as of April 1, 2018, there are at least 2,164 100% smoke-free university and college campuses, and of these, 1,805 have a 100% tobacco-free policy and 1,741 prohibit the use of e-cigarettes anywhere on campus. The University of California implemented its system-wide smoke-free and tobacco-free policy effective January 1, 2014. ANRF further reports, as of April 1, 2018, that four national hospitals, clinics, insurers and health service companies, and at least 4,021 local and/or state hospitals, healthcare systems and clinics have adopted 100% smokefree grounds policies; that in July 2013, New York State enacted a law requiring 100% smokefree grounds of general hospitals; in April 2016, Hawaii enacted a law requiring 100% tobacco- and e-cigarette-free grounds of state health facility properties; and that 44 municipalities have enacted laws specifically requiring 100% smokefree hospital grounds. In addition, ANRF reports as of April 1, 2018 that, effective January 2015, the Federal Bureau of Prisons prohibits the smoking of tobacco in any form in and on the grounds of its institutions and offices, that correctional facilities in 21 states plus Puerto Rico are 100% smokefree indoors and outdoors, and that 28 other states ban smoking indoors in correctional facilities (but allow smoking in outdoor areas). ANRF reports that as of April 1, 2018, five states and 197 municipalities have laws requiring that all hotel and motel rooms be 100% smoke-free. Furthermore, ANRF reports as of April 1, 2018 that 64 municipalities restrict or prohibit smoking in private units of market-rate multi-unit housing (whether privately-owned or publicly-owned housing), and 548 municipalities have smokefree policies for publicly-owned multi-unit housing. The Department of Housing and Urban Development prohibits smoking in public housing residences nationwide under a federal rule effective February 3, 2017; public housing agencies have 18 months to put smoke-free policies into effect.

Voluntary Private Sector Regulation

In recent years, many employers have initiated programs restricting or eliminating smoking in the workplace and providing incentives to employees who do not smoke, including charging higher health insurance premiums to employees who smoke and refusing to hire people who do smoke, and many common carriers have imposed restrictions on passenger smoking more stringent than those required by governmental regulations. Similarly, many restaurants, hotels and other public facilities have imposed smoking restrictions or prohibitions more stringent than those required by governmental regulations, including outright bans. New York City's first non-smoking apartment building opened in 2009, and many landlords and condominium associations in California and New York City have also established smoke-free apartment policies, including Related Companies, which manages 40,000 rental units across the country and announced in 2013 a ban on smoking for all new tenants.

International Agreements

On March 1, 2003, the member nations of the World Health Organization concluded four years of negotiations on an international treaty, the Framework Convention on Tobacco Control (the "**FCTC**"), whose objective is to establish a global agenda for tobacco regulation with the purpose of reducing initiation of tobacco use and encouraging cessation. The FCTC entered into force in February 2005, and according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018, as of April 23, 2018, 180 countries and the European Community have become party to the FCTC. The treaty recommends (and in certain instances, requires) signatory nations to enact legislation that would, among other things: establish specific actions to prevent youth tobacco product use; restrict or eliminate all tobacco product advertising, marketing, promotion and sponsorship; initiate public education campaigns to inform the public about the health consequences of tobacco consumption and exposure to tobacco smoke and the benefits of quitting; implement regulations imposing product testing, disclosure and performance standards;

impose health warning requirements on packaging; adopt measures intended to combat tobacco product smuggling and counterfeit tobacco products, including tracking and tracing of tobacco products through the distribution chain; and restrict smoking in public places, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018. While the United States is a signatory of the FCTC, it is not currently a party to the agreement, as the agreement has not been submitted to, or ratified by, the United States Senate, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018.

Civil Litigation

Overview

Legal proceedings or claims covering a wide range of matters are pending or threatened in various United States and foreign jurisdictions against the tobacco industry. Several types of claims are raised in these proceedings including, but not limited to, claims for product liability, consumer protection, antitrust, and reimbursement. Litigation is subject to many uncertainties and it is possible that there could be material adverse developments in pending or future cases. Damages claimed in some tobacco-related and other litigation are or can be significant and, in certain cases, range in the billions of dollars. It can be expected that at any time and from time to time there will be developments in the litigation presently pending and filing of new litigation that could materially adversely affect the business of the PMs and the market for or prices of securities such as the Series 2018 Bonds payable from tobacco settlement payments made under the MSA.

Thousands of claims have been brought against the PMs in tobacco-related litigation. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018, as of April 23, 2018, the following tobacco-related cases were pending against Altria and/or its subsidiary Philip Morris: 102 individual smoking and health cases (see "—Individual Smoking and Health Cases" below); 1,491 flight attendant cases (see "—Flight Attendant Cases" below); approximately 2,300 *Engle* Progeny cases in state court (involving approximately 3,000 state court plaintiffs) and approximately 11 *Engle* Progeny cases in federal court (see "—*Engle* Progeny Cases" below); 4 smoking and health class action cases and aggregated claims cases, which number includes as one case various civil actions that were to be tried in consolidated trials in West Virginia, and an additional 3 "Lights" class action cases (see "—Class Action Cases and Aggregated Claims" below); and 1 health care cost recovery case (see "—Health Care Cost Recovery Cases" below). Altria reported in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018 that after exhausting all appeals in cases resulting in adverse verdicts associated with tobacco-related litigation, since October 2004 Philip Morris has paid in the aggregate judgments (and related costs and fees) totaling approximately $506 million and interest totaling approximately $187 million as of March 31, 2018.

Plaintiffs assert a broad range of legal theories in these cases, including, among others, theories of negligence, fraud, misrepresentation, strict liability in tort, design defect, breach of warranty, enterprise liability (including claims asserted under RICO), civil conspiracy, intentional infliction of harm, injunctive relief, indemnity, restitution, unjust enrichment, public nuisance, unfair trade practices, claims based on antitrust laws and state consumer protection acts, and claims based on failure to warn of the harmful or addictive nature of tobacco products.

The MSA does not release the PMs from liability in individual plaintiffs' cases or in class action lawsuits. Plaintiffs in most of the cases seek unspecified amounts of compensatory damages and punitive damages that may range into the billions of dollars. Plaintiffs in some of the cases have sought treble damages, statutory damages, disgorgement of profits, equitable and injunctive relief, and medical monitoring and smoking cessation programs, among other damages.

The list below specifies certain categories of tobacco-related cases pending against the tobacco industry. A summary description of each type of case follows the list.

Type of Case

Individual Smoking and Health Cases
Flight Attendant Cases
Engle Progeny Cases
Class Action Cases and Aggregated Claims
Health Care Cost Recovery Cases

"**Individual Smoking and Health Cases**" are smoking and health cases brought by or on behalf of individual plaintiffs who allege personal injury caused by smoking cigarettes, by using smokeless tobacco products, by addiction to tobacco, or exposure to environmental tobacco smoke (but this category of cases as described herein does not include the Flight Attendant Cases or *Engle* Progeny Cases discussed below).

"**Flight Attendant Cases**" are brought by non-smoking flight attendants alleging injury from exposure to environmental smoke in the cabins of aircraft. Plaintiffs in these cases may not seek punitive damages for injuries that arose prior to January 15, 1997. The time for filing Flight Attendant Cases expired in 2000 and no additional cases in this category may be filed.

"***Engle* Progeny Cases**" are brought by individuals who purport to be members of the decertified *Engle* class. These cases are pending in a number of Florida courts. The time period for filing *Engle* Progeny Cases expired in January 2008 and no additional cases may be filed. Some of the *Engle* Progeny Cases were filed on behalf of multiple class members. Some of the courts hearing the cases filed by multiple class members severed these suits into separate individual cases. It is possible the remaining suits filed by multiple class members may also be severed into separate individual cases.

"**Class Action Cases**" are purported to be brought on behalf of large numbers of individuals for damages allegedly caused by smoking, including, among other categories, "lights" Class Action Cases. Aggregated claims are claims of a number of individual plaintiffs that are to be tried in a single proceeding.

"**Health Care Cost Recovery Cases**" are brought by or on behalf of entities seeking equitable relief and reimbursement of expenses incurred in providing health care to individuals who allegedly were injured by smoking. Plaintiffs in these cases have included the U.S. federal government, U.S. state and local governments, foreign governmental entities, hospitals or hospital districts, American Indian tribes, labor unions, private companies and private citizens. Included in this category is the suit filed by the federal government, *United States of America v. Philip Morris USA, Inc., et al*. (the "**DOJ Case**"), that sought to recover profits earned by the defendants and other equitable relief.

Individual Smoking and Health Cases

This category of cases includes smoking and health cases alleging personal injury that are brought by or on behalf of individual plaintiffs, but as described herein does not include the Flight Attendant Cases or *Engle* Progeny Cases discussed below. An example of an Individual Smoking and Health Case is *Gentile*, in which, in October 2017, a jury in a Florida state court returned a verdict in favor of the plaintiff, awarding approximately $7.1 million in compensatory damages and allocating 75% of the fault to Philip Morris (an amount of approximately $5.3 million). In April 2018, the trial court denied Philip Morris's post-trial motions and entered final judgment in favor of the plaintiff, and Philip Morris posted a bond in the amount of approximately $8 million, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018.

Flight Attendant Cases

The Flight Attendant Cases were filed as a result of a settlement agreement by the parties in *Broin v. Philip Morris Companies, Inc., et al*. (Circuit Court, Miami-Dade County, Florida, filed October 31, 1991), a class action brought on behalf of flight attendants claiming injury as a result of exposure to environmental tobacco smoke in airplane cabins. The settlement agreement, among other things, permitted the plaintiff class members to file these individual suits. The settlement agreement bars class members from bringing aggregate claims, bars class members from obtaining punitive damages, and bars individual claims to the extent that they are based on fraud, misrepresentation, conspiracy to commit fraud or misrepresentation, RICO, suppression, concealment or any other alleged intentional or willful conduct. The defendant tobacco manufacturers agreed that, in any individual case brought by a class member, the defendant will bear the burden of proof with respect to whether environmental tobacco smoke can cause certain specifically enumerated diseases, referred to as "general causation." With respect to all other issues relating to liability, including whether an individual plaintiff's disease was caused by his or her exposure to environmental tobacco smoke in airplane cabins, referred to as "specific causation," the individual plaintiff will have the burden of proof. On September 7, 1999, the Florida Supreme Court approved the settlement, and the individual Flight Attendant Cases arose out of such settlement. In October 2000, the *Broin* court entered an order applicable to all Flight Attendant Cases that the terms of the settlement agreement do not require the individual plaintiffs in the Flight Attendant Cases to prove the elements of strict liability, breach of warranty or negligence. Under the order, there is a rebuttable presumption in the plaintiffs' favor on those elements, and the plaintiffs bear the burden of proving that their alleged adverse health effects actually were caused by exposure to environmental tobacco smoke in airplane cabins (specific causation). The period for filing Flight Attendant Cases expired in 2000 and no additional cases in this category may be filed.

Engle Progeny Cases

The case of *Engle v. R.J. Reynolds Tobacco Co., et al.* (Circuit Court, Dade County, Florida, filed May 5, 1994) was certified in 1996 as a class action on behalf of Florida residents, and survivors of Florida residents, who were injured or died from medical conditions allegedly caused by addiction to smoking. During the three-phase trial, a Florida jury awarded compensatory damages to three individuals and approximately $145 billion in punitive damages to the certified class. In *Engle v. Liggett Group, Inc.*, 945 So.2d 1246 (Fla. 2006), the Florida Supreme Court vacated the punitive damages award, determined that the case could not proceed further as a class action and ordered decertification of the class. The Florida Supreme Court also reinstated the compensatory damages awards to two of the three individuals whose claims were heard during the first phase of the *Engle* trial. These two awards totaled approximately $7 million.

The Florida Supreme Court's 2006 ruling also permitted *Engle* class members to file individual actions, including claims for punitive damages. The court further held that these individuals are entitled to rely on a number of the jury's findings in favor of the plaintiffs in the first phase of the *Engle* trial. These findings included that smoking cigarettes causes a number of diseases; that cigarettes are addictive or dependence-producing; and that the defendants were negligent, breached express and implied warranties, placed cigarettes on the market that were defective and unreasonably dangerous, and concealed or conspired to conceal the risks of smoking. The time period for filing *Engle* Progeny Cases expired in January 2008 and no additional cases may be filed. In 2009, the Florida Supreme Court rejected a petition that sought to extend the time for purported class members to file an additional lawsuit.

In the wake of the Florida Supreme Court ruling, thousands of individuals filed separate lawsuits seeking to benefit from the *Engle* findings. According to Altria's Form 10-Q filed with the SEC for the three-month period ended March 31, 2018, as of April 23, 2018, 118 state and federal *Engle* Progeny Cases

involving Philip Morris have resulted in verdicts since the Florida Supreme Court's *Engle* decision, 63 of which were returned in favor of plaintiffs, 45 of which were returned in favor of Philip Morris, 8 of which were initially returned in favor of plaintiffs but were reversed post-trial or on appeal and remain pending, and 2 of which were returned in favor of Philip Morris but were reversed for a new trial. In addition, according to Altria's Form 10-Q filed with the SEC for the three-month period ended March 31, 2018, as of April 23, 2018 approximately 2,300 state court cases were pending against Philip Morris or Altria asserting individual claims by or on behalf of approximately 3,000 state court plaintiffs, and approximately 11 cases were pending against Philip Morris in federal court representing the federal cases excluded from the settlement agreement discussed below.

On October 23, 2013, Vector Group Ltd. announced that it and its subsidiary Liggett reached a comprehensive settlement (which is now final) resolving substantially all of the individual *Engle* Progeny Cases pending against them. Under the settlement, which did not require court approval, approximately 4,900 (out of approximately 5,300) individual *Engle* plaintiffs would dismiss their claims against Vector Group Ltd. and Liggett. Vector Group Ltd. recorded a charge of approximately $86 million for the year ended December 31, 2013 related to the settlement agreement. Pursuant to the terms of the agreement, Liggett will pay a total of $110 million, with approximately $61.6 million paid collectively in December 2013 and February 2014, and the balance to be paid in equal annual installments over the following 14 years.

In February 2015, Philip Morris, Reynolds Tobacco and Lorillard settled virtually all of the *Engle* Progeny Cases then pending against them in federal district court. The total amount of the settlement of the federal *Engle* Progeny Cases was $100 million, divided among Reynolds Tobacco ($42.5 million), Philip Morris ($42.5 million) and Lorillard ($15 million), which shares of the settlement were paid into escrow in March 2015. The settlement, which received final approval from the court on November 6, 2015, covers more than 400 federal *Engle* Progeny Cases but does not cover certain federal *Engle* Progeny Cases previously tried to verdict and pending on post-trial motions or appeal, or filed by different lawyers from the ones who negotiated the settlement for the plaintiffs. Also, certain state court cases were removed from state to federal court, which were not part of the settlement, and were all remanded back to state court.

At the beginning of the *Engle* Progeny Cases litigation, a central issue was the proper use of the preserved *Engle* findings. The tobacco manufacturers had argued that use of the *Engle* findings to establish individual elements of progeny claims (such as defect, negligence and concealment) was a violation of federal due process, but in 2013, both the Florida Supreme Court (in the *Douglas* case) and the Eleventh Circuit (in the *Duke* and *Walker* cases) rejected that argument, and the U.S. Supreme Court denied the tobacco manufacturers' petitions for writ of certiorari in all of those cases. As noted below, the Eleventh Circuit, sitting en banc, recently heard argument on this issue again.

In addition to the global due process argument, the tobacco manufacturers raise many other factual and legal defenses as appropriate in each case, including, among other things, arguing that the plaintiff is not a proper member of the *Engle* class, that the plaintiff did not rely on any statements by any tobacco company, that the trial was conducted unfairly, that some or all claims are preempted or barred by applicable statutes of limitation, or that any injury was caused by the smoker's own conduct. In *Hess v. Philip Morris USA Inc.* and *Russo v. Philip Morris USA Inc.*, decided on April 2, 2015, the Florida Supreme Court held that, in *Engle* Progeny Cases, the defendants cannot raise a statute of repose defense to claims for concealment or conspiracy. On April 8, 2015, in *Graham v. R. J. Reynolds Tobacco Co.*, the Eleventh Circuit held that federal law impliedly preempts use of the preserved *Engle* findings to establish claims for strict liability or negligence. On January 21, 2016, the Eleventh Circuit granted the plaintiff's motion for rehearing en banc and vacated the panel decision. On May 18, 2017, the en banc Eleventh Circuit rejected Reynolds Tobacco's due process and implied preemption arguments, holding that giving preclusive effect to the findings of negligence and strict liability by the *Engle* jury in individual *Engle* Progeny Case actions

against the tobacco companies is not preempted by federal tobacco laws and does not deprive the tobacco companies of due process, and the Eleventh Circuit affirmed the final judgment entered in the plaintiff's favor. In January 2018, the U.S. Supreme Court denied Philip Morris's petition for writ of certiorari in *Graham*. On January 6, 2016, in *Marotta v. R. J. Reynolds Tobacco Co.*, the Florida Fourth District Court of Appeal also disagreed with the 2015 *Graham* panel decision and held that federal law does not impliedly preempt any tort claims against cigarette manufacturers, including those of plaintiffs in *Engle* Progeny Cases. The Florida Supreme Court accepted jurisdiction in *Marotta*, and on April 6, 2017 affirmed the ruling of the Florida Fourth District Court of Appeal and found that federal law does not preempt the *Engle* Progeny Case plaintiff's claims, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018.

In addition, in *Searcy* and *Burkhart*, *Engle* Progeny Cases against Philip Morris and Reynolds Tobacco on appeal to the Eleventh Circuit, defendants argued that application of the *Engle* findings to the *Engle* progeny plaintiffs' concealment and conspiracy claims violated defendants' due process rights. Both appeals are pending, according to Altria's Form 10-Q filed with the SEC for the three-month period ended March 31, 2018. In January 2018, in *Searcy*, a panel of the Eleventh Circuit ordered supplemental briefing on the due process issues. In March 2018, in *Burkhart*, a different panel of the Eleventh Circuit rejected defendants' due process arguments and affirmed the final judgment entered in plaintiff's favor. Defendants filed a motion for rehearing challenging that decision. In *Soffer*, an *Engle* Progeny Case against Reynolds Tobacco, the Florida First District Court of Appeal held that *Engle* progeny plaintiffs can recover punitive damages only on their intentional tort claims; the Florida Supreme Court accepted jurisdiction over plaintiff's appeal from the Florida First District Court of Appeal's decision and, in March 2016, held that *Engle* progeny plaintiffs can recover punitive damages in connection with all of their claims, and the plaintiffs now generally seek punitive damages in connection with all of their claims in *Engle* Progeny Cases, according to Altria's Form 10-Q filed with the SEC for the three-month period ended March 31, 2018. In *Schoeff*, an *Engle* Progeny Case against Reynolds Tobacco, the Florida Fourth District Court of Appeal held that comparative fault findings should apply to reduce all compensatory damage awards, including awards based on intentional fraud claims. The Florida Supreme Court accepted jurisdiction over the plaintiff's appeal of the Florida Fourth District Court of Appeal's decision. In December 2017, the Florida Supreme Court reversed the Court of Appeal's decision, finding that comparative fault does not reduce compensatory damages awards for intentional torts, according to Altria's Form 10-Q filed with the SEC for the three-month period ended March 31, 2018.

In one of the pending *Engle* Progeny Cases in which each of Philip Morris, Reynolds Tobacco and Lorillard are defendants, *Calloway v. R.J. Reynolds Tobacco Company, et al.* (Circuit Court, Seventeenth Judicial Circuit, Broward County, Florida), the jury awarded plaintiff and a daughter of the decedent a total of $20,500,000 in compensatory damages. The jury apportioned 20.5% of the fault for the smoker's injuries to the smoker, 27% to Reynolds Tobacco, 25% to Philip Morris, 18% to Lorillard, and 9.5% to Liggett. The jury awarded a total punitive damages award from the defendants of $54,850,000. In August 2012, the court granted a post-trial motion by the defendants and lowered the compensatory damages award to $16,100,000. The court also ruled that the jury's finding on the plaintiff's percentage of comparative fault would not be applied to reduce the compensatory damage award because the jury found in favor of the plaintiff on her claims alleging intentional conduct. In August 2012, the court entered final judgment against defendants in the amount of $16,100,000 in compensatory damages and $54,850,000 in punitive damages, plus the statutory rate of interest. On January 6, 2016, the Florida Fourth District Court of Appeal reversed the fraudulent concealment and conspiracy claims, reversed the punitive damages award, and remanded the case for a new trial on those issues. On September 23, 2016, the Fourth District Court of Appeal, sitting en banc, reversed the judgment in its entirety and remanded the case for a new trial. In October 2016, the plaintiff filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court, which the court denied in March 2017, and in June 2017, the plaintiff filed a petition for writ of certiorari with the U.S. Supreme Court seeking review of the 2016 en banc ruling by the Florida Fourth

District Court of Appeal, which the court denied in October 2017, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018.

In another *Engle* Progeny Case, *Naugle v. Philip Morris*, a jury returned a verdict in November 2009 in favor of the plaintiff and against Philip Morris. The jury awarded approximately $56.6 million in compensatory damages and $244 million in punitive damages, allocating 90% of the fault to Philip Morris. In August 2010, the trial court entered an amended final judgment of approximately $12.3 million in compensatory damages and approximately $24.5 million in punitive damages. In June 2012, the Fourth District Court of Appeal affirmed the amended final judgment, and in July 2012, Philip Morris filed a motion for rehearing. In December 2012, the Fourth District withdrew its prior decision, reversed the verdict as to compensatory and punitive damages and returned the case to the trial court for a new trial on the question of damages. Upon retrial on the question of damages, on October 16, 2013, the new jury awarded approximately $3.7 million in compensatory damages and $7.5 million in punitive damages. On May 16, 2014, Philip Morris filed a notice of appeal to the Fourth District Court of Appeal. On January 6, 2016, the Fourth District Court of Appeal reversed the trial court's decision and remanded the case to the trial court to conduct a juror interview. In April 2016, Philip Morris moved for a new trial following the juror interview, which the court denied, and in May 2016, Philip Morris filed a notice of appeal to the Fourth District Court of Appeal. In April 2017, the Fourth District Court of Appeal issued a per curiam decision affirming the trial court's judgment against Philip Morris. In September 2017, Philip Morris filed a petition for writ of certiorari with the U.S. Supreme Court on due process and federal preemption grounds, which Philip Morris dismissed after the U.S. Supreme Court denied Philip Morris's petition in Graham; Philip Morris paid the judgment plus interest and associated costs in the amount of approximately $13.5 million in January 2018, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018.

In another *Engle* Progeny Case, *Robinson v. R.J. Reynolds*, on July 18, 2014 a jury in Escambia County, Florida rendered a verdict against Reynolds Tobacco and awarded plaintiff $16.9 million in compensatory damages and $23.6 billion in punitive damages for the lung cancer death of plaintiff's spouse who smoked Kool brand cigarettes for more than 20 years from age 13 to his death at age 36. Reynolds Tobacco filed a motion on July 28, 2014 to set aside the jury's verdict on the grounds that it was unconstitutionally disproportionate to plaintiff's actual damages. The court entered partial judgment on the compensatory damages against Reynolds Tobacco in the amount of $16.9 million on July 21, 2014. On January 27, 2015 the court denied the defendant's post-trial motions, but granted the defendant's motion for remittitur of the punitive damages award. The punitive damages award was remitted to approximately $16.9 million. In February 2015, Reynolds Tobacco filed an objection to the remitted award of punitive damages and a demand for a new trial on damages. The court granted a new trial on the amount of punitive damages only. The new trial on punitive damages was stayed pending Reynolds Tobacco's appeal to the First District Court of Appeal of the partial judgment of compensatory damages and of the order granting a new trial on the amount of punitive damages only. On February 24, 2017, the First District Court of Appeal reversed the judgment of the trial court and remanded the case for a new trial. On May 17, 2017, the First District Court of Appeal denied the plaintiff's motion for rehearing and the plaintiff filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court on June 14, 2017, which the Florida Supreme Court denied.

In yet another Engle Progeny Case, *Purdo*, a jury returned a verdict in favor of the plaintiff and against Philip Morris and Reynolds Tobacco, awarding compensatory damages of $21 million, and awarding $6.25 million in punitive damages against each defendant. In May 2016, Philip Morris and Reynolds Tobacco filed various post-trial motions, including motions to set aside the verdict and for a new trial, all of which the court denied and entered final judgment in favor of plaintiff with a deduction for plaintiff's comparative fault. In June 2016, the defendants filed a notice of appeal to the Florida Fourth District Court of Appeal. In August 2017, the Florida Fourth District Court of Appeal affirmed the final

judgment in favor of plaintiff, in September 2017, the defendants petitioned the Florida Fourth District Court of Appeal for panel rehearing or for rehearing en banc, which the court denied in October 2017, and in November 2017, the defendants filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court, which was denied in March 2018, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018. In another Engle Progeny Case, *Kerrivan*, a jury returned a verdict against Philip Morris and Reynolds Tobacco, awarding the plaintiff $15.8 million in compensatory damages and $25.3 million in punitive damages. The trial court entered final judgment without any deduction for plaintiff's comparative fault. In December 2014, the defendants filed various post-trial motions, including a renewed motion for judgment or for a new trial. In May 2015, the trial court deferred further briefing on the post-trial motions, and in June 2017, the trial court lifted the stay on the post-trial motions, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018.

Various *Engle* Progeny Cases in addition to the cases described herein are discussed in detail in the SEC filings of Altria, and a number of *Engle* Progeny Cases have been placed on courts' upcoming trial calendars. Trial schedules are subject to change.

In June 2009, Florida amended its existing bond cap statute by adding a $200 million bond cap that applied to all *Engle* Progeny Cases in the aggregate. In May 2011, Florida removed the provision that would have allowed it to expire on December 31, 2012. The bond cap for any given individual *Engle* Progeny Case varies depending on the number of judgments in effect at a given time, but never exceeds $5 million per case for appeals within the Florida state court system. The legislation, which became effective in June 2009 and 2011, applies to judgments entered after the original 2009 effective date. The plaintiffs in some cases challenged the constitutionality of the amended statute, but the challenges were unsuccessful. No federal court has yet addressed the constitutionality of the bond cap statute or the applicability of the bond cap to *Engle* Progeny Cases tried in federal court, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018, from time to time legislation has been presented to the Florida legislature that would repeal the 2009 appeal bond cap statute, but to date, no legislation repealing the statute has passed.

Class Action Cases and Aggregated Claims

In 1996, the Fifth Circuit Court of Appeals in *Castano v. American Tobacco Co.* overturned the certification of a nation-wide class of persons whose claims related to alleged addiction to tobacco products, finding that the district court failed to properly assess variations in the governing state laws and whether common issues predominated over individual issues. Since the Fifth Circuit's ruling in *Castano*, plaintiffs have filed numerous putative smoking and health class action suits in various state and federal courts; in general, these cases purport to be brought on behalf of residents of a particular state or states (although a few cases purport to be nationwide in scope), according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018. In most of the class action cases, plaintiffs seek class certification on behalf of groups of cigarette smokers, or the estates of deceased cigarette smokers, who reside in the state in which the case is filed. Several categories of class action cases are discussed below.

"Lights" Class Action Cases. In "lights" Class Action Cases, plaintiffs generally allege that the tobacco manufacturers made false and misleading claims that "lights" cigarettes were lower in tar and nicotine and/or were less hazardous or less mutagenic than other cigarettes. These cases typically are filed pursuant to state consumer protection laws and related statutes.

In one of the "lights" Class Action Cases, *Good v. Altria Group, Inc., et al.*, the U.S. Supreme Court ruled in December 2008 that neither the Federal Cigarette Labeling and Advertising Act nor the Federal

Trade Commission's regulation of cigarettes' tar and nicotine disclosures preempts (or bars) certain of plaintiffs' claims. Although the Court rejected the argument that the Federal Trade Commission's actions were so extensive with respect to the descriptors that the state law claims were barred as a matter of federal law, the Court's decision was limited: it did not address the ultimate merits of plaintiffs' claim, the viability of the action as a class action, or other state law issues. The case was returned to the federal court in Maine and consolidated by the Judicial Panel on Multidistrict Litigation ("**JPMDL**") with other federal cases in a multidistrict litigation proceeding. In June 2011, the plaintiffs voluntarily dismissed the *Good* case without prejudice after the district court denied plaintiffs' motion for class certification, concluding the litigation. The other multidistrict cases were either voluntarily dismissed or resolved in a manner favorable to Philip Morris, according to Altria's SEC filings.

The Price Case. In *Price, et al v. Philip Morris Inc*. (Circuit Court, Madison County, Illinois, filed February 10, 2000) the trial judge found in favor of the plaintiff class and awarded $7.1 billion in compensatory damages and $3 billion in punitive damages against Philip Morris in 2003. In December 2005, the Illinois Supreme Court issued its judgment reversing the trial court's judgment in favor of the plaintiffs and directing the trial court to dismiss the case. In December 2006, the defendant's motion to dismiss and for entry of final judgment was granted, and the case was dismissed with prejudice. In December 2008, plaintiffs filed with the trial court a petition for relief from the final judgment and sought to vacate the 2005 Illinois Supreme Court judgment, contending that the U.S. Supreme Court's December 2008 decision in *Good* demonstrated that the Illinois Supreme Court's decision was "inaccurate." In February 2009, the trial court granted Philip Morris's motion to dismiss plaintiffs' petition. In March 2009, the plaintiffs filed a notice of appeal with the Illinois Appellate Court, Fifth Judicial District. In February 2011, the Illinois Appellate Court, Fifth Judicial District reversed the trial court's dismissal of plaintiffs' petition and remanded for further proceedings, and on September 28, 2011, the Illinois Supreme Court denied Philip Morris' petition for leave to appeal that ruling. As a result, the case returned to the trial court for proceedings on whether the court should grant the plaintiffs' petition to reopen the prior judgment. In February 2012, plaintiffs filed an amended petition, which Philip Morris opposed. Subsequently, in responding to Philip Morris's opposition to the amended petition, plaintiffs asked the trial court to reinstate the original judgment. On December 12, 2012, the trial court denied the plaintiffs' request to reopen the prior judgment, and the plaintiffs filed a notice of appeal to the Fifth District Appellate Court on January 8, 2013. On April 29, 2014, the Fifth District Appellate Court reinstated the $10.1 billion 2003 verdict. In May 2014, Philip Morris filed a petition requesting the Illinois Supreme Court to direct the Fifth Judicial District to vacate its April 2014 judgment and to order the Fifth Judicial District to affirm the trial court's denial of the plaintiff's petition for relief from the judgment, or in the alternative, grant its petition for leave to appeal. On September 24, 2014, the Illinois Supreme Court agreed to hear Philip Morris's appeal. In November 2015, the Illinois Supreme Court vacated the judgments of the lower courts and dismissed the case without prejudice to allow the plaintiffs to file a motion to recall the mandate. The plaintiffs filed a motion to recall the mandate or for other appropriate relief in the Illinois Supreme Court, which was denied on January 11, 2016. In January 2016, plaintiffs filed a petition for writ of certiorari with the U.S. Supreme Court on the question of whether one of the Illinois Supreme Court justices should have recused himself, and in June 2016 the U.S. Supreme Court denied plaintiffs' petition for writ of certiorari, concluding the litigation.

As of April 23, 2018, 21 state courts in 22 "lights" Class Action Cases have refused to certify class actions, dismissed class action allegations, reversed prior class certification decisions or entered judgment in favor of Philip Morris, according to Altria's Form 10-Q filed with the SEC for the three-month period ended March 31, 2018. State trial courts have certified classes against defendant tobacco manufacturers in several jurisdictions; over time, all such cases have been dismissed by the courts at the summary judgment stage, were settled by the parties or were resolved in favor of Philip Morris, according to Altria's Form 10-Q filed with the SEC for the three-month period ended March 31, 2018.

Other Class Action Cases. Other categories of class action cases include, among others, (i) medical monitoring class action cases, wherein plaintiffs seek to recover the cost for, or otherwise the implementation of, court-supervised programs for ongoing medical monitoring providing members of the purported class low dose CT scanning in order to identify and diagnose lung cancer, and other relief such as court-supervised smoking cessation programs; (ii) e-cigarette class action cases, wherein plaintiffs seek damages, alleging that defendants made false and misleading claims that e-cigarettes are less hazardous than other cigarette products or failed to disclose that e-cigarettes expose users to certain substances; and (iii) class action cases seeking damages related to Santa Fe Natural Tobacco Company's allegedly deceptive use of the words "natural" and "additive-free" in the labeling, advertising, and promotional materials for Natural American Spirit brand cigarettes.

Aggregated Claims. In a 1999 administrative order, the West Virginia Supreme Court of Appeals transferred to a single West Virginia court a group of roughly 1,200 cases brought by individuals who allege cancer or other health effects caused by smoking cigarettes, smoking cigars, or using smokeless tobacco products (the "**West Virginia Cases**"). The plaintiffs' claims alleging injury from smoking cigarettes were consolidated for trial. The time for filing a case that could be consolidated for trial with the West Virginia Cases expired in 2000. The cases were consolidated for a Phase I trial on various defense conduct issues, to be followed in Phase II by individual trials of remaining claims to determine liability and compensatory damages. On May 15, 2013, the Phase I jury found that defendants' cigarettes were not defectively designed; defendants' cigarettes were not defective due to a failure to warn before July 1, 1969; defendants were not negligent, did not breach warranties, and did not engage in conduct warranting punitive damages; and defendants' ventilated filter cigarettes manufactured and sold between 1964 and July 1, 1969 were defective for a failure to instruct. In November 2014, the West Virginia Supreme Court affirmed the verdict. On June 8, 2015, the U.S. Supreme Court denied the plaintiffs' petition for writ of certiorari. On the same date, the trial court issued an order finding that only 30 plaintiffs are alleged to have smoked ventilated filter cigarettes in the relevant period. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018, the 30 civil actions were to be tried in six consolidated trials in West Virginia, but the parties agreed to resolve the cases for an immaterial amount.

Health Care Cost Recovery Cases

Health Care Cost Recovery Cases are brought by or on behalf of entities seeking equitable relief and reimbursement of expenses incurred in providing health care to individuals who allegedly were injured by smoking. Plaintiffs in these cases have included the U.S. federal government, U.S. state and local governments, foreign governmental entities, hospitals or hospital districts, American Indian tribes, labor unions, private companies and private citizens. Relief sought by some but not all plaintiffs includes punitive damages, multiple damages and other statutory damages and penalties, injunctions prohibiting alleged marketing and sales to minors, disclosure of research, disgorgement of profits, funding of anti-smoking programs, additional disclosure of nicotine yields, and payment of attorney and expert witness fees. The claims asserted include the claim that cigarette manufacturers were "unjustly enriched" by plaintiffs' payment of health care costs allegedly attributable to smoking, as well as claims of indemnity, negligence, strict liability, breach of express and implied warranty, violation of a voluntary undertaking or special duty, fraud, negligent misrepresentation, conspiracy, public nuisance, claims under federal and state statutes governing consumer fraud, antitrust, deceptive trade practices and false advertising, and claims under federal and state anti-racketeering statutes.

According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018, although there have been some decisions to the contrary, most judicial decisions in the U.S. have dismissed all or most health care cost recovery claims against cigarette manufacturers; nine federal circuit courts of appeals and eight state appellate courts, relying primarily on grounds that plaintiffs' claims were

too remote, have ordered or affirmed dismissals of health care cost recovery actions, and the U.S. Supreme Court has refused to consider plaintiffs' appeals from the cases decided by five circuit courts of appeals.

The DOJ Case. In 1999, in *United States v. Philip Morris USA Inc.*, the U.S. Department of Justice brought an action against various tobacco manufacturers in the U.S. District Court for the District of Columbia. The government initially sought to recover federal funds expended by the federal government in providing health care to smokers who developed diseases and injuries alleged to be smoking-related, based on several federal statutes. In addition, the government sought, pursuant to the civil provisions of RICO, disgorgement of profits the government contended were earned as a consequence of a RICO racketeering "enterprise." In September 2000, the district court dismissed the government's claims asserted under the Medical Care Recovery Act as well as those under the Medicare Secondary Payer provisions of the Social Security Act, but did not dismiss the RICO claims. In February 2005, the Circuit Court of Appeals for the District of Columbia ruled that disgorgement is not an available remedy in the case. The government's petition for writ of certiorari with the U.S. Supreme Court was denied in October 2005. The non-jury, bench trial concluded in June 2005, and in August 2006, the U.S. District Court for the District of Columbia issued its final judgment and remedial order in favor of the government. The court determined that the defendants violated certain provisions of the RICO statute, that there was a likelihood of present and future RICO violations, and that equitable relief was warranted. The government was not awarded monetary damages.

The equitable relief included permanent injunctions that prohibit the defendant tobacco manufacturers from engaging in any act of racketeering, as defined under RICO; from making any material false or deceptive statements concerning cigarettes; from making any express or implied statement about health on cigarette packaging or promotional materials (these prohibitions include a ban on using such descriptors as "low tar," "light," "ultra-light," "mild" or "natural"); from making any statements that "low tar," "light," "ultra-light," "mild" or "natural" or low-nicotine cigarettes may result in a reduced risk of disease; and from participating in the management or control of certain entities or their successors. The final judgment and remedial order also requires the defendants to make corrective statements on their websites, in certain media, in point-of-sale advertisements, and on cigarette package "onserts" (as described below). In addition, the final judgment and remedial order requires defendants to make disclosures of disaggregated marketing data to the government, and to make document disclosures on a website and in a physical depository, and also prohibits each defendant that manufactures cigarettes from selling any of its cigarette brands or certain elements of its business unless certain conditions are met.

On November 27, 2012 the U.S. District Court for the District of Columbia issued an order specifying the text of the corrective statements that the defendants must make on their websites and through other media. The court ordered that the corrective statements include statements, among others, to the effect that smoking kills on average 1,200 Americans every day, results in various detrimental health conditions and is highly addictive, that low tar and light cigarettes are not less harmful than regular cigarettes and cause some of the same detrimental health conditions that regular cigarettes cause, that tobacco companies intentionally designed cigarettes to make them more addictive, and that secondhand smoke causes lung cancer and coronary heart disease in adults who do not smoke. The court further ordered the parties to engage in discussions with the court, regarding implementation of the corrective statements. In January 2013, defendants appealed to the U.S. Court of Appeals for the District of Columbia Circuit the district court's November 2012 order on the text of the corrective statements, claiming a violation of free speech rights. Defendants also filed a motion to hold the appeal in abeyance pending the completion of related proceedings in the district court regarding the implementation of the corrective statements, which the Court of Appeals granted in February 2013.

On January 10, 2014, the U.S. government and the defendant tobacco companies issued a joint status report confirming that the parties reached an agreement following the negotiations regarding

implementation of the corrective statements and filed a joint motion for consent order, and in April 2014, the parties filed an amended proposed consent order. For specified time periods following the date when all appeals are exhausted, corrective statements would be disseminated in newspapers (print and online), on television, on the tobacco companies' websites, and on "onserts" affixed to cigarette packs. In June 2014, U.S. District Court for the District of Columbia approved the April 2014 proposed consent order. However, the June 2014 consent order did not resolve outstanding issues as to whether corrective statements must be posted in retail point-of-sale displays, and this issue remains pending.

In May 2015, the U.S. Court of Appeals affirmed in part and reversed in part the consolidated appeal before it, and upheld the content of the corrective statements ordered by the district court in November 2012, but rejected the preamble to the statements (which had included a statement that the PMs deliberately deceived the American public).

On August 20, 2015, the district court directed the parties to undertake mediation in order to attempt to reach agreement on the wording of the corrective-statements preamble. The parties were unable to reach agreement. On October 1, 2015, the district court held a status conference at which it ordered the parties to propose new corrective-statements preambles and brief their proposals in October and November 2015. The U.S. Department of Justice proposed a preamble that removed the reference to deliberate deception, and instead included only that a federal court has ordered the PMs to make such corrective statements. On February 8, 2016, the district court issued an order on the content of the corrective-statements preamble in which it held that the preamble proposed by the Department of Justice remedied the concern of the Court of Appeals, and the district court adopted the corrective statements set forth in the order, with the preamble that the government had proposed. In April 2017, the U.S. Court of Appeals for the District of Columbia Circuit reversed in part the district court's decision on the content of the corrective communications, striking certain content (the statement "Here is the Truth") and remanding to the district court the decision on how to revise certain other content. In June 2017, the U.S. District Court for the District of Columbia issued an order adopting modified corrective statements, featuring a preamble to the effect that a federal court has ordered the OPMs to make the specified statements, and featuring statements regarding the adverse health effects of smoking, the addictiveness of smoking and nicotine, the lack of significant health benefit from smoking "low tar", "light", "ultra light", "mild" and "natural" cigarettes, the manipulation of cigarette design and composition to ensure optimum nicotine delivery, and the adverse health effects of exposure to second hand smoke.

In October 2017, the U.S. District Court for the District of Columbia approved the parties' consent order implementing the corrective statements remedy for newspapers and television. According to the October 2017 court order, in November 2017, the OPMs began running court-mandated announcements containing the agreed-upon corrective statements. Television announcements are between 30 and 45 seconds long and run in prime time five days a week for 52 weeks. Full-page print ads appeared in at least 45 newspapers and ran on five weekends spread over approximately four months, and also appeared on the newspapers' websites. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018, the parties reached agreement in April 2018 on the implementation details of the corrective statements remedy for "onserts" affixed to cigarette packs and for company-owned websites. Under the agreement, the corrective statements will begin appearing on websites in the second quarter of 2018 and the onserts will begin appearing in the fourth quarter of 2018. Altria stated in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2018 that in the second quarter of 2014, Altria and Philip Morris recorded provisions on each of their respective balance sheets totaling $31 million for the estimated costs of implementing the corrective communications remedy.

Other Litigation

By way of example only, and not as an exclusive or complete list, the following are additional types of tobacco-related litigation which the tobacco industry is also the target of: (a) asbestos contribution cases, where asbestos manufacturers and related parties seek contribution or reimbursement where asbestos claims were allegedly caused in whole or in part by cigarette smoking, (b) patent infringement claims, (c) "ignition propensity cases" where wrongful death actions contend fires caused by cigarettes led to other individuals' deaths, (d) "filter cases" which mostly have been filed against Lorillard for alleged exposure to asbestos fibers there were incorporated into filter material used in one brand of cigarettes manufactured by Lorillard over 50 years ago, (e) claims related to smokeless tobacco products and electronic cigarettes, (f) ERISA claims, (g) antitrust claims and (h) employment litigation claims. Tobacco manufacturers are also subject to international litigation.

Defenses

The PMs have stated that they believe that they have valid defenses to the cases pending against them as well as valid bases for appeal should any adverse verdicts be returned against them. While PMs have indicated their intent to defend vigorously all tobacco products liability litigation, it is not possible to predict the outcome of any litigation. Litigation is subject to many uncertainties. Plaintiffs have prevailed in several cases, as noted herein, and it is possible that one or more of the pending actions could be decided unfavorably as to the PMs or the other defendants. The PMs may enter into discussions in an attempt to settle particular cases if the PMs believe it is appropriate to do so.

Some plaintiffs have been awarded damages from cigarette manufacturers at trial. While some of these awards have been overturned or reduced, other damages awards have been paid after the manufacturers have exhausted their appeals. These awards and other litigation activities against cigarette manufacturers and health issues related to tobacco products also continue to receive media attention. It is possible, for example, that the 2006 verdict in the DOJ case, which made many adverse findings regarding the conduct of the defendants, could form the basis of allegations by other plaintiffs or additional judicial findings against cigarette manufacturers. In addition, the U.S. Supreme Court ruling in *Good v. Altria* could result in further "lights" litigation. Any such developments could have material adverse effects on the ability of the PMs to prevail in smoking and health litigation and could influence the filing of new suits against the PMs. The type or extent of litigation that could be brought against PMs in the future cannot be predicted.

The foregoing discussion of civil litigation against the domestic tobacco industry is not exhaustive and is not based upon the examination or analysis by the Authority of the court records of the cases mentioned or of any other court records. It is based on SEC filings by Altria (as well as certain prior SEC filings of other OPMs) and on other publicly available information published by the OPMs or others. Prospective purchasers of the Series 2018 Bonds are referred to such SEC filings and applicable court records for additional descriptions thereof.

Litigation is subject to many uncertainties, and it is not possible to predict the outcome of litigation or estimate the possible loss or range of loss to the tobacco manufacturers. Altria has stated in its SEC filings that damages claimed in some tobacco-related and other litigation are or can be significant and, in certain cases, have ranged in the billions of dollars. Altria has further stated in its SEC filings that it is possible that the consolidated results of operations, cash flows or financial position of itself or one or more of its subsidiaries could be materially affected in a particular fiscal quarter or fiscal year by an unfavorable outcome or settlement of certain pending litigation. It can be expected that at any time and from time to time there will be developments in the litigation currently pending and filing of new litigation that could

materially adversely affect the business of the PMs and the market for or prices of securities such as the Series 2018 Bonds payable from tobacco settlement payments made by the PMs under the MSA.

CONTINUING DISCLOSURE AGREEMENT

In order to assist the Underwriter in complying with the provisions of paragraph (b)(5) of Rule 15c2-12 (the "**Rule**"), promulgated by the SEC under the Securities Exchange Act of 1934, as amended (the "**1934 Act**") the Authority will execute a Continuing Disclosure Agreement for the benefit of the holders and beneficial owners of the Series 2018 Bonds (the "**Continuing Disclosure Agreement**"). Pursuant to the Continuing Disclosure Agreement, the Authority will provide, or cause to be provided, to the Municipal Securities Rulemaking Board (the "**MSRB**"), on its Electronic Municipal Market Access system ("**EMMA**"), certain annual financial information and operating data and, in a timely manner, notices of certain specified events (but in no event in excess of ten business days after the occurrence of the event). The form of the Continuing Disclosure Agreement is attached as APPENDIX E hereto.

TAX MATTERS

Opinions of Co-Bond Counsel

In the opinions of Hawkins Delafield & Wood LLP and Pacifica Law Group LLP, as Co-Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (1) interest on the Series 2018 Bonds is excluded from gross income for federal income tax purposes pursuant to section 103 of the Tax Code, and (2) interest on the Series 2018 Bonds is not treated as a preference item in calculating the alternative minimum tax under the Tax Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed for taxable years beginning prior to January 1, 2018. In rendering their opinions, Co-Bond Counsel have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority, the State and others in connection with the Series 2018 Bonds, and Co-Bond Counsel have assumed compliance by the Authority and the State with certain ongoing covenants to comply with applicable requirements of the Tax Code to assure the exclusion of interest on the Series 2018 Bonds from gross income under section 103 of the Tax Code.

Co-Bond Counsel express no opinion as to any federal, state or local tax consequences arising with respect to the Series 2018 Bonds, or the ownership or disposition thereof, except as stated above. Co-Bond Counsel render their opinions under existing statutes and court decisions as of the issue date, and assume no obligation to update, revise or supplement their opinions to reflect any action thereafter taken or not taken, any fact or circumstance that may thereafter come to their attention, any change in law or interpretation thereof that may thereafter occur, or for any other reason. Co-Bond Counsel express no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, Co-Bond Counsel express no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the Series 2018 Bonds.

Certain Ongoing Federal Tax Requirements and Covenants

The Tax Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2018 Bonds in order that interest on the Series 2018 Bonds be and remain excluded from gross income under section 103 of the Tax Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2018 Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain

excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Series 2018 Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority and the State have covenanted to comply with certain applicable requirements of the Tax Code to assure the exclusion of interest on the Series 2018 Bonds from gross income under Section 103 of the Tax Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the Series 2018 Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Series 2018 Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Series 2018 Bonds.

Prospective owners of the Series 2018 Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest on the Series 2018 Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by section 884 of the Tax Code.

Original Issue Discount

"Original issue discount" ("**OID**") is the excess of the sum of all amounts payable at the stated maturity of a bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity (a bond with the same maturity date, interest rate, and credit terms) means the first price at which at least 10 percent of such maturity was sold to the public, i.e., a purchaser who is not, directly or indirectly, a signatory to a written contract to participate in the initial sale of the bonds. In general, the issue price for each maturity of Series 2018 Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Co-Bond Counsel further are of the opinion that, for any Series 2018 Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under section 1288 of the Tax Code is excludable from gross income for federal income tax purposes to the same extent as other interest on the Series 2018 Bonds.

In general, under section 1288 of the Tax Code, OID on a Discount Bond accrues under a constant-yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that bond (a "**Premium Bond**"). In general, under section 171 of the Tax Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant-yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series 2018 Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Tax Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2018 Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2018 Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Series 2018 Bonds under federal or state law or otherwise prevent beneficial owners of the Series 2018 Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Series 2018 Bonds.

Prospective purchasers of the Series 2018 Bonds should consult their own tax advisors regarding the foregoing matters.

RATINGS

It is expected that the Series 2018 Bonds will be assigned a rating of "A (sf)" by S&P Global Ratings ("**S&P**").

The rating by S&P of the Series 2018 Bonds reflect only the views of such organization and any desired explanation of the significance of such rating and any outlooks or other statements given by S&P with respect thereto should be obtained from S&P, at the following address: S&P Global Ratings, 55 Water Street, New York, New York 10004.

A credit rating is not a recommendation to buy, sell or hold securities, and such rating may be subject to downward revision or withdrawal at any time. There is no assurance that the initial rating assigned to the Series 2018 Bonds will continue for any given period of time or that the rating will not be revised downward, suspended or withdrawn entirely by S&P. Any such downward revision, suspension or withdrawal of such rating may have an adverse effect on the availability of a market for or the market price of the Series 2018 Bonds.

UNDERWRITING

Jefferies LLC (the "**Underwriter**") has agreed, subject to certain conditions, to purchase all, but not less than all, of the Series 2018 Bonds from the Authority at an underwriter's discount of $300,236.46. The Underwriter will be obligated to purchase all of the Series 2018 Bonds if any are purchased. The initial public offering prices of the Series 2018 Bonds may be changed from time to time by the Underwriter.

The Series 2018 Bonds may be offered and sold to certain dealers (including dealers depositing the Series 2018 Bonds into investment trusts) and institutional purchasers at prices lower than the initial public offering prices, and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriter and its affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Authority for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriter and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Authority.

LEGAL MATTERS

The Authority has not been served with and is not aware of any litigation pending in any court (either State or federal) to restrain or enjoin the issuance or delivery of the Series 2018 Bonds, or questioning the creation, organization or existence of the Authority, the validity or enforceability of the Indenture, the transfer of the Pledged TSRs by the State to the Authority, the proceedings for the authorization, execution, authentication and delivery of the Series 2018 Bonds or the validity of the Series

2018 Bonds. For a discussion of other legal matters, see "RISK FACTORS," "LEGAL CONSIDERATIONS" and "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY".

Hawkins Delafield & Wood LLP and Pacifica Law Group LLP, as Co-Bond Counsel to the Authority, will render opinions with respect to the validity of the Series 2018 Bonds in substantially the forms set forth in Appendix D. Certain legal matters will be passed upon for the Authority by Pacifica Law Group, Seattle Washington, General Counsel to the Authority, and by Nixon Peabody LLP, as Disclosure Counsel to the Authority, for the State by the Attorney General of the State, and for the Underwriter by Orrick, Herrington & Sutcliffe LLP, as Underwriter's Counsel.

The Authority entered into a Reserve Fund Agreement dated November 5, 2002, between the Authority, U.S. Bank, N.A. (as Indenture Trustee), and Lehman Brothers Special Financing Inc. ("**LBSF**"), as amended by the Amendment Agreement, dated March 26, 2003, for the investment of amounts on deposit in the Liquidity Reserve Account securing the Series 2002 Bonds. LBSF's obligation under the Reserve Fund Agreement was guaranteed by Lehman Brothers Holdings Inc. (together with LBSF, "Lehman"). When Lehman declared bankruptcy in September 2008, the Authority recovered the principal amount invested under the Reserve Fund Agreement, and also brought a claim in bankruptcy court for the lost value of future earnings on the Liquidity Reserve Account at the rate guaranteed under the Reserve Fund Agreement. In February 2015, the parties agreed to settle all claims with payment by Lehman to the Authority of $9.2 million. The amount actually received will depend on the percentage applied to distributions from the Lehman estate. Any amounts received will be deposited in the Collections Account with respect to the Bonds upon receipt.

THE INDENTURE TRUSTEE

The Authority has appointed U.S. Bank National Association to serve as Indenture Trustee under the Indenture. The Indenture Trustee is to carry out those duties assignable to it under the Indenture, and the related financing documents. Except for the contents of this section, the Indenture Trustee has not reviewed or participated in the preparation of this Official Statement and assumes no responsibility for the contents, accuracy, fairness or completeness of the information set forth in this Official Statement or for the recitals contained in the Indenture or the Series 2018 Bonds, or for the validity, sufficiency, or legal effect of any of such documents.

Furthermore, the Indenture Trustee has no oversight responsibility, and is not accountable, for the use or application by the Authority of any of the Bonds authenticated or delivered pursuant to the Indenture or for the use or application of the proceeds of such Series 2018 Bonds by the Authority. The Indenture Trustee has not evaluated the risks, benefits, or propriety of any investment in the Series 2018 Bonds and make no representation, and have reached no conclusions, regarding the value or condition of any assets or revenues pledged or assigned as security for the Series 2018 Bonds, the technical or financial feasibility of the Issue, or the investment quality of the Series 2018 Bonds, about all of which the Indenture Trustee expresses no opinion and expressly disclaim the expertise to evaluate.

OTHER PARTIES

Municipal Advisor

PFM Financial Advisors LLC (the "**Municipal Advisor**") has been retained to act as municipal advisor to the Authority in connection with certain aspects of the issuance of the Series 2018 Bonds. Although the Municipal Advisor assisted in the preparation of this Official Statement, the Municipal Advisor is not obligated, and has not undertaken, to make an independent verification or assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

TOBACCO SETTLEMENT AUTHORITY

By: /s/ Carla M. DewBerry
Chair

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APPENDIX A

MASTER SETTLEMENT AGREEMENT

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MASTER SETTLEMENT AGREEMENT

(AS AMENDED BY THE ADDENDUM OF CLARIFICATIONS)

TABLE OF CONTENTS

Page

MASTER SETTLEMENT AGREEMENT

TABLE OF CONTENTS

Page

I. RECITALS 1
II. DEFINITIONS 1
- (a) “Account” 1
- (b) “Adult” 1
- (c) “Adult-Only Facility” 1
- (d) “Affiliate” 1
- (e) “Agreement” 1
- (f) “Allocable Share” 1
- (g) “Allocated Payment” 2
- (h) “Bankruptcy” 2
- (i) “Brand Name” 2
- (j) “Brand Name Sponsorship” 2
- (k) “Business Day” 2
- (l) “Cartoon” 2
- (m) “Cigarette” 2
- (n) “Claims” 2
- (o) “Consent Decree” 3
- (p) “Court” 3
- (q) “Escrow” 3
- (r) “Escrow Agent” 3
- (s) “Escrow Agreement” 3
- (t) “Federal Tobacco Legislation Offset” 3
- (u) “Final Approval” 3
- (v) “Foundation” 3
- (w) “Independent Auditor” 3
- (x) “Inflation Adjustment” 3
- (y) “Litigating Releasing Parties Offset” 3
- (z) “Market Share” 3
- (aa) “MSA Execution Date” 3
- (bb) “NAAG” 3
- (cc) “Non-Participating Manufacturer” 3
- (dd) “Non-Settling States Reduction” 3
- (ee) “Notice Parties” 3
- (ff) “NPM Adjustment” 3
- (gg) “NPM Adjustment Percentage” 3
- (hh) “Original Participating Manufacturers” 3
- (ii) “Outdoor Advertising” 3
- (jj) “Participating Manufacturer” 4
- (kk) “Previously Settled States Reduction” 4
- (ll) “Prime Rate” 4
- (mm) “Relative Market Share” 4
- (nn) “Released Claims” 4
- (oo) “Released Parties” 4
- (pp) “Releasing Parties” 5
- (qq) “Settling State” 5
- (rr) “State” 5
- (ss) “State-Specific Finality” 5
- (tt) “Subsequent Participating Manufacturer” 5
- (uu) “Tobacco Product Manufacturer” 5
- (vv) “Tobacco Products” 5
- (ww) “Tobacco-Related Organizations” 5
- (xx) “Transit Advertisements” 5

TABLE OF CONTENTS
(continued)

Page

(yy) "Underage" 6
(zz) "Video Game Arcade" 6
(aaa) "Volume Adjustment" 6
(bbb) "Youth" 6
III. PERMANENT RELIEF 6
(a) Prohibition on Youth Targeting 6
(b) Ban on Use of Cartoons 6
(c) Limitation of Tobacco Brand Name Sponsorships 6
(d) Elimination of Outdoor Advertising and Transit Advertisements 7
(e) Prohibition on Payments Related to Tobacco Products and Media 7
(f) Ban on Tobacco Brand Name Merchandise 7
(g) Ban on Youth Access to Free Samples 8
(h) Ban on Gifts to Underage Persons Based on Proofs of Purchase 8
(i) Limitation on Third-Party Use of Brand Names 8
(j) Ban on Non-Tobacco Brand Names 8
(k) Minimum Pack Size of Twenty Cigarettes 8
(l) Corporate Culture Commitments Related to Youth Access and Consumption 8
(m) Limitations on Lobbying 9
(n) Restriction on Advocacy Concerning Settlement Proceeds 9
(o) Dissolution of The Tobacco Institute, Inc., the Council for Tobacco Research-U.S.A., Inc. and the Center for Indoor Air Research, Inc. 9
(p) Regulation and Oversight of New Tobacco-Related Trade Associations 10
(q) Prohibition on Agreements to Suppress Research 10
(r) Prohibition on Material Misrepresentations 10
IV. PUBLIC ACCESS TO DOCUMENTS 11
V. TOBACCO CONTROL AND UNDERAGE USE LAWS 12
VI. ESTABLISHMENT OF A NATIONAL FOUNDATION 12
(a) Foundation Purposes 12
(b) Base Foundation Payments 12
(c) National Public Education Fund Payments 12
(d) Creation and Organization of the Foundation 13
(e) Foundation Affiliation 13
(f) Foundation Functions 13
(g) Foundation Grant-Making 13
(h) Foundation Activities 14
(i) Severance of this Section 14
VII. ENFORCEMENT 14
(a) Jurisdiction 14
(b) Enforcement of Consent Decree 14
(c) Enforcement of this Agreement 14
(d) Right of Review 15
(e) Applicability 15
(f) Coordination of Enforcement 15
(g) Inspection and Discovery Rights 15
VIII. CERTAIN ONGOING RESPONSIBILITIES OF THE SETTLING STATES 15
IX. PAYMENTS 16
(a) All Payments Into Escrow 16
(b) Initial Payments 16
(c) Annual Payments and Strategic Contribution Payments 16
(d) NPM Adjustment for Subsequent Participating Manufacturers 17
(e) Supplemental Payments 21
(f) Payment Responsibility 21
(g) Corporate Structures 21
(h) Accrual of Interest 21
(i) Payments by Subsequent Participating Manufacturers 21
(j) Order of Application of Allocations, Offsets, Reductions and Adjustments 22
X. EFFECT OF FEDERAL TOBACCO-RELATED LEGISLATION 23

TABLE OF CONTENTS
(continued)

Page

XI. CALCULATION AND DISBURSEMENT OF PAYMENTS 24
(a) Independent Auditor to Make All Calculations 24
(b) Identity of Independent Auditor 24
(c) Resolution of Disputes 24
(d) General Provisions as to Calculation of Payments 24
(e) General Treatment of Payments 26
(f) Disbursements and Charges Not Contingent on Final Approval 26
(g) Payments to be Made Only After Final Approval 28
(h) Applicability to Section XVII Payments 28
(i) Miscalculated or Disputed Payments 28
(j) Payments After Applicable Condition 29
XII. SETTLING STATES' RELEASE, DISCHARGE AND COVENANT 30
(a) Release 30
(b) Released Claims Against Released Parties 31
XIII. CONSENT DECREES AND DISMISSAL OF CLAIMS 32
XIV. PARTICIPATING MANUFACTURERS' DISMISSAL OF RELATED LAWSUITS 33
XV. VOLUNTARY ACT OF THE PARTIES 33
XVI. CONSTRUCTION 33
XVII. RECOVERY OF COSTS AND ATTORNEYS' FEES 33
XVIII. MISCELLANEOUS 34
(a) Effect of Current or Future Law 34
(b) Limited Most-Favored Nation Provision 34
(c) Transfer of Tobacco Brands 35
(d) Payments in Settlement 35
(e) No Determination or Admission 35
(f) Non-Admissibility 35
(g) Representations of Parties 35
(h) Obligations Several, Not Joint 35
(i) Headings 36
(j) Amendment and Waiver 36
(k) Notices 36
(l) Cooperation 36
(m) Designees to Discuss Disputes 36
(n) Governing Law 36
(o) Severability 36
(p) Intended Beneficiaries 37
(q) Counterparts 37
(r) Applicability 37
(s) Preservation of Privilege 37
(t) Non-Release 37
(u) Termination 37
(v) Freedom of Information Requests 37
(w) Bankruptcy 37
(x) Notice of Material Transfers 39
(y) Entire Agreement 39
(z) Business Days 39
(aa) Subsequent Signatories 39
(bb) Decimal Places 39
(cc) Regulatory Authority 39
(dd) Successors 39
(ee) Export Packaging 39
(ff) Actions Within Geographic Boundaries of Settling States 39
(gg) Notice to Affiliates 39
EXHIBIT A STATE ALLOCATION PERCENTAGES A-1
EXHIBIT B FORM OF ESCROW AGREEMENT B-1
EXHIBIT C FORMULA FOR CALCULATING INFLATION ADJUSTMENTS C-1
EXHIBIT D LIST OF LAWSUITS D-1

TABLE OF CONTENTS
(continued)

Page

EXHIBIT E FORMULA FOR CALCULATING VOLUME ADJUSTMENTS....E-1
EXHIBIT F POTENTIAL LEGISLATION NOT TO BE OPPOSED....F-1
EXHIBIT G OBLIGATIONS OF THE TOBACCO INSTITUTE UNDER THE MASTER SETTLEMENT AGREEMENT....G-1
EXHIBIT H DOCUMENT PRODUCTION....H-1
EXHIBIT I INDEX AND SEARCH FEATURES FOR DOCUMENT WEBSITE....I-1
EXHIBIT J TOBACCO ENFORCEMENT FUND PROTOCOL....J-1
EXHIBIT K MARKET CAPITALIZATION PERCENTAGES....K-1
EXHIBIT L MODEL CONSENT DECREE....L-1
EXHIBIT M LIST OF PARTICIPATING MANUFACTURERS' LAWSUITS AGAINST THE SETTLING STATES....M-1
EXHIBIT N LITIGATING POLITICAL SUBDIVISIONS....N-1
EXHIBIT O MODEL STATE FEE PAYMENT AGREEMENT....O-1
EXHIBIT P NOTICES....P-1
EXHIBIT Q 1996 AND 1997 DATA....Q-1
EXHIBIT R EXCLUSION OF CERTAIN BRAND NAMES....R-1
EXHIBIT S DESIGNATION OF OUTSIDE COUNSEL....S-1
EXHIBIT T MODEL STATUTE....T-1
EXHIBIT U STRATEGIC CONTRIBUTION FUND PROTOCOL....U-1

MASTER SETTLEMENT AGREEMENT

This Master Settlement Agreement is made by the undersigned Settling State officials (on behalf of their respective Settling States) and the undersigned Participating Manufacturers to settle and resolve with finality all Released Claims against the Participating Manufacturers and related entities as set forth herein. This Agreement constitutes the documentation effecting this settlement with respect to each Settling State, and is intended to and shall be binding upon each Settling State and each Participating Manufacturer in accordance with the terms hereof.

I. RECITALS

WHEREAS, more than 40 States have commenced litigation asserting various claims for monetary, equitable and injunctive relief against certain tobacco product manufacturers and others as defendants, and the States that have not filed suit can potentially assert similar claims;

WHEREAS, the Settling States that have commenced litigation have sought to obtain equitable relief and damages under state laws, including consumer protection and/or antitrust laws, in order to further the Settling States' policies regarding public health, including policies adopted to achieve a significant reduction in smoking by Youth;

WHEREAS, defendants have denied each and every one of the Settling States' allegations of unlawful conduct or wrongdoing and have asserted a number of defenses to the Settling States' claims, which defenses have been contested by the Settling States;

WHEREAS, the Settling States and the Participating Manufacturers are committed to reducing underage tobacco use by discouraging such use and by preventing Youth access to Tobacco Products;

WHEREAS, the Participating Manufacturers recognize the concern of the tobacco grower community that it may be adversely affected by the potential reduction in tobacco consumption resulting from this settlement, reaffirm their commitment to work cooperatively to address concerns about the potential adverse economic impact on such community, and will, within 30 days after the MSA Execution Date, meet with the political leadership of States with grower communities to address these economic concerns;

WHEREAS, the undersigned Settling State officials believe that entry into this Agreement and uniform consent decrees with the tobacco industry is necessary in order to further the Settling States' policies designed to reduce Youth smoking, to promote the public health and to secure monetary payments to the Settling States; and

WHEREAS, the Settling States and the Participating Manufacturers wish to avoid the further expense, delay, inconvenience, burden and uncertainty of continued litigation (including appeals from any verdicts), and, therefore, have agreed to settle their respective lawsuits and potential claims pursuant to terms which will achieve for the Settling States and their citizens significant funding for the advancement of public health, the implementation of important tobacco-related public health measures, including the enforcement of the mandates and restrictions related to such measures, as well as funding for a national Foundation dedicated to significantly reducing the use of Tobacco Products by Youth;

NOW, THEREFORE, BE IT KNOWN THAT, in consideration of the implementation of tobacco-related health measures and the payments to be made by the Participating Manufacturers, the release and discharge of all claims by the Settling States, and such other consideration as described herein, the sufficiency of which is hereby acknowledged, the Settling States and the Participating Manufacturers, acting by and through their authorized agents, memorialize and agree as follows:

II. DEFINITIONS

(a) "Account" has the meaning given in the Escrow Agreement.

(b) "Adult" means any person or persons who are not Underage.

(c) "Adult-Only Facility" means a facility or restricted area (whether open-air or enclosed) where the operator ensures or has a reasonable basis to believe (such as by checking identification as required under state law, or by checking the identification of any person appearing to be under the age of 27) that no Underage person is present. A facility or restricted area need not be permanently restricted to Adults in order to constitute an Adult-Only Facility, provided that the operator ensures or has a reasonable basis to believe that no Underage person is present during the event or time period in question.

(d) "Affiliate" means a person who directly or indirectly owns or controls, is owned or controlled by, or is under common ownership or control with, another person. Solely for purposes of this definition, the terms "owns," "is owned" and "ownership" mean ownership of an equity interest, or the equivalent thereof, of 10 percent or more, and the term "person" means an individual, partnership, committee, association, corporation or any other organization or group of persons.

(e) "Agreement" means this Master Settlement Agreement, together with the exhibits hereto, as it may be amended pursuant to subsection XVIII(j).

(f) "Allocable Share" means the percentage set forth for the State in question as listed in Exhibit A hereto, without regard to any subsequent alteration or modification of such State's percentage share agreed to by or among any States; or, solely for the purpose of calculating payments under subsection IX(c)(2) (and corresponding payments under subsection

IX(i)), the percentage disclosed for the State in question pursuant to subsection IX(c)(2)(A) prior to June 30, 1999, without regard to any subsequent alteration or modification of such State's percentage share agreed to by or among any States.

(g) "Allocated Payment" means a particular Settling State's Allocable Share of the sum of all of the payments to be made by the Original Participating Manufacturers in the year in question pursuant to subsections IX(c)(1) and IX(c)(2), as such payments have been adjusted, reduced and allocated pursuant to clause "First" through the first sentence of clause "Fifth" of subsection IX(j), but before application of the other offsets and adjustments described in clauses "Sixth" through "Thirteenth" of subsection IX(j).

(h) "Bankruptcy" means, with respect to any entity, the commencement of a case or other proceeding (whether voluntary or involuntary) seeking any of (1) liquidation, reorganization, rehabilitation, receivership, conservatorship, or other relief with respect to such entity or its debts under any bankruptcy, insolvency or similar law now or hereafter in effect; (2) the appointment of a trustee, receiver, liquidator, custodian or similar official of such entity or any substantial part of its business or property; (3) the consent of such entity to any of the relief described in (1) above or to the appointment of any official described in (2) above in any such case or other proceeding involuntarily commenced against such entity; or (4) the entry of an order for relief as to such entity under the federal bankruptcy laws as now or hereafter in effect. Provided, however, that an involuntary case or proceeding otherwise within the foregoing definition shall not be a "Bankruptcy" if it is or was dismissed within 60 days of its commencement.

(i) "Brand Name" means a brand name (alone or in conjunction with any other word), trademark, logo, symbol, motto, selling message, recognizable pattern of colors, or any other indicia of product identification identical or similar to, or identifiable with, those used for any domestic brand of Tobacco Products. Provided, however, that the term "Brand Name" shall not include the corporate name of any Tobacco Product Manufacturer that does not after the MSA Execution Date sell a brand of Tobacco Products in the States that includes such corporate name.

(j) "Brand Name Sponsorship" means an athletic, musical, artistic, or other social or cultural event as to which payment is made (or other consideration is provided) in exchange for use of a Brand Name or Names (1) as part of the name of the event or (2) to identify, advertise, or promote such event or an entrant, participant or team in such event in any other way. Sponsorship of a single national or multi-state series or tour (for example, NASCAR (including any number of NASCAR races)), or of one or more events within a single national or multi-state series or tour, or of an entrant, participant, or team taking part in events sanctioned by a single approving organization (e.g., NASCAR or CART), constitutes one Brand Name Sponsorship. Sponsorship of an entrant, participant, or team by a Participating Manufacturer using a Brand Name or Names in an event that is part of a series or tour that is sponsored by such Participating Manufacturer or that is part of a series or tour in which any one or more events are sponsored by such Participating Manufacturer does not constitute a separate Brand Name Sponsorship. Sponsorship of an entrant, participant, or team by a Participating Manufacturer using a Brand Name or Names in any event (or series of events) not sponsored by such Participating Manufacturer constitutes a Brand Name Sponsorship. The term "Brand Name Sponsorship" shall not include an event in an Adult-Only Facility.

(k) "Business Day" means a day which is not a Saturday or Sunday or legal holiday on which banks are authorized or required to close in New York, New York.

(l) "Cartoon" means any drawing or other depiction of an object, person, animal, creature or any similar caricature that satisfies any of the following criteria:

(1) the use of comically exaggerated features;

(2) the attribution of human characteristics to animals, plants or other objects, or the similar use of anthropomorphic technique; or

(3) the attribution of unnatural or extrahuman abilities, such as imperviousness to pain or injury, X-ray vision, tunneling at very high speeds or transformation.

The term "Cartoon" includes "Joe Camel," but does not include any drawing or other depiction that on July 1, 1998, was in use in any State in any Participating Manufacturer's corporate logo or in any Participating Manufacturer's Tobacco Product packaging.

(m) "Cigarette" means any product that contains nicotine, is intended to be burned or heated under ordinary conditions of use, and consists of or contains (1) any roll of tobacco wrapped in paper or in any substance not containing tobacco; or (2) tobacco, in any form, that is functional in the product, which, because of its appearance, the type of tobacco used in the filler, or its packaging and labeling, is likely to be offered to, or purchased by, consumers as a cigarette; or (3) any roll of tobacco wrapped in any substance containing tobacco which, because of its appearance, the type of tobacco used in the filler, or its packaging and labeling, is likely to be offered to, or purchased by, consumers as a cigarette described in clause (1) of this definition. The term "Cigarette" includes "roll-your-own" (i.e., any tobacco which, because of its appearance, type, packaging, or labeling is suitable for use and likely to be offered to, or purchased by, consumers as tobacco for making cigarettes). Except as provided in subsections II(z) and II(mm), 0.0325 ounces of "roll-your-own" tobacco shall constitute one individual "Cigarette."

(n) "Claims" means any and all manner of civil (i.e., non-criminal): claims, demands, actions, suits, causes of action, damages (whenever incurred), liabilities of any nature including civil penalties and punitive damages, as well as costs, expenses and attorneys' fees (except as to the Original Participating Manufacturers' obligations under section XVII), known or unknown, suspected or unsuspected, accrued or unaccrued, whether legal, equitable, or statutory.

(o) "Consent Decree" means a state-specific consent decree as described in subsection XIII(b)(1)(B) of this Agreement.

(p) "Court" means the respective court in each Settling State to which this Agreement and the Consent Decree are presented for approval and/or entry as to that Settling State.

(q) "Escrow" has the meaning given in the Escrow Agreement.

(r) "Escrow Agent" means the escrow agent under the Escrow Agreement.

(s) "Escrow Agreement" means an escrow agreement substantially in the form of Exhibit B.

(t) "Federal Tobacco Legislation Offset" means the offset described in section X.

(u) "Final Approval" means the earlier of:

(1) the date by which State-Specific Finality in a sufficient number of Settling States has occurred; or

(2) June 30, 2000.

For the purposes of this subsection (u), "State-Specific Finality in a sufficient number of Settling States" means that State-Specific Finality has occurred in both:

(A) a number of Settling States equal to at least 80% of the total number of Settling States; and

(B) Settling States having aggregate Allocable Shares equal to at least 80% of the total aggregate Allocable Shares assigned to all Settling States.

Notwithstanding the foregoing, the Original Participating Manufacturers may, by unanimous written agreement, waive any requirement for Final Approval set forth in subsections (A) or (B) hereof.

(v) "Foundation" means the foundation described in section VI.

(w) "Independent Auditor" means the firm described in subsection XI(b).

(x) "Inflation Adjustment" means an adjustment in accordance with the formulas for inflation adjustments set forth in Exhibit C.

(y) "Litigating Releasing Parties Offset" means the offset described in subsection XII(b).

(z) "Market Share" means a Tobacco Product Manufacturer's respective share (expressed as a percentage) of the total number of individual Cigarettes sold in the fifty United States, the District of Columbia and Puerto Rico during the applicable calendar year, as measured by excise taxes collected by the federal government and, in the case of sales in Puerto Rico, arbitrios de cigarillos collected by the Puerto Rico taxing authority. For purposes of the definition and determination of "Market Share" with respect to calculations under subsection IX(i), 0.09 ounces of "roll your own" tobacco shall constitute one individual Cigarette; for purposes of the definition and determination of "Market Share" with respect to all other calculations, 0.0325 ounces of "roll your own" tobacco shall constitute one individual Cigarette.

(aa) "MSA Execution Date" means November 23, 1998.

(bb) "NAAG" means the National Association of Attorneys General, or its successor organization that is directed by the Attorneys General to perform certain functions under this Agreement.

(cc) "Non-Participating Manufacturer" means any Tobacco Product Manufacturer that is not a Participating Manufacturer.

(dd) "Non-Settling States Reduction" means a reduction determined by multiplying the amount to which such reduction applies by the aggregate Allocable Shares of those States that are not Settling States on the date 15 days before such payment is due.

(ee) "Notice Parties" means each Participating Manufacturer, each Settling State, the Escrow Agent, the Independent Auditor and NAAG.

(ff) "NPM Adjustment" means the adjustment specified in subsection IX(d).

(gg) "NPM Adjustment Percentage" means the percentage determined pursuant to subsection IX(d).

(hh) "Original Participating Manufacturers" means the following: Brown & Williamson Tobacco Corporation, Lorillard Tobacco Company, Philip Morris Incorporated and R.J. Reynolds Tobacco Company, and the respective successors of each of the foregoing. Except as expressly provided in this Agreement, once an entity becomes an Original Participating Manufacturer, such entity shall permanently retain the status of Original Participating Manufacturer.

(ii) "Outdoor Advertising" means (1) billboards, (2) signs and placards in arenas, stadiums, shopping malls and Video Game Arcades (whether any of the foregoing are open air or enclosed) (but not including any such sign or placard located in an Adult-Only Facility), and (3) any other advertisements placed (A) outdoors, or (B) on the inside surface of a window facing outward. Provided, however, that the term "Outdoor Advertising" does not mean (1) an advertisement on the outside of a Tobacco Product manufacturing facility; (2) an individual advertisement that does not occupy an area larger than 14 square feet (and that neither is placed in such proximity to any other such advertisement so as to create a single "mosaic"-type advertisement larger than 14 square feet, nor functions solely as a segment of a larger advertising unit or series), and that is placed (A) on the outside of any retail establishment that sells Tobacco Products (other than solely through a vending machine), (B) outside (but on the property of) any such establishment, or (C) on the inside surface of a window facing

outward in any such establishment; (3) an advertisement inside a retail establishment that sells Tobacco Products (other than solely through a vending machine) that is not placed on the inside surface of a window facing outward; or (4) an outdoor advertisement at the site of an event to be held at an Adult-Only Facility that is placed at such site during the period the facility or enclosed area constitutes an Adult-Only Facility, but in no event more than 14 days before the event, and that does not advertise any Tobacco Product (other than by using a Brand Name to identify the event).

(jj) "Participating Manufacturer" means a Tobacco Product Manufacturer that is or becomes a signatory to this Agreement, provided that (1) in the case of a Tobacco Product Manufacturer that is not an Original Participating Manufacturer, such Tobacco Product Manufacturer is bound by this Agreement and the Consent Decree (or, in any Settling State that does not permit amendment of the Consent Decree, a consent decree containing terms identical to those set forth in the Consent Decree) in all Settling States in which this Agreement and the Consent Decree binds Original Participating Manufacturers (provided, however, that such Tobacco Product Manufacturer need only become bound by the Consent Decree in those Settling States in which the Settling State has filed a Released Claim against it), and (2) in the case of a Tobacco Product Manufacturer that signs this Agreement after the MSA Execution Date, such Tobacco Product Manufacturer, within a reasonable period of time after signing this Agreement, makes any payments (including interest thereon at the Prime Rate) that it would have been obligated to make in the intervening period had it been a signatory as of the MSA Execution Date. "Participating Manufacturer" shall also include the successor of a Participating Manufacturer. Except as expressly provided in this Agreement, once an entity becomes a Participating Manufacturer such entity shall permanently retain the status of Participating Manufacturer. Each Participating Manufacturer shall regularly report its shipments of Cigarettes in or to the fifty United States, the District of Columbia and Puerto Rico to Management Science Associates, Inc. (or a successor entity as set forth in subsection (mm)). Solely for purposes of calculations pursuant to subsection IX(d), a Tobacco Product Manufacturer that is not a signatory to this Agreement shall be deemed to be a "Participating Manufacturer" if the Original Participating Manufacturers unanimously consent in writing.

(kk) "Previously Settled States Reduction" means a reduction determined by multiplying the amount to which such reduction applies by 12.4500000%, in the case of payments due in or prior to 2007; 12.2373756%, in the case of payments due after 2007 but before 2018; and 11.0666667%, in the case of payments due in or after 2018.

(ll) "Prime Rate" shall mean the prime rate as published from time to time by the Wall Street Journal or, in the event the Wall Street Journal is no longer published or no longer publishes such rate, an equivalent successor reference rate determined by the Independent Auditor.

(mm) "Relative Market Share" means an Original Participating Manufacturer's respective share (expressed as a percentage) of the total number of individual Cigarettes shipped in or to the fifty United States, the District of Columbia and Puerto Rico by all the Original Participating Manufacturers during the calendar year immediately preceding the year in which the payment at issue is due (regardless of when such payment is made), as measured by the Original Participating Manufacturers' reports of shipments of Cigarettes to Management Science Associates, Inc. (or a successor entity acceptable to both the Original Participating Manufacturers and a majority of those Attorneys General who are both the Attorney General of a Settling State and a member of the NAAG executive committee at the time in question). A Cigarette shipped by more than one Participating Manufacturer shall be deemed to have been shipped solely by the first Participating Manufacturer to do so. For purposes of the definition and determination of "Relative Market Share," 0.09 ounces of "roll your own" tobacco shall constitute one individual Cigarette.

(nn) "Released Claims" means:

(1) for past conduct, acts or omissions (including any damages incurred in the future arising from such past conduct, acts or omissions), those Claims directly or indirectly based on, arising out of or in any way related, in whole or in part, to (A) the use, sale, distribution, manufacture, development, advertising, marketing or health effects of, (B) the exposure to, or (C) research, statements, or warnings regarding, Tobacco Products (including, but not limited to, the Claims asserted in the actions identified in Exhibit D, or any comparable Claims that were, could be or could have been asserted now or in the future in those actions or in any comparable action in federal, state or local court brought by a Settling State or a Releasing Party (whether or not such Settling State or Releasing Party has brought such action)), except for claims not asserted in the actions identified in Exhibit D for outstanding liability under existing licensing (or similar) fee laws or existing tax laws (but not excepting claims for any tax liability of the Tobacco-Related Organizations or of any Released Party with respect to such Tobacco-Related Organizations, which claims are covered by the release and covenants set forth in this Agreement);

(2) for future conduct, acts or omissions, only those monetary Claims directly or indirectly based on, arising out of or in any way related to, in whole or in part, the use of or exposure to Tobacco Products manufactured in the ordinary course of business, including without limitation any future Claims for reimbursement of health care costs allegedly associated with the use of or exposure to Tobacco Products.

(oo) "Released Parties" means all Participating Manufacturers, their past, present and future Affiliates, and the respective divisions, officers, directors, employees, representatives, insurers, lenders, underwriters, Tobacco-Related Organizations, trade associations, suppliers, agents, auditors, advertising agencies, public relations entities, attorneys, retailers and distributors of any Participating Manufacturer or of any such Affiliate (and the predecessors, heirs, executors, administrators, successors and assigns of each of the foregoing). Provided, however, that "Released Parties" does not include any person or entity (including, but not limited to, an Affiliate) that is itself a Non-Participating Manufacturer at any time after the MSA Execution Date, unless such person or entity becomes a Participating Manufacturer.

(pp) "Releasing Parties" means each Settling State and any of its past, present and future agents, officials acting in their official capacities, legal representatives, agencies, departments, commissions and divisions; and also means, to the full extent of the power of the signatories hereto to release past, present and future claims, the following: (1) any Settling State's subdivisions (political or otherwise, including, but not limited to, municipalities, counties, parishes, villages, unincorporated districts and hospital districts), public entities, public instrumentalities and public educational institutions; and (2) persons or entities acting in a parens patriae, sovereign, quasi-sovereign, private attorney general, qui tam, taxpayer, or any other capacity, whether or not any of them participate in this settlement, (A) to the extent that any such person or entity is seeking relief on behalf of or generally applicable to the general public in such Settling State or the people of the State, as opposed solely to private or individual relief for separate and distinct injuries, or (B) to the extent that any such entity (as opposed to an individual) is seeking recovery of health-care expenses (other than premium or capitation payments for the benefit of present or retired state employees) paid or reimbursed, directly or indirectly, by a Settling State.

(qq) "Settling State" means any State that signs this Agreement on or before the MSA Execution Date. Provided, however, that the term "Settling State" shall not include (1) the States of Mississippi, Florida, Texas and Minnesota; and (2) any State as to which this Agreement has been terminated.

(rr) "State" means any state of the United States, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the Virgin Islands, American Samoa, and the Northern Marianas.

(ss) "State-Specific Finality" means, with respect to the Settling State in question:

(1) this Agreement and the Consent Decree have been approved and entered by the Court as to all Original Participating Manufacturers, or, in the event of an appeal from or review of a decision of the Court to withhold its approval and entry of this Agreement and the Consent Decree, by the court hearing such appeal or conducting such review;

(2) entry by the Court has been made of an order dismissing with prejudice all claims against Released Parties in the action as provided herein; and

(3) the time for appeal or to seek review of or permission to appeal ("Appeal") from the approval and entry as described in subsection (1) hereof and entry of such order described in subsection (2) hereof has expired; or, in the event of an Appeal from such approval and entry, the Appeal has been dismissed, or the approval and entry described in (1) hereof and the order described in subsection (2) hereof have been affirmed in all material respects by the court of last resort to which such Appeal has been taken and such dismissal or affirmance has become no longer subject to further Appeal (including, without limitation, review by the United States Supreme Court).

(tt) "Subsequent Participating Manufacturer" means a Tobacco Product Manufacturer (other than an Original Participating Manufacturer) that: (1) is a Participating Manufacturer, and (2) is a signatory to this Agreement, regardless of when such Tobacco Product Manufacturer became a signatory to this Agreement. "Subsequent Participating Manufacturer" shall also include the successors of a Subsequent Participating Manufacturer. Except as expressly provided in this Agreement, once an entity becomes a Subsequent Participating Manufacturer such entity shall permanently retain the status of Subsequent Participating Manufacturer, unless it agrees to assume the obligations of an Original Participating Manufacturer as provided in subsection XVIII(c).

(uu) "Tobacco Product Manufacturer" means an entity that after the MSA Execution Date directly (and not exclusively through any Affiliate):

(1) manufactures Cigarettes anywhere that such manufacturer intends to be sold in the States, including Cigarettes intended to be sold in the States through an importer (except where such importer is an Original Participating Manufacturer that will be responsible for the payments under this Agreement with respect to such Cigarettes as a result of the provisions of subsections II(mm) and that pays the taxes specified in subsection II(z) on such Cigarettes, and provided that the manufacturer of such Cigarettes does not market or advertise such Cigarettes in the States);

(2) is the first purchaser anywhere for resale in the States of Cigarettes manufactured anywhere that the manufacturer does not intend to be sold in the States; or

(3) becomes a successor of an entity described in subsection (1) or (2) above.

The term "Tobacco Product Manufacturer" shall not include an Affiliate of a Tobacco Product Manufacturer unless such Affiliate itself falls within any of subsections (1) - (3) above.

(vv) "Tobacco Products" means Cigarettes and smokeless tobacco products.

(ww) "Tobacco-Related Organizations" means the Council for Tobacco Research-U.S.A., Inc., The Tobacco Institute, Inc. ("TI"), and the Center for Indoor Air Research, Inc. ("CIAR") and the successors, if any, of TI or CIAR.

(xx) "Transit Advertisements" means advertising on or within private or public vehicles and all advertisements placed at, on or within any bus stop, taxi stand, transportation waiting area, train station, airport or any similar location. Notwithstanding the foregoing, the term "Transit Advertisements" does not include (1) any advertisement placed in, on or outside the premises of any retail establishment that sells Tobacco Products (other than solely through a vending machine) (except if such individual advertisement (A) occupies an area larger than 14 square feet; (B) is placed in such proximity to any other such advertisement so as to create a single "mosaic"-type advertisement larger than 14 square feet; or (C) functions solely as a segment of a larger advertising unit or series); or (2) advertising at the site of an event to be held at an Adult-Only Facility that is placed at such site during the period the facility or enclosed area constitutes an Adult-Only Facility, but in no

event more than 14 days before the event, and that does not advertise any Tobacco Product (other than by using a Brand Name to identify the event).

(yy) "Underage" means younger than the minimum age at which it is legal to purchase or possess (whichever minimum age is older) Cigarettes in the applicable Settling State.

(zz) "Video Game Arcade" means an entertainment establishment primarily consisting of video games (other than video games intended primarily for use by persons 18 years of age or older) and/or pinball machines.

(aaa) "Volume Adjustment" means an upward or downward adjustment in accordance with the formula for volume adjustments set forth in Exhibit E.

(bbb) "Youth" means any person or persons under 18 years of age.

III. PERMANENT RELIEF

(a) Prohibition on Youth Targeting. No Participating Manufacturer may take any action, directly or indirectly, to target Youth within any Settling State in the advertising, promotion or marketing of Tobacco Products, or take any action the primary purpose of which is to initiate, maintain or increase the incidence of Youth smoking within any Settling State.

(b) Ban on Use of Cartoons. Beginning 180 days after the MSA Execution Date, no Participating Manufacturer may use or cause to be used any Cartoon in the advertising, promoting, packaging or labeling of Tobacco Products.

(c) Limitation of Tobacco Brand Name Sponsorships.

(1) Prohibited Sponsorships. After the MSA Execution Date, no Participating Manufacturer may engage in any Brand Name Sponsorship in any State consisting of:

(A) concerts; or

(B) events in which the intended audience is comprised of a significant percentage of Youth; or

(C) events in which any paid participants or contestants are Youth; or

(D) any athletic event between opposing teams in any football, basketball, baseball, soccer or hockey league.

(2) Limited Sponsorships.

(A) No Participating Manufacturer may engage in more than one Brand Name Sponsorship in the States in any twelve-month period (such period measured from the date of the initial sponsored event).

(B) Provided, however, that

(i) nothing contained in subsection (2)(A) above shall require a Participating Manufacturer to breach or terminate any sponsorship contract in existence as of August 1, 1998 (until the earlier of (x) the current term of any existing contract, without regard to any renewal or option that may be exercised by such Participating Manufacturer or (y) three years after the MSA Execution Date); and

(ii) notwithstanding subsection (1)(A) above, Brown & Williamson Tobacco Corporation may sponsor either the GPC country music festival or the Kool jazz festival as its one annual Brand Name Sponsorship permitted pursuant to subsection (2)(A) as well as one Brand Name Sponsorship permitted pursuant to subsection (2)(B)(i).

(3) Related Sponsorship Restrictions. With respect to any Brand Name Sponsorship permitted under this subsection (c):

(A) advertising of the Brand Name Sponsorship event shall not advertise any Tobacco Product (other than by using the Brand Name to identify such Brand Name Sponsorship event);

(B) no Participating Manufacturer may refer to a Brand Name Sponsorship event or to a celebrity or other person in such an event in its advertising of a Tobacco Product;

(C) nothing contained in the provisions of subsection III(e) of this Agreement shall apply to actions taken by any Participating Manufacturer in connection with a Brand Name Sponsorship permitted pursuant to the provisions of subsections (2)(A) and (2)(B)(i); the Brand Name Sponsorship permitted by subsection (2)(B)(ii) shall be subject to the restrictions of subsection III(e) except that such restrictions shall not prohibit use of the Brand Name to identify the Brand Name Sponsorship;

(D) nothing contained in the provisions of subsections III(f) and III(i) shall apply to apparel or other merchandise: (i) marketed, distributed, offered, sold, or licensed at the site of a Brand Name Sponsorship permitted pursuant to subsections (2)(A) or (2)(B)(i) by the person to which the relevant Participating Manufacturer has provided payment in exchange for the use of the relevant Brand Name in the Brand Name Sponsorship or a third-party that does not receive payment from the relevant Participating Manufacturer (or any Affiliate of such Participating Manufacturer) in connection with the marketing, distribution, offer, sale or license of such apparel or other merchandise; or (ii) used at the site of a Brand Name Sponsorship permitted pursuant to subsection (2)(A) or (2)(B)(i) (during such event) that are not distributed (by sale or otherwise) to any member of the general public; and

(E) nothing contained in the provisions of subsection III(d) shall: (i) apply to the use of a Brand Name on a vehicle used in a Brand Name Sponsorship; or (ii) apply to Outdoor Advertising advertising the Brand Name

Sponsorship, to the extent that such Outdoor Advertising is placed at the site of a Brand Name Sponsorship no more than 90 days before the start of the initial sponsored event, is removed within 10 days after the end of the last sponsored event, and is not prohibited by subsection (3)(A) above.

(4) Corporate Name Sponsorships. Nothing in this subsection (c) shall prevent a Participating Manufacturer from sponsoring or causing to be sponsored any athletic, musical, artistic, or other social or cultural event, or any entrant, participant or team in such event (or series of events) in the name of the corporation which manufactures Tobacco Products, provided that the corporate name does not include any Brand Name of domestic Tobacco Products.

(5) Naming Rights Prohibition. No Participating Manufacturer may enter into any agreement for the naming rights of any stadium or arena located within a Settling State using a Brand Name, and shall not otherwise cause a stadium or arena located within a Settling State to be named with a Brand Name.

(6) Prohibition on Sponsoring Teams and Leagues. No Participating Manufacturer may enter into any agreement pursuant to which payment is made (or other consideration is provided) by such Participating Manufacturer to any football, basketball, baseball, soccer or hockey league (or any team involved in any such league) in exchange for use of a Brand Name.

(d) Elimination of Outdoor Advertising and Transit Advertisements. Each Participating Manufacturer shall discontinue Outdoor Advertising and Transit Advertisements advertising Tobacco Products within the Settling States as set forth herein.

(1) Removal. Except as otherwise provided in this section, each Participating Manufacturer shall remove from within the Settling States within 150 days after the MSA Execution Date all of its (A) billboards (to the extent that such billboards constitute Outdoor Advertising) advertising Tobacco Products; (B) signs and placards (to the extent that such signs and placards constitute Outdoor Advertising) advertising Tobacco Products in arenas, stadiums, shopping malls and Video Game Arcades; and (C) Transit Advertisements advertising Tobacco Products.

(2) Prohibition on New Outdoor Advertising and Transit Advertisements. No Participating Manufacturer may, after the MSA Execution Date, place or cause to be placed any new Outdoor Advertising advertising Tobacco Products or new Transit Advertisements advertising Tobacco Products within any Settling State.

(3) Alternative Advertising. With respect to those billboards required to be removed under subsection (1) that are leased (as opposed to owned) by any Participating Manufacturer, the Participating Manufacturer will allow the Attorney General of the Settling State within which such billboards are located to substitute, at the Settling State's option, alternative advertising intended to discourage the use of Tobacco Products by Youth and their exposure to second-hand smoke for the remaining term of the applicable contract (without regard to any renewal or option term that may be exercised by such Participating Manufacturer). The Participating Manufacturer will bear the cost of the lease through the end of such remaining term. Any other costs associated with such alternative advertising will be borne by the Settling State.

(4) Ban on Agreements Inhibiting Anti-Tobacco Advertising. Each Participating Manufacturer agrees that it will not enter into any agreement that prohibits a third party from selling, purchasing or displaying advertising discouraging the use of Tobacco Products or exposure to second-hand smoke. In the event and to the extent that any Participating Manufacturer has entered into an agreement containing any such prohibition, such Participating Manufacturer agrees to waive such prohibition in such agreement.

(5) Designation of Contact Person. Each Participating Manufacturer that has Outdoor Advertising or Transit Advertisements advertising Tobacco Products within a Settling State shall, within 10 days after the MSA Execution Date, provide the Attorney General of such Settling State with the name of a contact person to whom the Settling State may direct inquiries during the time such Outdoor Advertising and Transit Advertisements are being eliminated, and from whom the Settling State may obtain periodic reports as to the progress of their elimination.

(6) Adult-Only Facilities. To the extent that any advertisement advertising Tobacco Products located within an Adult-Only Facility constitutes Outdoor Advertising or a Transit Advertisement, this subsection (d) shall not apply to such advertisement, provided such advertisement is not visible to persons outside such Adult-Only Facility.

(e) Prohibition on Payments Related to Tobacco Products and Media. No Participating Manufacturer may, beginning 30 days after the MSA Execution Date, make, or cause to be made, any payment or other consideration to any other person or entity to use, display, make reference to or use as a prop any Tobacco Product, Tobacco Product package, advertisement for a Tobacco Product, or any other item bearing a Brand Name in any motion picture, television show, theatrical production or other live performance, live or recorded performance of music, commercial film or video, or video game ("Media"); provided, however, that the foregoing prohibition shall not apply to (1) Media where the audience or viewers are within an Adult-Only Facility (provided such Media are not visible to persons outside such Adult-Only Facility); (2) Media not intended for distribution or display to the public; or (3) instructional Media concerning non-conventional cigarettes viewed only by or provided only to smokers who are Adults.

(f) Ban on Tobacco Brand Name Merchandise. Beginning July 1, 1999, no Participating Manufacturer may, within any Settling State, market, distribute, offer, sell, license or cause to be marketed, distributed, offered, sold or licensed (including, without limitation, by catalogue or direct mail), any apparel or other merchandise (other than Tobacco Products, items the sole function of which is to advertise Tobacco Products, or written or electronic publications) which bears a Brand Name. Provided, however, that nothing in this subsection shall (1) require any Participating Manufacturer to breach or

terminate any licensing agreement or other contract in existence as of June 20, 1997 (this exception shall not apply beyond the current term of any existing contract, without regard to any renewal or option term that may be exercised by such Participating Manufacturer); (2) prohibit the distribution to any Participating Manufacturer's employee who is not Underage of any item described above that is intended for the personal use of such an employee; (3) require any Participating Manufacturer to retrieve, collect or otherwise recover any item that prior to the MSA Execution Date was marketed, distributed, offered, sold, licensed, or caused to be marketed, distributed, offered, sold or licensed by such Participating Manufacturer; (4) apply to coupons or other items used by Adults solely in connection with the purchase of Tobacco Products; or (5) apply to apparel or other merchandise used within an Adult-Only Facility that is not distributed (by sale or otherwise) to any member of the general public.

(g) Ban on Youth Access to Free Samples. After the MSA Execution Date, no Participating Manufacturer may, within any Settling State, distribute or cause to be distributed any free samples of Tobacco Products except in an Adult-Only Facility. For purposes of this Agreement, a "free sample" does not include a Tobacco Product that is provided to an Adult in connection with (1) the purchase, exchange or redemption for proof of purchase of any Tobacco Products (including, but not limited to, a free offer in connection with the purchase of Tobacco Products, such as a "two-for-one" offer), or (2) the conducting of consumer testing or evaluation of Tobacco Products with persons who certify that they are Adults.

(h) Ban on Gifts to Underage Persons Based on Proofs of Purchase. Beginning one year after the MSA Execution Date, no Participating Manufacturer may provide or cause to be provided to any person without sufficient proof that such person is an Adult any item in exchange for the purchase of Tobacco Products, or the furnishing of credits, proofs-of-purchase, or coupons with respect to such a purchase. For purposes of the preceding sentence only, (1) a driver's license or other government-issued identification (or legible photocopy thereof), the validity of which is certified by the person to whom the item is provided, shall by itself be deemed to be a sufficient form of proof of age; and (2) in the case of items provided (or to be redeemed) at retail establishments, a Participating Manufacturer shall be entitled to rely on verification of proof of age by the retailer, where such retailer is required to obtain verification under applicable federal, state or local law.

(i) Limitation on Third-Party Use of Brand Names. After the MSA Execution Date, no Participating Manufacturer may license or otherwise expressly authorize any third party to use or advertise within any Settling State any Brand Name in a manner prohibited by this Agreement if done by such Participating Manufacturer itself. Each Participating Manufacturer shall, within 10 days after the MSA Execution Date, designate a person (and provide written notice to NAAG of such designation) to whom the Attorney General of any Settling State may provide written notice of any such third-party activity that would be prohibited by this Agreement if done by such Participating Manufacturer itself. Following such written notice, the Participating Manufacturer will promptly take commercially reasonable steps against any such non-de minimis third-party activity. Provided, however, that nothing in this subsection shall require any Participating Manufacturer to (1) breach or terminate any licensing agreement or other contract in existence as of July 1, 1998 (this exception shall not apply beyond the current term of any existing contract, without regard to any renewal or option term that may be exercised by such Participating Manufacturer); or (2) retrieve, collect or otherwise recover any item that prior to the MSA Execution Date was marketed, distributed, offered, sold, licensed or caused to be marketed, distributed, offered, sold or licensed by such Participating Manufacturer.

(j) Ban on Non-Tobacco Brand Names. No Participating Manufacturer may, pursuant to any agreement requiring the payment of money or other valuable consideration, use or cause to be used as a brand name of any Tobacco Product any nationally recognized or nationally established brand name or trade name of any non-tobacco item or service or any nationally recognized or nationally established sports team, entertainment group or individual celebrity. Provided, however, that the preceding sentence shall not apply to any Tobacco Product brand name in existence as of July 1, 1998. For the purposes of this subsection, the term "other valuable consideration" shall not include an agreement between two entities who enter into such agreement for the sole purpose of avoiding infringement claims.

(k) Minimum Pack Size of Twenty Cigarettes. No Participating Manufacturer may, beginning 60 days after the MSA Execution Date and through and including December 31, 2001, manufacture or cause to be manufactured for sale in any Settling State any pack or other container of Cigarettes containing fewer than 20 Cigarettes (or, in the case of roll-your-own tobacco, any package of roll-your-own tobacco containing less than 0.60 ounces of tobacco). No Participating Manufacturer may, beginning 150 days after the MSA Execution Date and through and including December 31, 2001, sell or distribute in any Settling State any pack or other container of Cigarettes containing fewer than 20 Cigarettes (or, in the case of roll-your-own tobacco, any package of roll-your-own tobacco containing less than 0.60 ounces of tobacco). Each Participating Manufacturer further agrees that following the MSA Execution Date it shall not oppose, or cause to be opposed (including through any third party or Affiliate), the passage by any Settling State of any legislative proposal or administrative rule applicable to all Tobacco Product Manufacturers and all retailers of Tobacco Products prohibiting the manufacture and sale of any pack or other container of Cigarettes containing fewer than 20 Cigarettes (or, in the case of roll-your-own tobacco, any package of roll-your-own tobacco containing less than 0.60 ounces of tobacco).

(l) Corporate Culture Commitments Related to Youth Access and Consumption. Beginning 180 days after the MSA Execution Date each Participating Manufacturer shall:

promulgate or reaffirm corporate principles that express and explain its commitment to comply with the provisions of this Agreement and the reduction of use of Tobacco Products by Youth, and clearly and regularly communicate to its employees and customers its commitment to assist in the reduction of Youth use of Tobacco Products;

designate an executive level manager (and provide written notice to NAAG of such designation) to identify methods to reduce Youth access to, and the incidence of Youth consumption of, Tobacco Products; and

encourage its employees to identify additional methods to reduce Youth access to, and the incidence of Youth consumption of, Tobacco Products.

(m) Limitations on Lobbying. Following State-Specific Finality in a Settling State:

(1) No Participating Manufacturer may oppose, or cause to be opposed (including through any third party or Affiliate), the passage by such Settling State (or any political subdivision thereof) of those state or local legislative proposals or administrative rules described in Exhibit F hereto intended by their terms to reduce Youth access to, and the incidence of Youth consumption of, Tobacco Products. Provided, however, that the foregoing does not prohibit any Participating Manufacturer from (A) challenging enforcement of, or suing for declaratory or injunctive relief with respect to, any such legislation or rule on any grounds; (B) continuing, after State-Specific Finality in such Settling State, to oppose or cause to be opposed, the passage during the legislative session in which State-Specific Finality in such Settling State occurs of any specific state or local legislative proposals or administrative rules introduced prior to the time of State-Specific Finality in such Settling State; (C) opposing, or causing to be opposed, any excise tax or income tax provision or user fee or other payments relating to Tobacco Products or Tobacco Product Manufacturers; or (D) opposing, or causing to be opposed, any state or local legislative proposal or administrative rule that also includes measures other than those described in Exhibit F.

(2) Each Participating Manufacturer shall require all of its officers and employees engaged in lobbying activities in such Settling State after State-Specific Finality, contract lobbyists engaged in lobbying activities in such Settling State after State-Specific Finality, and any other third parties who engage in lobbying activities in such Settling State after State-Specific Finality on behalf of such Participating Manufacturer ("lobbyist" and "lobbying activities" having the meaning such terms have under the law of the Settling State in question) to certify in writing to the Participating Manufacturer that they:

(A) will not support or oppose any state, local or federal legislation, or seek or oppose any governmental action, on behalf of the Participating Manufacturer without the Participating Manufacturer's express authorization (except where such advance express authorization is not reasonably practicable);

(B) are aware of and will fully comply with this Agreement and all laws and regulations applicable to their lobbying activities, including, without limitation, those related to disclosure of financial contributions. Provided, however, that if the Settling State in question has in existence no laws or regulations relating to disclosure of financial contributions regarding lobbying activities, then each Participating Manufacturer shall, upon request of the Attorney General of such Settling State, disclose to such Attorney General any payment to a lobbyist that the Participating Manufacturer knows or has reason to know will be used to influence legislative or administrative actions of the state or local government relating to Tobacco Products or their use. Disclosures made pursuant to the preceding sentence shall be filed in writing with the Office of the Attorney General on the first day of February and the first day of August of each year for any and all payments made during the six month period ending on the last day of the preceding December and June, respectively, with the following information: (1) the name, address, telephone number and e-mail address (if any) of the recipient; (2) the amount of each payment; and (3) the aggregate amount of all payments described in this subsection (2)(B) to the recipient in the calendar year; and

(C) have reviewed and will fully abide by the Participating Manufacturer's corporate principles promulgated pursuant to this Agreement when acting on behalf of the Participating Manufacturer.

(3) No Participating Manufacturer may support or cause to be supported (including through any third party or Affiliate) in Congress or any other forum legislation or rules that would preempt, override, abrogate or diminish such Settling State's rights or recoveries under this Agreement. Except as specifically provided in this Agreement, nothing herein shall be deemed to restrain any Settling State or Participating Manufacturer from advocating terms of any national settlement or taking any other positions on issues relating to tobacco.

(n) Restriction on Advocacy Concerning Settlement Proceeds. After the MSA Execution Date, no Participating Manufacturer may support or cause to be supported (including through any third party or Affiliate) the diversion of any proceeds of this settlement to any program or use that is neither tobacco-related nor health-related in connection with the approval of this Agreement or in any subsequent legislative appropriation of settlement proceeds.

(o) Dissolution of The Tobacco Institute, Inc., the Council for Tobacco Research-U.S.A., Inc. and the Center for Indoor Air Research, Inc.

(1) The Council for Tobacco Research-U.S.A., Inc. ("CTR") (a not-for-profit corporation formed under the laws of the State of New York) shall, pursuant to the plan of dissolution previously negotiated and agreed to between the Attorney General of the State of New York and CTR, cease all operations and be dissolved in accordance with the laws of the State of New York (and with the preservation of all applicable privileges held by any member company of CTR).

(2) The Tobacco Institute, Inc. ("TI") (a not-for-profit corporation formed under the laws of the State of New York) shall, pursuant to a plan of dissolution to be negotiated by the Attorney General of the State of New York and the Original Participating Manufacturers in accordance with Exhibit G hereto, cease all operations and be dissolved in

accordance with the laws of the State of New York and under the authority of the Attorney General of the State of New York (and with the preservation of all applicable privileges held by any member company of TI).

(3) Within 45 days after Final Approval, the Center for Indoor Air Research, Inc. ("CIAR") shall cease all operations and be dissolved in a manner consistent with applicable law and with the preservation of all applicable privileges (including, without limitation, privileges held by any member company of CIAR).

(4) The Participating Manufacturers shall direct the Tobacco-Related Organizations to preserve all records that relate in any way to issues raised in smoking-related health litigation.

(5) The Participating Manufacturers may not reconstitute CTR or its function in any form.

(6) The Participating Manufacturers represent that they have the authority to and will effectuate subsections (1) through (5) hereof.

(p) Regulation and Oversight of New Tobacco-Related Trade Associations.

(1) A Participating Manufacturer may form or participate in new tobacco-related trade associations (subject to all applicable laws), provided such associations agree in writing not to act in any manner contrary to any provision of this Agreement. Each Participating Manufacturer agrees that if any new tobacco-related trade association fails to so agree, such Participating Manufacturer will not participate in or support such association.

(2) Any tobacco-related trade association that is formed or controlled by one or more of the Participating Manufacturers after the MSA Execution Date shall adopt by-laws governing the association's procedures and the activities of its members, board, employees, agents and other representatives with respect to the tobacco-related trade association. Such by-laws shall include, among other things, provisions that:

(A) each officer of the association shall be appointed by the board of the association, shall be an employee of such association, and during such officer's term shall not be a director of or employed by any member of the association or by an Affiliate of any member of the association;

(B) legal counsel for the association shall be independent, and neither counsel nor any member or employee of counsel's law firm shall serve as legal counsel to any member of the association or to a manufacturer of Tobacco Products that is an Affiliate of any member of the association during the time that it is serving as legal counsel to the association; and

(C) minutes describing the substance of the meetings of the board of directors of the association shall be prepared and shall be maintained by the association for a period of at least five years following their preparation.

(3) Without limitation on whatever other rights to access they may be permitted by law, for a period of seven years from the date any new tobacco-related trade association is formed by any of the Participating Manufacturers after the MSA Execution Date the antitrust authorities of any Settling State may, for the purpose of enforcing this Agreement, upon reasonable cause to believe that a violation of this Agreement has occurred, and upon reasonable prior written notice (but in no event less than 10 Business Days):

(A) have access during regular office hours to inspect and copy all relevant non-privileged, non-work-product books, records, meeting agenda and minutes, and other documents (whether in hard copy form or stored electronically) of such association insofar as they pertain to such believed violation; and

(B) interview the association's directors, officers and employees (who shall be entitled to have counsel present) with respect to relevant, non-privileged, non-work-product matters pertaining to such believed violation.

Documents and information provided to Settling State antitrust authorities shall be kept confidential by and among such authorities, and shall be utilized only by the Settling States and only for the purpose of enforcing this Agreement or the criminal law. The inspection and discovery rights provided to the Settling States pursuant to this subsection shall be coordinated so as to avoid repetitive and excessive inspection and discovery.

(q) Prohibition on Agreements to Suppress Research. No Participating Manufacturer may enter into any contract, combination or conspiracy with any other Tobacco Product Manufacturer that has the purpose or effect of: (1) limiting competition in the production or distribution of information about health hazards or other consequences of the use of their products; (2) limiting or suppressing research into smoking and health; or (3) limiting or suppressing research into the marketing or development of new products. Provided, however, that nothing in this subsection shall be deemed to (1) require any Participating Manufacturer to produce, distribute or otherwise disclose any information that is subject to any privilege or protection; (2) preclude any Participating Manufacturer from entering into any joint defense or joint legal interest agreement or arrangement (whether or not in writing), or from asserting any privilege pursuant thereto; or (3) impose any affirmative obligation on any Participating Manufacturer to conduct any research.

(r) Prohibition on Material Misrepresentations. No Participating Manufacturer may make any material misrepresentation of fact regarding the health consequences of using any Tobacco Product, including any tobacco additives, filters, paper or other ingredients. Nothing in this subsection shall limit the exercise of any First Amendment right or the assertion of any defense or position in any judicial, legislative or regulatory forum.

IV. PUBLIC ACCESS TO DOCUMENTS

(a) After the MSA Execution Date, the Original Participating Manufacturers and the Tobacco-Related Organizations will support an application for the dissolution of any protective orders entered in each Settling State's lawsuit identified in Exhibit D with respect only to those documents, indices and privilege logs that have been produced as of the MSA Execution Date to such Settling State and (1) as to which defendants have made no claim, or have withdrawn any claim, of attorney-client privilege, attorney work-product protection, common interest/joint defense privilege (collectively, "privilege"), trade-secret protection, or confidential or proprietary business information; and (2) that are not inappropriate for public disclosure because of personal privacy interests or contractual rights of third parties that may not be abrogated by the Original Participating Manufacturers or the Tobacco-Related Organizations.

(b) Notwithstanding State-Specific Finality, if any order, ruling or recommendation was issued prior to September 17, 1998 rejecting a claim of privilege or trade-secret protection with respect to any document or documents in a lawsuit identified in Exhibit D, the Settling State in which such order, ruling or recommendation was made may, no later than 45 days after the occurrence of State-Specific Finality in such Settling State, seek public disclosure of such document or documents by application to the court that issued such order, ruling or recommendation and the court shall retain jurisdiction for such purposes. The Original Participating Manufacturers and Tobacco-Related Organizations do not consent to, and may object to, appeal from or otherwise oppose any such application for disclosure. The Original Participating Manufacturers and Tobacco-Related Organizations will not assert that the settlement of such lawsuit has divested the court of jurisdiction or that such Settling State lacks standing to seek public disclosure on any applicable ground.

(c) The Original Participating Manufacturers will maintain at their expense their Internet document websites accessible through "TobaccoResolution.com" or a similar website until June 30, 2010. The Original Participating Manufacturers will maintain the documents that currently appear on their respective websites and will add additional documents to their websites as provided in this section IV.

(d) Within 180 days after the MSA Execution Date, each Original Participating Manufacturer and Tobacco-Related Organization will place on its website copies of the following documents, except as provided in subsections IV(e) and IV(f) below:

(1) all documents produced by such Original Participating Manufacturer or Tobacco-Related Organization as of the MSA Execution Date in any action identified in Exhibit D or any action identified in section 2 of Exhibit H that was filed by an Attorney General. Among these documents, each Original Participating Manufacturer and Tobacco-Related Organization will give the highest priority to (A) the documents that were listed by the State of Washington as trial exhibits in the State of Washington v. American Tobacco Co., et al., No. 96-2-15056-8 SEA (Wash. Super. Ct., County of King); and (B) the documents as to which such Original Participating Manufacturer or Tobacco-Related Organization withdrew any claim of privilege as a result of the re-examination of privilege claims pursuant to court order in State of Oklahoma v. R.J. Reynolds Tobacco Company, et al., CJ-96-2499-L (Dist. Ct., Cleveland County);

(2) all documents that can be identified as having been produced by, and copies of transcripts of depositions given by, such Original Participating Manufacturer or Tobacco-Related Organization as of the MSA Execution Date in the litigation matters specified in section 1 of Exhibit H; and

(3) all documents produced by such Original Participating Manufacturer or Tobacco-Related Organization as of the MSA Execution Date and listed by the plaintiffs as trial exhibits in the litigation matters specified in section 2 of Exhibit H.

(e) Unless copies of such documents are already on its website, each Original Participating Manufacturer and Tobacco-Related Organization will place on its website copies of documents produced in any production of documents that takes place on or after the date 30 days before the MSA Execution Date in any federal or state court civil action concerning smoking and health. Copies of any documents required to be placed on a website pursuant to this subsection will be placed on such website within the later of 45 days after the MSA Execution Date or within 45 days after the production of such documents in any federal or state court action concerning smoking and health. This obligation will continue until June 30, 2010. In placing such newly produced documents on its website, each Original Participating Manufacturer or Tobacco-Related Organization will identify, as part of its index to be created pursuant to subsection IV(h), the action in which it produced such documents and the date on which such documents were added to its website.

(f) Nothing in this section IV shall require any Original Participating Manufacturer or Tobacco-Related Organization to place on its website or otherwise disclose documents that: (1) it continues to claim to be privileged, a trade secret, confidential or proprietary business information, or that contain other information not appropriate for public disclosure because of personal privacy interests or contractual rights of third parties; or (2) continue to be subject to any protective order, sealing order or other order or ruling that prevents or limits a litigant from disclosing such documents.

(g) Oversized or multimedia records will not be required to be placed on the Website, but each Original Participating Manufacturers and Tobacco-Related Organizations will make any such records available to the public by placing copies of them in the document depository established in The State of Minnesota, et al. v. Philip Morris Incorporated, et al., C1-94-8565 (County of Ramsey, District Court, 2d Judicial Cir.).

(h) Each Original Participating Manufacturer will establish an index and other features to improve searchable access to the document images on its website, as set forth in Exhibit I.

(i) Within 90 days after the MSA Execution Date, the Original Participating Manufacturers will furnish NAAG with a project plan for completing the Original Participating Manufacturers' obligations under subsection IV(h) with respect to documents currently on their websites and documents being placed on their websites pursuant to subsection IV(d). NAAG may engage a computer consultant at the Original Participating Manufacturers' expense for a period not to exceed two years and at a cost not to exceed $100,000. NAAG's computer consultant may review such plan and make recommendations consistent with this Agreement. In addition, within 120 days after the completion of the Original Participating Manufacturers' obligations under subsection IV(d), NAAG's computer consultant may make final recommendations with respect to the websites consistent with this Agreement. In preparing these recommendations, NAAG's computer consultant may seek input from Settling State officials, public health organizations and other users of the websites.

(j) The expenses incurred pursuant to subsection IV(i), and the expenses related to documents of the Tobacco-Related Organizations, will be severally shared among the Original Participating Manufacturers (allocated among them according to their Relative Market Shares). All other expenses incurred under this section will be borne by the Original Participating Manufacturer that incurs such expense.

V. TOBACCO CONTROL AND UNDERAGE USE LAWS

Each Participating Manufacturer agrees that following State-Specific Finality in a Settling State it will not initiate, or cause to be initiated, a facial challenge against the enforceability or constitutionality of such Settling State's (or such Settling State's political subdivisions') statutes, ordinances and administrative rules relating to tobacco control enacted prior to June 1, 1998 (other than a statute, ordinance or rule challenged in any lawsuit listed in Exhibit M).

VI. ESTABLISHMENT OF A NATIONAL FOUNDATION

(a) Foundation Purposes. The Settling States believe that a comprehensive, coordinated program of public education and study is important to further the remedial goals of this Agreement. Accordingly, as part of the settlement of claims described herein, the payments specified in subsections VI(b), VI(c), and IX(e) shall be made to a charitable foundation, trust or similar organization (the "Foundation") and/or to a program to be operated within the Foundation (the "National Public Education Fund"). The purposes of the Foundation will be to support (1) the study of and programs to reduce Youth Tobacco Product usage and Youth substance abuse in the States, and (2) the study of and educational programs to prevent diseases associated with the use of Tobacco Products in the States.

(b) Base Foundation Payments. On March 31, 1999, and on March 31 of each subsequent year for a period of nine years thereafter, each Original Participating Manufacturer shall severally pay its Relative Market Share of $25,000,000 to fund the Foundation. The payments to be made by each of the Original Participating Manufacturers pursuant to this subsection (b) shall be subject to no adjustments, reductions, or offsets, and shall be paid to the Escrow Agent (to be credited to the Subsection VI(b) Account), who shall disburse such payments to the Foundation only upon the occurrence of State-Specific Finality in at least one Settling State.

(c) National Public Education Fund Payments.

(1) Each Original Participating Manufacturer shall severally pay its Relative Market Share of the following base amounts on the following dates to the Escrow Agent for the benefit of the Foundation's National Public Education Fund to be used for the purposes and as described in subsections VI(f)(1), VI(g) and VI(h) below: $250,000,000 on March 31, 1999; $300,000,000 on March 31, 2000; $300,000,000 on March 31, 2001; $300,000,000 on March 31, 2002; and $300,000,000 on March 31, 2003, as such amounts are modified in accordance with this subsection (c). The payment due on March 31, 1999 pursuant to this subsection (c)(1) is to be credited to the Subsection VI(c) Account (First). The payments due on or after March 31, 2000 pursuant to this subsection VI(c)(1) are to be credited to the Subsection VI(c) Account (Subsequent).

(2) The payments to be made by the Original Participating Manufacturers pursuant to this subsection (c), other than the payment due on March 31, 1999, shall be subject to the Inflation Adjustment, the Volume Adjustment and the offset for miscalculated or disputed payments described in subsection XI(i).

(3) The payment made pursuant to this subsection (c) on March 31, 1999 shall be disbursed by the Escrow Agent to the Foundation only upon the occurrence of State-Specific Finality in at least one Settling State. Each remaining payment pursuant to this subsection (c) shall be disbursed by the Escrow Agent to the Foundation only when State-Specific Finality has occurred in Settling States having aggregate Allocable Shares equal to at least 80% of the total aggregate Allocable Shares assigned to all States that were Settling States as of the MSA Execution Date.

(4) In addition to the payments made pursuant to this subsection (c), the National Public Education Fund will be funded (A) in accordance with subsection IX(e), and (B) through monies contributed by other entities directly to the Foundation and designated for the National Public Education Fund ("National Public Education Fund Contributions").

(5) The payments made by the Original Participating Manufacturers pursuant to this subsection (c) and/or subsection IX(e) and monies received from all National Public Education Fund Contributions will be deposited and invested in accordance with the laws of the state of incorporation of the Foundation.

(d) Creation and Organization of the Foundation. NAAG, through its executive committee, will provide for the creation of the Foundation. The Foundation shall be organized exclusively for charitable, scientific, and educational purposes within the meaning of Internal Revenue Code section 501(c)(3). The organizational documents of the Foundation shall specifically incorporate the provisions of this Agreement relating to the Foundation, and will provide for payment of the Foundation's administrative expenses from the funds paid pursuant to subsection VI(b) or VI(c). The Foundation shall be governed by a board of directors. The board of directors shall be comprised of eleven directors. NAAG, the National Governors' Association ("NGA"), and the National Conference of State Legislatures ("NCSL") shall each select from its membership two directors. These six directors shall select the five additional directors. One of these five additional directors shall have expertise in public health issues. Four of these five additional directors shall have expertise in medical, child psychology, or public health disciplines. The board of directors shall be nationally geographically diverse.

(e) Foundation Affiliation. The Foundation shall be formally affiliated with an educational or medical institution selected by the board of directors.

(f) Foundation Functions. The functions of the Foundation shall be:

(1) carrying out a nationwide sustained advertising and education program to (A) counter the use by Youth of Tobacco Products, and (B) educate consumers about the cause and prevention of diseases associated with the use of Tobacco Products;

(2) developing and disseminating model advertising and education programs to counter the use by Youth of substances that are unlawful for use or purchase by Youth, with an emphasis on reducing Youth smoking; monitoring and testing the effectiveness of such model programs; and, based on the information received from such monitoring and testing, continuing to develop and disseminate revised versions of such model programs, as appropriate;

(3) developing and disseminating model classroom education programs and curriculum ideas about smoking and substance abuse in the K-12 school system, including specific target programs for special at-risk populations; monitoring and testing the effectiveness of such model programs and ideas; and, based on the information received from such monitoring and testing, continuing to develop and disseminate revised versions of such model programs or ideas, as appropriate;

(4) developing and disseminating criteria for effective cessation programs; monitoring and testing the effectiveness of such criteria; and continuing to develop and disseminate revised versions of such criteria, as appropriate;

(5) commissioning studies, funding research, and publishing reports on factors that influence Youth smoking and substance abuse and developing strategies to address the conclusions of such studies and research;

(6) developing other innovative Youth smoking and substance abuse prevention programs;

(7) providing targeted training and information for parents;

(8) maintaining a library open to the public of Foundation-funded studies, reports and other publications related to the cause and prevention of Youth smoking and substance abuse;

(9) tracking and monitoring Youth smoking and substance abuse, with a focus on the reasons for any increases or failures to decrease Youth smoking and substance abuse and what actions can be taken to reduce Youth smoking and substance abuse;

(10) receiving, controlling, and managing contributions from other entities to further the purposes described in this Agreement; and

(11) receiving, controlling, and managing such funds paid by the Participating Manufacturers pursuant to subsections VI(b) and VI(c) above.

(g) Foundation Grant-Making. The Foundation is authorized to make grants from the National Public Education Fund to Settling States and their political subdivisions to carry out sustained advertising and education programs to (1) counter the use by Youth of Tobacco Products, and (2) educate consumers about the cause and prevention of diseases associated with the use of Tobacco Products. In making such grants, the Foundation shall consider whether the Settling State or political subdivision applying for such grant:

(1) demonstrates the extent of the problem regarding Youth smoking in such Settling State or political subdivision;

(2) either seeks the grant to implement a model program developed by the Foundation or provides the Foundation with a specific plan for such applicant's intended use of the grant monies, including demonstrating such applicant's ability to develop an effective advertising/education campaign and to assess the effectiveness of such advertising/education campaign;

(3) has other funds readily available to carry out a sustained advertising and education program to (A) counter the use by Youth of Tobacco Products, and (B) educate consumers about the cause and prevention of diseases associated with the use of Tobacco Products; and

(4) is a Settling State that has not severed this section VI from its settlement with the Participating Manufacturers pursuant to subsection VI(i) below, or is a political subdivision in such a Settling State.

(h) Foundation Activities. The Foundation shall not engage in, nor shall any of the Foundation's money be used to engage in, any political activities or lobbying, including, but not limited to, support of or opposition to candidates, ballot initiatives, referenda or other similar activities. The National Public Education Fund shall be used only for public education and advertising regarding the addictiveness, health effects, and social costs related to the use of tobacco products and shall not be used for any personal attack on, or vilification of, any person (whether by name or business affiliation), company, or governmental agency, whether individually or collectively. The Foundation shall work to ensure that its activities are carried out in a culturally and linguistically appropriate manner. The Foundation's activities (including the National Public Education Fund) shall be carried out solely within the States. The payments described in subsections VI(b) and VI(c) above are made at the direction and on behalf of Settling States. By making such payments in such manner, the Participating Manufacturers do not undertake and expressly disclaim any responsibility with respect to the creation, operation, liabilities, or tax status of the Foundation or the National Public Education Fund.

(i) Severance of this Section. If the Attorney General of a Settling State determines that such Settling State may not lawfully enter into this section VI as a matter of applicable state law, such Attorney General may sever this section VI from its settlement with the Participating Manufacturers by giving written notice of such severance to each Participating Manufacturer and NAAG pursuant to subsection XVIII(k) hereof. If any Settling State exercises its right to sever this section VI, this section VI shall not be considered a part of the specific settlement between such Settling State and the Participating Manufacturers, and this section VI shall not be enforceable by or in such Settling State. The payment obligation of subsections VI(b) and VI(c) hereof shall apply regardless of a determination by one or more Settling States to sever section VI hereof; provided, however, that if all Settling States sever section VI hereof, the payment obligations of subsections (b) and (c) hereof shall be null and void. If the Attorney General of a Settling State that severed this section VI subsequently determines that such Settling State may lawfully enter into this section VI as a matter of applicable state law, such Attorney General may rescind such Settling State's previous severance of this section VI by giving written notice of such rescission to each Participating Manufacturer and NAAG pursuant to subsection XVIII(k). If any Settling State rescinds such severance, this section VI shall be considered a part of the specific settlement between such Settling State and the Participating Manufacturers (including for purposes of subsection (g)(4)), and this section VI shall be enforceable by and in such Settling State.

VII. ENFORCEMENT

(a) Jurisdiction. Each Participating Manufacturer and each Settling State acknowledge that the Court: (1) has jurisdiction over the subject matter of the action identified in Exhibit D in such Settling State and over each Participating Manufacturer; (2) shall retain exclusive jurisdiction for the purposes of implementing and enforcing this Agreement and the Consent Decree as to such Settling State; and (3) except as provided in subsections IX(d), XI(c) and XVII(d) and Exhibit O, shall be the only court to which disputes under this Agreement or the Consent Decree are presented as to such Settling State. Provided, however, that notwithstanding the foregoing, the Escrow Court (as defined in the Escrow Agreement) shall have exclusive jurisdiction, as provided in section 15 of the Escrow Agreement, over any suit, action or proceeding seeking to interpret or enforce any provision of, or based on any right arising out of, the Escrow Agreement.

(b) Enforcement of Consent Decree. Except as expressly provided in the Consent Decree, any Settling State or Released Party may apply to the Court to enforce the terms of the Consent Decree (or for a declaration construing any such term) with respect to alleged violations within such Settling State. A Settling State may not seek to enforce the Consent Decree of another Settling State; provided, however, that nothing contained herein shall affect the ability of any Settling State to (1) coordinate state enforcement actions or proceedings, or (2) file or join any amicus brief. In the event that the Court determines that any Participating Manufacturer or Settling State has violated the Consent Decree within such Settling State, the party that initiated the proceedings may request any and all relief available within such Settling State pursuant to the Consent Decree.

(c) Enforcement of this Agreement.

(1) Except as provided in subsections IX(d), XI(c), XVII(d) and Exhibit O, any Settling State or Participating Manufacturer may bring an action in the Court to enforce the terms of this Agreement (or for a declaration construing any such term ("Declaratory Order")) with respect to disputes, alleged violations or alleged breaches within such Settling State.

(2) Before initiating such proceedings, a party shall provide 30 days' written notice to the Attorney General of each Settling State, to NAAG, and to each Participating Manufacturer of its intent to initiate proceedings pursuant to this subsection. The 30-day notice period may be shortened in the event that the relevant Attorney General reasonably determines that a compelling time-sensitive public health and safety concern requires more immediate action.

(3) In the event that the Court determines that any Participating Manufacturer or Settling State has violated or breached this Agreement, the party that initiated the proceedings may request an order restraining such violation or breach, and/or ordering compliance within such Settling State (an "Enforcement Order").

(4) If an issue arises as to whether a Participating Manufacturer has failed to comply with an Enforcement Order, the Attorney General for the Settling State in question may seek an order for interpretation or for monetary, civil contempt or criminal sanctions to enforce compliance with such Enforcement Order.

(5) If the Court finds that a good-faith dispute exists as to the meaning of the terms of this Agreement or a Declaratory Order, the Court may in its discretion determine to enter a Declaratory Order rather than an Enforcement Order.

(6) Whenever possible, the parties shall seek to resolve an alleged violation of this Agreement by discussion pursuant to subsection XVIII(m) of this Agreement. In addition, in determining whether to seek an Enforcement Order, or in determining whether to seek an order for monetary, civil contempt or criminal sanctions for any claimed violation of an Enforcement Order, the Attorney General shall give good-faith consideration to whether the Participating Manufacturer that is claimed to have violated this Agreement has taken appropriate and reasonable steps to cause the claimed violation to be cured, unless such party has been guilty of a pattern of violations of like nature.

(d) Right of Review. All orders and other judicial determinations made by any court in connection with this Agreement or any Consent Decree shall be subject to all available appellate review, and nothing in this Agreement or any Consent Decree shall be deemed to constitute a waiver of any right to any such review.

(e) Applicability. This Agreement and the Consent Decree apply only to the Participating Manufacturers in their corporate capacity acting through their respective successors and assigns, directors, officers, employees, agents, subsidiaries, divisions, or other internal organizational units of any kind or any other entities acting in concert or participation with them. The remedies, penalties and sanctions that may be imposed or assessed in connection with a breach or violation of this Agreement or the Consent Decree (or any Declaratory Order or Enforcement Order issued in connection with this Agreement or the Consent Decree) shall only apply to the Participating Manufacturers, and shall not be imposed or assessed against any employee, officer or director of any Participating Manufacturer, or against any other person or entity as a consequence of such breach or violation, and the Court shall have no jurisdiction to do so.

(f) Coordination of Enforcement. The Attorneys General of the Settling States (through NAAG) shall monitor potential conflicting interpretations by courts of different States of this Agreement and the Consent Decrees. The Settling States shall use their best efforts, in cooperation with the Participating Manufacturers, to coordinate and resolve the effects of such conflicting interpretations as to matters that are not exclusively local in nature.

(g) Inspection and Discovery Rights. Without limitation on whatever other rights to access they may be permitted by law, following State-Specific Finality in a Settling State and for seven years thereafter, representatives of the Attorney General of such Settling State may, for the purpose of enforcing this Agreement and the Consent Decree, upon reasonable cause to believe that a violation of this Agreement or the Consent Decree has occurred, and upon reasonable prior written notice (but in no event less than 10 Business Days): (1) have access during regular office hours to inspect and copy all relevant non-privileged, non-work-product books, records, meeting agenda and minutes, and other documents (whether in hard copy form or stored electronically) of each Participating Manufacturer insofar as they pertain to such believed violation; and (2) interview each Participating Manufacturer's directors, officers and employees (who shall be entitled to have counsel present) with respect to relevant, non-privileged, non-work-product matters pertaining to such believed violation. Documents and information provided to representatives of the Attorney General of such Settling State pursuant to this section VII shall be kept confidential by the Settling States, and shall be utilized only by the Settling States and only for purposes of enforcing this Agreement, the Consent Decree and the criminal law. The inspection and discovery rights provided to such Settling State pursuant to this subsection shall be coordinated through NAAG so as to avoid repetitive and excessive inspection and discovery.

VIII. CERTAIN ONGOING RESPONSIBILITIES OF THE SETTLING STATES

(a) Upon approval of the NAAG executive committee, NAAG will provide coordination and facilitation for the implementation and enforcement of this Agreement on behalf of the Attorneys General of the Settling States, including the following:

(1) NAAG will assist in coordinating the inspection and discovery activities referred to in subsections III(p)(3) and VII(g) regarding compliance with this Agreement by the Participating Manufacturers and any new tobacco-related trade associations.

(2) NAAG will convene at least two meetings per year and one major national conference every three years for the Attorneys General of the Settling States, the directors of the Foundation and three persons designated by each Participating Manufacturer. The purpose of the meetings and conference is to evaluate the success of this Agreement and coordinate efforts by the Attorneys General and the Participating Manufacturers to continue to reduce Youth smoking.

(3) NAAG will periodically inform NGA, NCSL, the National Association of Counties and the National League of Cities of the results of the meetings and conferences referred to in subsection (a)(2) above.

(4) NAAG will support and coordinate the efforts of the Attorneys General of the Settling States in carrying out their responsibilities under this Agreement.

(5) NAAG will perform the other functions specified for it in this Agreement, including the functions specified in section IV.

(b) Upon approval by the NAAG executive committee to assume the responsibilities outlined in subsection VIII(a) hereof, each Original Participating Manufacturer shall cause to be paid, beginning on December 31, 1998, and on December 31 of each year thereafter through and including December 31, 2007, its Relative Market Share of $150,000 per year to the Escrow Agent (to be credited to the Subsection VIII(b) Account), who shall disburse such monies to NAAG within 10 Business Days, to fund the activities described in subsection VIII(a).

(c) The Attorneys General of the Settling States, acting through NAAG, shall establish a fund ("The States' Antitrust/Consumer Protection Tobacco Enforcement Fund") in the form attached as Exhibit J, which will be maintained by

such Attorneys General to supplement the Settling States' (1) enforcement and implementation of the terms of this Agreement and the Consent Decrees, and (2) investigation and litigation of potential violations of laws with respect to Tobacco Products, as set forth in Exhibit J. Each Original Participating Manufacturer shall on March 31, 1999, severally pay its Relative Market Share of $50,000,000 to the Escrow Agent (to be credited to the Subsection VIII(c) Account), who shall disburse such monies to NAAG upon the occurrence of State-Specific Finality in at least one Settling State. Such funds will be used in accordance with the provisions of Exhibit J.

IX. PAYMENTS

(a) All Payments Into Escrow. All payments made pursuant to this Agreement (except those payments made pursuant to section XVII) shall be made into escrow pursuant to the Escrow Agreement, and shall be credited to the appropriate Account established pursuant to the Escrow Agreement. Such payments shall be disbursed to the beneficiaries or returned to the Participating Manufacturers only as provided in section XI and the Escrow Agreement. No payment obligation under this Agreement shall arise (1) unless and until the Escrow Court has approved and retained jurisdiction over the Escrow Agreement or (2) if such approval is reversed (unless and until such reversal is itself reversed). The parties agree to proceed as expeditiously as possible to resolve any issues that prevent approval of the Escrow Agreement. If any payment (other than the first initial payment under subsection IX(b)) is delayed because the Escrow Agreement has not been approved, such payment shall be due and payable (together with interest at the Prime Rate) within 10 Business Days after approval of the Escrow Agreement by the Escrow Court.

(b) Initial Payments. On the second Business Day after the Escrow Court approves and retains jurisdiction over the Escrow Agreement, each Original Participating Manufacturer shall severally pay to the Escrow Agent (to be credited to the Subsection IX(b) Account (First)) its Market Capitalization Percentage (as set forth in Exhibit K) of the base amount of $2,400,000,000. On January 10, 2000, each Original Participating Manufacturer shall severally pay to the Escrow Agent its Relative Market Share of the base amount of $2,472,000,000. On January 10, 2001, each Original Participating Manufacturer shall severally pay to the Escrow Agent its Relative Market Share of the base amount of $2,546,160,000. On January 10, 2002, each Original Participating Manufacturer shall severally pay to the Escrow Agent its Relative Market Share of the base amount of $2,622,544,800. On January 10, 2003, each Original Participating Manufacturer shall severally pay to the Escrow Agent its Relative Market Share of the base amount of $2,701,221,144. The payments pursuant to this subsection (b) due on or after January 10, 2000 shall be credited to the Subsection IX(b) Account (Subsequent). The foregoing payments shall be modified in accordance with this subsection (b). The payments made by the Original Participating Manufacturers pursuant to this subsection (b) (other than the first such payment) shall be subject to the Volume Adjustment, the Non-Settling States Reduction and the offset for miscalculated or disputed payments described in subsection XI(i). The first payment due under this subsection (b) shall be subject to the Non-Settling States Reduction, but such reduction shall be determined as of the date one day before such payment is due (rather than the date 15 days before).

(c) Annual Payments and Strategic Contribution Payments.

(1) On April 15, 2000 and on April 15 of each year thereafter in perpetuity, each Original Participating Manufacturer shall severally pay to the Escrow Agent (to be credited to the Subsection IX(c)(1) Account) its Relative Market Share of the base amounts specified below, as such payments are modified in accordance with this subsection (c)(1):

Year	Base Amount
2000	$4,500,000,000
2001	$5,000,000,000
2002	$6,500,000,000
2003	$6,500,000,000
2004	$8,000,000,000
2005	$8,000,000,000
2006	$8,000,000,000
2007	$8,000,000,000
2008	$8,139,000,000
2009	$8,139,000,000
2010	$8,139,000,000
2011	$8,139,000,000
2012	$8,139,000,000
2013	$8,139,000,000
2014	$8,139,000,000
2015	$8,139,000,000
2016	$8,139,000,000
2017	$8,139,000,000
2018 and each year thereafter	$9,000,000,000

The payments made by the Original Participating Manufacturers pursuant to this subsection (c)(1) shall be subject to the Inflation Adjustment, the Volume Adjustment, the Previously Settled States Reduction, the Non-Settling States Reduction, the NPM Adjustment, the offset for miscalculated or disputed payments described in subsection XI(i), the Federal

Tobacco Legislation Offset, the Litigating Releasing Parties Offset, and the offsets for claims over described in subsections XII(a)(4)(B) and XII(a)(8).

(2) On April 15, 2008 and on April 15 of each year thereafter through 2017, each Original Participating Manufacturer shall severally pay to the Escrow Agent (to be credited to the Subsection IX(c)(2) Account) its Relative Market Share of the base amount of $861,000,000, as such payments are modified in accordance with this subsection (c)(2). The payments made by the Original Participating Manufacturers pursuant to this subsection (c)(2) shall be subject to the Inflation Adjustment, the Volume Adjustment, the NPM Adjustment, the offset for miscalculated or disputed payments described in subsection XI(i), the Federal Tobacco Legislation Offset, the Litigating Releasing Parties Offset, and the offsets for claims over described in subsections XII(a)(4)(B) and XII(a)(8). Such payments shall also be subject to the Non-Settling States Reduction; provided, however, that for purposes of payments due pursuant to this subsection (c)(2) (and corresponding payments by Subsequent Participating Manufacturers under subsection IX(i)), the Non-Settling States Reduction shall be derived as follows: (A) the payments made by the Original Participating Manufacturers pursuant to this subsection (c)(2) shall be allocated among the Settling States on a percentage basis to be determined by the Settling States pursuant to the procedures set forth in Exhibit U, and the resulting allocation percentages disclosed to the Escrow Agent, the Independent Auditor and the Original Participating Manufacturers not later than June 30, 1999; and (B) the Non-Settling States Reduction shall be based on the sum of the Allocable Shares so established pursuant to subsection (c)(2)(A) for those States that were Settling States as of the MSA Execution Date and as to which this Agreement has terminated as of the date 15 days before the payment in question is due.

(d) Non-Participating Manufacturer Adjustment.

(1) Calculation of NPM Adjustment for Original Participating Manufacturers. To protect the public health gains achieved by this Agreement, certain payments made pursuant to this Agreement shall be subject to an NPM Adjustment. Payments by the Original Participating Manufacturers to which the NPM Adjustment applies shall be adjusted as provided below:

(A) Subject to the provisions of subsections (d)(1)(C), (d)(1)(D) and (d)(2) below, each Allocated Payment shall be adjusted by subtracting from such Allocated Payment the product of such Allocated Payment amount multiplied by the NPM Adjustment Percentage. The "NPM Adjustment Percentage" shall be calculated as follows:

(i) If the Market Share Loss for the year immediately preceding the year in which the payment in question is due is less than or equal to 0 (zero), then the NPM Adjustment Percentage shall equal zero.

(ii) If the Market Share Loss for the year immediately preceding the year in which the payment in question is due is greater than 0 (zero) and less than or equal to 16 2/3 percentage points, then the NPM Adjustment Percentage shall be equal to the product of (x) such Market Share Loss and (y) 3 (three).

(iii) If the Market Share Loss for the year immediately preceding the year in which the payment in question is due is greater than 16 2/3 percentage points, then the NPM Adjustment Percentage shall be equal to the sum of (x) 50 percentage points and (y) the product of (*1*) the Variable Multiplier and (*2*) the result of such Market Share Loss minus 16 2/3 percentage points.

(B) Definitions:

(i) "Base Aggregate Participating Manufacturer Market Share" means the result of (x) the sum of the applicable Market Shares (the applicable Market Share to be that for 1997) of all present and former Tobacco Product Manufacturers that were Participating Manufacturers during the entire calendar year immediately preceding the year in which the payment in question is due minus (y) 2 (two) percentage points.

(ii) "Actual Aggregate Participating Manufacturer Market Share" means the sum of the applicable Market Shares of all present and former Tobacco Product Manufacturers that were Participating Manufacturers during the entire calendar year immediately preceding the year in which the payment in question is due (the applicable Market Share to be that for the calendar year immediately preceding the year in which the payment in question is due).

(iii) "Market Share Loss" means the result of (x) the Base Aggregate Participating Manufacturer Market Share minus (y) the Actual Aggregate Participating Manufacturer Market Share.

(iv) "Variable Multiplier" equals 50 percentage points divided by the result of (x) the Base Aggregate Participating Manufacturer Market Share minus (y) 16 2/3 percentage points.

(C) On or before February 2 of each year following a year in which there was a Market Share Loss greater than zero, a nationally recognized firm of economic consultants (the "Firm") shall determine whether the disadvantages experienced as a result of the provisions of this Agreement were a significant factor contributing to the Market Share Loss for the year in question. If the Firm determines that the disadvantages experienced as a result of the provisions of this Agreement were a significant factor contributing to the Market Share Loss for the year in question, the NPM Adjustment described in subsection IX(d)(1) shall apply. If the Firm determines that the disadvantages experienced as a result of the provisions of this Agreement were not a significant factor contributing to the Market Share Loss for the year in question, the NPM Adjustment described in subsection IX(d)(1) shall not apply. The Original Participating Manufacturers, the Settling States, and the Attorneys General for the Settling States shall cooperate to ensure that the determination described in this subsection (1)(C) is timely made. The Firm shall be acceptable to (and the principals responsible for this assignment shall be acceptable to) both the Original Participating Manufacturers and a majority of those Attorneys General who are both the

Attorney General of a Settling State and a member of the NAAG executive committee at the time in question (or in the event no such firm or no such principals shall be acceptable to such parties, National Economic Research Associates, Inc., or its successors by merger, acquisition or otherwise ("NERA"), acting through a principal or principals acceptable to such parties, if such a person can be identified and, if not, acting through a principal or principals identified by NERA, or a successor firm selected by the CPR Institute for Dispute Resolution). As soon as practicable after the MSA Execution Date, the Firm shall be jointly retained by the Settling States and the Original Participating Manufacturers for the purpose of making the foregoing determination, and the Firm shall provide written notice to each Settling State, to NAAG, to the Independent Auditor and to each Participating Manufacturer of such determination. The determination of the Firm with respect to this issue shall be conclusive and binding upon all parties, and shall be final and non-appealable. The reasonable fees and expenses of the Firm shall be paid by the Original Participating Manufacturers according to their Relative Market Shares. Only the Participating Manufacturers and the Settling States, and their respective counsel, shall be entitled to communicate with the Firm with respect to the Firm's activities pursuant to this subsection (1)(C).

(D) No NPM Adjustment shall be made with respect to a payment if the aggregate number of Cigarettes shipped in or to the fifty United States, the District of Columbia and Puerto Rico in the year immediately preceding the year in which the payment in question is due by those Participating Manufacturers that had become Participating Manufacturers prior to 14 days after the MSA Execution Date is greater than the aggregate number of Cigarettes shipped in or to the fifty United States, the District of Columbia, and Puerto Rico in 1997 by such Participating Manufacturers (and any of their Affiliates that made such shipments in 1997, as demonstrated by certified audited statements of such Affiliates' shipments, and that do not continue to make such shipments after the MSA Execution Date because the responsibility for such shipments has been transferred to one of such Participating Manufacturers). Measurements of shipments for purposes of this subsection (D) shall be made in the manner prescribed in subsection II(mm); in the event that such shipment data is unavailable for any Participating Manufacturer for 1997, such Participating Manufacturer's shipment volume for such year shall be measured in the manner prescribed in subsection II(z).

(2) Allocation among Settling States of NPM Adjustment for Original Participating Manufacturers.

(A) The NPM Adjustment set forth in subsection (d)(1) shall apply to the Allocated Payments of all Settling States, except as set forth below.

(B) A Settling State's Allocated Payment shall not be subject to an NPM Adjustment: (i) if such Settling State continuously had a Qualifying Statute (as defined in subsection (2)(E) below) in full force and effect during the entire calendar year immediately preceding the year in which the payment in question is due, and diligently enforced the provisions of such statute during such entire calendar year; or (ii) if such Settling State enacted the Model Statute (as defined in subsection (2)(E) below) for the first time during the calendar year immediately preceding the year in which the payment in question is due, continuously had the Model Statute in full force and effect during the last six months of such calendar year, and diligently enforced the provisions of such statute during the period in which it was in full force and effect.

(C) The aggregate amount of the NPM Adjustments that would have applied to the Allocated Payments of those Settling States that are not subject to an NPM Adjustment pursuant to subsection (2)(B) shall be reallocated among all other Settling States pro rata in proportion to their respective Allocable Shares (the applicable Allocable Shares being those listed in Exhibit A), and such other Settling States' Allocated Payments shall be further reduced accordingly.

(D) This subsection (2)(D) shall apply if the amount of the NPM Adjustment applied pursuant to subsection (2)(A) to any Settling State plus the amount of the NPM Adjustments reallocated to such Settling State pursuant to subsection (2)(C) in any individual year would either (i) exceed such Settling State's Allocated Payment in that year, or (ii) if subsection (2)(F) applies to the Settling State in question, exceed 65% of such Settling State's Allocated Payment in that year. For each Settling State that has an excess as described in the preceding sentence, the excess amount of NPM Adjustment shall be further reallocated among all other Settling States whose Allocated Payments are subject to an NPM Adjustment and that do not have such an excess, pro rata in proportion to their respective Allocable Shares, and such other Settling States' Allocated Payments shall be further reduced accordingly. The provisions of this subsection (2)(D) shall be repeatedly applied in any individual year until either (i) the aggregate amount of NPM Adjustments has been fully reallocated or (ii) the full amount of the NPM Adjustments subject to reallocation under subsection (2)(C) or (2)(D) cannot be fully reallocated in any individual year as described in those subsections because (x) the Allocated Payment in that year of each Settling State that is subject to an NPM Adjustment and to which subsection (2)(F) does not apply has been reduced to zero, and (y) the Allocated Payment in that year of each Settling State to which subsection (2)(F) applies has been reduced to 35% of such Allocated Payment.

(E) A "Qualifying Statute" means a Settling State's statute, regulation, law and/or rule (applicable everywhere the Settling State has authority to legislate) that effectively and fully neutralizes the cost disadvantages that the Participating Manufacturers experience vis-à-vis Non-Participating Manufacturers within such Settling State as a result of the provisions of this Agreement. Each Participating Manufacturer and each Settling State agree that the model statute in the form set forth in Exhibit T (the "Model Statute"), if enacted without modification or addition (except for particularized state procedural or technical requirements) and not in conjunction with any other legislative or regulatory proposal, shall constitute a Qualifying Statute. Each Participating Manufacturer agrees to support the enactment of such Model Statute if such Model

Statute is introduced or proposed (i) without modification or addition (except for particularized procedural or technical requirements), and (ii) not in conjunction with any other legislative proposal.

(F) If a Settling State (i) enacts the Model Statute without any modification or addition (except for particularized state procedural or technical requirements) and not in conjunction with any other legislative or regulatory proposal, (ii) uses its best efforts to keep the Model Statute in full force and effect by, among other things, defending the Model Statute fully in any litigation brought in state or federal court within such Settling State (including litigating all available appeals that may affect the effectiveness of the Model Statute), and (iii) otherwise complies with subsection (2)(B), but a court of competent jurisdiction nevertheless invalidates or renders unenforceable the Model Statute with respect to such Settling State, and but for such ruling the Settling State would have been exempt from an NPM Adjustment under subsection (2)(B), then the NPM Adjustment (including reallocations pursuant to subsections (2)(C) and (2)(D)) shall still apply to such Settling State's Allocated Payments but in any individual year shall not exceed 65% of the amount of such Allocated Payments.

(G) In the event a Settling State proposes and/or enacts a statute, regulation, law and/or rule (applicable everywhere the Settling State has authority to legislate) that is not the Model Statute and asserts that such statute, regulation, law and/or rule is a Qualifying Statute, the Firm shall be jointly retained by the Settling States and the Original Participating Manufacturers for the purpose of determining whether or not such statute, regulation, law and/or rule constitutes a Qualifying Statute. The Firm shall make the foregoing determination within 90 days of a written request to it from the relevant Settling State (copies of which request the Settling State shall also provide to all Participating Manufacturers and the Independent Auditor), and the Firm shall promptly thereafter provide written notice of such determination to the relevant Settling State, NAAG, all Participating Manufacturers and the Independent Auditor. The determination of the Firm with respect to this issue shall be conclusive and binding upon all parties, and shall be final and non-appealable; provided, however, (i) that such determination shall be of no force and effect with respect to a proposed statute, regulation, law and/or rule that is thereafter enacted with any modification or addition; and (ii) that the Settling State in which the Qualifying Statute was enacted and any Participating Manufacturer may at any time request that the Firm reconsider its determination as to this issue in light of subsequent events (including, without limitation, subsequent judicial review, interpretation, modification and/or disapproval of a Settling State's Qualifying Statute, and the manner and/or the effect of enforcement of such Qualifying Statute). The Original Participating Manufacturers shall severally pay their Relative Market Shares of the reasonable fees and expenses of the Firm. Only the Participating Manufacturers and Settling States, and their respective counsel, shall be entitled to communicate with the Firm with respect to the Firm's activities pursuant to this subsection (2)(G).

(H) Except as provided in subsection (2)(F), in the event a Qualifying Statute is enacted within a Settling State and is thereafter invalidated or declared unenforceable by a court of competent jurisdiction, otherwise rendered not in full force and effect, or, upon reconsideration by the Firm pursuant to subsection (2)(G) determined not to constitute a Qualifying Statute, then such Settling State's Allocated Payments shall be fully subject to an NPM Adjustment unless and until the requirements of subsection (2)(B) have been once again satisfied.

(3) Allocation of NPM Adjustment among Original Participating Manufacturers. The portion of the total amount of the NPM Adjustment to which the Original Participating Manufacturers are entitled in any year that can be applied in such year consistent with subsection IX(d)(2) (the "Available NPM Adjustment") shall be allocated among them as provided in this subsection IX(d)(3).

(A) The "Base NPM Adjustment" shall be determined for each Original Participating Manufacturer in such year as follows:

(i) For those Original Participating Manufacturers whose Relative Market Shares in the year immediately preceding the year in which the NPM Adjustment in question is applied exceed or are equal to their respective 1997 Relative Market Shares, the Base NPM Adjustment shall equal 0 (zero).

(ii) For those Original Participating Manufacturers whose Relative Market Shares in the year immediately preceding the year in which the NPM Adjustment in question is applied are less than their respective 1997 Relative Market Shares, the Base NPM Adjustment shall equal the result of (x) the difference between such Original Participating Manufacturer's Relative Market Share in such preceding year and its 1997 Relative Market Share multiplied by both (y) the number of individual Cigarettes (expressed in thousands of units) shipped in or to the United States, the District of Columbia and Puerto Rico by all the Original Participating Manufacturers in such preceding year (determined in accordance with subsection II(mm)) and (z) $20 per each thousand units of Cigarettes (as this number is adjusted pursuant to subsection IX(d)(3)(C) below).

(iii) For those Original Participating Manufacturers whose Base NPM Adjustment, if calculated pursuant to subsection (ii) above, would exceed $300 million (as this number is adjusted pursuant to subsection IX(d)(3)(C) below), the Base NPM Adjustment shall equal $300 million (or such adjusted number, as provided in subsection IX(d)(3)(C) below).

(B) The share of the Available NPM Adjustment each Original Participating Manufacturer is entitled to shall be calculated as follows:

(i) If the Available NPM Adjustment the Original Participating Manufacturers are entitled to in any year is less than or equal to the sum of the Base NPM Adjustments of all Original Participating

Manufacturers in such year, then such Available NPM Adjustment shall be allocated among those Original Participating Manufacturers whose Base NPM Adjustment is not equal to 0 (zero) pro rata in proportion to their respective Base NPM Adjustments.

(ii) If the Available NPM Adjustment the Original Participating Manufacturers are entitled to in any year exceeds the sum of the Base NPM Adjustments of all Original Participating Manufacturers in such year, then (x) the difference between such Available NPM Adjustment and such sum of the Base NPM Adjustments shall be allocated among the Original Participating Manufacturers pro rata in proportion to their Relative Market Shares (the applicable Relative Market Shares to be those in the year immediately preceding such year), and (y) each Original Participating Manufacturer's share of such Available NPM Adjustment shall equal the sum of *(1)* its Base NPM Adjustment for such year, and *(2)* the amount allocated to such Original Participating Manufacturer pursuant to clause (x).

(iii) If an Original Participating Manufacturer's share of the Available NPM Adjustment calculated pursuant to subsection IX(d)(3)(B)(i) or IX(d)(3)(B)(ii) exceeds such Original Participating Manufacturer's payment amount to which such NPM Adjustment applies (as such payment amount has been determined pursuant to step B of clause "Seventh" of subsection IX(j)), then *(1)* such Original Participating Manufacturer's share of the Available NPM Adjustment shall equal such payment amount, and *(2)* such excess shall be reallocated among the other Original Participating Manufacturers pro rata in proportion to their Relative Market Shares.

(C) Adjustments:

(i) For calculations made pursuant to this subsection IX(d)(3) (if any) with respect to payments due in the year 2000, the number used in subsection IX(d)(3)(A)(ii)(z) shall be $20 and the number used in subsection IX(d)(3)(A)(iii) shall be $300 million. Each year thereafter, both these numbers shall be adjusted upward or downward by multiplying each of them by the quotient produced by dividing (x) the average revenue per Cigarette of all the Original Participating Manufacturers in the year immediately preceding such year, by (y) the average revenue per Cigarette of all the Original Participating Manufacturers in the year immediately preceding such immediately preceding year.

(ii) For purposes of this subsection, the average revenue per Cigarette of all the Original Participating Manufacturers in any year shall equal (x) the aggregate revenues of all the Original Participating Manufacturers from sales of Cigarettes in the fifty United States, the District of Columbia and Puerto Rico after Federal excise taxes and after payments pursuant to this Agreement and the tobacco litigation Settlement Agreements with the States of Florida, Mississippi, Minnesota and Texas (as such revenues are reported to the United States Securities and Exchange Commission ("SEC") for such year (either independently by the Original Participating Manufacturer or as part of consolidated financial statements reported to the SEC by an Affiliate of the Original Participating Manufacturers) or, in the case of an Original Participating Manufacturer that does not report income to the SEC, as reported in financial statements prepared in accordance with United States generally accepted accounting principles and audited by a nationally recognized accounting firm), divided by (y) the aggregate number of the individual Cigarettes shipped in or to the United States, the District of Columbia and Puerto Rico by all the Original Participating Manufacturers in such year (determined in accordance with subsection II(mm)).

(D) In the event that in the year immediately preceding the year in which the NPM Adjustment in question is applied both (x) the Relative Market Share of Lorillard Tobacco Company (or of its successor) ("Lorillard") was less than or equal to 20.0000000%, and (y) the number of individual Cigarettes shipped in or to the United States, the District of Columbia and Puerto Rico by Lorillard (determined in accordance with subsection II(mm)) (for purposes of this subsection (D), "Volume") was less than or equal to 70 billion, Lorillard's and Philip Morris Incorporated's (or its successor's) ("Philip Morris") shares of the Available NPM Adjustment calculated pursuant to subsections (3)(A)-(C) above shall be further reallocated between Lorillard and Philip Morris as follows (this subsection (3)(D) shall not apply in the year in which either of the two conditions specified in this sentence is not satisfied):

(i) Notwithstanding subsections (A)-(C) of this subsection (d)(3), but subject to further adjustment pursuant to subsections (D)(ii) and (D)(iii) below, Lorillard's share of the Available NPM Adjustment shall equal its Relative Market Share of such Available NPM Adjustment (the applicable Relative Market Share to be that in the year immediately preceding the year in which such NPM Adjustment is applied). The dollar amount of the difference between the share of the Available NPM Adjustment Lorillard is entitled to pursuant to the preceding sentence and the share of the Available NPM Adjustment it would be entitled to in the same year pursuant to subsections (d)(3)(A)-(C) shall be reallocated to Philip Morris and used to decrease or increase, as the case may be, Philip Morris's share of the Available NPM Adjustment in such year calculated pursuant to subsections (d)(3)(A)-(C).

(ii) In the event that in the year immediately preceding the year in which the NPM Adjustment in question is applied either (x) Lorillard's Relative Market Share was greater than 15.0000000% (but did not exceed 20.0000000%), or (y) Lorillard's Volume was greater than 50 billion (but did not exceed 70 billion), or both, Lorillard's share of the Available NPM Adjustment calculated pursuant to subsection (d)(3)(D)(i) shall be reduced by a percentage equal to the greater of (*1*) 10.0000000% for each percentage point (or fraction thereof) of excess of such Relative Market Share over 15.0000000% (if any), or (*2*) 2.5000000% for each billion (or fraction thereof) of excess of such Volume over 50 billion (if any). The dollar amount by which Lorillard's share of the Available NPM Adjustment is reduced in any year pursuant to this subsection (D)(ii) shall be reallocated to Philip Morris and used to increase Philip Morris's share of the Available NPM Adjustment in such year.

In the event that in any year a reallocation of the shares of the Available NPM Adjustment between Lorillard and Philip Morris pursuant to this subsection (d)(3)(D) results in Philip Morris's share of the Available NPM Adjustment in such year exceeding the greater of (x) Philip Morris's Relative Market Share of such Available NPM Adjustment (the applicable Relative Market Share to be that in the year immediately preceding such year), or (y) Philip Morris's share of the Available NPM Adjustment in such year calculated pursuant to subsections (d)(3)(A)-(C), Philip Morris's share of the Available NPM Adjustment in such year shall be reduced to equal the greater of (x) or (y) above. In such instance, the dollar amount by which Philip Morris's share of the Available NPM Adjustment is reduced pursuant to the preceding sentence shall be reallocated to Lorillard and used to increase Lorillard's share of the Available NPM Adjustment in such year.

(iv) In the event that either Philip Morris or Lorillard is treated as a Non-Participating Manufacturer for purposes of this subsection IX(d)(3) pursuant to subsection XVIII(w)(2)(A), this subsection (3)(D) shall not be applied, and the Original Participating Manufacturers' shares of the Available NPM Adjustment shall be determined solely as described in subsections (3)(A)-(C).

(4) NPM Adjustment for Subsequent Participating Manufacturers. Subject to the provisions of subsection IX(i)(3), a Subsequent Participating Manufacturer shall be entitled to an NPM Adjustment with respect to payments due from such Subsequent Participating Manufacturer in any year during which an NPM Adjustment is applicable under subsection (d)(1) above to payments due from the Original Participating Manufacturers. The amount of such NPM Adjustment shall equal the product of (A) the NPM Adjustment Percentage for such year multiplied by (B) the sum of the payments due in the year in question from such Subsequent Participating Manufacturer that correspond to payments due from Original Participating Manufacturers pursuant to subsection IX(c) (as such payment amounts due from such Subsequent Participating Manufacturer have been adjusted and allocated pursuant to clauses "First" through "Fifth" of subsection IX(j)). The NPM Adjustment to payments by each Subsequent Participating Manufacturer shall be allocated and reallocated among the Settling States in a manner consistent with subsection (d)(2) above.

(e) Supplemental Payments. Beginning on April 15, 2004, and on April 15 of each year thereafter in perpetuity, in the event that the sum of the Market Shares of the Participating Manufacturers that were Participating Manufacturers during the entire calendar year immediately preceding the year in which the payment in question would be due (the applicable Market Share to be that for the calendar year immediately preceding the year in which the payment in question would be due) equals or exceeds 99.0500000%, each Original Participating Manufacturer shall severally pay to the Escrow Agent (to be credited to the Subsection IX(e) Account) for the benefit of the Foundation its Relative Market Share of the base amount of $300,000,000, as such payments are modified in accordance with this subsection (e). Such payments shall be utilized by the Foundation to fund the national public education functions of the Foundation described in subsection VI(f)(1), in the manner described in and subject to the provisions of subsections VI(g) and VI(h). The payments made by the Original Participating Manufacturers pursuant to this subsection shall be subject to the Inflation Adjustment, the Volume Adjustment, the Non-Settling States Reduction, and the offset for miscalculated or disputed payments described in subsection XI(i).

(f) Payment Responsibility. The payment obligations of each Participating Manufacturer pursuant to this Agreement shall be the several responsibility only of that Participating Manufacturer. The payment obligations of a Participating Manufacturer shall not be the obligation or responsibility of any Affiliate of such Participating Manufacturer. The payment obligations of a Participating Manufacturer shall not be the obligation or responsibility of any other Participating Manufacturer. Provided, however, that no provision of this Agreement shall waive or excuse liability under any state or federal fraudulent conveyance or fraudulent transfer law. Any Participating Manufacturer whose Market Share (or Relative Market Share) in any given year equals zero shall have no payment obligations under this Agreement in the succeeding year.

(g) Corporate Structures. Due to the particular corporate structures of R.J. Reynolds Tobacco Company ("Reynolds") and Brown & Williamson Tobacco Corporation ("B&W") with respect to their non-domestic tobacco operations, Reynolds and B&W shall be severally liable for their respective shares of each payment due pursuant to this Agreement up to (and their liability hereunder shall not exceed) the full extent of their assets used in and earnings derived from, the manufacture and/or sale in the States of Tobacco Products intended for domestic consumption, and no recourse shall be had against any of their other assets or earnings to satisfy such obligations.

(h) Accrual of Interest. Except as expressly provided otherwise in this Agreement, any payment due hereunder and not paid when due (or payments requiring the accrual of interest under subsection XI(d)) shall accrue interest from and including the date such payment is due until (but not including) the date paid at the Prime Rate plus three percentage points.

(i) Payments by Subsequent Participating Manufacturers.

(1) A Subsequent Participating Manufacturer shall have payment obligations under this Agreement only in the event that its Market Share in any calendar year exceeds the greater of *(1)* its 1998 Market Share or *(2)* 125 percent of its 1997 Market Share (subject to the provisions of subsection (i)(4)). In the year following any such calendar year, such Subsequent Participating Manufacturer shall make payments corresponding to those due in that same following year from the Original Participating Manufacturers pursuant to subsections VI(c) (except for the payment due on March 31, 1999), IX(c)(1), IX(c)(2) and IX(e). The amounts of such corresponding payments by a Subsequent Participating Manufacturer are in addition to the corresponding payments that are due from the Original Participating Manufacturers and shall be determined as described in subsections (2) and (3) below. Such payments by a Subsequent Participating Manufacturer shall (A) be due on the same dates as the corresponding payments are due from Original Participating Manufacturers; (B) be for the same

purpose as such corresponding payments; and (C) be paid, allocated and distributed in the same manner as such corresponding payments.

(2) The base amount due from a Subsequent Participating Manufacturer on any given date shall be determined by multiplying (A) the corresponding base amount due on the same date from all of the Original Participating Manufacturers (as such base amount is specified in the corresponding subsection of this Agreement and is adjusted by the Volume Adjustment (except for the provisions of subsection (B)(ii) of Exhibit E), but before such base amount is modified by any other adjustments, reductions or offsets) by (B) the quotient produced by dividing (i) the result of (x) such Subsequent Participating Manufacturer's applicable Market Share (the applicable Market Share being that for the calendar year immediately preceding the year in which the payment in question is due) minus (y) the greater of *(1)* its 1998 Market Share or *(2)* 125 percent of its 1997 Market Share, by (ii) the aggregate Market Shares of the Original Participating Manufacturers (the applicable Market Shares being those for the calendar year immediately preceding the year in which the payment in question is due).

(3) Any payment due from a Subsequent Participating Manufacturer under subsections (1) and (2) above shall be subject (up to the full amount of such payment) to the Inflation Adjustment, the Non-Settling States Reduction, the NPM Adjustment, the offset for miscalculated or disputed payments described in subsection XI(i), the Federal Tobacco Legislation Offset, the Litigating Releasing Parties Offset and the offsets for claims over described in subsections XII(a)(4)(B) and XII(a)(8), to the extent that such adjustments, reductions or offsets would apply to the corresponding payment due from the Original Participating Manufacturers. Provided, however, that all adjustments and offsets to which a Subsequent Participating Manufacturer is entitled may only be applied against payments by such Subsequent Participating Manufacturer, if any, that are due within 12 months after the date on which the Subsequent Participating Manufacturer becomes entitled to such adjustment or makes the payment that entitles it to such offset, and shall not be carried forward beyond that time even if not fully used.

(4) For purposes of this subsection (i), the 1997 (or 1998, as applicable) Market Share (and 125 percent thereof) of those Subsequent Participating Manufacturers that either (A) became a signatory to this Agreement more than 60 days after the MSA Execution Date or (B) had no Market Share in 1997 (or 1998, as applicable), shall equal zero.

(j) Order of Application of Allocations, Offsets, Reductions and Adjustments. The payments due under this Agreement shall be calculated as set forth below. The "base amount" referred to in clause "First" below shall mean (1) in the case of payments due from Original Participating Manufacturers, the base amount referred to in the subsection establishing the payment obligation in question; and (2) in the case of payments due from a Subsequent Participating Manufacturer, the base amount referred to in subsection (i)(2) for such Subsequent Participating Manufacturer. In the event that a particular adjustment, reduction or offset referred to in a clause below does not apply to the payment being calculated, the result of the clause in question shall be deemed to be equal to the result of the immediately preceding clause. (If clause "First" is inapplicable, the result of clause "First" will be the base amount of the payment in question prior to any offsets, reductions or adjustments.)

First: the Inflation Adjustment shall be applied to the base amount of the payment being calculated;

Second: the Volume Adjustment (other than the provisions of subsection (B)(iii) of Exhibit E) shall be applied to the result of clause "First";

Third: the result of clause "Second" shall be reduced by the Previously Settled States Reduction;

Fourth: the result of clause "Third" shall be reduced by the Non-Settling States Reduction;

Fifth: in the case of payments due under subsections IX(c)(1) and IX(c)(2), the results of clause "Fourth" for each such payment due in the calendar year in question shall be apportioned among the Settling States pro rata in proportion to their respective Allocable Shares, and the resulting amounts for each particular Settling State shall then be added together to form such Settling State's Allocated Payment. In the case of payments due under subsection IX(i) that correspond to payments due under subsections IX(c)(1) or IX(c)(2), the results of clause "Fourth" for all such payments due from a particular Subsequent Participating Manufacturer in the calendar year in question shall be apportioned among the Settling States pro rata in proportion to their respective Allocable Shares, and the resulting amounts for each particular Settling State shall then be added together. (In the case of all other payments made pursuant to this Agreement, this clause "Fifth" is inapplicable.);

Sixth: the NPM Adjustment shall be applied to the results of clause "Fifth" pursuant to subsections IX(d)(1) and (d)(2) (or, in the case of payments due from the Subsequent Participating Manufacturers, pursuant to subsection IX(d)(4));

Seventh: in the case of payments due from the Original Participating Manufacturers to which clause "Fifth" (and therefore clause "Sixth") does not apply, the result of clause "Fourth" shall be allocated among the Original Participating Manufacturers according to their Relative Market Shares. In the case of payments due from the Original Participating Manufacturers to which clause "Fifth" applies: (A) the Allocated Payments of all Settling States determined pursuant to clause "Fifth" (prior to reduction pursuant to clause "Sixth") shall be added together; (B) the resulting sum shall be allocated among the Original Participating Manufacturers according to their Relative Market Shares and subsection (B)(iii) of Exhibit E hereto (if such subsection is applicable); (C) the Available NPM Adjustment (as determined pursuant to clause "Sixth") shall be allocated among the Original Participating Manufacturers pursuant to subsection IX(d)(3); (D) the respective result of step (C) above for each Original Participating Manufacturer shall be subtracted from the respective result of step (B) above

for such Original Participating Manufacturer; and (E) the resulting payment amount due from each Original Participating Manufacturer shall then be allocated among the Settling States in proportion to the respective results of clause "Sixth" for each Settling State. The offsets described in clauses "Eighth" through "Twelfth" shall then be applied separately against each Original Participating Manufacturer's resulting payment shares (on a Settling State by Settling State basis) according to each Original Participating Manufacturer's separate entitlement to such offsets, if any, in the calendar year in question. (In the case of payments due from Subsequent Participating Manufacturers, this clause "Seventh" is inapplicable.)

Eighth: the offset for miscalculated or disputed payments described in subsection XI(i) (and any carry-forwards arising from such offset) shall be applied to the results of clause "Seventh" (in the case of payments due from the Original Participating Manufacturers) or to the results of clause "Sixth" (in the case of payments due from Subsequent Participating Manufacturers);

Ninth: the Federal Tobacco Legislation Offset (including any carry-forwards arising from such offset) shall be applied to the results of clause "Eighth";

Tenth: the Litigating Releasing Parties Offset (including any carry-forwards arising from such offset) shall be applied to the results of clause "Ninth";

Eleventh: the offset for claims over pursuant to subsection XII(a)(4)(B) (including any carry-forwards arising from such offset) shall be applied to the results of clause "Tenth";

Twelfth: the offset for claims over pursuant to subsection XII(a)(8) (including any carry-forwards arising from such offset) shall be applied to the results of clause "Eleventh"; and

Thirteenth: in the case of payments to which clause "Fifth" applies, the Settling States' allocated shares of the payments due from each Participating Manufacturer (as such shares have been determined in step (E) of clause "Seventh" in the case of payments from the Original Participating Manufacturers or in clause "Sixth" in the case of payments from the Subsequent Participating Manufacturers, and have been reduced by clauses "Eighth" through "Twelfth") shall be added together to state the aggregate payment obligation of each Participating Manufacturer with respect to the payments in question. (In the case of a payment to which clause "Fifth" does not apply, the aggregate payment obligation of each Participating Manufacturer with respect to the payment in question shall be stated by the results of clause "Eighth.")

X. EFFECT OF FEDERAL TOBACCO-RELATED LEGISLATION

(a) If federal tobacco-related legislation is enacted after the MSA Execution Date and on or before November 30, 2002, and if such legislation provides for payment(s) by any Original Participating Manufacturer (whether by settlement payment, tax or any other means), all or part of which are actually made available to a Settling State ("Federal Funds"), each Original Participating Manufacturer shall receive a continuing dollar-for-dollar offset for any and all amounts that are paid by such Original Participating Manufacturer pursuant to such legislation and actually made available to such Settling State (except as described in subsections (b) and (c) below). Such offset shall be applied against the applicable Original Participating Manufacturer's share (determined as described in step E of clause "Seventh" of subsection IX(j)) of such Settling State's Allocated Payment, up to the full amount of such Original Participating Manufacturer's share of such Allocated Payment (as such share had been reduced by adjustment, if any, pursuant to the NPM Adjustment and has been reduced by offset, if any, pursuant to the offset for miscalculated or disputed payments). Such offset shall be made against such Original Participating Manufacturer's share of the first Allocated Payment due after such Federal Funds are first available for receipt by such Settling State. In the event that such offset would in any given year exceed such Original Participating Manufacturer's share of such Allocated Payment: (1) the offset to which such Original Participating Manufacturer is entitled under this section in such year shall be the full amount of such Original Participating Manufacturer's share of such Allocated Payment, and (2) all amounts not offset by reason of subsection (1) shall carry forward and be offset in the following year(s) until all such amounts have been offset.

(b) The offset described in subsection (a) shall apply only to that portion of Federal Funds, if any, that are either unrestricted as to their use, or restricted to any form of health care or to any use related to tobacco (including, but not limited to, tobacco education, cessation, control or enforcement) (other than that portion of Federal Funds, if any, that is specifically applicable to tobacco growers or communities dependent on the production of tobacco or Tobacco Products). Provided, however, that the offset described in subsection (a) shall not apply to that portion of Federal Funds, if any, whose receipt by such Settling State is conditioned upon or appropriately allocable to:

(1) the relinquishment of rights or benefits under this Agreement (including the Consent Decree); or

(2) actions or expenditures by such Settling State, unless:

(A) such Settling State chooses to undertake such action or expenditure;

(B) such actions or expenditures do not impose significant constraints on public policy choices; or

(C) such actions or expenditures are both: (i) related to health care or tobacco (including, but not limited to, tobacco education, cessation, control or enforcement) and (ii) do not require such Settling State to expend state matching funds in an amount that is significant in relation to the amount of the Federal Funds made available to such Settling State.

(c) Subject to the provisions of subsection IX(i)(3), Subsequent Participating Manufacturers shall be entitled to the offset described in this section X to the extent that they are required to pay Federal Funds that would give rise to an offset under subsections (a) and (b) if paid by an Original Participating Manufacturer.

(d) Nothing in this section X shall (1) reduce the payments to be made to the Settling States under this Agreement other than those described in subsection IX(c) (or corresponding payments under subsection IX(i)) of this Agreement; or (2) alter the Allocable Share used to determine each Settling State's share of the payments described in subsection IX(c) (or corresponding payments under subsection IX(i)) of this Agreement. Nothing in this section X is intended to or shall reduce the total amounts payable by the Participating Manufacturers to the Settling States under this Agreement by an amount greater than the amount of Federal Funds that the Settling States could elect to receive.

XI. CALCULATION AND DISBURSEMENT OF PAYMENTS

(a) Independent Auditor to Make All Calculations.

(1) Beginning with payments due in the year 2000, an Independent Auditor shall calculate and determine the amount of all payments owed pursuant to this Agreement, the adjustments, reductions and offsets thereto (and all resulting carry-forwards, if any), the allocation of such payments, adjustments, reductions, offsets and carry-forwards among the Participating Manufacturers and among the Settling States, and shall perform all other calculations in connection with the foregoing (including, but not limited to, determining Market Share, Relative Market Share, Base Aggregate Participating Manufacturer Market Share and Actual Aggregate Participating Manufacturer Market Share). The Independent Auditor shall promptly collect all information necessary to make such calculations and determinations. Each Participating Manufacturer and each Settling State shall provide the Independent Auditor, as promptly as practicable, with information in its possession or readily available to it necessary for the Independent Auditor to perform such calculations. The Independent Auditor shall agree to maintain the confidentiality of all such information, except that the Independent Auditor may provide such information to Participating Manufacturers and the Settling States as set forth in this Agreement. The Participating Manufacturers and the Settling States agree to maintain the confidentiality of such information.

(2) Payments due from the Original Participating Manufacturers prior to January 1, 2000 (other than the first payment due pursuant to subsection IX(b)) shall be based on the 1998 Relative Market Shares of the Original Participating Manufacturers or, if the Original Participating Manufacturers are unable to agree on such Relative Market Shares, on their 1997 Relative Market Shares specified in Exhibit Q.

(b) Identity of Independent Auditor. The Independent Auditor shall be a major, nationally recognized, certified public accounting firm jointly selected by agreement of the Original Participating Manufacturers and those Attorneys General of the Settling States who are members of the NAAG executive committee, who shall jointly retain the power to replace the Independent Auditor and appoint its successor. Fifty percent of the costs and fees of the Independent Auditor (but in no event more than $500,000 per annum), shall be paid by the Fund described in Exhibit J hereto, and the balance of such costs and fees shall be paid by the Original Participating Manufacturers, allocated among them according to their Relative Market Shares. The agreement retaining the Independent Auditor shall provide that the Independent Auditor shall perform the functions specified for it in this Agreement, and that it shall do so in the manner specified in this Agreement.

(c) Resolution of Disputes. Any dispute, controversy or claim arising out of or relating to calculations performed by, or any determinations made by, the Independent Auditor (including, without limitation, any dispute concerning the operation or application of any of the adjustments, reductions, offsets, carry-forwards and allocations described in subsection IX(j) or subsection XI(i)) shall be submitted to binding arbitration before a panel of three neutral arbitrators, each of whom shall be a former Article III federal judge. Each of the two sides to the dispute shall select one arbitrator. The two arbitrators so selected shall select the third arbitrator. The arbitration shall be governed by the United States Federal Arbitration Act.

(d) General Provisions as to Calculation of Payments.

(1) Not less than 90 days prior to the scheduled due date of any payment due pursuant to this Agreement ("Payment Due Date"), the Independent Auditor shall deliver to each other Notice Party a detailed itemization of all information required by the Independent Auditor to complete its calculation of (A) the amount due from each Participating Manufacturer with respect to such payment, and (B) the portion of such amount allocable to each entity for whose benefit such payment is to be made. To the extent practicable, the Independent Auditor shall specify in such itemization which Notice Party is requested to produce which information. Each Participating Manufacturer and each Settling State shall use its best efforts to promptly supply all of the required information that is within its possession or is readily available to it to the Independent Auditor, and in any event not less than 50 days prior to such Payment Due Date. Such best efforts obligation shall be continuing in the case of information that comes within the possession of, or becomes readily available to, any Settling State or Participating Manufacturer after the date 50 days prior to such Payment Due Date.

(2) Not less than 40 days prior to the Payment Due Date, the Independent Auditor shall deliver to each other Notice Party (A) detailed preliminary calculations ("Preliminary Calculations") of the amount due from each Participating Manufacturer and of the amount allocable to each entity for whose benefit such payment is to be made, showing all applicable offsets, adjustments, reductions and carry-forwards and setting forth all the information on which the Independent Auditor relied in preparing such Preliminary Calculations, and (B) a statement of any information still required by the Independent Auditor to complete its calculations.

(3) Not less than 30 days prior to the Payment Due Date, any Participating Manufacturer or any Settling State that disputes any aspect of the Preliminary Calculations (including, but not limited to, disputing the methodology that the Independent Auditor employed, or the information on which the Independent Auditor relied, in preparing such calculations) shall notify each other Notice Party of such dispute, including the reasons and basis therefor.

(4) Not less than 15 days prior to the Payment Due Date, the Independent Auditor shall deliver to each other Notice Party a detailed recalculation (a "Final Calculation") of the amount due from each Participating Manufacturer, the amount allocable to each entity for whose benefit such payment is to be made, and the Account to which such payment is to be credited, explaining any changes from the Preliminary Calculation. The Final Calculation may include estimates of amounts in the circumstances described in subsection (d)(5).

(5) The following provisions shall govern in the event that the information required by the Independent Auditor to complete its calculations is not in its possession by the date as of which the Independent Auditor is required to provide either a Preliminary Calculation or a Final Calculation.

(A) If the information in question is not readily available to any Settling State, any Original Participating Manufacturer or any Subsequent Participating Manufacturer, the Independent Auditor shall employ an assumption as to the missing information producing the minimum amount that is likely to be due with respect to the payment in question, and shall set forth its assumption as to the missing information in its Preliminary Calculation or Final Calculation, whichever is at issue. Any Original Participating Manufacturer, Subsequent Participating Manufacturer or Settling State may dispute any such assumption employed by the Independent Auditor in its Preliminary Calculation in the manner prescribed in subsection (d)(3) or any such assumption employed by the Independent Auditor in its Final Calculation in the manner prescribed in subsection (d)(6). If the missing information becomes available to the Independent Auditor prior to the Payment Due Date, the Independent Auditor shall promptly revise its Preliminary Calculation or Final Calculation (whichever is applicable) and shall promptly provide the revised calculation to each Notice Party, showing the newly available information. If the missing information does not become available to the Independent Auditor prior to the Payment Due Date, the minimum amount calculated by the Independent Auditor pursuant to this subsection (A) shall be paid on the Payment Due Date, subject to disputes pursuant to subsections (d)(6) and (d)(8) and without prejudice to a later final determination of the correct amount. If the missing information becomes available to the Independent Auditor after the Payment Due Date, the Independent Auditor shall calculate the correct amount of the payment in question and shall apply any overpayment or underpayment as an offset or additional payment in the manner described in subsection (i).

(B) If the information in question is readily available to a Settling State, Original Participating Manufacturer or Subsequent Participating Manufacturer, but such Settling State, Original Participating Manufacturer or Subsequent Participating Manufacturer does not supply such information to the Independent Auditor, the Independent Auditor shall base the calculation in question on its best estimate of such information, and shall show such estimate in its Preliminary Calculation or Final Calculation, whichever is applicable. Any Original Participating Manufacturer, Subsequent Participating Manufacturer or Settling State (except the entity that withheld the information) may dispute such estimate employed by the Independent Auditor in its Preliminary Calculation in the manner prescribed in subsection (d)(3) or such estimate employed by the Independent Auditor in its Final Calculation in the manner prescribed in subsection (d)(6). If the withheld information is not made available to the Independent Auditor more than 30 days prior to the Payment Due Date, the estimate employed by the Independent Auditor (as revised by the Independent Auditor in light of any dispute filed pursuant to the preceding sentence) shall govern the amounts to be paid on the Payment Due Date, subject to disputes pursuant to subsection (d)(6) and without prejudice to a later final determination of the correct amount. In the event that the withheld information subsequently becomes available, the Independent Auditor shall calculate the correct amount and shall apply any overpayment or underpayment as an offset or additional payment in the manner described in subsection (i).

(6) Not less than five days prior to the Payment Due Date, each Participating Manufacturer and each Settling State shall deliver to each Notice Party a statement indicating whether it disputes the Independent Auditor's Final Calculation and, if so, the disputed and undisputed amounts and the basis for the dispute. Except to the extent a Participating Manufacturer or a Settling State delivers a statement indicating the existence of a dispute by such date, the amounts set forth in the Independent Auditor's Final Calculation shall be paid on the Payment Due Date. Provided, however, that (A) in the event that the Independent Auditor revises its Final Calculation within five days of the Payment Due Date as provided in subsection (5)(A) due to receipt of previously missing information, a Participating Manufacturer or Settling State may dispute such revision pursuant to the procedure set forth in this subsection (6) at any time prior to the Payment Due Date; and (B) prior to the date four years after the Payment Due Date, neither failure to dispute a calculation made by the Independent Auditor nor actual agreement with any calculation or payment to the Escrow Agent or to another payee shall waive any Participating Manufacturer's or Settling State's rights to dispute any payment (or the Independent Auditor's calculations with respect to any payment) after the Payment Due Date. No Participating Manufacturer and no Settling State shall have a right to raise any dispute with respect to any payment or calculation after the date four years after such payment's Payment Due Date.

(7) Each Participating Manufacturer shall be obligated to pay by the Payment Due Date the undisputed portion of the total amount calculated as due from it by the Independent Auditor's Final Calculation. Failure to pay such portion shall render the Participating Manufacturer liable for interest thereon as provided in subsection IX(h) of this Agreement, in addition to any other remedy available under this Agreement.

(8) As to any disputed portion of the total amount calculated to be due pursuant to the Final Calculation, any Participating Manufacturer that by the Payment Due Date pays such disputed portion into the Disputed Payments Account (as defined in the Escrow Agreement) shall not be liable for interest thereon even if the amount disputed was in fact properly due and owing. Any Participating Manufacturer that by the Payment Due Date does not pay such disputed portion into the Disputed Payments Account shall be liable for interest as provided in subsection IX(h) if the amount disputed was in fact properly due and owing.

(9) On the same date that it makes any payment pursuant to this Agreement, each Participating Manufacturer shall deliver a notice to each other Notice Party showing the amount of such payment and the Account to which such payment is to be credited.

(10) On the first Business Day after the Payment Due Date, the Escrow Agent shall deliver to each other Notice Party a statement showing the amounts received by it from each Participating Manufacturer and the Accounts credited with such amounts.

(e) General Treatment of Payments. The Escrow Agent may disburse amounts from an Account only if permitted, and only at such time as permitted, by this Agreement and the Escrow Agreement. No amounts may be disbursed to a Settling State other than funds credited to such Settling State's State-Specific Account (as defined in the Escrow Agreement). The Independent Auditor, in delivering payment instructions to the Escrow Agent, shall specify: the amount to be paid; the Account or Accounts from which such payment is to be disbursed; the payee of such payment (which may be an Account); and the Business Day on which such payment is to be made by the Escrow Agent. Except as expressly provided in subsection (f) below, in no event may any amount be disbursed from any Account prior to Final Approval.

(f) Disbursements and Charges Not Contingent on Final Approval. Funds may be disbursed from Accounts without regard to the occurrence of Final Approval in the following circumstances and in the following manner:

(1) Payments of Federal and State Taxes. Federal, state, local or other taxes imposed with respect to the amounts credited to the Accounts shall be paid from such amounts. The Independent Auditor shall prepare and file any tax returns required to be filed with respect to the escrow. All taxes required to be paid shall be allocated to and charged against the Accounts on a reasonable basis to be determined by the Independent Auditor. Upon receipt of written instructions from the Independent Auditor, the Escrow Agent shall pay such taxes and charge such payments against the Account or Accounts specified in those instructions.

(2) Payments to and from Disputed Payments Account. The Independent Auditor shall instruct the Escrow Agent to credit funds from an Account to the Disputed Payments Account when a dispute arises as to such funds, and shall instruct the Escrow Agent to credit funds from the Disputed Payments Account to the appropriate payee when such dispute is resolved with finality. The Independent Auditor shall provide the Notice Parties not less than 10 Business Days prior notice before instructing the Escrow Agent to disburse funds from the Disputed Payments Account.

(3) Payments to a State-Specific Account. Promptly following the occurrence of State-Specific Finality in any Settling State, such Settling State and the Original Participating Manufacturers shall notify the Independent Auditor of such occurrence. The Independent Auditor shall promptly thereafter notify each Notice Party of such State-Specific Finality and of the portions of the amounts in the Subsection IX(b) Account (First), Subsection IX(b) Account (Subsequent), Subsection IX(c)(1) Account and Subsection IX(c)(2) Account, respectively (as such Accounts are defined in the Escrow Agreement), that are at such time held in such Accounts for the benefit of such Settling State, and which are to be transferred to the appropriate State-Specific Account for such Settling State. If neither the Settling State in question nor any Participating Manufacturer disputes such amounts or the occurrence of such State-Specific Finality by notice delivered to each other Notice Party not later than 10 Business Days after delivery by the Independent Auditor of the notice described in the preceding sentence, the Independent Auditor shall promptly instruct the Escrow Agent to make such transfer. If the Settling State in question or any Participating Manufacturer disputes such amounts or the occurrence of such State-Specific Finality by notice delivered to each other Notice Party not later than 10 Business Days after delivery by the Independent Auditor of the notice described in the second sentence of this subsection (f)(3), the Independent Auditor shall promptly instruct the Escrow Agent to credit the amount disputed to the Disputed Payments Account and the undisputed portion to the appropriate State-Specific Account. No amounts may be transferred or credited to a State-Specific Account for the benefit of any State as to which State-Specific Finality has not occurred or as to which this Agreement has terminated.

(4) Payments to Parties other than Particular Settling States.

(A) Promptly following the occurrence of State-Specific Finality in one Settling State, such Settling State and the Original Participating Manufacturers shall notify the Independent Auditor of such occurrence. The Independent Auditor shall promptly thereafter notify each Notice Party of the occurrence of State-Specific Finality in at least one Settling State and of the amounts held in the Subsection VI(b) Account, Subsection VI(c) Account (First), and Subsection VIII(c) Account (as such Accounts are defined in the Escrow Agreement), if any. If neither any of the Settling States nor any of the Participating Manufacturers disputes such amounts or disputes the occurrence of State-Specific Finality in one Settling State, by notice delivered to each Notice Party not later than ten Business Days after delivery by the Independent Auditor of the notice described in the preceding sentence, the Independent Auditor shall promptly instruct the Escrow Agent to disburse the funds held in such Accounts to the Foundation or to the Fund specified in subsection VIII(c), as appropriate. If any Settling State or Participating Manufacturer disputes such amounts or the occurrence of such State-Specific Finality by notice delivered to each other Notice Party not later than 10 Business Days after delivery by the

Independent Auditor of the notice described in the second sentence of this subsection (4)(A), the Independent Auditor shall promptly instruct the Escrow Agent to credit the amounts disputed to the Disputed Payments Account and to disburse the undisputed portion to the Foundation or to the Fund specified in subsection VIII(c), as appropriate.

(B) The Independent Auditor shall instruct the Escrow Agent to disburse funds on deposit in the Subsection VIII(b) Account and Subsection IX(e) Account (as such Accounts are defined in the Escrow Agreement) to NAAG or to the Foundation, as appropriate, within 10 Business Days after the date on which such amounts were credited to such Accounts.

(C) Promptly following the occurrence of State-Specific Finality in Settling States having aggregate Allocable Shares equal to at least 80% of the total aggregate Allocable Shares assigned to all States that were Settling States as of the MSA Execution Date, the Settling States and the Original Participating Manufacturers shall notify the Independent Auditor of such occurrence. The Independent Auditor shall promptly thereafter notify each Notice Party of the occurrence of such State-Specific Finality and of the amounts held in the Subsection VI(c) Account (Subsequent) (as such Account is defined in the Escrow Agreement), if any. If neither any of the Settling States nor any of the Participating Manufacturers disputes such amounts or disputes the occurrence of such State-Specific Finality, by notice delivered to each Notice Party not later than 10 Business Days after delivery by the Independent Auditor of the notice described in the preceding sentence, the Independent Auditor shall promptly instruct the Escrow Agent to disburse the funds held in such Account to the Foundation. If any Settling State or Participating Manufacturer disputes such amounts or the occurrence of such State-Specific Finality by notice delivered to each other Notice Party not later than 10 Business Days after delivery by the Independent Auditor of the notice described in the second sentence of this subsection (4)(C), the Independent Auditor shall promptly instruct the Escrow Agent to credit the amounts disputed to the Disputed Payments Account and to disburse the undisputed portion to the Foundation.

(5) Treatment of Payments Following Termination.

(A) As to amounts held for Settling States. Promptly upon the termination of this Agreement with respect to any Settling State (whether or not as part of the termination of this Agreement as to all Settling States) such State or any Participating Manufacturer shall notify the Independent Auditor of such occurrence. The Independent Auditor shall promptly thereafter notify each Notice Party of such termination and of the amounts held in the Subsection IX(b) Account (First), the Subsection IX(b) Account (Subsequent), the Subsection IX(c)(1) Account, the Subsection IX(c)(2) Account, and the State-Specific Account for the benefit of such Settling State. If neither the State in question nor any Participating Manufacturer disputes such amounts or the occurrence of such termination by notice delivered to each other Notice Party not later than 10 Business Days after delivery by the Independent Auditor of the notice described in the preceding sentence, the Independent Auditor shall promptly instruct the Escrow Agent to transfer such amounts to the Participating Manufacturers (on the basis of their respective contributions of such funds). If the State in question or any Participating Manufacturer disputes the amounts held in the Accounts or the occurrence of such termination by notice delivered to each other Notice Party not later than 10 Business Days after delivery by the Independent Auditor of the notice described in the second sentence of this subsection (5)(A), the Independent Auditor shall promptly instruct the Escrow Agent to transfer the amount disputed to the Disputed Payments Account and the undisputed portion to the Participating Manufacturers (on the basis of their respective contributions of such funds).

(B) As to amounts held for others. If this Agreement is terminated with respect to all of the Settling States, the Original Participating Manufacturers shall promptly notify the Independent Auditor of such occurrence. The Independent Auditor shall promptly thereafter notify each Notice Party of such termination and of the amounts held in the Subsection VI(b) Account, the Subsection VI(c) Account (First), the Subsection VIII(b) Account, the Subsection VIII(c) Account and the Subsection IX(e) Account. If neither any such State nor any Participating Manufacturer disputes such amounts or the occurrence of such termination by notice delivered to each other Notice Party not later than 10 Business Days after delivery by the Independent Auditor of the notice described in the preceding sentence, the Independent Auditor shall promptly instruct the Escrow Agent to transfer such amounts to the Participating Manufacturers (on the basis of their respective contributions of such funds). If any such State or any Participating Manufacturer disputes the amounts held in the Accounts or the occurrence of such termination by notice delivered to each other Notice Party not later than 10 Business Days after delivery by the Independent Auditor of the notice described in the second sentence of this subsection (5)(B), the Independent Auditor shall promptly instruct the Escrow Agent to credit the amount disputed to the Disputed Payments Account and transfer the undisputed portion to the Participating Manufacturers (on the basis of their respective contribution of such funds).

(C) As to amounts held in the Subsection VI(c) Account (Subsequent). If this Agreement is terminated with respect to Settling States having aggregate Allocable Shares equal to more than 20% of the total aggregate Allocable Shares assigned to those States that were Settling States as of the MSA Execution Date, the Original Participating Manufacturers shall promptly notify the Independent Auditor of such occurrence. The Independent Auditor shall promptly thereafter notify each Notice Party of such termination and of the amounts held in the Subsection VI(c) Account (Subsequent) (as defined in the Escrow Agreement). If neither any such State with respect to which this Agreement has terminated nor any Participating Manufacturer disputes such amounts or the occurrence of such termination by notice delivered to each other Notice Party not later than 10 Business Days after delivery by the Independent Auditor of the notice described in the preceding sentence, the Independent Auditor shall promptly instruct the Escrow Agent to transfer such amounts to the Participating Manufacturers (on the basis of their respective contributions of such funds). If any such State or

any Participating Manufacturer disputes the amounts held in the Account or the occurrence of such termination by notice delivered to each other Notice Party not later than 10 Business Days after delivery by the Independent Auditor of the notice described in the second sentence of this subsection (5)(C), the Independent Auditor shall promptly instruct the Escrow Agent to credit the amount disputed to the Disputed Payments Account and transfer the undisputed portion to the Participating Manufacturers (on the basis of their respective contribution of such funds).

(6) Determination of amounts paid or held for the benefit of each individual Settling State. For purposes of subsections (f)(3), (f)(5)(A) and (i)(2), the portion of a payment that is made or held for the benefit of each individual Settling State shall be determined: (A) in the case of a payment credited to the Subsection IX(b) Account (First) or the Subsection IX(b) Account (Subsequent), by allocating the results of clause "Eighth" of subsection IX(j) among those Settling States who were Settling States at the time that the amount of such payment was calculated, pro rata in proportion to their respective Allocable Shares; and (B) in the case of a payment credited to the Subsection IX(c)(1) Account or the Subsection IX(c)(2) Account, by the results of clause "Twelfth" of subsection IX(j) for each individual Settling State. Provided, however, that, solely for purposes of subsection (f)(3), the Settling States may by unanimous agreement agree on a different method of allocation of amounts held in the Accounts identified in this subsection (f)(6).

(g) Payments to be Made Only After Final Approval. Promptly following the occurrence of Final Approval, the Settling States and the Original Participating Manufacturers shall notify the Independent Auditor of such occurrence. The Independent Auditor shall promptly thereafter notify each Notice Party of the occurrence of Final Approval and of the amounts held in the State-Specific Accounts. If neither any of the Settling States nor any of the Participating Manufacturers disputes such amounts, disputes the occurrence of Final Approval or claims that this Agreement has terminated as to any Settling State for whose benefit the funds are held in a State-Specific Account, by notice delivered to each Notice Party not later than 10 Business Days after delivery by the Independent Auditor of such notice of Final Approval, the Independent Auditor shall promptly instruct the Escrow Agent to disburse the funds held in the State-Specific Accounts to (or as directed by) the respective Settling States. If any Notice Party disputes such amounts or the occurrence of Final Approval, or claims that this Agreement has terminated as to any Settling State for whose benefit the funds are held in a State-Specific Account, by notice delivered to each other Notice Party not later than 10 Business Days after delivery by the Independent Auditor of such notice of Final Approval, the Independent Auditor shall promptly instruct the Escrow Agent to credit the amounts disputed to the Disputed Payments Account and to disburse the undisputed portion to (or as directed by) the respective Settling States.

(h) Applicability to Section XVII Payments. This section XI shall not be applicable to payments made pursuant to section XVII; provided, however, that the Independent Auditor shall be responsible for calculating Relative Market Shares in connection with such payments, and the Independent Auditor shall promptly provide the results of such calculation to any Original Participating Manufacturer or Settling State that requests it do so.

(i) Miscalculated or Disputed Payments.

(1) Underpayments.

(A) If information becomes available to the Independent Auditor not later than four years after a Payment Due Date, and such information shows that any Participating Manufacturer was instructed to make an insufficient payment on such date ("original payment"), the Independent Auditor shall promptly determine the additional payment owed by such Participating Manufacturer and the allocation of such additional payment among the applicable payees. The Independent Auditor shall then reduce such additional payment (up to the full amount of such additional payment) by any adjustments or offsets that were available to the Participating Manufacturer in question against the original payment at the time it was made (and have not since been used) but which such Participating Manufacturer was unable to use against such original payment because such adjustments or offsets were in excess of such original payment (provided that any adjustments or offsets used against such additional payment shall reduce on a dollar-for-dollar basis any remaining carry-forward held by such Participating Manufacturer with respect to such adjustment or offset). The Independent Auditor shall then add interest at the Prime Rate (calculated from the Payment Due Date in question) to the additional payment (as reduced pursuant to the preceding sentence), except that where the additional payment owed by a Participating Manufacturer is the result of an underpayment by such Participating Manufacturer caused by such Participating Manufacturer's withholding of information as described in subsection (d)(5)(B), the applicable interest rate shall be that described in subsection IX(h). The Independent Auditor shall promptly give notice of the additional payment owed by the Participating Manufacturer in question (as reduced and/or increased as described above) to all Notice Parties, showing the new information and all calculations. Upon receipt of such notice, any Participating Manufacturer or Settling State may dispute the Independent Auditor's calculations in the manner described in subsection (d)(3), and the Independent Auditor shall promptly notify each Notice Party of any subsequent revisions to its calculations. Not more than 15 days after receipt of such notice (or, if the Independent Auditor revises its calculations, not more than 15 days after receipt of the revisions), any Participating Manufacturer and any Settling State may dispute the Independent Auditor's calculations in the manner prescribed in subsection (d)(6). Failure to dispute the Independent Auditor's calculations in this manner shall constitute agreement with the Independent Auditor's calculations, subject to the limitations set forth in subsection (d)(6). Payment of the undisputed portion of an additional payment shall be made to the Escrow Agent not more than 20 days after receipt of the notice described in this subsection (A) (or, if the Independent Auditor revises its calculations, not more than 20 days after receipt of the revisions). Failure to pay such portion shall render the Participating Manufacturer liable for interest thereon as provided in subsection IX(h). Payment of the disputed portion shall be governed by subsection (d)(8).

(B) To the extent a dispute as to a prior payment is resolved with finality against a Participating Manufacturer: (i) in the case where the disputed amount has been paid into the Disputed Payments Account pursuant to subsection (d)(8), the Independent Auditor shall instruct the Escrow Agent to transfer such amount to the applicable payee Account(s); (ii) in the case where the disputed amount has not been paid into the Disputed Payments Account and the dispute was identified prior to the Payment Due Date in question by delivery of a statement pursuant to subsection (d)(6) identifying such dispute, the Independent Auditor shall calculate interest on the disputed amount from the Payment Due Date in question (the applicable interest rate to be that provided in subsection IX(h)) and the allocation of such amount and interest among the applicable payees, and shall provide notice of the amount owed (and the identity of the payor and payees) to all Notice Parties; and (iii) in all other cases, the procedure described in subsection (ii) shall apply, except that the applicable interest rate shall be the Prime Rate.

(2) Overpayments.

(A) If a dispute as to a prior payment is resolved with finality in favor of a Participating Manufacturer where the disputed amount has been paid into the Disputed Payments Account pursuant to subsection (d)(8), the Independent Auditor shall instruct the Escrow Agent to transfer such amount to such Participating Manufacturer.

(B) If information becomes available to the Independent Auditor not later than four years after a Payment Due Date showing that a Participating Manufacturer made an overpayment on such date, or if a dispute as to a prior payment is resolved with finality in favor of a Participating Manufacturer where the disputed amount has been paid but not into the Disputed Payments Account, such Participating Manufacturer shall be entitled to a continuing dollar-for-dollar offset as follows:

(i) offsets under this subsection (B) shall be applied only against eligible payments to be made by such Participating Manufacturer after the entitlement to the offset arises. The eligible payments shall be: in the case of offsets arising from payments under subsection IX(b) or IX(c)(1), subsequent payments under any of such subsections; in the case of offsets arising from payments under subsection IX(c)(2), subsequent payments under such subsection or, if no subsequent payments are to be made under such subsection, subsequent payments under subsection IX(c)(1); in the case of offsets arising from payments under subsection IX(e), subsequent payments under such subsection or subsection IX(c); in the case of offsets arising from payments under subsection VI(c), subsequent payments under such subsection or, if no subsequent payments are to be made under such subsection, subsequent payments under any of subsection IX(c)(1), IX(c)(2) or IX(e); in the case of offsets arising from payments under subsection VIII(b), subsequent payments under such subsection or, if no subsequent payments are to be made under such subsection, subsequent payments under either subsection IX(c)(1) or IX(c)(2); in the case of offsets arising from payments under subsection VIII(c), subsequent payments under either subsection IX(c)(1) or IX(c)(2); and, in the case of offsets arising from payments under subsection IX(i), subsequent payments under such subsection (consistent with the provisions of this subsection (B)(i)).

(ii) in the case of offsets to be applied against payments under subsection IX(c), the offset to be applied shall be apportioned among the Settling States pro rata in proportion to their respective shares of such payments, as such respective shares are determined pursuant to step E of clause "Seventh" (in the case of payments due from the Original Participating Manufacturers) or clause "Sixth" (in the case of payments due from the Subsequent Participating Manufacturers) of subsection IX(j) (except where the offset arises from an overpayment applicable solely to a particular Settling State).

(iii) the total amount of the offset to which a Participating Manufacturer shall be entitled shall be the full amount of the overpayment it made, together with interest calculated from the time of the overpayment to the Payment Due Date of the first eligible payment against which the offset may be applied. The applicable interest rate shall be the Prime Rate (except that, where the overpayment is the result of a Settling State's withholding of information as described in subsection (d)(5)(B), the applicable interest rate shall be that described in subsection IX(h)).

(iv) an offset under this subsection (B) shall be applied up to the full amount of the Participating Manufacturer's share (in the case of payments due from Original Participating Manufacturers, determined as described in the first sentence of clause "Seventh" of subsection IX(j) (or, in the case of payments pursuant to subsection IX(c), step D of such clause)) of the eligible payment in question, as such payment has been adjusted and reduced pursuant to clauses "First" through "Sixth" of subsection IX(j), to the extent each such clause is applicable to the payment in question. In the event that the offset to which a Participating Manufacturer is entitled under this subsection (B) would exceed such Participating Manufacturer's share of the eligible payment against which it is being applied (or, in the case where such offset arises from an overpayment applicable solely to a particular Settling State, the portion of such payment that is made for the benefit of such Settling State), the offset shall be the full amount of such Participating Manufacturer's share of such payment and all amounts not offset shall carry forward and be offset against subsequent eligible payments until all such amounts have been offset.

(j) Payments After Applicable Condition. To the extent that a payment is made after the occurrence of all applicable conditions for the disbursement of such payment to the payee(s) in question, the Independent Auditor shall instruct the Escrow Agent to disburse such payment promptly following its deposit.

A-18

XII. SETTLING STATES' RELEASE, DISCHARGE AND COVENANT

(a) Release.

(1) Upon the occurrence of State-Specific Finality in a Settling State, such Settling State shall absolutely and unconditionally release and forever discharge all Released Parties from all Released Claims that the Releasing Parties directly, indirectly, derivatively or in any other capacity ever had, now have, or hereafter can, shall or may have.

(2) Notwithstanding the foregoing, this release and discharge shall not apply to any defendant in a lawsuit settled pursuant to this Agreement (other than a Participating Manufacturer) unless and until such defendant releases the Releasing Parties (and delivers to the Attorney General of the applicable Settling State a copy of such release) from any and all Claims of such defendant relating to the prosecution of such lawsuit.

(3) Each Settling State (for itself and for the Releasing Parties) further covenants and agrees that it (and the Releasing Parties) shall not after the occurrence of State-Specific Finality sue or seek to establish civil liability against any Released Party based, in whole or in part, upon any of the Released Claims, and further agrees that such covenant and agreement shall be a complete defense to any such civil action or proceeding.

(4) (A) Each Settling State (for itself and for the Releasing Parties) further agrees that, if a Released Claim by a Releasing Party against any person or entity that is not a Released Party (a "non-Released Party") results in or in any way gives rise to a claim-over (on any theory whatever other than a claim based on an express written indemnity agreement) by such non-Released Party against any Released Party (and such Released Party gives notice to the applicable Settling State within 30 days of the service of such claim-over (or within 30 days after the MSA Execution Date, whichever is later) and prior to entry into any settlement of such claim-over), the Releasing Party: (i) shall reduce or credit against any judgment or settlement such Releasing Party may obtain against such non-Released Party the full amount of any judgment or settlement such non-Released Party may obtain against the Released Party on such claim-over; and (ii) shall, as part of any settlement with such non-Released Party, obtain from such non-Released Party for the benefit of such Released Party a satisfaction in full of such non-Released Party's judgment or settlement against the Released Party.

(B) Each Settling State further agrees that in the event that the provisions of subsection (4)(A) do not fully eliminate any and all liability of any Original Participating Manufacturer (or of any person or entity that is a Released Party by virtue of its relation to any Original Participating Manufacturer) with respect to claims-over (on any theory whatever other than a claim based on an express written indemnity agreement) by any non-Released Party to recover in whole or in part any liability (whether direct or indirect, or whether by way of settlement (to the extent that such Released Party has given notice to the applicable Settling State within 30 days of the service of such claim-over (or within 30 days after the MSA Execution Date, whichever is later) and prior to entry into any settlement of such claim-over), judgment or otherwise) of such non-Released Party to any Releasing Party arising out of any Released Claim, such Original Participating Manufacturer shall receive a continuing dollar-for-dollar offset for any amounts paid by such Original Participating Manufacturer (or by any person or entity that is a Released Party by virtue of its relation to such Original Participating Manufacturer) on any such liability against such Original Participating Manufacturer's share (determined as described in step E of clause "Seventh" of subsection IX(j)) of the applicable Settling State's Allocated Payment, up to the full amount of such Original Participating Manufacturer's share of such Allocated Payment each year, until all such amounts paid on such liability have been offset. In the event that the offset under this subsection (4) with respect to a particular Settling State would in any given year exceed such Original Participating Manufacturer's share of such Settling State's Allocated Payment (as such share had been reduced by adjustment, if any, pursuant to the NPM Adjustment, and has been reduced by offsets, if any, pursuant to the offset for miscalculated or disputed payments, the Federal Tobacco Legislation Offset and the Litigating Releasing Parties Offset): (i) the offset to which such Original Participating Manufacturer is entitled under this subsection in such year shall be the full amount of such Original Participating Manufacturer's share of such Allocated Payment; and (ii) all amounts not offset by reason of subsection (i) shall carry forward and be offset in the following year(s) until all such amounts have been offset.

(C) Each Settling State further agrees that, subject to the provisions of section IX(i)(3), each Subsequent Participating Manufacturer shall be entitled to the offset described in subsection (B) above to the extent that it (or any person or entity that is a Released Party by virtue of its relationship with such Subsequent Participating Manufacturer) has paid on liability that would give rise to an offset under such subsection if paid by an Original Participating Manufacturer.

(5) This release and covenant shall not operate to interfere with a Settling State's ability to enforce as against any Participating Manufacturer the provisions of this Agreement, or with the Court's ability to enter the Consent Decree or to maintain continuing jurisdiction to enforce such Consent Decree pursuant to the terms thereof. Provided, however, that neither subsection III(a) or III(r) of this Agreement nor subsection V(A) or V(I) of the Consent Decree shall create a right to challenge the continuation, after the MSA Execution Date, of any advertising content, claim or slogan (other than use of a Cartoon) that was not unlawful prior to the MSA Execution Date.

(6) The Settling States do not purport to waive or release any claims on behalf of Indian tribes.

(7) The Settling States do not waive or release any criminal liability based on federal, state or local law.

(8) Notwithstanding the foregoing (and the definition of Released Parties), this release and covenant shall not apply to retailers, suppliers or distributors to the extent of any liability arising from the sale or distribution of Tobacco Products of, or the supply of component parts of Tobacco Products to, any non-Released Party.

(A) Each Settling State (for itself and for the Releasing Parties) agrees that, if a claim by a Releasing Party against a retailer, supplier or distributor that would be a Released Claim but for the operation of the preceding sentence results in or in any way gives rise to a claim-over (on any theory whatever) by such retailer, supplier or distributor against any Released Party (and such Released Party gives notice to the applicable Settling State within 30 days of the service of such claim-over (or within 30 days after the MSA Execution Date, whichever is later) and prior to entry into any settlement of such claim-over), the Releasing Party: (i) shall reduce or credit against any judgment or settlement such Releasing Party may obtain against such retailer, supplier or distributor the full amount of any judgment or settlement such retailer, supplier or distributor may obtain against the Released Party on such claim-over; and (ii) shall, as part of any settlement with such retailer, supplier or distributor, obtain from such retailer, supplier or distributor for the benefit of such Released Party a satisfaction in full of such retailer's, supplier's or distributor's judgment or settlement against the Released Party.

(B) Each Settling State further agrees that in the event that the provisions of subsection (8)(A) above do not fully eliminate any and all liability of any Original Participating Manufacturer (or any person or entity that is a Released Party by virtue of its relationship to an Original Participating Manufacturer) with respect to claims-over (on any theory whatever) by any such retailer, supplier or distributor to recover in whole or in part any liability (whether direct or indirect, or whether by way of settlement (to the extent that such Released Party has given notice to the applicable Settling State within 30 days of the service of such claim-over (or within 30 days after the MSA Execution Date, whichever is later) and prior to entry into any settlement of such claim-over), judgment or otherwise) of such retailer, supplier or distributor to any Releasing Party arising out of any claim that would be a Released Claim but for the operation of the first sentence of this subsection (8), such Original Participating Manufacturer shall receive a continuing dollar-for-dollar offset for any amounts paid by such Original Participating Manufacturer (or by any person or entity that is a Released Party by virtue of its relation to such Original Participating Manufacturer) on any such liability against such Original Participating Manufacturer's share (determined as described in step E of clause "Seventh" of subsection IX(j)) of the applicable Settling State's Allocated Payment, up to the full amount of such Original Participating Manufacturer's share of such Allocated Payment each year, until all such amounts paid on such liability have been offset. In the event that the offset under this subsection (8) with respect to a particular Settling State would in any given year exceed such Original Participating Manufacturer's share of such Settling State's Allocated Payment (as such share had been reduced by adjustment, if any, pursuant to the NPM Adjustment, and has been reduced by offsets, if any, pursuant to the offset for miscalculated or disputed payments, the Federal Tobacco Legislation Offset, the Litigating Releasing Parties Offset and the offset for claims-over under subsection XII(a)(4)(B)): (i) the offset to which such Original Participating Manufacturer is entitled under this subsection in such year shall be the full amount of such Original Participating Manufacturer's share of such Allocated Payment; and (ii) all amounts not offset by reason of clause (i) shall carry forward and be offset in the following year(s) until all such amounts have been offset.

(C) Each Settling State further agrees that, subject to the provisions of subsection IX(i)(3), each Subsequent Participating Manufacturer shall be entitled to the offset described in subsection (B) above to the extent that it (or any person or entity that is a Released Party by virtue of its relationship with such Subsequent Participating Manufacturer) has paid on liability that would give rise to an offset under such subsection if paid by an Original Participating Manufacturer.

(9) Notwithstanding any provision of law, statutory or otherwise, which provides that a general release does not extend to claims which the creditor does not know or suspect to exist in its favor at the time of executing the release, which if known by it must have materially affected its settlement with the debtor, the releases set forth in this section XII release all Released Claims against the Released Parties, whether known or unknown, foreseen or unforeseen, suspected or unsuspected, that the Releasing Parties may have against the Released Parties, and the Releasing Parties understand and acknowledge the significance and consequences of waiver of any such provision and hereby assume full responsibility for any injuries, damages or losses that the Releasing Parties may incur.

(b) Released Claims Against Released Parties. If a Releasing Party (or any person or entity enumerated in subsection II(pp), without regard to the power of the Attorney General to release claims of such person or entity) nonetheless attempts to maintain a Released Claim against a Released Party, such Released Party shall give written notice of such potential claim to the Attorney General of the applicable Settling State within 30 days of receiving notice of such potential claim (or within 30 days after the MSA Execution Date, whichever is later) (unless such potential claim is being maintained by such Settling State). The Released Party may offer the release and covenant as a complete defense. If it is determined at any point in such action that the release of such claim is unenforceable or invalid for any reason (including, but not limited to, lack of authority to release such claim), the following provisions shall apply:

(1) The Released Party shall take all ordinary and reasonable measures to defend the action fully. The Released Party may settle or enter into a stipulated judgment with respect to the action at any time in its sole discretion, but in such event the offset described in subsection (b)(2) or (b)(3) below shall apply only if the Released Party obtains the relevant Attorney General's consent to such settlement or stipulated judgment, which consent shall not be unreasonably withheld. The Released Party shall not be entitled to the offset described in subsection (b)(2) or (b)(3) below if such Released Party failed to take ordinary and reasonable measures to defend the action fully.

(2) The following provisions shall apply where the Released Party is an Original Participating Manufacturer (or any person or entity that is a Released Party by virtue of its relationship with an Original Participating Manufacturer):

(A) In the event of a settlement or stipulated judgment, the settlement or stipulated amount shall give rise to a continuing offset as such amount is actually paid against the full amount of such Original Participating Manufacturer's share (determined as described in step E of clause "Seventh" of subsection IX(j)) of the applicable Settling State's Allocated Payment until such time as the settlement or stipulated amount is fully credited on a dollar-for-dollar basis.

(B) Judgments (other than a default judgment) against a Released Party in such an action shall, upon payment of such judgment, give rise to an immediate and continuing offset against the full amount of such Original Participating Manufacturer's share (determined as described in subsection (A)) of the applicable Settling State's Allocated Payment, until such time as the judgment is fully credited on a dollar-for-dollar basis.

(C) Each Settling State reserves the right to intervene in such an action (unless such action was brought by the Settling State) to the extent authorized by applicable law in order to protect the Settling State's interest under this Agreement. Each Participating Manufacturer agrees not to oppose any such intervention.

(D) In the event that the offset under this subsection (b)(2) with respect to a particular Settling State would in any given year exceed such Original Participating Manufacturer's share of such Settling State's Allocated Payment (as such share had been reduced by adjustment, if any, pursuant to the NPM Adjustment, and has been reduced by offsets, if any, pursuant to the Federal Tobacco Legislation Offset and the offset for miscalculated or disputed payments): (i) the offset to which such Original Participating Manufacturer is entitled under this subsection (2) in such year shall be the full amount of such Original Participating Manufacturer's share of such Allocated Payment; and (ii) all amounts not offset by reason of clause (i) shall carry forward and be offset in the following year(s) until all such amounts have been offset.

(3) The following provisions shall apply where the Released Party is a Subsequent Participating Manufacturer (or any person or entity that is a Released Party by virtue of its relationship with a Subsequent Participating Manufacturer): Subject to the provisions of subsection IX(i)(3), each Subsequent Participating Manufacturer shall be entitled to the offset as described in subsections (2)(A)-(C) above against payments it otherwise would owe under section IX(i) to the extent that it (or any person or entity that is a Released Party by virtue of its relationship with such Subsequent Participating Manufacturer) has paid on a settlement, stipulated judgment or judgment that would give rise to an offset under such subsections if paid by an Original Participating Manufacturer.

XIII. CONSENT DECREES AND DISMISSAL OF CLAIMS

(a) Within 10 days after the MSA Execution Date (or, as to any Settling State identified in the Additional States provision of Exhibit D, concurrently with the filing of its lawsuit), each Settling State and each Participating Manufacturer that is a party in any of the lawsuits identified in Exhibit D shall jointly move for a stay of all proceedings in such Settling State's lawsuit with respect to the Participating Manufacturers and all other Released Parties (except any proceeding seeking public disclosure of documents pursuant to subsection IV(b)). Such stay of a Settling State's lawsuit shall be dissolved upon the earlier of the occurrence of State-Specific Finality or termination of this Agreement with respect to such Settling State pursuant to subsection XVIII(u)(1).

(b) Not later than December 11, 1998 (or, as to any Settling State identified in the Additional States provision of Exhibit D, concurrently with the filing of its lawsuit):

(1) each Settling State that is a party to a lawsuit identified in Exhibit D and each Participating Manufacturer will:

(A) tender this Agreement to the Court in such Settling State for its approval; and

(B) tender to the Court in such Settling State for entry a consent decree conforming to the model consent decree attached hereto as Exhibit L (revisions or changes to such model consent decree shall be limited to the extent required by state procedural requirements to reflect accurately the factual setting of the case in question, but shall not include any substantive revision to the duties or obligations of any Settling State or Participating Manufacturer, except by agreement of all Original Participating Manufacturers); and

(2) each Settling State shall seek entry of an order of dismissal of claims dismissing with prejudice all claims against the Participating Manufacturers and any other Released Party in such Settling State's action identified in Exhibit D. Provided, however, that the Settling State is not required to seek entry of such an order in such Settling State's action against such a Released Party (other than a Participating Manufacturer) unless and until such Released Party has released the Releasing Parties (and delivered to the Attorney General of such Settling State a copy of such release) (which release shall be effective upon the occurrence of State-Specific Finality in such Settling State, and shall recite that in the event this Agreement is terminated with respect to such Settling State pursuant to subsection XVIII(u)(1) the Released Party agrees that the order of dismissal shall be null and void and of no effect) from any and all Claims of such Released Party relating to the prosecution of such action as provided in subsection XII(a)(2).

XIV. PARTICIPATING MANUFACTURERS' DISMISSAL OF RELATED LAWSUITS

(a) Upon State-Specific Finality in a Settling State, each Participating Manufacturer will dismiss without prejudice (and without costs and fees) the lawsuit(s) listed in Exhibit M pending in such Settling State in which the Participating Manufacturer is a plaintiff. Within 10 days after the MSA Execution Date, each Participating Manufacturer and each Settling State that is a party in any of the lawsuits listed in Exhibit M shall jointly move for a stay of all proceedings in such lawsuit. Such stay of a lawsuit against a Settling State shall be dissolved upon the earlier of the occurrence of State-Specific Finality in such Settling State or termination of this Agreement with respect to such Settling State pursuant to subsection XVIII(u)(1).

(b) Upon State-Specific Finality in a Settling State, each Participating Manufacturer will release and discharge any and all monetary Claims against such Settling State and any of such Settling State's officers, employees, agents, administrators, representatives, officials acting in their official capacity, agencies, departments, commissions, divisions and counsel relating to or in connection with the lawsuit(s) commenced by the Attorney General of such Settling State identified in Exhibit D.

(c) Upon State-Specific Finality in a Settling State, each Participating Manufacturer will release and discharge any and all monetary Claims against all subdivisions (political or otherwise, including, but not limited to, municipalities, counties, parishes, villages, unincorporated districts and hospital districts) of such Settling State, and any of their officers, employees, agents, administrators, representatives, officials acting in their official capacity, agencies, departments, commissions, divisions and counsel arising out of Claims that have been waived and released with continuing full force and effect pursuant to section XII of this Agreement.

XV. VOLUNTARY ACT OF THE PARTIES

The Settling States and the Participating Manufacturers acknowledge and agree that this Agreement is voluntarily entered into by each Settling State and each Participating Manufacturer as the result of arm's-length negotiations, and each Settling State and each Participating Manufacturer was represented by counsel in deciding to enter into this Agreement. Each Participating Manufacturer further acknowledges that it understands that certain provisions of this Agreement may require it to act or refrain from acting in a manner that could otherwise give rise to state or federal constitutional challenges and that, by voluntarily consenting to this Agreement, it (and the Tobacco-Related Organizations (or any trade associations formed or controlled by any Participating Manufacturer)) waives for purposes of performance of this Agreement any and all claims that the provisions of this Agreement violate the state or federal constitutions. Provided, however, that nothing in the foregoing shall constitute a waiver as to the entry of any court order (or any interpretation thereof) that would operate to limit the exercise of any constitutional right except to the extent of the restrictions, limitations or obligations expressly agreed to in this Agreement or the Consent Decree.

XVI. CONSTRUCTION

(a) No Settling State or Participating Manufacturer shall be considered the drafter of this Agreement or any Consent Decree, or any provision of either, for the purpose of any statute, case law or rule of interpretation or construction that would or might cause any provision to be construed against the drafter.

(b) Nothing in this Agreement shall be construed as approval by the Settling States of any Participating Manufacturer's business organizations, operations, acts or practices, and no Participating Manufacturer may make any representation to the contrary.

XVII. RECOVERY OF COSTS AND ATTORNEYS' FEES

(a) The Original Participating Manufacturers agree that, with respect to any Settling State in which the Court has approved this Agreement and the Consent Decree, they shall severally reimburse the following "Governmental Entities": (1) the office of the Attorney General of such Settling State; (2) the office of the governmental prosecuting authority for any political subdivision of such Settling State with a lawsuit pending against any Participating Manufacturer as of July 1, 1998 (as identified in Exhibit N) that has released such Settling State and such Participating Manufacturer(s) from any and all Released Claims (a "Litigating Political Subdivision"); and (3) other appropriate agencies of such Settling State and such Litigating Political Subdivision, for reasonable costs and expenses incurred in connection with the litigation or resolution of claims asserted by or against the Participating Manufacturers in the actions set forth in Exhibits D, M and N; provided that such costs and expenses are of the same nature as costs and expenses for which the Original Participating Manufacturers would reimburse their own counsel or agents (but not including costs and expenses relating to lobbying activities).

(b) The Original Participating Manufacturers further agree severally to pay the Governmental Entities in any Settling State in which State-Specific Finality has occurred an amount sufficient to compensate such Governmental Entities for time reasonably expended by attorneys and paralegals employed in such offices in connection with the litigation or resolution of claims asserted against or by the Participating Manufacturers in the actions identified in Exhibits D, M and N (but not including time relating to lobbying activities), such amount to be calculated based upon hourly rates equal to the market rate in such Settling State for private attorneys and paralegals of equivalent experience and seniority.

(c) Such Governmental Entities seeking payment pursuant to subsection (a) and/or (b) shall provide the Original Participating Manufacturers with an appropriately documented statement of all costs, expenses and attorney and paralegal time for which payment is sought, and, solely with respect to payments sought pursuant to subsection (b), shall do so no earlier than the date on which State-Specific Finality occurs in such Settling State. All amounts to be paid pursuant to

subsections (a) and (b) shall be subject to reasonable verification if requested by any Original Participating Manufacturer; provided, however, that nothing contained in this subsection (c) shall constitute, cause, or require the performance of any act that would constitute any waiver (in whole or in part) of any attorney-client privilege, work product protection or common interest/joint prosecution privilege. All such amounts to be paid pursuant to subsections (a) and (b) shall be subject to an aggregate cap of $150 million for all Settling States, shall be paid promptly following submission of the appropriate documentation (and the completion of any verification process), shall be paid separately and apart from any other amounts due pursuant to this Agreement, and shall be paid severally by each Original Participating Manufacturer according to its Relative Market Share. All amounts to be paid pursuant to subsection (b) shall be paid to such Governmental Entities in the order in which State-Specific Finality has occurred in such Settling States (subject to the $150 million aggregate cap).

(d) The Original Participating Manufacturers agree that, upon the occurrence of State-Specific Finality in a Settling State, they will severally pay reasonable attorneys' fees to the private outside counsel, if any, retained by such Settling State (and each Litigating Political Subdivision, if any, within such Settling State) in connection with the respective actions identified in Exhibits D, M and N and who are designated in Exhibit S for each Settling State by the relevant Attorney General (and for each Litigating Political Subdivision, as later certified in writing to the Original Participating Manufacturers by the relevant governmental prosecuting authority of each Litigating Political Subdivision) as having been retained by and having represented such Settling State (or such Litigating Political Subdivision), in accordance with the terms described in the Model Fee Payment Agreement attached as Exhibit O.

XVIII. MISCELLANEOUS

(a) Effect of Current or Future Law. If any current or future law includes obligations or prohibitions applying to Tobacco Product Manufacturers related to any of the provisions of this Agreement, each Participating Manufacturer shall comply with this Agreement unless compliance with this Agreement would violate such law.

(b) Limited Most-Favored Nation Provision.

(1) If any Participating Manufacturer enters into any future settlement agreement of other litigation comparable to any of the actions identified in Exhibit D brought by a non-foreign governmental plaintiff other than the federal government ("Future Settlement Agreement"):

(A) before October 1, 2000, on overall terms more favorable to such governmental plaintiff than the overall terms of this Agreement (after due consideration of relevant differences in population or other appropriate factors), then, unless a majority of the Settling States determines that the overall terms of the Future Settlement Agreement are not more favorable than the overall terms of this Agreement, the overall terms of this Agreement will be revised so that the Settling States will obtain treatment with respect to such Participating Manufacturer at least as relatively favorable as the overall terms provided to any such governmental plaintiff; provided, however, that as to economic terms this Agreement shall not be revised based on any such Future Settlement Agreement if such Future Settlement Agreement is entered into after: (i) the impaneling of the jury (or, in the event of a non-jury trial, the commencement of trial) in such litigation or any severed or bifurcated portion thereof; or (ii) any court order or judicial determination relating to such litigation that (x) grants judgment (in whole or in part) against such Participating Manufacturer; or (y) grants injunctive or other relief that affects the assets or on-going business activities of such Participating Manufacturer in a manner other than as expressly provided for in this Agreement; or

(B) on or after October 1, 2000, on non-economic terms more favorable to such governmental plaintiff than the non-economic terms of this Agreement, and such Future Settlement Agreement includes terms that provide for the implementation of non-economic tobacco-related public health measures different from those contained in this Agreement, then this Agreement shall be revised with respect to such Participating Manufacturer to include terms comparable to such non-economic terms, unless a majority of the Settling States elects against such revision.

(2) If any Settling State resolves by settlement Claims against any Non-Participating Manufacturer after the MSA Execution Date comparable to any Released Claim, and such resolution includes overall terms that are more favorable to such Non-Participating Manufacturer than the terms of this Agreement (including, without limitation, any terms that relate to the marketing or distribution of Tobacco Products and any term that provides for a lower settlement cost on a per pack sold basis), then the overall terms of this Agreement will be revised so that the Original Participating Manufacturers will obtain, with respect to that Settling State, overall terms at least as relatively favorable (taking into account, among other things, all payments previously made by the Original Participating Manufacturers and the timing of any payments) as those obtained by such Non-Participating Manufacturer pursuant to such resolution of Claims. The foregoing shall include but not be limited: (a) to the treatment by any Settling State of a Future Affiliate, as that term is defined in agreements between any of the Settling States and Brooke Group Ltd., Liggett & Myers Inc. and/or Liggett Group, Inc. ("Liggett"), whether or not such Future Affiliate is merged with, or its operations combined with, Liggett or any Affiliate thereof; and (b) to any application of the terms of any such agreement (including any terms subsequently negotiated pursuant to any such agreement) to a brand of Cigarettes (or tobacco-related assets) as a result of the purchase by or sale to Liggett of such brand or assets or as a result of any combination of ownership among Liggett and any entity that manufactures Tobacco Products. Provided, however, that revision of this Agreement pursuant to this subsection (2) shall not be required by virtue of the subsequent entry into this Agreement by a Tobacco Product Manufacturer that has not become a Participating Manufacturer as of the MSA Execution Date. Notwithstanding the provisions of subsection XVIII(j), the provisions of this subsection XVIII(b)(2) may be waived by (and only by) unanimous agreement of the Original Participating Manufacturers.

(3) The parties agree that if any term of this Agreement is revised pursuant to subsection (b)(l) or (b)(2) above and the substance of such term before it was revised was also a term of the Consent Decree, each affected Settling State and each affected Participating Manufacturer shall jointly move the Court to amend the Consent Decree to conform the terms of the Consent Decree to the revised terms of the Agreement.

(4) If at any time any Settling State agrees to relieve, in any respect, any Participating Manufacturer's obligation to make the payments as provided in this Agreement, then, with respect to that Settling State, the terms of this Agreement shall be revised so that the other Participating Manufacturers receive terms as relatively favorable.

(c) Transfer of Tobacco Brands. No Original Participating Manufacturer may sell or otherwise transfer or permit the sale or transfer of any of its Cigarette brands, Brand Names, Cigarette product formulas or Cigarette businesses (other than a sale or transfer of Cigarette brands or Brand Names to be sold, product formulas to be used, or Cigarette businesses to be conducted, by the acquiror or transferee exclusively outside of the States) to any person or entity unless such person or entity is an Original Participating Manufacturer or prior to the sale or acquisition agrees to assume the obligations of an Original Participating Manufacturer with respect to such Cigarette brands, Brand Names, Cigarette product formulas or businesses. No Participating Manufacturer may sell or otherwise transfer any of its Cigarette brands, Brand Names, Cigarette product formulas or Cigarette businesses (other than a sale or transfer of Cigarette brands or Brand Names to be sold, Cigarette product formulas to be used, or businesses to be conducted, by the acquiror or transferee exclusively outside of the States) to any person or entity unless such person or entity is or becomes prior to the sale or acquisition a Participating Manufacturer. In the event of any such sale or transfer of a Cigarette brand, Brand Name, Cigarette product formula or Cigarette business by a Participating Manufacturer to a person or entity that within 180 days prior to such sale or transfer was a Non-Participating Manufacturer, the Participating Manufacturer shall certify to the Settling States that it has determined that such person or entity has the capability to perform the obligations under this Agreement. Such certification shall not survive beyond one year following the date of any such transfer. Each Original Participating Manufacturer certifies and represents that, except as provided in Exhibit R, it (or a wholly owned Affiliate) exclusively owns and controls in the States the Brand Names of those Cigarettes that it currently manufactures for sale (or sells) in the States and that it has the capacity to enter into an effective agreement concerning the sale or transfer of such Brand Names pursuant to this subsection XVIII(c). Nothing in this Agreement is intended to create any right for a State to obtain any Cigarette product formula that it would not otherwise have under applicable law.

(d) Payments in Settlement. All payments to be made by the Participating Manufacturers pursuant to this Agreement are in settlement of all of the Settling States' antitrust, consumer protection, common law negligence, statutory, common law and equitable claims for monetary, restitutionary, equitable and injunctive relief alleged by the Settling States with respect to the year of payment or earlier years, except that no part of any payment under this Agreement is made in settlement of an actual or potential liability for a fine, penalty (civil or criminal) or enhanced damages or is the cost of a tangible or intangible asset or other future benefit.

(e) No Determination or Admission. This Agreement is not intended to be and shall not in any event be construed or deemed to be, or represented or caused to be represented as, an admission or concession or evidence of (1) any liability or any wrongdoing whatsoever on the part of any Released Party or that any Released Party has engaged in any of the activities barred by this Agreement; or (2) personal jurisdiction over any person or entity other than the Participating Manufacturers. Each Participating Manufacturer specifically disclaims and denies any liability or wrongdoing whatsoever with respect to the claims and allegations asserted against it by the Attorneys General of the Settling States and the Litigating Political Subdivisions. Each Participating Manufacturer has entered into this Agreement solely to avoid the further expense, inconvenience, burden and risk of litigation.

(f) Non-Admissibility. The settlement negotiations resulting in this Agreement have been undertaken by the Settling States and the Participating Manufacturers in good faith and for settlement purposes only, and no evidence of negotiations or discussions underlying this Agreement shall be offered or received in evidence in any action or proceeding for any purpose. Neither this Agreement nor any public discussions, public statements or public comments with respect to this Agreement by any Settling State or Participating Manufacturer or its agents shall be offered or received in evidence in any action or proceeding for any purpose other than in an action or proceeding arising under or relating to this Agreement.

(g) Representations of Parties. Each Settling State and each Participating Manufacturer hereby represents that this Agreement has been duly authorized and, upon execution, will constitute a valid and binding contractual obligation, enforceable in accordance with its terms, of each of them. The signatories hereto on behalf of their respective Settling States expressly represent and warrant that they have the authority to settle and release all Released Claims of their respective Settling States and any of their respective Settling States' past, present and future agents, officials acting in their official capacities, legal representatives, agencies, departments, commissions and divisions, and that such signatories are aware of no authority to the contrary. It is recognized that the Original Participating Manufacturers are relying on the foregoing representation and warranty in making the payments required by and in otherwise performing under this Agreement. The Original Participating Manufacturers shall have the right to terminate this Agreement pursuant to subsection XVIII(u) as to any Settling State as to which the foregoing representation and warranty is breached or not effectively given.

(h) Obligations Several, Not Joint. All obligations of the Participating Manufacturers pursuant to this Agreement (including, but not limited to, all payment obligations) are intended to be, and shall remain, several and not joint.

(i) Headings. The headings of the sections and subsections of this Agreement are not binding and are for reference only and do not limit, expand or otherwise affect the contents or meaning of this Agreement.

(j) Amendment and Waiver. This Agreement may be amended by a written instrument executed by all Participating Manufacturers affected by the amendment and by all Settling States affected by the amendment. The terms of any such amendment shall not be enforceable in any Settling State that is not a signatory to such amendment. The waiver of any rights conferred hereunder shall be effective only if made by written instrument executed by the waiving party or parties. The waiver by any party of any breach of this Agreement shall not be deemed to be or construed as a waiver of any other breach, whether prior, subsequent or contemporaneous, nor shall such waiver be deemed to be or construed as a waiver by any other party.

(k) Notices. All notices or other communications to any party to this Agreement shall be in writing (including, but not limited to, facsimile, telex, telecopy or similar writing) and shall be given at the addresses specified in Exhibit P (as it may be amended to reflect any additional Participating Manufacturer that becomes a party to this Agreement after the MSA Execution Date). Any Settling State or Participating Manufacturer may change or add the name and address of the persons designated to receive notice on its behalf by notice given (effective upon the giving of such notice) as provided in this subsection.

(l) Cooperation. Each Settling State and each Participating Manufacturer agrees to use its best efforts and to cooperate with each other to cause this Agreement and the Consent Decrees to become effective, to obtain all necessary approvals, consents and authorizations, if any, and to execute all documents and to take such other action as may be appropriate in connection herewith. Consistent with the foregoing, each Settling State and each Participating Manufacturer agrees that it will not directly or indirectly assist or encourage any challenge to this Agreement or any Consent Decree by any other person, and will support the integrity and enforcement of the terms of this Agreement and the Consent Decrees. Each Settling State shall use its best efforts to cause State-Specific Finality to occur as to such Settling State.

(m) Designees to Discuss Disputes. Within 14 days after the MSA Execution Date, each Settling State's Attorney General and each Participating Manufacturer shall provide written notice of its designation of a senior representative to discuss with the other signatories to this Agreement any disputes and/or other issues that may arise with respect to this Agreement. Each Settling State's Attorney General shall provide such notice of the name, address and telephone number of the person it has so designated to each Participating Manufacturer and to NAAG. Each Participating Manufacturer shall provide such notice of the name, address and telephone number of the person it has so designated to each Settling State's Attorney General, to NAAG and to each other Participating Manufacturer.

(n) Governing Law. This Agreement (other than the Escrow Agreement) shall be governed by the laws of the relevant Settling State, without regard to the conflict of law rules of such Settling State. The Escrow Agreement shall be governed by the laws of the State in which the Escrow Court is located, without regard to the conflict of law rules of such State.

(o) Severability.

(1) Sections VI, VII, IX, X, XI, XII, XIII, XIV, XVI, XVIII(b), (c), (d), (e), (f), (g), (h), (o), (p), (r), (s), (u), (w), (z), (bb), (dd), and Exhibits A, B, and E hereof ("Nonseverable Provisions") are not severable, except to the extent that severance of section VI is permitted by Settling States pursuant to subsection VI(i) hereof. The remaining terms of this Agreement are severable, as set forth herein.

(2) If a court materially modifies, renders unenforceable, or finds to be unlawful any of the Nonseverable Provisions, the NAAG executive committee shall select a team of Attorneys General (the "Negotiating Team") to attempt to negotiate an equivalent or comparable substitute term or other appropriate credit or adjustment (a "Substitute Term") with the Original Participating Manufacturers. In the event that the court referred to in the preceding sentence is located in a Settling State, the Negotiating Team shall include the Attorney General of such Settling State. The Original Participating Manufacturers shall have no obligation to agree to any Substitute Term. If any Original Participating Manufacturer does not agree to a Substitute Term, this Agreement shall be terminated in all Settling States affected by the court's ruling. The Negotiating Team shall submit any proposed Substitute Term negotiated by the Negotiating Team and agreed to by all of the Original Participating Manufacturers to the Attorneys General of all of the affected Settling States for their approval. If any affected Settling State does not approve the proposed Substitute Term, this Agreement in such Settling State shall be terminated.

(3) If a court materially modifies, renders unenforceable, or finds to be unlawful any term of this Agreement other than a Nonseverable Provision:

(A) The remaining terms of this Agreement shall remain in full force and effect.

(B) Each Settling State whose rights or obligations under this Agreement are affected by the court's decision in question (the "Affected Settling State") and the Participating Manufacturers agree to negotiate in good faith a Substitute Term. Any agreement on a Substitute Term reached between the Participating Manufacturers and the Affected Settling State shall not modify or amend the terms of this Agreement with regard to any other Settling State.

(C) If the Affected Settling State and the Participating Manufacturers are unable to agree on a Substitute Term, then they will submit the issue to non-binding mediation. If mediation fails to produce agreement to a Substitute Term, then that term shall be severed and the remainder of this Agreement shall remain in full force and effect.

(4) If a court materially modifies, renders unenforceable, or finds to be unlawful any portion of any provision of this Agreement, the remaining portions of such provision shall be unenforceable with respect to the affected Settling State unless a Substitute Term is arrived at pursuant to subsection (o)(2) or (o)(3) hereof, whichever is applicable.

(p) Intended Beneficiaries. No portion of this Agreement shall provide any rights to, or be enforceable by, any person or entity that is not a Settling State or a Released Party. No Settling State may assign or otherwise convey any right to enforce any provision of this Agreement.

(q) Counterparts. This Agreement may be executed in counterparts. Facsimile or photocopied signatures shall be considered as valid signatures as of the date affixed, although the original signature pages shall thereafter be appended.

(r) Applicability. The obligations and duties of each Participating Manufacturer set forth herein are applicable only to actions taken (or omitted to be taken) within the States. This subsection (r) shall not be construed as extending the territorial scope of any obligation or duty set forth herein whose scope is otherwise limited by the terms hereof.

(s) Preservation of Privilege. Nothing contained in this Agreement or any Consent Decree, and no act required to be performed pursuant to this Agreement or any Consent Decree, is intended to constitute, cause or effect any waiver (in whole or in part) of any attorney-client privilege, work product protection or common interest/joint defense privilege, and each Settling State and each Participating Manufacturer agrees that it shall not make or cause to be made in any forum any assertion to the contrary.

(t) Non-Release. Except as otherwise specifically provided in this Agreement, nothing in this Agreement shall limit, prejudice or otherwise interfere with the rights of any Settling State or any Participating Manufacturer to pursue any and all rights and remedies it may have against any Non-Participating Manufacturer or other non-Released Party.

(u) Termination.

(1) Unless otherwise agreed to by each of the Original Participating Manufacturers and the Settling State in question, in the event that (A) State-Specific Finality in a Settling State does not occur in such Settling State on or before December 31, 2001; or (B) this Agreement or the Consent Decree has been disapproved by the Court (or, in the event of an appeal from or review of a decision of the Court to approve this Agreement and the Consent Decree, by the court hearing such appeal or conducting such review), and the time to Appeal from such disapproval has expired, or, in the event of an Appeal from such disapproval, the Appeal has been dismissed or the disapproval has been affirmed by the court of last resort to which such Appeal has been taken and such dismissal or disapproval has become no longer subject to further Appeal (including, without limitation, review by the United States Supreme Court); or (C) this Agreement is terminated in a Settling State for whatever reason (including, but not limited to, pursuant to subsection XVIII(o) of this Agreement), then this Agreement and all of its terms (except for the non-admissibility provisions hereof, which shall continue in full force and effect) shall be canceled and terminated with respect to such Settling State, and it and all orders issued by the courts in such Settling State pursuant hereto shall become null and void and of no effect.

(2) If this Agreement is terminated with respect to a Settling State for whatever reason, then (A) the applicable statute of limitation or any similar time requirement shall be tolled from the date such Settling State signed this Agreement until the later of the time permitted by applicable law or for one year from the date of such termination, with the effect that the parties shall be in the same position with respect to the statute of limitation as they were at the time such Settling State filed its action, and (B) the parties shall jointly move the Court for an order reinstating the actions and claims dismissed pursuant to sections XIII and XIV hereof, with the effect that the parties shall be in the same position with respect to those actions and claims as they were at the time the action or claim was stayed or dismissed.

(v) Freedom of Information Requests. Upon the occurrence of State-Specific Finality in a Settling State, each Participating Manufacturer will withdraw in writing any and all requests for information, administrative applications, and proceedings brought or caused to be brought by such Participating Manufacturer pursuant to such Settling State's freedom of information law relating to the subject matter of the lawsuits identified in Exhibit D.

(w) Bankruptcy. The following provisions shall apply if a Participating Manufacturer both enters Bankruptcy and at any time thereafter is not timely performing its financial obligations as required under this Agreement:

(1) In the event that both a number of Settling States equal to at least 75% of the total number of Settling States and Settling States having aggregate Allocable Shares equal to at least 75% of the total aggregate Allocable Shares assigned to all Settling States deem (by written notice to the Participating Manufacturers other than the bankrupt Participating Manufacturer) that the financial obligations of this Agreement have been terminated and rendered null and void as to such bankrupt Participating Manufacturer (except as provided in subsection (A) below) due to a material breach by such Participating Manufacturer, whereupon, with respect to all Settling States:

(A) all agreements, all concessions, all reductions of Releasing Parties' Claims, and all releases and covenants not to sue, contained in this Agreement shall be null and void as to such Participating Manufacturer. Provided, however, that (i) all reductions of Releasing Parties' Claims, and all releases and covenants not to sue, contained in this Agreement shall remain in full force and effect as to all persons or entities (other than the bankrupt Participating Manufacturer itself or any person or entity that, as a result of the Bankruptcy, obtains domestic tobacco assets of such

Participating Manufacturer (unless such person or entity is itself a Participating Manufacturer)) who (but for the first sentence of this subsection (A)) would otherwise be Released Parties by virtue of their relationship with the bankrupt Participating Manufacturer; and (ii) in the event a Settling State asserts any Released Claim against a bankrupt Participating Manufacturer after the termination of this Agreement with respect to such Participating Manufacturer as described in this subsection (1) and receives a judgment, settlement or distribution arising from such Released Claim, then the amount of any payments such Settling State has previously received from such Participating Manufacturer under this Agreement shall be applied against the amount of any such judgment, settlement or distribution (provided that in no event shall such Settling State be required to refund any payments previously received from such Participating Manufacturer pursuant to this Agreement);

(B) the Settling States shall have the right to assert any and all claims against such Participating Manufacturer in the Bankruptcy or otherwise without regard to any limits otherwise provided in this Agreement (subject to any and all defenses against such claims);

(C) the Settling States may exercise all rights provided under the federal Bankruptcy Code (or other applicable bankruptcy law) with respect to their Claims against such Participating Manufacturer, including the right to initiate and complete police and regulatory actions against such Participating Manufacturer pursuant to the exceptions to the automatic stay set forth in section 362(b) of the Bankruptcy Code (provided, however, that such Participating Manufacturer may contest whether the Settling State's action constitutes a police and regulatory action); and

(D) to the extent that any Settling State is pursuing a police and regulatory action against such Participating Manufacturer as described in subsection (1)(C), such Participating Manufacturer shall not request or support a request that the Bankruptcy court utilize the authority provided under section 105 of the Bankruptcy Code to impose a discretionary stay on the Settling State's action. The Participating Manufacturers further agree that they will not request, seek or support relief from the terms of this Agreement in any proceeding before any court of law (including the federal bankruptcy courts) or an administrative agency or through legislative action, including (without limitation) by way of joinder in or consent to or acquiescence in any such pleading or instrument filed by another.

(2) Whether or not the Settling States exercise the option set forth in subsection (1) (and whether or not such option, if exercised, is valid and enforceable):

(A) In the event that the bankrupt Participating Manufacturer is an Original Participating Manufacturer, such Participating Manufacturer shall continue to be treated as an Original Participating Manufacturer for all purposes under this Agreement except (i) such Participating Manufacturer shall be treated as a Non-Participating Manufacturer (and not as an Original Participating Manufacturer or Participating Manufacturer) for all purposes with respect to subsections IX(d)(1), IX(d)(2) and IX(d)(3) (including, but not limited to, that the Market Share of such Participating Manufacturer shall not be included in Base Aggregate Participating Manufacturer Market Share or Actual Aggregate Participating Manufacturer Market Share, and that such Participating Manufacturer's volume shall not be included for any purpose under subsection IX(d)(1)(D)); (ii) such Participating Manufacturer's Market Share shall not be included as that of a Participating Manufacturer for the purpose of determining whether the trigger percentage specified in subsection IX(e) has been achieved (provided that such Participating Manufacturer shall be treated as an Original Participating Manufacturer for all other purposes with respect to such subsection); (iii) for purposes of subsection (B)(iii) of Exhibit E, such Participating Manufacturer shall continue to be treated as an Original Participating Manufacturer, but its operating income shall be recalculated by the Independent Auditor to reflect what such income would have been had such Participating Manufacturer made the payments that would have been due under this Agreement but for the Bankruptcy; (iv) for purposes of subsection XVIII(c), such Participating Manufacturer shall not be treated as an Original Participating Manufacturer or as a Participating Manufacturer to the extent that after entry into Bankruptcy it becomes the acquiror or transferee of Cigarette brands, Brand Names, Cigarette product formulas or Cigarette businesses of any Participating Manufacturer (provided that such Participating Manufacturer shall continue to be treated as an Original Participating Manufacturer and Participating Manufacturer for all other purposes under such subsection); and (v) as to any action that by the express terms of this Agreement requires the unanimous agreement of all Original Participating Manufacturers.

(B) In the event that the bankrupt Participating Manufacturer is a Subsequent Participating Manufacturer, such Participating Manufacturer shall continue to be treated as a Subsequent Participating Manufacturer for all purposes under this Agreement except (i) such Participating Manufacturer shall be treated as a Non-Participating Manufacturer (and not as a Subsequent Participating Manufacturer or Participating Manufacturer) for all purposes with respect to subsections IX(d)(1), (d)(2) and (d)(4) (including, but not limited to, that the Market Share of such Participating Manufacturer shall not be included in Base Aggregate Participating Manufacturer Market Share or Actual Aggregate Participating Manufacturer Market Share, and that such Participating Manufacturer's volume shall not be included for any purpose under subsection IX(d)(1)(D)); (ii) such Participating Manufacturer's Market Share shall not be included as that of a Participating Manufacturer for the purpose of determining whether the trigger percentage specified in subsection IX(e) has been achieved (provided that such Participating Manufacturer shall be treated as a Subsequent Participating Manufacturer for all other purposes with respect to such subsection); and (iii) for purposes of subsection XVIII(c), such Participating Manufacturer shall not be treated as a Subsequent Participating Manufacturer or as a Participating Manufacturer to the extent that after entry into Bankruptcy it becomes the acquiror or transferee of Cigarette brands, Brand Names, Cigarette product formulas or Cigarette businesses of any Participating Manufacturer (provided that such Participating Manufacturer shall

continue to be treated as a Subsequent Participating Manufacturer and Participating Manufacturer for all other purposes under such subsection).

(C) Revision of this Agreement pursuant to subsection XVIII(b)(2) shall not be required by virtue of any resolution on an involuntary basis in the Bankruptcy of Claims against the bankrupt Participating Manufacturer.

(x) Notice of Material Transfers. Each Participating Manufacturer shall provide notice to each Settling State at least 20 days before consummating a sale, transfer of title or other disposition, in one transaction or series of related transactions, of assets having a fair market value equal to five percent or more (determined in accordance with United States generally accepted accounting principles) of the consolidated assets of such Participating Manufacturer.

(y) Entire Agreement. This Agreement (together with any agreements expressly contemplated hereby and any other contemporaneous written agreements) embodies the entire agreement and understanding between and among the Settling States and the Participating Manufacturers relating to the subject matter hereof and supersedes (l) all prior agreements and understandings relating to such subject matter, whether written or oral, and (2) all purportedly contemporaneous oral agreements and understandings relating to such subject matter.

(z) Business Days. Any obligation hereunder that, under the terms of this Agreement, is to be performed on a day that is not a Business Day shall be performed on the first Business Day thereafter.

(aa) Subsequent Signatories. With respect to a Tobacco Product Manufacturer that signs this Agreement after the MSA Execution Date, the timing of obligations under this Agreement (other than payment obligations, which shall be governed by subsection II(jj)) shall be negotiated to provide for the institution of such obligations on a schedule not more favorable to such subsequent signatory than that applicable to the Original Participating Manufacturers.

(bb) Decimal Places. Any figure or percentage referred to in this Agreement shall be carried to seven decimal places.

(cc) Regulatory Authority. Nothing in section III of this Agreement is intended to affect the legislative or regulatory authority of any local or State government.

(dd) Successors. In the event that a Participating Manufacturer ceases selling a brand of Tobacco Products in the States that such Participating Manufacturer owned in the States prior to July 1, 1998, and an Affiliate of such Participating Manufacturer thereafter and after the MSA Execution Date intentionally sells such brand in the States, such Affiliate shall be considered to be the successor of such Participating Manufacturer with respect to such brand. Performance by any such successor of the obligations under this Agreement with respect to the sales of such brand shall be subject to court-ordered specific performance.

(ee) Export Packaging. Each Participating Manufacturer shall place a visible indication on each pack of Cigarettes it manufactures for sale outside of the fifty United States and the District of Columbia that distinguishes such pack from packs of Cigarettes it manufactures for sale in the fifty United States and the District of Columbia.

(ff) Actions Within Geographic Boundaries of Settling States. To the extent that any provision of this Agreement expressly prohibits, restricts, or requires any action to be taken "within" any Settling State or the Settling States, the relevant prohibition, restriction, or requirement applies within the geographic boundaries of the applicable Settling State or Settling States, including, but not limited to, Indian country or Indian trust land within such geographic boundaries.

(gg) Notice to Affiliates. Each Participating Manufacturer shall give notice of this Agreement to each of its Affiliates.

IN WITNESS WHEREOF, each Settling State and each Participating Manufacturer, through their fully authorized representatives, have agreed to this Agreement.

[Signatures Intentionally Omitted]

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%

EXHIBIT B
FORM OF ESCROW AGREEMENT

This Escrow Agreement is entered into as of _______________, 1998 by the undersigned State officials (on behalf of their respective Settling States), the undersigned Participating Manufacturers and ____________________ as escrow agent (the "Escrow Agent").

WITNESSETH:

WHEREAS, the Settling States and the Participating Manufacturers have entered into a settlement agreement entitled the "Master Settlement Agreement" (the "Agreement"); and

WHEREAS, the Agreement requires the Settling States and the Participating Manufacturers to enter into this Escrow Agreement.

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1. *Appointment of Escrow Agent.*

The Settling States and the Participating Manufacturers hereby appoint ______________________ to serve as Escrow Agent under this Agreement on the terms and conditions set forth herein, and the Escrow Agent, by its execution hereof, hereby accepts such appointment and agrees to perform the duties and obligations of the Escrow Agent set forth herein. The Settling States and the Participating Manufacturers agree that the Escrow Agent appointed under the terms of this Escrow Agreement shall be the Escrow Agent as defined in, and for all purposes of, the Agreement.

SECTION 2. *Definitions.*

(a) Capitalized terms used in this Escrow Agreement and not otherwise defined herein shall have the meaning given to such terms in the Agreement.

(b) "Escrow Court" means the court of the State of New York to which the Agreement is presented for approval, or such other court as agreed to by the Original Participating Manufacturers and a majority of those Attorneys General who are both the Attorney General of a Settling State and a member of the NAAG executive committee at the time in question.

SECTION 3. *Escrow and Accounts.*

(a) All funds received by the Escrow Agent pursuant to the terms of the Agreement shall be held and disbursed in accordance with the terms of this Escrow Agreement. Such funds and any earnings thereon shall constitute the "Escrow" and shall be held by the Escrow Agent separate and apart from all other funds and accounts of the Escrow Agent, the Settling States and the Participating Manufacturers.

(b) The Escrow Agent shall allocate the Escrow among the following separate accounts (each an "Account" and collectively the "Accounts"):

Subsection VI(b) Account
Subsection VI(c) Account (First)
Subsection VI(c) Account (Subsequent)
Subsection VIII(b) Account
Subsection VIII(c) Account
Subsection IX(b) Account (First)
Subsection IX(b) Account (Subsequent)
Subsection IX(c)(1) Account
Subsection IX(c)(2) Account
Subsection IX(e) Account
Disputed Payments Account
State-Specific Accounts with respect to each Settling State in which State-Specific Finality occurs.

(c) All amounts credited to an Account shall be retained in such Account until disbursed therefrom in accordance with the provisions of this Escrow Agreement pursuant to (i) written instructions from the Independent Auditor; or (ii) written instructions from all of the following: all of the Original Participating Manufacturers; all of the Subsequent Participating Manufacturers that contributed to such amounts in such Account; and all of the Settling States (collectively, the "Escrow Parties"). In the event of a conflict, instructions pursuant to clause (ii) shall govern over instructions pursuant to clause (i).

(d) On the first Business Day after the date any payment is due under the Agreement, the Escrow Agent shall deliver to each other Notice Party a written statement showing the amount of such payment (or indicating that no payment was made, if such is the case), the source of such payment, the Account or Accounts to which such payment has been

credited, and the payment instructions received by the Escrow Agent from the Independent Auditor with respect to such payment.

(e) The Escrow Agent shall comply with all payment instructions received from the Independent Auditor unless before 11:00 a.m. (New York City time) on the scheduled date of payment it receives written instructions to the contrary from all of the Escrow Parties, in which event it shall comply with such instructions.

(f) On the first Business Day after disbursing any funds from an Account, the Escrow Agent shall deliver to each other Notice Party a written statement showing the amount disbursed, the date of such disbursement and the payee of the disbursed funds.

SECTION 4. *Failure of Escrow Agent to Receive Instructions.*

In the event that the Escrow Agent fails to receive any written instructions contemplated by this Escrow Agreement, the Escrow Agent shall be fully protected in refraining from taking any action required under any section of this Escrow Agreement other than Section 5 until such written instructions are received by the Escrow Agent.

SECTION 5. *Investment of Funds by Escrow Agent.*

The Escrow Agent shall invest and reinvest all amounts from time to time credited to the Accounts in either (i) direct obligations of, or obligations the principal and interest on which are unconditionally guaranteed by, the United States of America; (ii) repurchase agreements fully collateralized by securities described in clause (i) above; (iii) money market accounts maturing within 30 days of the acquisition thereof and issued by a bank or trust company organized under the laws of the United States of America or of any of the 50 States thereof (a "United States Bank") and having combined capital, surplus and undistributed profits in excess of $500,000,000; or (iv) demand deposits with any United States Bank having combined capital, surplus and undistributed profits in excess of $500,000,000. To the extent practicable, monies credited to any Account shall be invested in such a manner so as to be available for use at the times when monies are expected to be disbursed by the Escrow Agent and charged to such Account. Obligations purchased as an investment of monies credited to any Account shall be deemed at all times to be a part of such Account and the income or interest earned, profits realized or losses suffered with respect to such investments (including, without limitation, any penalty for any liquidation of an investment required to fund a disbursement to be charged to such Account), shall be credited or charged, as the case may be, to, such Account and shall be for the benefit of, or be borne by, the person or entity entitled to payment from such Account. In choosing among the investment options described in clauses (i) through (iv) above, the Escrow Agent shall comply with any instructions received from time to time from all of the Escrow Parties. In the absence of such instructions, the Escrow Agent shall invest such sums in accordance with clause (i) above. With respect to any amounts credited to a State-Specific Account, the Escrow Agent shall invest and reinvest all amounts credited to such Account in accordance with the law of the applicable Settling State to the extent such law is inconsistent with this Section 5.

SECTION 6. *Substitute Form W-9; Qualified Settlement Fund.*

Each signatory to this Escrow Agreement shall provide the Escrow Agent with a correct taxpayer identification number on a substitute Form W-9 or if it does not have such a number, a statement evidencing its status as an entity exempt from back-up withholding, within 30 days of the date hereof (and, if it supplies a Form W-9, indicate thereon that it is not subject to backup withholding). The escrow established pursuant to this Escrow Agreement is intended to be treated as a Qualified Settlement Fund for federal tax purposes pursuant to Treas. Reg. § 1.468B-l. The Escrow Agent shall comply with all applicable tax filing, payment and reporting requirements, including, without limitation, those imposed under Treas. Reg. § 1.468B, and if requested to do so shall join in the making of the relation-back election under such regulation.

SECTION 7. *Duties and Liabilities of Escrow Agent.*

The Escrow Agent shall have no duty or obligation hereunder other than to take such specific actions as are required of it from time to time under the provisions of this Escrow Agreement, and it shall incur no liability hereunder or in connection herewith for anything whatsoever other than any liability resulting from its own gross negligence or willful misconduct. The Escrow Agent shall not be bound in any way by any agreement or contract between the Participating Manufacturers and the Settling States (whether or not the Escrow Agent has knowledge thereof) other than this Escrow Agreement, and the only duties and responsibilities of the Escrow Agent shall be the duties and obligations specifically set forth in this Escrow Agreement.

SECTION 8. *Indemnification of Escrow Agent.*

The Participating Manufacturers shall indemnify, hold harmless and defend the Escrow Agent from and against any and all losses, claims, liabilities and reasonable expenses, including the reasonable fees of its counsel, which it may suffer or incur in connection with the performance of its duties and obligations under this Escrow Agreement, except for those losses, claims, liabilities and expenses resulting solely and directly from its own gross negligence or willful misconduct.

SECTION 9. *Resignation of Escrow Agent.*

The Escrow Agent may resign at any time by giving written notice thereof to the other parties hereto, but such resignation shall not become effective until a successor Escrow Agent, selected by the Original Participating Manufacturers and the Settling States, shall have been appointed and shall have accepted such appointment in writing. If an instrument of acceptance by a successor Escrow Agent shall not have been delivered to the resigning Escrow Agent within 90 days after the giving of such notice of resignation, the resigning Escrow Agent may, at the expense of the Participating Manufacturers (to

be shared according to their pro rata Market Shares), petition the Escrow Court for the appointment of a successor Escrow Agent.

SECTION 10. *Escrow Agent Fees and Expenses.*

The Participating Manufacturers shall pay to the Escrow Agent its fees as set forth in Appendix A hereto as amended from time to time by agreement of the Original Participating Manufacturers and the Escrow Agent. The Participating Manufacturers shall pay to the Escrow Agent its reasonable fees and expenses, including all reasonable expenses, charges, counsel fees, and other disbursements incurred by it or by its attorneys, agents and employees in the performance of its duties and obligations under this Escrow Agreement. Such fees and expenses shall be shared by the Participating Manufacturers according to their pro rata Market Shares.

SECTION 11. *Notices.*

All notices, written instructions or other communications to any party or other person hereunder shall be given in the same manner as, shall be given to the same person as, and shall be effective at the same time as provided in subsection XVIII(k) of the Agreement.

SECTION 12. *Setoff; Reimbursement*.

The Escrow Agent acknowledges that it shall not be entitled to set off against any funds in, or payable from, any Account to satisfy any liability of any Participating Manufacturer. Each Participating Manufacturer that pays more than its pro rata Market Share of any payment that is made by the Participating Manufacturers to the Escrow Agent pursuant to Section 8, 9 or 10 hereof shall be entitled to reimbursement of such excess from the other Participating Manufacturers according to their pro rata Market Shares of such excess.

SECTION 13. *Intended Beneficiaries; Successors.*

No persons or entities other than the Settling States, the Participating Manufacturers and the Escrow Agent are intended beneficiaries of this Escrow Agreement, and only the Settling States, the Participating Manufacturers and the Escrow Agent shall be entitled to enforce the terms of this Escrow Agreement. Pursuant to the Agreement, the Settling States have designated NAAG and the Foundation as recipients of certain payments; for all purposes of this Escrow Agreement, the Settling States shall be the beneficiaries of such payments entitled to enforce payment thereof. The provisions of this Escrow Agreement shall be binding upon and inure to the benefit of the parties hereto and, in the case of the Escrow Agent and Participating Manufacturers, their respective successors. Each reference herein to the Escrow Agent or to a Participating Manufacturer shall be construed as a reference to its successor, where applicable.

SECTION 14. *Governing Law.*

This Escrow Agreement shall be construed in accordance with and governed by the laws of the State in which the Escrow Court is located, without regard to the conflicts of law rules of such state.

SECTION 15. *Jurisdiction and Venue.*

The parties hereto irrevocably and unconditionally submit to the continuing exclusive jurisdiction of the Escrow Court for purposes of any suit, action or proceeding seeking to interpret or enforce any provision of, or based on any right arising out of, this Escrow Agreement, and the parties hereto agree not to commence any such suit, action or proceeding except in the Escrow Court. The parties hereto hereby irrevocably and unconditionally waive any objection to the laying of venue of any such suit, action or proceeding in the Escrow Court and hereby further irrevocably waive and agree not to plead or claim in the Escrow Court that any such suit, action or proceeding has been brought in an inconvenient forum.

SECTION 16. *Amendments.*

This Escrow Agreement may be amended only by written instrument executed by all of the parties hereto that would be affected by the amendment. The waiver of any rights conferred hereunder shall be effective only if made in a written instrument executed by the waiving party. The waiver by any party of any breach of this Agreement shall not be deemed to be or construed as a waiver of any other breach, whether prior, subsequent or contemporaneous, of this Escrow Agreement, nor shall such waiver be deemed to be or construed as a waiver by any other party.

SECTION 17. *Counterparts.*

This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. Delivery by facsimile of a signed counterpart shall be deemed delivery for purposes of acknowledging acceptance hereof; however, an original executed Escrow Agreement must promptly thereafter be delivered to each party.

SECTION 18. *Captions.*

The captions herein are included for convenience of reference only and shall be ignored in the construction and interpretation hereof.

SECTION 19. *Conditions to Effectiveness.*

This Escrow Agreement shall become effective when each party hereto shall have signed a counterpart hereof. The parties hereto agree to use their best efforts to seek an order of the Escrow Court approving, and retaining continuing jurisdiction over, the Escrow Agreement as soon as possible, and agree that such order shall relate back to, and be deemed effective as of, the date this Escrow Agreement became effective.

SECTION 20. *Address for Payments*.

Whenever funds are under the terms of this Escrow Agreement required to be disbursed to a Settling State, a Participating Manufacturer, NAAG or the Foundation, the Escrow Agent shall disburse such funds by wire transfer to the account specified by such payee by written notice delivered to all Notice Parties in accordance with Section 11 hereof at least five Business Days prior to the date of payment. Whenever funds are under the terms of this Escrow Agreement required to be disbursed to any other person or entity, the Escrow Agent shall disburse such funds to such account as shall have been specified in writing by the Independent Auditor for such payment at least five Business Days prior to the date of payment.

SECTION 21. *Reporting*.

The Escrow Agent shall provide such information and reporting with respect to the escrow as the Independent Auditor may from time to time request.

IN WITNESS WHEREOF, the parties have executed this Escrow Agreement as of the day and year first hereinabove written.

[Signature Blocks]

Appendix A

Schedule Of Fees And Expenses

EXHIBIT C
FORMULA FOR CALCULATING INFLATION ADJUSTMENTS

(1) Any amount that, in any given year, is to be adjusted for inflation pursuant to this Exhibit (the "Base Amount") shall be adjusted upward by adding to such Base Amount the Inflation Adjustment.

(2) The Inflation Adjustment shall be calculated by multiplying the Base Amount by the Inflation Adjustment Percentage applicable in that year.

(3) The Inflation Adjustment Percentage applicable to payments due in the year 2000 shall be equal to the greater of 3% or the CPI%. For example, if the Consumer Price Index for December 1999 (as released in January 2000) is 2% higher than the Consumer Price Index for December 1998 (as released in January 1999), then the CPI% with respect to a payment due in 2000 would be 2%. The Inflation Adjustment Percentage applicable in the year 2000 would thus be 3%.

(4) The Inflation Adjustment Percentage applicable to payments due in any year after 2000 shall be calculated by applying each year the greater of 3% or the CPI% on the Inflation Adjustment Percentage applicable to payments due in the prior year. Continuing the example in subsection (3) above, if the CPI% with respect to a payment due in 2001 is 6%, then the Inflation Adjustment Percentage applicable in 2001 would be 9.1800000% (an additional 6% applied on the 3% Inflation Adjustment Percentage applicable in 2000), and if the CPI% with respect to a payment due in 2002 is 4%, then the Inflation Adjustment Percentage applicable in 2002 would be 13.5472000% (an additional 4% applied on the 9.1800000% Inflation Adjustment Percentage applicable in 2001).

(5) "Consumer Price Index" means the Consumer Price Index for All Urban Consumers as published by the Bureau of Labor Statistics of the U.S. Department of Labor (or other similar measures agreed to by the Settling States and the Participating Manufacturers).

(6) The "CPI%" means the actual total percent change in the Consumer Price Index during the calendar year immediately preceding the year in which the payment in question is due.

(7) Additional Examples.

(A) Calculating the Inflation Adjustment Percentages:

Payment Year	Hypothetical CPI%	Percentage to be applied on the Inflation Adjustment Percentage for the prior year (i.e., the greater of 3% or the CPI%)	Inflation Adjustment Percentage
2000	2.4%	3.0%	3.0000000%
2001	2.1%	3.0%	6.0900000%
2002	3.5%	3.5%	9.8031500%
2003	3.5%	3.5%	13.6462603%
2004	4.0%	4.0%	18.1921107%
2005	2.2%	3.0%	21.7378740%
2006	1.6%	3.0%	25.3900102%

(B) Applying the Inflation Adjustment:

Using the hypothetical Inflation Adjustment Percentages set forth in section (7)(A):

-- the subsection IX(c)(1) base payment amount for 2002 of $6,500,000,000 as adjusted for inflation would equal $7,137,204,750;

-- the subsection IX(c)(1) base payment amount for 2004 of $8,000,000,000 as adjusted for inflation would equal $9,455,368,856;

-- the subsection IX(c)(1) base payment amount for 2006 of $8,000,000,000 as adjusted for inflation would equal $10,031,200,816.

EXHIBIT D
LIST OF LAWSUITS

1. Alabama
   Blaylock et al. v. American Tobacco Co. et al.,
   Circuit Court, Montgomery County, No. CV-96-1508-PR
2. Alaska
   State of Alaska v. Philip Morris, Inc., et al., Superior Court, First Judicial District of Juneau, No. IJU-97915 CI (Alaska)
3. Arizona
   State of Arizona v. American Tobacco Co., Inc., et al., Superior Court, Maricopa County, No. CV-96-14769 (Ariz.)
4. Arkansas
   State of Arkansas v. The American Tobacco Co., Inc., et al., Chancery Court, 6th Division, Pulaski County, No. IJ 97-2982 (Ark.)
5. California
   People of the State of California et al. v. Philip Morris, Inc., et al., Superior Court, Sacramento County, No. 97-AS-30301
6. Colorado
   State of Colorado et al., v. R.J. Reynolds Tobacco Co., et al., District Court, City and County of Denver, No. 97CV3432 (Colo.)
7. Connecticut
   State of Connecticut v. Philip Morris, et al., Superior Court, Judicial District of Waterbury No. X02 CV96-0148414S (Conn.)
8. Georgia
   State of Georgia et al. v. Philip Morris, Inc., et al., Superior Court, Fulton County, No. CA E-61692 (Ga.)
9. Hawaii
   State of Hawaii v. Brown & Williamson Tobacco Corp., et al., Circuit Court, First Circuit, No. 97-0441-01 (Haw.)
10. Idaho
    State of Idaho v. Philip Morris, Inc., et al., Fourth Judicial District, Ada County, No. CVOC 9703239D (Idaho)
11. Illinois
    People of the State of Illinois v. Philip Morris et al., Circuit Court of Cook County, No. 96-L13146 (Ill.)
12. Indiana
    State of Indiana v. Philip Morris, Inc., et al., Marion County Superior Court, No. 49D 07-9702-CT-000236 (Ind.)
13. Iowa
    State of Iowa v. R.J. Reynolds Tobacco Company et al., Iowa District Court, Fifth Judicial District, Polk County, No. CL71048 (Iowa)
14. Kansas
    State of Kansas v. R.J. Reynolds Tobacco Company, et al., District Court of Shawnee County, Division 2, No. 96-CV-919 (Kan.)
15. Louisiana
    Ieyoub v. The American Tobacco Company, et al., 14th Judicial District Court, Calcasieu Parish, No. 96-1209 (La.)
16. Maine
    State of Maine v. Philip Morris, Inc., et al., Superior Court, Kennebec County, No. CV 97-134 (Me.)
17. Maryland
    Maryland v. Philip Morris Incorporated, et al., Baltimore City Circuit Court, No. 96-122017-CL211487 (Md.)
18. Massachusetts
    Commonwealth of Massachusetts v. Philip Morris Inc., et al., Middlesex Superior Court, No. 95-7378 (Mass.)
19. Michigan
    Kelley v. Philip Morris Incorporated, et al., Ingham County Circuit Court, 30th Judicial Circuit, No. 96-84281-CZ (Mich.)
20. Missouri
    State of Missouri v. American Tobacco Co., Inc. et al., Circuit Court, City of St. Louis, No. 972-1465 (Mo.)
21. Montana
    State of Montana v. Philip Morris, Inc., et al., First Judicial Court, Lewis and Clark County, No. CDV 9700306-14 (Mont.)
22. Nebraska
    State of Nebraska v. R.J. Reynolds Tobacco Co., et al., District Court, Lancaster County, No. 573277 (Neb.)

23. Nevada
Nevada v. Philip Morris, Incorporated, et al., Second Judicial Court, Washoe County, No. CV97-03279 (Nev.)

24. New Hampshire
New Hampshire v. R.J. Reynolds, Tobacco Co., et al., New Hampshire Superior Court, Merrimack County, No. 97-E-165 (N.H.)

25. New Jersey
State of New Jersey v. R.J. Reynolds Tobacco Company, et al., Superior Court, Chancery Division, Middlesex County, No. C-254-96 (N.J.)

26. New Mexico
State of New Mexico, v. The American Tobacco Co., et al., First Judicial District Court, County of Santa Fe, No. SF-1235 c (N.M.)

27. New York State
State of New York et al. v. Philip Morris, Inc., et al., Supreme Court of the State of New York, County of New York, No. 400361/97 (N.Y.)

28. Ohio
State of Ohio v. Philip Morris, Inc., et al., Court of Common Pleas, Franklin County, No. 97CVH055114 (Ohio)

29. Oklahoma
State of Oklahoma, et al. v. R.J. Reynolds Tobacco Company, et al., District Court, Cleveland County, No. CJ-96-1499-L (Okla.)

30. Oregon
State of Oregon v. The American Tobacco Co., et al., Circuit Court, Multnomah County, No. 9706-04457 (Or.)

31. Pennsylvania
Commonwealth of Pennsylvania v. Philip Morris, Inc., et al., Court of Common Pleas, Philadelphia County, April Term 1997, No. 2443

32. Puerto Rico
Rossello, et al. v. Brown & Williamson Tobacco Corporation, et al., U.S. District Court, Puerto Rico, No. 97-1910JAF

33. Rhode Island
State of Rhode Island v. American Tobacco Co., et al., Rhode Island Superior Court, Providence, No. 97-3058 (R.I.)

34. South Carolina
State of South Carolina v. Brown & Williamson Tobacco Corporation, et al., Court of Common Pleas, Fifth Judicial Circuit, Richland County, No. 97-CP-40-1686 (S.C.)

35. South Dakota
State of South Dakota, et al. v. Philip Morris, Inc., et al., Circuit Court, Hughes County, Sixth Judicial Circuit, No. 98-65 (S.D.)

36. Utah
State of Utah v. R.J. Reynolds Tobacco Company, et al., U.S. District Court, Central Division, No. 96 CV 0829W (Utah)

37. Vermont
State of Vermont v. Philip Morris, Inc., et al., Chittenden Superior Court, Chittenden County, No. 744-97 (Vt.) and 5816-98 (Vt.)

38. Washington
State of Washington v. American Tobacco Co. Inc., et al., Superior Court of Washington, King County, No. 96-2-1505608SEA (Wash.)

39. West Virginia
McGraw, et al. v. The American Tobacco Company, et al., Kanawha County Circuit Court, No. 94-1707 (W. Va.)

40. Wisconsin
State of Wisconsin v. Philip Morris Inc., et al., Circuit Court, Branch 11, Dane County, No. 97-CV-328 (Wis.)

Additional States

For each Settling State not listed above, the lawsuit or other legal action filed by the Attorney General or Governor of such Settling State against *Participating* Manufacturers in the Court in such Settling State prior to 30 days after the MSA Execution Date asserting Released Claims.

EXHIBIT E
FORMULA FOR CALCULATING VOLUME ADJUSTMENTS

Any amount that by the terms of the Master Settlement Agreement is to be adjusted pursuant to this Exhibit E (the "Applicable Base Payment") shall be adjusted in the following manner:

(A) In the event the aggregate number of Cigarettes shipped in or to the fifty United States, the District of Columbia, and Puerto Rico by the Original Participating Manufacturers in the Applicable Year (as defined hereinbelow) (the "Actual Volume") is greater than 475,656,000,000 Cigarettes (the "Base Volume"), the Applicable Base Payment shall be multiplied by the ratio of the Actual Volume to the Base Volume.

(B) In the event the Actual Volume is less than the Base Volume,

i. The Applicable Base Payment shall be reduced by subtracting from it the amount equal to such Applicable Base Payment multiplied both by 0.98 and by the result of (i) 1(one) minus (ii) the ratio of the Actual Volume to the Base Volume.

ii. Solely for purposes of calculating volume adjustments to the payments required under subsection IX(c)(1), if a reduction of the Base Payment due under such subsection results from the application of subparagraph (B)(i) of this Exhibit E, but the Original Participating Manufacturers' aggregate operating income from sales of Cigarettes for the Applicable Year in the fifty United States, the District of Columbia, and Puerto Rico (the "Actual Operating Income") is greater than $7,195,340,000 (the "Base Operating Income") (such Base Operating Income being adjusted upward in accordance with the formula for inflation adjustments set forth in Exhibit C hereto beginning December 31, 1996 to be applied for each year after 1996) then the amount by which such Base Payment is reduced by the application of subsection (B)(i) shall be reduced (but not below zero) by the amount calculated by multiplying (i) a percentage equal to the aggregate Allocable Shares of the Settling States in which State-Specific Finality has occurred by (ii) 25% of such increase in such operating income. For purposes of this Exhibit E, "operating income from sales of Cigarettes" shall mean operating income from sales of Cigarettes in the fifty United States, the District of Columbia, and Puerto Rico: (a) before goodwill amortization, trademark amortization, restructuring charges and restructuring related charges, minority interest, net interest expense, non-operating income and expense, general corporate expenses and income taxes; and (b) excluding extraordinary items, cumulative effect of changes in method of accounting and discontinued operations -- all as such income is reported to the United States Securities and Exchange Commission ("SEC") for the Applicable Year (either independently by the Participating Manufacturer or as part of consolidated financial statements reported to the SEC by an Affiliate of such Participating Manufacturer) or, in the case of an Original Participating Manufacturer that does not report income to the SEC, as reported in financial statements prepared in accordance with U.S. generally accepted accounting principles and audited by a nationally recognized accounting firm. For years subsequent to 1998, the determination of the Original Participating Manufacturers' aggregate operating income from sales of Cigarettes shall not exclude any charges or expenses incurred or accrued in connection with this Agreement or any prior settlement of a tobacco and health case and shall otherwise be derived using the same principles as were employed in deriving such Original Participating Manufacturers' aggregate operating income from sales of Cigarettes in 1996.

iii. Any increase in a Base Payment pursuant to subsection (B)(ii) above shall be allocated among the Original Participating Manufacturers in the following manner:

(1) only to those Original Participating Manufacturers whose operating income from sales of Cigarettes in the fifty United States, the District of Columbia and Puerto Rico for the year for which the Base Payment is being adjusted is greater than their respective operating income from such sales of Cigarettes (including operating income from such sales of any of their Affiliates that do not continue to have such sales after the MSA Execution Date) in 1996 (as increased for inflation as provided in Exhibit C hereto beginning December 31, 1996 to be applied for each year after 1996); and

(2) among the Original Participating Manufacturers described in paragraph (1) above in proportion to the ratio of (x) the increase in the operating income from sales of Cigarettes (as described in paragraph (1)) of the Original Participating Manufacturer in question, to (y) the aggregate increase in the operating income from sales of Cigarettes (as described in paragraph (1)) of those Original Participating Manufacturers described in paragraph (1) above.

(C) "Applicable Year" means the calendar year immediately preceding the year in which the payment at issue is due, regardless of when such payment is made.

(D) For purposes of this Exhibit, shipments shall be measured as provided in subsection II(mm).

EXHIBIT F
POTENTIAL LEGISLATION NOT TO BE OPPOSED

1. Limitations on Youth access to vending machines.
2. Inclusion of cigars within the definition of tobacco products.
3. Enhancement of enforcement efforts to identify and prosecute violations of laws prohibiting retail sales to Youth.
4. Encouraging or supporting use of technology to increase effectiveness of age-of-purchase laws, such as, without limitation, the use of programmable scanners, scanners to read drivers' licenses, or use of other age/ID data banks.
5. Limitations on promotional programs for non-tobacco goods using tobacco products as prizes or give-aways.
6. Enforcement of access restrictions through penalties on Youth for possession or use.
7. Limitations on tobacco product advertising in or on school facilities, or wearing of tobacco logo merchandise in or on school property.
8. Limitations on non-tobacco products which are designed to look like tobacco products, such as bubble gum cigars, candy cigarettes, etc.

EXHIBIT G
OBLIGATIONS OF THE TOBACCO INSTITUTE
UNDER THE MASTER SETTLEMENT AGREEMENT

(a) Upon court approval of a plan of dissolution The Tobacco Institute ("TI") will:

(1) Employees. Promptly notify and arrange for the termination of the employment of all employees; provided, however, that TI may continue to engage any employee who is (A) essential to the wind-down function as set forth in section (g) herein; (B) reasonably needed for the sole purpose of directing and supporting TI's defense of ongoing litigation; or (C) reasonably needed for the sole purpose of performing the Tobacco Institute Testing Laboratory's (the "TITL") industry-wide cigarette testing pursuant to the Federal Trade Commission (the "FTC") method or any other testing prescribed by state or federal law as set forth in section (h) herein.

(2) Employee Benefits. Fund all employee benefit and pension programs; provided, however, that unless ERISA or other federal or state law prohibits it, such funding will be accomplished through periodic contributions by the Original Participating Manufacturers, according to their Relative Market Shares, into a trust or a like mechanism, which trust or like mechanism will be established within 90 days of court approval of the plan of dissolution. An opinion letter will be appended to the dissolution plan to certify that the trust plan is not inconsistent with ERISA or employee benefit pension contracts.

(3) Leases. Terminate all leaseholds at the earliest possible date pursuant to the leases; provided, however, that TI may retain or lease anew such space (or lease other space) as needed for its wind-down activities, for TITL testing as described herein, and for subsequent litigation defense activities. Immediately upon execution of this Agreement, TI will provide notice to each of its landlords of its desire to terminate its lease with such landlord, and will request that the landlord take all steps to re-lease the premises at the earliest possible date consistent with TI's performance of its obligations hereunder. TI will vacate such leasehold premises as soon as they are re-leased or on the last day of wind-down, whichever occurs first.

(b) Assets/Debts. Within 60 days after court approval of a plan of dissolution, TI will provide to the Attorney General of New York and append to the dissolution plan a description of all of its assets, its debts, tax claims against it, claims of state and federal governments against it, creditor claims against it, pending litigation in which it is a party and notices of claims against it.

(c) Documents. Subject to the privacy protections provided by New York Public Officers Law §§ 91-99, TI will provide a copy of or otherwise make available to the State of New York all documents in its possession, excluding those that TI continues to claim to be subject to any attorney-client privilege, attorney work product protection, common interest/joint defense privilege or any other applicable privilege (collectively, "privilege") after the re-examination of privilege claims pursuant to court order in State of Oklahoma v. R.J. Reynolds Tobacco Company, et al., CJ-96-2499-L (Dist. Ct., Cleveland County) (the "Oklahoma action"):

(1) TI will deliver to the Attorney General of the State of New York a copy of the privilege log served by it in the Oklahoma action. Upon a written request by the Attorney General, TI will deliver an updated version of its privilege log, if any such updated version exists.

(2) The disclosure of any document or documents claimed to be privileged will be governed by section IV of this Agreement.

(3) At the conclusion of the document production and privilege logging process, TI will provide a sworn affidavit that all documents in its possession have been made available to the Attorney General of New York except for documents claimed to be privileged, and that any privilege logs that already exist have been made available to the Attorney General.

(d) Remaining Assets. On mutual agreement between TI and the Attorney General of New York, a not-for-profit health or child welfare organization will be named as the beneficiary of any TI assets that remain after lawful transfers of assets and satisfaction of TI's employee benefit obligations and any other debts, liabilities or claims.

(e) Defense of Litigation. Pursuant to Section 1006 of the New York Not-for-Profit Corporations Law, TI will have the right to continue to defend its litigation interests with respect to any claims against it that are pending or threatened now or that are brought or threatened in the future. TI will retain sole discretion over all litigation decisions, including, without limitation, decisions with respect to asserting any privileges or defenses, having privileged communications and creating privileged documents, filing pleadings, responding to discovery requests, making motions, filing affidavits and briefs, conducting party and non-party discovery, retaining expert witnesses and consultants, preparing for and defending itself at trial, settling any claims asserted against it, intervening or otherwise participating in litigation to protect interests that it deems significant to its defense, and otherwise directing or conducting its defense. Pursuant to existing joint defense agreements, TI may continue to assist its current or former members in defense of any litigation brought or threatened against them. TI also may enter into any new joint defense agreement or agreements that it deems significant to its defense of pending or threatened claims. TI may continue to engage such employees as reasonably needed for the sole purpose of directing and supporting its defense of ongoing litigation. As soon as TI has no litigation pending against it, it will dissolve completely and will cease all functions consistent with the requirements of law.

(f) No public statement. Except as necessary in the course of litigation defense as set forth in section (e) above, upon court approval of a plan of dissolution, neither TI nor any of its employees or agents acting in their official capacity on behalf of TI will issue any statements, press releases, or other public statement concerning tobacco.

(g) Wind-down. After court approval of a plan of dissolution, TI will effectuate wind-down of all activities (other than its defense of litigation as described in section (e) above) expeditiously, and in no event later than 180 days after the date of court approval of the plan of dissolution. TI will provide monthly status reports to the Attorney General of New York regarding the progress of wind-down efforts and work remaining to be done with respect to such efforts.

(h) TITL. Notwithstanding any other provision of this Exhibit G or the dissolution plan, TI may perform TITL industry-wide cigarette testing pursuant to the FTC method or any other testing prescribed by state or federal law until such function is transferred to another entity, which transfer will be accomplished as soon as practicable but in no event more than 180 days after court approval of the dissolution plan.

(i) Jurisdiction. After the filing of a Certificate of Dissolution, pursuant to Section 1004 of the New York Not-for-Profit Corporation Law, the Supreme Court for the State of New York will have continuing jurisdiction over the dissolution of TI and the winding-down of TI's activities, including any litigation-related activities described in subsection (e) herein.

(j) No Determination or Admission. The dissolution of TI and any proceedings taken hereunder are not intended to be and shall not in any event be construed as, deemed to be, or represented or caused to be represented by any Settling State as, an admission or concession or evidence of any liability or any wrongdoing whatsoever on the part of TI, any of its current or former members or anyone acting on their behalf. TI specifically disclaims and denies any liability or wrongdoing whatsoever with respect to the claims and allegations asserted against it by the Attorneys General of the Settling States.

(k) Court Approval. The Attorney General of the State of New York and the Original Participating Manufacturers will prepare a joint plan of dissolution for submission to the Supreme Court of the State of New York, all of the terms of which will be agreed on and consented to by the Attorney General and the Original Participating Manufacturers consistent with this schedule. The Original Participating Manufacturers and their employees, as officers and directors of TI, will take whatever steps are necessary to execute all documents needed to develop such a plan of dissolution and to submit it to the court for approval. If any court makes any material change to any term or provision of the plan of dissolution agreed upon and consented to by the Attorney General and the Original Participating Manufacturers, then:

(1) the Original Participating Manufacturers may, at their election, nevertheless proceed with the dissolution plan as modified by the court; or

(2) if the Original Participating Manufacturers elect not to proceed with the court-modified dissolution plan, the Original Participating Manufacturers will be released from any obligations or undertakings under this Agreement or this schedule with respect to TI; provided, however, that the Original Participating Manufacturers will engage in good faith negotiations with the New York Attorney General to agree upon the term or terms of the dissolution plan that the court may have modified in an effort to agree upon a dissolution plan that may be resubmitted for the court's consideration.

EXHIBIT H
DOCUMENT PRODUCTION

Section 1.

(a) Philip Morris Companies, Inc., et al., v. American Broadcasting Companies, Inc., et al., At Law No. 760CL94X00816-00 (Cir. Ct., City of Richmond)

(b) Harley-Davidson v. Lorillard Tobacco Co., No. 93-947 (S.D.N.Y.)

(c) Lorillard Tobacco Co. v. Harley-Davidson, No. 93-6098 (E.D. Wis.)

(d) Brown & Williamson v. Jacobson and CBS, Inc., No. 82-648 (N.D. Ill.)

(e) The FTC investigations of tobacco industry advertising and promotion as embodied in the following cites:

46 FTC 706
48 FTC 82
46 FTC 735
47 FTC 1393
108 F. Supp. 573
55 FTC 354
56 FTC 96
79 FTC 255
80 FTC 455
Investigation #8023069
Investigation #8323222

Each Original Participating Manufacturer and Tobacco-Related Organization will conduct its own reasonable inquiry to determine what documents or deposition testimony, if any, it produced or provided in the above-listed matters.

Section 2.

(a) State of Washington v. American Tobacco Co., et al., No. 96-2-15056-8 SEA (Wash. Super. Ct., County of King)

(b) In re Mike Moore, Attorney General, ex rel, State of Mississippi Tobacco Litigation, No. 94-1429 (Chancery Ct., Jackson, Miss.)

(c) State of Florida v. American Tobacco Co., et al., No. CL 95-1466 AH (Fla. Cir. Ct., 15th Judicial Cir., Palm Beach Co.)

(d) State of Texas v. American Tobacco Co., et al., No. 5-96CV-91 (E.D. Tex.)

(e) Minnesota v. Philip Morris et al., No. C-94-8565 (Minn. Dist. Ct., County of Ramsey)

(f) Broin v. R.J. Reynolds, No. 91-49738 CA (22) (11th Judicial Ct., Dade County, Florida)

A-30

EXHIBIT I
INDEX AND SEARCH FEATURES FOR DOCUMENT WEBSITE

(a) Each Original Participating Manufacturer and Tobacco-Related Organization will create and maintain on its website, at its expense, an enhanced, searchable index, as described below, using Alta-Vista or functionally comparable software, for all of the documents currently on its website and all documents being placed on its website pursuant to section IV of this Agreement.

(b) The searchable indices of documents on these websites will include:

(1) all of the information contained in the 4(b) indices produced to the State Attorneys General (excluding fields specific only to the Minnesota action other than "request number");

(2) the following additional fields of information (or their substantial equivalent) to the extent such information already exists in an electronic format that can be incorporated into such an index:

Document ID	Master ID
Other Number	Document Date
Primary Type	Other Type
Person Attending	Person Noted
Person Author	Person Recipient
Person Copied	Person Mentioned
Organization Author	Organization Recipient
Organization Copied	Organization Mentioned
Organization Attending	Organization Noted
Physical Attachment 1	Physical Attachment 2
Characteristics	File Name
Site	Area
Verbatim Title	Old Brand
Primary Brand	Mentioned Brand
Page Count	

(c) Each Original Participating Manufacturer and Tobacco-Related Organization will add, if not already available, a user-friendly document retrieval feature on the Website consisting of a "view all pages" function with enhanced image viewer capability that will enable users to choose to view and/or print either "all pages" for a specific document or "page-by-page".

(d) Each Original Participating Manufacturer and Tobacco-Related Organizations will provide at its own expense to NAAG a copy set in electronic form of its website document images and its accompanying subsection IV(h) index in ASCII-delimited form for all of the documents currently on its website and all of the documents described in subsection IV(d) of this Agreement. The Original Participating Manufacturers and Tobacco-Related Organizations will not object to any subsequent distribution and/or reproduction of these copy sets.

EXHIBIT J
TOBACCO ENFORCEMENT FUND PROTOCOL

The States' Antitrust/Consumer Protection Tobacco Enforcement Fund ("Fund") is established by the Attorneys General of the Settling States, acting through NAAG, pursuant to section VIII(c) of the Agreement. The following shall be the primary and mandatory protocol for the administration of the Fund.

Section A
Fund Purpose

Section 1

The monies to be paid pursuant to section VIII(c) of the Agreement shall be placed by NAAG in a new and separate interest bearing account, denominated the States' Antitrust/ Consumer Protection Tobacco Enforcement Fund, which shall not then or thereafter be commingled with any other funds or accounts. However, nothing herein shall prevent deposits into the account so long as monies so deposited are then lawfully committed for the purpose of the Fund as set forth herein.

Section 2

A committee of three Attorneys General ("Special Committee") shall be established to determine disbursements from the account, using the process described herein. The three shall be the Attorney General of the State of Washington, the Chair of NAAG's antitrust committee, and the Chair of NAAG's consumer protection committee. In the event that an Attorney General shall hold either two or three of the above stated positions, that Attorney General may serve only in a single capacity, and shall be replaced in the remaining positions by first, the President of NAAG, next by the President-Elect of NAAG and if necessary the Vice-President of NAAG.

Section 3

The purpose of the Fund is: (1) to enforce and implement the terms of the Agreement, in particular, by partial payment of the monetary costs of the Independent Auditor as contemplated by the Agreement; and (2) to provide monetary assistance to the various states' attorneys general: (A) to investigate and/or litigate suspected violations of the Agreement and/or Consent Decree; (B) to investigate and/or litigate suspected violations of state and/or federal antitrust or consumer protection laws with respect to the manufacture, use, marketing and sales of tobacco products; and (C) to enforce the Qualifying Statute ("Qualifying Actions"). The Special Committee shall entertain requests only from Settling States for disbursement from the fund associated with a Qualifying Action ("Grant Application").

Section B
Administration Standards Relative to Grant Applications

Section 1

The Special Committee shall not entertain any Grant Application to pay salaries or ordinary expenses of regular employees of any Attorney General's office.

Section 2

The affirmative vote of two or more of the members of the Special Committee shall be required to approve any Grant Application.

Section 3

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

Section 4

The Attorney General of the State of Washington shall be chair of the Special Committee and shall annually report to the Attorneys General on the requests for funds from the Fund and the actions of the Special Committee upon the requests.

Section 5

When a Grant Application to the Fund is made by an Attorney General who is then a member of the Special Committee, such member will be temporarily replaced on the Committee, but only for the determination of such Grant Application. The remaining members of the Special Committee shall designate an Attorney General to replace the Attorney General so disqualified, in order to consider the application.

Section 6

The Fund shall be maintained in a federally insured depository institution located in Washington, D.C. Funds may be invested in federal government-backed vehicles. The Fund shall be regularly reported on NAAG financial statements and subject to annual audit.

Section 7

Withdrawals from and checks drawn on the Fund will require at least two of three authorized signatures. The three persons so authorized shall be the executive director, the deputy director, and controller of NAAG.

Section 8

The Special Committee shall meet in person or telephonically as necessary to determine whether a grant is sought for assistance with a Qualifying Action and whether and to what extent the Grant Application is accepted. The chair of the

Special Committee shall designate the times for such meetings, so that a response is made to the Grant Application as expeditiously as practicable.

Section 9

The Special Committee may issue a grant from the Fund only when an Attorney General certifies that the monies will be used in connection with a Qualifying Action, to wit: (A) to investigate and/or litigate suspected violations of the Agreement and/or Consent Decree; (B) to investigate and/or litigate suspected violations of state and/or federal antitrust or consumer protection laws with respect to the manufacture, use, marketing and sales of tobacco products; and (C) to enforce the Qualifying Statute. The Attorney General submitting such application shall further certify that the entire grant of monies from the Fund will be used to pay for such investigation and/or litigation. The Grant Application shall describe the nature and scope of the intended action and use of the funds which may be granted.

Section 10

To the extent permitted by law, each Attorney General whose Grant Application is favorably acted upon shall promise to pay back to the Fund all of the amounts received from the Fund in the event the state is successful in litigation or settlement of a Qualifying Action. In the event that the monetary recovery, if any, obtained is not sufficient to pay back the entire amount of the grant, the Attorney General shall pay back as much as is permitted by the recovery. In all instances where monies are granted, the Attorney General(s) receiving monies shall provide an accounting to NAAG of all disbursements received from the Fund no later than the 30th of June next following such disbursement.

Section 11

In addition to the repayments to the Fund contemplated in the preceding section, the Special Committee may deposit in the Fund any other monies lawfully committed for the precise purpose of the Fund as set forth in section A(3) above. For example, the Special Committee may at its discretion accept for deposit in the Fund a foundation grant or court-ordered award for state antitrust and/or consumer protection enforcement as long as the monies so deposited become part of and subject to the same rules, purposes and limitations of the Fund.

Section 12

The Special Committee shall be the sole and final arbiter of all Grant Applications and of the amount awarded for each such application, if any.

Section 13

The Special Committee shall endeavor to maintain the Fund for as long a term as is consistent with the purpose of the Fund. The Special Committee will limit the total amount of grants made to a single state to no more than $500,000.00. The Special Committee will not award a single grant in excess of $200,000.00, unless the grant involves more than one state, in which case, a single grant so made may not total more than $300,000.00. The Special Committee may, in its discretion and by unanimous vote, decide to waive these limitations if it determines that special circumstances exist. Such decision, however, shall not be effective unless ratified by a two-thirds majority vote of the NAAG executive committee.

Section C

Grant Application Procedures

Section 1

This Protocol shall be transmitted to the Attorneys General within 90 days after the MSA Execution Date. It may not be amended unless by recommendation of the NAAG executive committee and majority vote of the Settling States. NAAG will notify the Settling States of any amendments promptly and will transmit yearly to the attorneys general a statement of the Fund balance and a summary of deposits to and withdrawals from the Fund in the previous calendar or fiscal year.

Section 2

Grant Applications must be in writing and must be signed by the Attorney General submitting the application.

Section 3

Grant Applications must include the following:

(A) A description of the contemplated/pending action, including the scope of the alleged violation and the area (state/regional/multi-state) likely to be affected by the suspected offending conduct.

(B) A statement whether the action is actively and currently pursued by any other Attorney General or other prosecuting authority.

(C) A description of the purposes for which the monies sought will be used.

(D) The amount requested.

(E) A directive as to how disbursements from the Fund should be made, e.g., either directly to a supplier of services (consultants, experts, witnesses, and the like), to the Attorney General's office directly, or in the case of multi-state action, to one or more Attorneys General's offices designated as a recipient of the monies.

(F) A statement that the applicant Attorney(s) General will, to the extent permitted by law, pay back to the Fund all, or as much as is possible, of the monies received, upon receipt of any monetary recovery obtained in the contemplated/pending litigation or settlement of the action.

(G) A certification that no part of the grant monies will be used to pay the salaries or ordinary expenses of any regular employee of the office of the applicant(s) and that the grant will be used solely to pay for the stated purpose.

(H) A certification that an accounting will be provided to NAAG of all monies received by the applicant(s) by no later than the 30th of June next following any receipt of such monies.

Section 4

All Grant Applications shall be submitted to the NAAG office at the following address: National Association of Attorneys General, 750 1st Street, NE, Suite 1100, Washington D.C. 20002.

Section 5

The Special Committee will endeavor to act upon all complete and properly submitted Grant Applications within 30 days of receipt of said applications.

Section D

Other Disbursements from the Fund

Section 1

To enforce and implement the terms of the Agreement, the Special Committee shall direct disbursements from the Fund to comply with the partial payment obligations set forth in section XI of the Agreement relative to costs of the Independent Auditor. A report of such disbursements shall be included in the accounting given pursuant to section C(1) above.

Section E

Administrative Costs

Section 1

NAAG shall receive from the Fund on July 1, 1999 and on July 1 of each year thereafter an administrative fee of $100,000 for its administrative costs in performing its duties under the Protocol and this Agreement. The NAAG executive committee may adjust the amount of the administrative fee in extraordinary circumstances.

EXHIBIT K
MARKET CAPITALIZATION PERCENTAGES

Philip Morris Incorporated	68.0000000%
Brown & Williamson Tobacco Corporation	17.9000000%
Lorillard Tobacco Company	7.3000000%
R.J. Reynolds Tobacco Company	6.8000000%
Total	100.0000000%

EXHIBIT L
MODEL CONSENT DECREE

IN THE [XXXXXX] COURT OF THE STATE OF [XXXXXX]
IN AND FOR THE COUNTY OF [XXXXX]

- x CAUSE NO. XXXXXX

STATE OF [XXXXXXXXXXX],
Plaintiff,
v.
[XXXXXX XXXXX XXXX], et al.,
Defendants.

CONSENT DECREE AND FINAL JUDGMENT

- x

WHEREAS, Plaintiff, the State of [name of Settling State], commenced this action on [date], [by and through its Attorney General [name]], pursuant to [her/his/its] common law powers and the provisions of [state and/or federal law];

WHEREAS, the State of [name of Settling State] asserted various claims for monetary, equitable and injunctive relief on behalf of the State of [name of Settling State] against certain tobacco product manufacturers and other defendants;

WHEREAS, Defendants have contested the claims in the State's complaint [and amended complaints, if any] and denied the State's allegations [and asserted affirmative defenses];

WHEREAS, the parties desire to resolve this action in a manner which appropriately addresses the State's public health concerns, while conserving the parties' resources, as well as those of the Court, which would otherwise be expended in litigating a matter of this magnitude; and

WHEREAS, the Court has made no determination of any violation of law, this Consent Decree and Final Judgment being entered prior to the taking of any testimony and without trial or final adjudication of any issue of fact or law;

NOW, THEREFORE, IT IS HEREBY ORDERED, ADJUDGED AND DECREED, AS FOLLOWS:

I. JURISDICTION AND VENUE

This Court has jurisdiction over the subject matter of this action and over each of the Participating Manufacturers. Venue is proper in this [county/district].

II. DEFINITIONS

The definitions set forth in the Agreement (a copy of which is attached hereto) are incorporated herein by reference.

III. APPLICABILITY

A. This Consent Decree and Final Judgment applies only to the Participating Manufacturers in their corporate capacity acting through their respective successors and assigns, directors, officers, employees, agents, subsidiaries, divisions, or other internal organizational units of any kind or any other entities acting in concert or participation with them. The remedies, penalties and sanctions that may be imposed or assessed in connection with a violation of this Consent Decree and Final Judgment (or any order issued in connection herewith) shall only apply to the Participating Manufacturers, and shall not be imposed or assessed against any employee, officer or director of any Participating Manufacturer, or against any other person or entity as a consequence of such violation, and there shall be no jurisdiction under this Consent Decree and Final Judgment to do so.

B. This Consent Decree and Final Judgment is not intended to and does not vest standing in any third party with respect to the terms hereof. No portion of this Consent Decree and Final Judgment shall provide any rights to, or be enforceable by, any person or entity other than the State of [name of Settling State] or a Released Party. The State of [name of Settling State] may not assign or otherwise convey any right to enforce any provision of this Consent Decree and Final Judgment.

IV. VOLUNTARY ACT OF THE PARTIES

The parties hereto expressly acknowledge and agree that this Consent Decree and Final Judgment is voluntarily entered into as the result of arm's-length negotiation, and all parties hereto were represented by counsel in deciding to enter into this Consent Decree and Final Judgment.

V. INJUNCTIVE AND OTHER EQUITABLE RELIEF

Each Participating Manufacturer is permanently enjoined from:

A. Taking any action, directly or indirectly, to target Youth within the State of [name of Settling State] in the advertising, promotion or marketing of Tobacco Products, or taking any action the primary purpose of which is to initiate, maintain or increase the incidence of Youth smoking within the State of [name of Settling State].

B. After 180 days after the MSA Execution Date, using or causing to be used within the State of [name of Settling State] any Cartoon in the advertising, promoting, packaging or labeling of Tobacco Products.

C. After 30 days after the MSA Execution Date, making or causing to be made any payment or other consideration to any other person or entity to use, display, make reference to or use as a prop within the State of [name of Settling State] any Tobacco Product, Tobacco Product package, advertisement for a Tobacco Product, or any other item bearing a Brand Name in any Media; provided, however, that the foregoing prohibition shall not apply to (1) Media where the audience or viewers are within an Adult-Only Facility (provided such Media are not visible to persons outside such Adult-Only Facility); (2) Media not intended for distribution or display to the public; (3) instructional Media concerning non-conventional cigarettes viewed only by or provided only to smokers who are Adults; and (4) actions taken by any Participating Manufacturer in connection with a Brand Name Sponsorship permitted pursuant to subsections III(c)(2)(A) and III(c)(2)(B)(i) of the Agreement, and use of a Brand Name to identify a Brand Name Sponsorship permitted by subsection III(c)(2)(B)(ii).

D. Beginning July 1, 1999, marketing, distributing, offering, selling, licensing or causing to be marketed, distributed, offered, sold, or licensed (including, without limitation, by catalogue or direct mail), within the State of [name of Settling State], any apparel or other merchandise (other than Tobacco Products, items the sole function of which is to advertise Tobacco Products, or written or electronic publications) which bears a Brand Name. Provided, however, that nothing in this section shall (1) require any Participating Manufacturer to breach or terminate any licensing agreement or other contract in existence as of June 20, 1997 (this exception shall not apply beyond the current term of any existing contract, without regard to any renewal or option term that may be exercised by such Participating Manufacturer); (2) prohibit the distribution to any Participating Manufacturer's employee who is not Underage of any item described above that is intended for the personal use of such an employee; (3) require any Participating Manufacturer to retrieve, collect or otherwise recover any item that prior to the MSA Execution Date was marketed, distributed, offered, sold, licensed or caused to be marketed, distributed, offered, sold or licensed by such Participating Manufacturer; (4) apply to coupons or other items used by Adults solely in connection with the purchase of Tobacco Products; (5) apply to apparel or other merchandise used within an Adult-Only Facility that is not distributed (by sale or otherwise) to any member of the general public; or (6) apply to apparel or other merchandise (a) marketed, distributed, offered, sold, or licensed at the site of a Brand Name Sponsorship permitted pursuant to subsection III(c)(2)(A) or III(c)(2)(B)(i) of the Agreement by the person to which the relevant Participating Manufacturer has provided payment in exchange for the use of the relevant Brand Name in the Brand Name Sponsorship or a third-party that does not receive payment from the relevant Participating Manufacturer (or any Affiliate of such Participating Manufacturer) in connection with the marketing, distribution, offer, sale or license of such apparel or other merchandise, or (b) used at the site of a Brand Name Sponsorship permitted pursuant to subsections III(c)(2)(A) or III(c)(2)(B)(i) of the Agreement (during such event) that are not distributed (by sale or otherwise) to any member of the general public.

E. After the MSA Execution Date, distributing or causing to be distributed within the State of [name of Settling State] any free samples of Tobacco Products except in an Adult-Only Facility. For purposes of this Consent Decree and Final Judgment, a "free sample" does not include a Tobacco Product that is provided to an Adult in connection with (1) the purchase, exchange or redemption for proof of purchase of any Tobacco Products (including, but not limited to, a free offer in connection with the purchase of Tobacco Products, such as a "two-for-one" offer), or (2) the conducting of consumer testing or evaluation of Tobacco Products with persons who certify that they are Adults.

F. Using or causing to be used as a brand name of any Tobacco Product pursuant to any agreement requiring the payment of money or other valuable consideration, any nationally recognized or nationally established brand name or trade name of any non-tobacco item or service or any nationally recognized or nationally established sports team, entertainment group or individual celebrity. Provided, however, that the preceding sentence shall not apply to any Tobacco Product brand name in existence as of July 1, 1998. For the purposes of this provision, the term "other valuable consideration" shall not include an agreement between two entities who enter into such agreement for the sole purpose of avoiding infringement claims.

G. After 60 days after the MSA Execution Date and through and including December 31, 2001, manufacturing or causing to be manufactured for sale within the State of [name of Settling State] any pack or other container of Cigarettes containing fewer than 20 Cigarettes (or, in the case of roll-your-own tobacco, any package of roll-your-own tobacco containing less than 0.60 ounces of tobacco); and, after 150 days after the MSA Execution Date and through and including December 31, 2001, selling or distributing within the State of [name of Settling State] any pack or other container of Cigarettes containing fewer than 20 Cigarettes (or, in the case of roll-your-own tobacco, any package of roll-your-own tobacco containing less than 0.60 ounces of tobacco).

H. Entering into any contract, combination or conspiracy with any other Tobacco Product Manufacturer that has the purpose or effect of: (1) limiting competition in the production or distribution of information about health hazards or other consequences of the use of their products; (2) limiting or suppressing research into smoking and health; or (3) limiting or suppressing research into the marketing or development of new products. Provided, however, that nothing in the preceding

sentence shall be deemed to (1) require any Participating Manufacturer to produce, distribute or otherwise disclose any information that is subject to any privilege or protection; (2) preclude any Participating Manufacturer from entering into any joint defense or joint legal interest agreement or arrangement (whether or not in writing), or from asserting any privilege pursuant thereto; or (3) impose any affirmative obligation on any Participating Manufacturer to conduct any research.

I. Making any material misrepresentation of fact regarding the health consequences of using any Tobacco Product, including any tobacco additives, filters, paper or other ingredients. Provided, however, that nothing in the preceding sentence shall limit the exercise of any First Amendment right or the assertion of any defense or position in any judicial, legislative or regulatory forum.

VI. MISCELLANEOUS PROVISIONS

A. Jurisdiction of this case is retained by the Court for the purposes of implementing and enforcing the Agreement and this Consent Decree and Final Judgment and enabling the continuing proceedings contemplated herein. Whenever possible, the State of [name of Settling State] and the Participating Manufacturers shall seek to resolve any issue that may exist as to compliance with this Consent Decree and Final Judgment by discussion among the appropriate designees named pursuant to subsection XVIII(m) of the Agreement. The State of [name of Settling State] and/or any Participating Manufacturer may apply to the Court at any time for further orders and directions as may be necessary or appropriate for the implementation and enforcement of this Consent Decree and Final Judgment. Provided, however, that with regard to subsections V(A) and V(I) of this Consent Decree and Final Judgment, the Attorney General shall issue a cease and desist demand to the Participating Manufacturer that the Attorney General believes is in violation of either of such sections at least ten Business Days before the Attorney General applies to the Court for an order to enforce such subsections, unless the Attorney General reasonably determines that either a compelling time-sensitive public health and safety concern requires more immediate action or the Court has previously issued an Enforcement Order to the Participating Manufacturer in question for the same or a substantially similar action or activity. For any claimed violation of this Consent Decree and Final Judgment, in determining whether to seek an order for monetary, civil contempt or criminal sanctions for any claimed violation, the Attorney General shall give good-faith consideration to whether: (1) the Participating Manufacturer that is claimed to have committed the violation has taken appropriate and reasonable steps to cause the claimed violation to be cured, unless that party has been guilty of a pattern of violations of like nature; and (2) a legitimate, good-faith dispute exists as to the meaning of the terms in question of this Consent Decree and Final Judgment. The Court in any case in its discretion may determine not to enter an order for monetary, civil contempt or criminal sanctions.

B. This Consent Decree and Final Judgment is not intended to be, and shall not in any event be construed as, or deemed to be, an admission or concession or evidence of (1) any liability or any wrongdoing whatsoever on the part of any Released Party or that any Released Party has engaged in any of the activities barred by this Consent Decree and Final Judgment; or (2) personal jurisdiction over any person or entity other than the Participating Manufacturers. Each Participating Manufacturer specifically disclaims and denies any liability or wrongdoing whatsoever with respect to the claims and allegations asserted against it in this action, and has stipulated to the entry of this Consent Decree and Final Judgment solely to avoid the further expense, inconvenience, burden and risk of litigation.

C. Except as expressly provided otherwise in the Agreement, this Consent Decree and Final Judgment shall not be modified (by this Court, by any other court or by any other means) unless the party seeking modification demonstrates, by clear and convincing evidence, that it will suffer irreparable harm from new and unforeseen conditions. Provided, however, that the provisions of sections III, V, VI and VII of this Consent Decree and Final Judgment shall in no event be subject to modification without the consent of the State of [name of Settling State] and all affected Participating Manufacturers. In the event that any of the sections of this Consent Decree and Final Judgment enumerated in the preceding sentence are modified by this Court, by any other court or by any other means without the consent of the State of [name of Settling State] and all affected Participating Manufacturers, then this Consent Decree and Final Judgment shall be void and of no further effect. Changes in the economic conditions of the parties shall not be grounds for modification. It is intended that the Participating Manufacturers will comply with this Consent Decree and Final Judgment as originally entered, even if the Participating Manufacturers' obligations hereunder are greater than those imposed under current or future law (unless compliance with this Consent Decree and Final Judgment would violate such law). A change in law that results, directly or indirectly, in more favorable or beneficial treatment of any one or more of the Participating Manufacturers shall not support modification of this Consent Decree and Final Judgment.

D. In any proceeding which results in a finding that a Participating Manufacturer violated this Consent Decree and Final Judgment, the Participating Manufacturer or Participating Manufacturers found to be in violation shall pay the State's costs and attorneys' fees incurred by the State of [name of Settling State] in such proceeding.

E. The remedies in this Consent Decree and Final Judgment are cumulative and in addition to any other remedies the State of [name of Settling State] may have at law or equity, including but not limited to its rights under the Agreement. Nothing herein shall be construed to prevent the State from bringing an action with respect to conduct not released pursuant to the Agreement, even though that conduct may also violate this Consent Decree and Final Judgment. Nothing in this Consent Decree and Final Judgment is intended to create any right for [name of Settling State] to obtain any Cigarette product formula that it would not otherwise have under applicable law.

F. No party shall be considered the drafter of this Consent Decree and Final Judgment for the purpose of any statute, case law or rule of interpretation or construction that would or might cause any provision to be construed against the drafter. Nothing in this Consent Decree and Final Judgment shall be construed as approval by the State of [name of Settling State] of the Participating Manufacturers' business organizations, operations, acts or practices, and the Participating Manufacturers shall make no representation to the contrary.

G. The settlement negotiations resulting in this Consent Decree and Final Judgment have been undertaken in good faith and for settlement purposes only, and no evidence of negotiations or discussions underlying this Consent Decree and Final Judgment shall be offered or received in evidence in any action or proceeding for any purpose. Neither this Consent Decree and Final Judgment nor any public discussions, public statements or public comments with respect to this Consent Decree and Final Judgment by the State of [name of Settling State] or any Participating Manufacturer or its agents shall be offered or received in evidence in any action or proceeding for any purpose other than in an action or proceeding arising under or relating to this Consent Decree and Final Judgment.

H. All obligations of the Participating Manufacturers pursuant to this Consent Decree and Final Judgment (including, but not limited to, all payment obligations) are, and shall remain, several and not joint.

I. The provisions of this Consent Decree and Final Judgment are applicable only to actions taken (or omitted to be taken) within the States. Provided, however, that the preceding sentence shall not be construed as extending the territorial scope of any provision of this Consent Decree and Final Judgment whose scope is otherwise limited by the terms thereof.

J. Nothing in subsection V(A) or V(I) of this Consent Decree shall create a right to challenge the continuation, after the MSA Execution Date, of any advertising content, claim or slogan (other than use of a Cartoon) that was not unlawful prior to the MSA Execution Date.

K. If the Agreement terminates in this State for any reason, then this Consent Decree and Final Judgment shall be void and of no further effect.

VII. FINAL DISPOSITION

A. The Agreement, the settlement set forth therein, and the establishment of the escrow provided for therein are hereby approved in all respects, and all claims are hereby dismissed with prejudice as provided therein.

B. The Court finds that the person[s] signing the Agreement have full and complete authority to enter into the binding and fully effective settlement of this action as set forth in the Agreement. The Court further finds that entering into this settlement is in the best interests of the State of [name of Settling State].

LET JUDGMENT BE ENTERED ACCORDINGLY

DATED this _____ day of ______________, 1998.

EXHIBIT M
LIST OF PARTICIPATING MANUFACTURERS' LAWSUITS AGAINST THE SETTLING STATES

1. Philip Morris, Inc., et al. v. Margery Bronster, Attorney General of the State of Hawaii, In Her Official Capacity, Civ. No. 96-00722HG, United States District Court for the District of Hawaii

2. Philip Morris, Inc., et al. v. Bruce Botelho, Attorney General of the State of Alaska, In His Official Capacity, Civ. No. A97-0003CV, United States District Court for the District of Alaska

3. Philip Morris, Inc., et al. v. Scott Harshbarger, Attorney General of the Commonwealth of Massachusetts, In His Official Capacity, Civ. No. 95-12574-GAO, United States District Court for the District of Massachusetts

4. Philip Morris, Inc., et al. v. Richard Blumenthal, Attorney General of the State of Connecticut, In His Official Capacity, Civ. No. 396CV01221 (PCD), United States District Court for the District of Connecticut

5. Philip Morris, et al. v. William H. Sorrell, et al., No. 1:98-ev-132, United States District Court for the District of Vermont

EXHIBIT N
LITIGATING POLITICAL SUBDIVISIONS

1. City of New York, et al. v. The Tobacco Institute, Inc. et al., Supreme Court of the State of New York, County of New York, Index No. 406225/96

2. County of Erie v. The Tobacco Institute, Inc. et al., Supreme Court of the State of New York, County of Erie, Index No. I 1997/359

3. County of Los Angeles v. R.J. Reynolds Tobacco Co. et al., San Diego Superior Court, No. 707651

4. The People v. Philip Morris, Inc. et al., San Francisco Superior Court, No. 980864

5. County of Cook v. Philip Morris, Inc. et al., Circuit Court of Cook County, Ill., No. 97-L-4550

EXHIBIT O
MODEL STATE FEE PAYMENT AGREEMENT

This STATE Fee Payment Agreement (the "STATE Fee Payment Agreement") is entered into as of _________, _____ between and among the Original Participating Manufacturers and STATE Outside Counsel (as defined herein), to provide for payment of attorneys' fees pursuant to Section XVII of the Master Settlement Agreement (the "Agreement").

WITNESSETH:

WHEREAS, the State of STATE and the Original Participating Manufacturers have entered into the Agreement to settle and resolve with finality all Released Claims against the Released Parties, including the Original Participating Manufacturers, as set forth in the Agreement; and

WHEREAS, Section XVII of the Agreement provides that the Original Participating Manufacturers shall pay reasonable attorneys' fees to those private outside counsel identified in Exhibit S to the Agreement, pursuant to the terms hereof;

NOW, THEREFORE, BE IT KNOWN THAT, in consideration of the mutual agreement of the State of STATE and the Original Participating Manufacturers to the terms of the Agreement and of the mutual agreement of STATE Outside Counsel and the Original Participating Manufacturers to the terms of this STATE Fee Payment Agreement, and such other consideration described herein, the Original Participating Manufacturers and STATE Outside Counsel agree as follows:

SECTION 1. *Definitions*.

All definitions contained in the Agreement are incorporated by reference herein, except as to terms specifically defined herein.

(a) "*Action*" means the lawsuit identified in Exhibit D, M or N to the Agreement that has been brought by or against the State of STATE [or Litigating Political Subdivision].

(b) "*Allocated Amount*" means the amount of any Applicable Quarterly Payment allocated to any Private Counsel (including STATE Outside Counsel) pursuant to section 17 hereof.

(c) "*Allocable Liquidated Share*" means, in the event that the sum of all Payable Liquidated Fees of Private Counsel as of any date specified in section 8 hereof exceeds the Applicable Liquidation Amount for any payment described therein, a percentage share of the Applicable Liquidation Amount equal to the proportion of (i) the amount of the Payable Liquidated Fee of STATE Outside Counsel to (ii) the sum of Payable Liquidated Fees of all Private Counsel.

(d) "*Applicable Liquidation Amount*" means, for purposes of the payments described in section 8 hereof —

(i) for the payment described in subsection (a) thereof, $125 million;

(ii) for the payment described in subsection (b) thereof, the difference between (A) $250 million and (B) the sum of all amounts paid in satisfaction of all Payable Liquidated Fees of Outside Counsel pursuant to subsection (a) thereof;

(iii) for the payment described in subsection (c) thereof, the difference between (A) $250 million and (B) the sum of all amounts paid in satisfaction of all Payable Liquidated Fees of Outside Counsel pursuant to subsections (a) and (b) thereof;

(iv) for the payment described in subsection (d) thereof, the difference between (A) $250 million and (B) the sum of all amounts paid in satisfaction of all Payable Liquidated Fees of Outside Counsel pursuant to subsections (a), (b) and (c) thereof;

(v) for the payment described in subsection (e) thereof, the difference between (A) $250 million and (B) the sum of all amounts paid in satisfaction of all Payable Liquidated Fees of Outside Counsel pursuant to subsections (a), (b), (c) and (d) thereof;

(vi) for each of the first, second and third quarterly payments for any calendar year described in subsection (f) thereof, $62.5 million; and

(vii) for each of the fourth calendar quarterly payments for any calendar year described in subsection (f) thereof, the difference between (A) $250 million and (B) the sum of all amounts paid in satisfaction of all Payable Liquidated Fees of Outside Counsel with respect to the preceding calendar quarters of the calendar year.

(e) "*Application*" means a written application for a Fee Award submitted to the Panel, as well as all supporting materials (which may include video recordings of interviews).

(f) "*Approved Cost Statement*" means both (i) a Cost Statement that has been accepted by the Original Participating Manufacturers; and (ii) in the event that a Cost Statement submitted by STATE Outside Counsel is disputed, the determination by arbitration pursuant to subsection (b) of section 19 hereof as to the amount of the reasonable costs and expenses of STATE Outside Counsel.

(g) "*Cost Statement*" means a signed and attested statement of reasonable costs and expenses of Outside Counsel for any action identified on Exhibit D, M or N to the Agreement that has been brought by or against a Settling State or Litigating Political Subdivision.

(h) "*Designated Representative*" means the person designated in writing, by each person or entity identified in Exhibit S to the Agreement [by the Attorney General of the State of STATE or as later certified in writing by the governmental prosecuting authority of the Litigating Political Subdivision], to act as their agent in receiving payments from the Original Participating Manufacturers for the benefit of STATE Outside Counsel pursuant to sections 8, 16 and 19 hereof, as applicable.

(i) "*Director*" means the Director of the Private Adjudication Center of the Duke University School of Law or such other person or entity as may be chosen by agreement of the Original Participating Manufacturers and the Committee described in the second sentence of paragraph (b)(ii) of section 11 hereof.

(j) "*Eligible Counsel*" means Private Counsel eligible to be allocated a part of a Quarterly Fee Amount pursuant to section 17 hereof.

(k) "*Federal Legislation*" means federal legislation that imposes an enforceable obligation on Participating Defendants to pay attorneys' fees with respect to Private Counsel.

(l) "*Fee Award*" means any award of attorneys' fees by the Panel in connection with a Tobacco Case.

(m) "*Liquidated Fee*" means an attorneys' fee for Outside Counsel for any action identified on Exhibit D, M or N to the Agreement that has been brought by or against a Settling State or Litigating Political Subdivision, in an amount agreed upon by the Original Participating Manufacturers and such Outside Counsel.

(n) "*Outside Counsel*" means all those Private Counsel identified in Exhibit S to the Agreement.

(o) "*Panel*" means the three-member arbitration panel described in section 11 hereof.

(p) "*Party*" means (i) STATE Outside Counsel and (ii) an Original Participating Manufacturer.

(q) "*Payable Cost Statement*" means the unpaid amount of a Cost Statement as to which all conditions precedent to payment have been satisfied.

(r) "*Payable Liquidated Fee*" means the unpaid amount of a Liquidated Fee as to which all conditions precedent to payment have been satisfied.

(s) "*Previously Settled States*" means the States of Mississippi, Florida and Texas.

(t) "*Private Counsel*" means all private counsel for all plaintiffs in a Tobacco Case (including STATE Outside Counsel).

(u) "*Quarterly Fee Amount*" means, for purposes of the quarterly payments described in sections 16, 17 and 18 hereof —

(i) for each of the first, second and third calendar quarters of any calendar year beginning with the first calendar quarter of 1999 and ending with the third calendar quarter of 2008, $125 million;

(ii) for each fourth calendar quarter of any calendar year beginning with the fourth calendar quarter of 1999 and ending with the fourth calendar quarter of 2003, the sum of (A) $125 million and (B) the difference, if any, between (*1*) $375 million and (*2*) the sum of all amounts paid in satisfaction of all Fee Awards of Private Counsel during such calendar year, if any;

(iii) for each fourth calendar quarter of any calendar year beginning with the fourth calendar quarter of 2004 and ending with the fourth calendar quarter of 2008, the sum of (A) $125 million; (B) the difference between (*1*) $375 million; and (*2*) the sum of all amounts paid in satisfaction of all Fee Awards of Private Counsel during such calendar year, if any; and (C) the difference, if any, between (*1*) $250 million and (*2*) the product of (*a*) .2 (two tenths) and (*b*) the sum of all amounts paid in satisfaction of all Liquidated Fees of Outside Counsel pursuant to section 8 hereof, if any;

(iv) for each of the first, second and third calendar quarters of any calendar year beginning with the first calendar quarter of 2009, $125 million; and

(v) for each fourth calendar quarter of any calendar year beginning with the fourth calendar quarter of 2009, the sum of (A) $125 million and (B) the difference, if any, between (*1*) $375 million and (*2*) the sum of all amounts paid in satisfaction of all Fee Awards of Private Counsel during such calendar year, if any.

(v) *"Related Persons"* means each Original Participating Manufacturer's past, present and future Affiliates, divisions, officers, directors, employees, representatives, insurers, lenders, underwriters, Tobacco-Related Organizations, trade associations, suppliers, agents, auditors, advertising agencies, public relations entities, attorneys, retailers and distributors (and the predecessors, heirs, executors, administrators, successors and assigns of each of the foregoing).

(w) "*State of STATE*" means the [applicable Settling State or the Litigating Political Subdivision], any of its past, present and future agents, officials acting in their official capacities, legal representatives, agencies, departments, commissions and subdivisions.

(x) "*STATE Outside Counsel*" means all persons or entities identified in Exhibit S to the Agreement by the Attorney General of State of STATE [or as later certified by the office of the governmental prosecuting authority for the Litigating Political Subdivision] as having been retained by and having represented the STATE in connection with the Action, acting collectively by unanimous decision of all such persons or entities.

(y) "*Tobacco Case*" means any tobacco and health case (other than a non-class action personal injury case brought directly by or on behalf of a single natural person or the survivor of such person or for wrongful death, or any non-class action consolidation of two or more such cases).

(z) *"Unpaid Fee"* means the unpaid portion of a Fee Award.

SECTION 2. *Agreement to Pay Fees*.

The Original Participating Manufacturers will pay reasonable attorneys' fees to STATE Outside Counsel for their representation of the State of STATE in connection with the Action, as provided herein and subject to the *Code of Professional Responsibility* of the American Bar Association. Nothing herein shall be construed to require the Original Participating Manufacturers to pay any attorneys' fees other than (i) a Liquidated Fee or a Fee Award and (ii) a Cost Statement, as provided herein, nor shall anything herein require the Original Participating Manufacturers to pay any Liquidated Fee, Fee Award or Cost Statement in connection with any litigation other than the Action.

SECTION 3. *Exclusive Obligation of the Original Participating Manufacturers*.

The provisions set forth herein constitute the entire obligation of the Original Participating Manufacturers with respect to payment of attorneys' fees of STATE Outside Counsel (including costs and expenses) in connection with the Action and the exclusive means by which STATE Outside Counsel or any other person or entity may seek payment of fees by the Original Participating Manufacturers or Related Persons in connection with the Action. The Original Participating Manufacturers shall have no obligation pursuant to Section XVII of the Agreement to pay attorneys' fees in connection with the Action to any counsel other than STATE Outside Counsel, and they shall have no other obligation to pay attorneys' fees to or otherwise to compensate STATE Outside Counsel, any other counsel or representative of the State of STATE or the State of STATE itself with respect to attorneys' fees in connection with the Action.

SECTION 4. *Release*.

(a) Each person or entity identified in Exhibit S to the Agreement by the Attorney General of the State of STATE [or as certified by the office of the governmental prosecuting authority for the Litigating Political Subdivision] hereby irrevocably releases the Original Participating Manufacturers and all Related Persons from any and all claims that such person or entity ever had, now has or hereafter can, shall or may have in any way related to the Action (including but not limited to any negotiations related to the settlement of the Action). Such release shall not be construed as a release of any person or entity as to any of the obligations undertaken herein in connection with a breach thereof.

(b) In the event that STATE Outside Counsel and the Original Participating Manufacturers agree upon a Liquidated Fee pursuant to section 7 hereof, it shall be a precondition to any payment by the Original Participating Manufacturers to the Designated Representative pursuant to section 8 hereof that each person or entity identified in Exhibit S to the Agreement by the Attorney General of the State of STATE [or as certified by the office of the governmental prosecuting authority for the Litigating Political Subdivision] shall have irrevocably released all entities represented by STATE Outside Counsel in the Action, as well as all persons acting by or on behalf of such entities (including the Attorney General [or the office of the governmental prosecuting authority] and each other person or entity identified on Exhibit S to the Agreement by the Attorney General [or the office of the governmental prosecuting authority]) from any and all claims that such person or entity ever had, now has or hereafter can, shall or may have in any way related to the Action (including but not limited to any negotiations related to the settlement of the Action). Such release shall not be construed as a release of any person or entity as to any of the obligations undertaken herein in connection with a breach thereof.

SECTION 5. *No Effect on STATE Outside Counsel's Fee Contract*.

The rights and obligations, if any, of the respective parties to any contract between the State of STATE and STATE Outside Counsel shall be unaffected by this STATE Fee Payment Agreement except (a) insofar as STATE Outside Counsel grant the release described in subsection (b) of section 4 hereof; and (b) to the extent that STATE Outside Counsel receive any payments in satisfaction of a Fee Award pursuant to section 16 hereof, any amounts so received shall be credited, on a dollar-for-dollar basis, against any amount payable to STATE Outside Counsel by the State of STATE [or the Litigating Political Subdivision] under any such contract.

SECTION 6. *Liquidated Fees*.

(a) In the event that the Original Participating Manufacturers and STATE Outside Counsel agree upon the amount of a Liquidated Fee, the Original Participating Manufacturers shall pay such Liquidated Fee, pursuant to the terms hereof.

(b) The Original Participating Manufacturers' payment of any Liquidated Fee pursuant to this STATE Fee Payment Agreement shall be subject to (i) satisfaction of the conditions precedent stated in section 4 and paragraph (c)(ii) of section 7 hereof; and (ii) the payment schedule and the annual and quarterly aggregate national caps specified in sections 8 and 9 hereof, which shall apply to all payments made with respect to Liquidated Fees of all Outside Counsel.

SECTION 7. *Negotiation of Liquidated Fees*.

(a) If STATE Outside Counsel seek to be paid a Liquidated Fee, the Designated Representative shall so notify the Original Participating Manufacturers. The Original Participating Manufacturers may at any time make an offer of a Liquidated Fee to the Designated Representative in an amount set by the unanimous agreement, and at the sole discretion, of the Original Participating Manufacturers and, in any event, shall collectively make such an offer to the Designated Representative no more than 60 Business Days after receipt of notice by the Designated Representative that STATE Outside

Counsel seek to be paid a Liquidated Fee. The Original Participating Manufacturers shall not be obligated to make an offer of a Liquidated Fee in any particular amount. Within ten Business Days after receiving such an offer, STATE Outside Counsel shall either accept the offer, reject the offer or make a counteroffer.

(b) The national aggregate of all Liquidated Fees to be agreed to by the Original Participating Manufacturers in connection with the settlement of those actions indicated on Exhibits D, M and N to the Agreement shall not exceed one billion two hundred fifty million dollars ($1,250,000,000).

(c) If the Original Participating Manufacturers and STATE Outside Counsel agree in writing upon a Liquidated Fee:

(i) STATE Outside Counsel shall not be eligible for a Fee Award;

(ii) such Liquidated Fee shall not become a Payable Liquidated Fee until such time as (A) State-Specific Finality has occurred in the State of STATE; (B) each person or entity identified in Exhibit S to the Agreement by the Attorney General of the State of STATE [or as certified by the office of the governmental prosecuting authority of the Litigating Political Subdivision] has granted the release described in subsection (b) of section 4 hereof; and (C) notice of the events described in subparagraphs (A) and (B) of this paragraph has been provided to the Original Participating Manufacturers.

(iii) payment of such Liquidated Fee pursuant to sections 8 and 9 hereof (together with payment of costs and expenses pursuant to section 19 hereof), shall be STATE Outside Counsel's total and sole compensation by the Original Participating Manufacturers in connection with the Action.

(d) If the Original Participating Manufacturers and STATE Outside Counsel do not agree in writing upon a Liquidated Fee, STATE Outside Counsel may submit an Application to the Panel for a Fee Award to be paid as provided in sections 16, 17 and 18 hereof.

SECTION 8. *Payment of Liquidated Fee*.

In the event that the Original Participating Manufacturers and STATE Outside Counsel agree in writing upon a Liquidated Fee, and until such time as the Designated Representative has received payments in full satisfaction of such Liquidated Fee —

(a) On February 1, 1999, if the Liquidated Fee of STATE Outside Counsel became a Payable Liquidated Fee before January 15, 1999, each Original Participating Manufacturer shall severally pay to the Designated Representative its Relative Market Share of the lesser of (i) the Payable Liquidated Fee of STATE Outside Counsel, (ii) $5 million or (iii) in the event that the sum of all Payable Liquidated Fees of all Outside Counsel as of January 15, 1999 exceeds the Applicable Liquidation Amount, the Allocable Liquidated Share of STATE Outside Counsel.

(b) On August 1, 1999, if the Liquidated Fee of STATE Outside Counsel became a Payable Liquidated Fee on or after January 15, 1999 and before July 15, 1999, each Original Participating Manufacturer shall severally pay to the Designated Representative its Relative Market Share of the lesser of (i) the Payable Liquidated Fee of STATE Outside Counsel, (ii) $5 million or (iii) in the event that the sum of all Payable Liquidated Fees of all Outside Counsel that became Payable Liquidated Fees on or after January 15, 1999 and before July 15, 1999 exceeds the Applicable Liquidation Amount, the Allocable Liquidated Share of STATE Outside Counsel.

(c) On December 15, 1999, if the Liquidated Fee of STATE Outside Counsel became a Payable Liquidated Fee on or after July 15, 1999 and before December 1, 1999, each Original Participating Manufacturer shall severally pay to the Designated Representative its Relative Market Share of the lesser of (i) the Payable Liquidated Fee of STATE Outside Counsel, (ii) $5 million or (iii) in the event that the sum of all Payable Liquidated Fees of all Outside Counsel that became Payable Liquidated Fees on or after July 15, 1999 and before December 1, 1999 exceeds the Applicable Liquidation Amount, the Allocable Liquidated Share of STATE Outside Counsel.

(d) On December 15, 1999, if the Liquidated Fee of STATE Outside Counsel became a Payable Liquidated Fee before December 1, 1999, each Original Participating Manufacturer shall severally pay to the Designated Representative its Relative Market Share of the lesser of (i) the Payable Liquidated Fee of STATE Outside Counsel, or (ii) $5 million or (iii) in the event that the sum of all Payable Liquidated Fees of all Outside Counsel that become Payable Liquidated Fees before December 1, 1999 exceeds the Applicable Liquidation Amount, the Allocable Liquidated Share of STATE Outside Counsel.

(e) On December 15, 1999, if the Liquidated Fee of STATE Outside Counsel became a Payable Liquidated Fee before December 1, 1999, each Original Participating Manufacturer shall severally pay to the Designated Representative its Relative Market Share of the lesser of (i) the Payable Liquidated Fee of STATE Outside Counsel or (ii) in the event that the sum of all Payable Liquidated Fees of all Outside Counsel that became Payable Liquidated Fees before December 1, 1999 exceeds the Applicable Liquidation Amount, the Allocable Liquidated Share of STATE Outside Counsel.

(f) On the last day of each calendar quarter, beginning with the first calendar quarter of 2000 and ending with the fourth calendar quarter of 2003, if the Liquidated Fee of STATE Outside Counsel became a Payable Liquidated Fee at least 15 Business Days prior to the last day of each such calendar quarter, each Original Participating Manufacturer shall severally pay to the Designated Representative its Relative Market Share of the lesser of (i) the Payable Liquidated Fee of STATE Outside Counsel or (ii) in the event that the sum of all Payable Liquidated Fees of all Outside Counsel as of the date 15 Business Days prior to the date of the payment in question exceeds the Applicable Liquidation Amount, the Allocable Liquidated Share of STATE Outside Counsel.

SECTION 9. *Limitations on Payments of Liquidated Fees*.

Notwithstanding any other provision hereof, all payments by the Original Participating Manufacturers with respect to Liquidated Fees shall be subject to the following:

(a) Under no circumstances shall the Original Participating Manufacturers be required to make any payment that would result in aggregate national payments of Liquidated Fees:

(i) during 1999, totaling more than $250 million;

(ii) with respect to any calendar quarter beginning with the first calendar quarter of 2000 and ending with the fourth calendar quarter of 2003, totaling more than $62.5 million, except to the extent that a payment with respect to any prior calendar quarter of any calendar year did not total $62.5 million; or

(iii) with respect to any calendar quarter after the fourth calendar quarter of 2003, totaling more than zero.

(b) The Original Participating Manufacturers' obligations with respect to the Liquidated Fee of STATE Outside Counsel, if any, shall be exclusively as provided in this STATE Fee Payment Agreement, and notwithstanding any other provision of law, such Liquidated Fee shall not be entered as or reduced to a judgment against the Original Participating Manufacturers or considered as a basis for requiring a bond or imposing a lien or any other encumbrance.

SECTION 10. *Fee Awards*.

(a) In the event that the Original Participating Manufacturers and STATE Outside Counsel do not agree in writing upon a Liquidated Fee as described in section 7 hereof, the Original Participating Manufacturers shall pay, pursuant to the terms hereof, the Fee Award awarded by the Panel to STATE Outside Counsel.

(b) The Original Participating Manufacturers' payment of any Fee Award pursuant to this STATE Fee Payment Agreement shall be subject to the payment schedule and the annual and quarterly aggregate national caps specified in sections 17 and 18 hereof, which shall apply to:

(i) all payments of Fee Awards in connection with an agreement to pay fees as part of the settlement of any Tobacco Case on terms that provide for payment by the Original Participating Manufacturers or other defendants acting in agreement with the Original Participating Manufacturers (collectively, "Participating Defendants") of fees with respect to any Private Counsel, subject to an annual cap on payment of all such fees; and

(ii) all payments of attorneys' fees (other than fees for attorneys of Participating Defendants) pursuant to Fee Awards for activities in connection with any Tobacco Case resolved by operation of Federal Legislation.

SECTION 11. *Composition of the Panel*.

(a) The first and the second members of the Panel shall both be permanent members of the Panel and, as such, will participate in the determination of all Fee Awards. The third Panel member shall not be a permanent Panel member, but instead shall be a state-specific member selected to determine Fee Awards on behalf of Private Counsel retained in connection with litigation within a single state. Accordingly, the third, state-specific member of the Panel for purposes of determining Fee Awards with respect to litigation in the State of STATE shall not participate in any determination as to any Fee Award with respect to litigation in any other state (unless selected to participate in such determinations by such persons as may be authorized to make such selections under other agreements).

(b) The members of the Panel shall be selected as follows:

(i) The first member shall be the natural person selected by Participating Defendants.

(ii) The second member shall be the person jointly selected by the agreement of Participating Defendants and a majority of the committee described in the fee payment agreements entered in connection with the settlements of the Tobacco Cases brought by the Previously Settled States. In the event that the person so selected is unable or unwilling to continue to serve, a replacement for such member shall be selected by agreement of the Original Participating Manufacturers and a majority of the members of a committee composed of the following members: Joseph F. Rice, Richard F. Scruggs, Steven W. Berman, Walter Umphrey, one additional representative, to be selected in the sole discretion of NAAG, and two representatives of Private Counsel in Tobacco Cases, to be selected at the sole discretion of the Original Participating Manufacturers.

(iii) The third, state-specific member for purposes of determining Fee Awards with respect to litigation in the State of STATE shall be a natural person selected by STATE Outside Counsel, who shall notify the Director and the Original Participating Manufacturers of the name of the person selected.

SECTION 12. *Application of STATE Outside Counsel*.

(a) STATE Outside Counsel shall make a collective Application for a single Fee Award, which shall be submitted to the Director. Within five Business Days after receipt of the Application by STATE Outside Counsel, the Director shall serve the Application upon the Original Participating Manufacturers and the STATE. The Original Participating Manufacturers shall submit all materials in response to the Application to the Director by the later of (i) 60 Business Days after service of the Application upon the Original Participating Manufacturers by the Director, (ii) five Business Days after the date of State-Specific Finality in the State of STATE or (iii) five Business Days after the date on which notice of the name of the third, state-specific panel member described in paragraph (b)(iii) of section 11 hereof has been provided to the Director and the Original Participating Manufacturers.

(b) The Original Participating Manufacturers may submit to the Director any materials that they wish and, notwithstanding any restrictions or representations made in any other agreements, the Original Participating Manufacturers shall be in no way constrained from contesting the amount of the Fee Award requested by STATE Outside Counsel. The Director, the Panel, the State of STATE, the Original Participating Manufacturers and STATE Outside Counsel shall preserve the confidentiality of any attorney work-product materials or other similar confidential information that may be submitted.

(c) The Director shall forward the Application of STATE Outside Counsel, as well as all written materials relating to such Application that have been submitted by the Original Participating Manufacturers pursuant to subsection (b) of this section, to the Panel within five Business Days after the later of (i) the expiration of the period for the Original Participating Manufacturers to submit such materials or (ii) the earlier of (A) the date on which the Panel issues a Fee Award with respect to any Application of other Private Counsel previously forwarded to the Panel by the Director or (B) 30 Business Days after the forwarding to the Panel of the Application of other Private Counsel most recently forwarded to the Panel by the Director. The Director shall notify the Parties upon forwarding the Application (and all written materials relating thereto) to the Panel.

(d) In the event that either Party seeks a hearing before the Panel, such Party may submit a request to the Director in writing within five Business Days after the forwarding of the Application of STATE Outside Counsel to the Panel by the Director, and the Director shall promptly forward the request to the Panel. If the Panel grants the request, it shall promptly set a date for hearing, such date to fall within 30 Business Days after the date of the Panel's receipt of the Application.

SECTION 13. *Panel Proceedings*.

The proceedings of the Panel shall be conducted subject to the terms of this Agreement and of the Protocol of Panel Procedures attached as an Appendix hereto.

SECTION 14. *Award of Fees to STATE Outside Counsel*.

The members of the Panel will consider all relevant information submitted to them in reaching a decision as to a Fee Award that fairly provides for full reasonable compensation of STATE Outside Counsel. In considering the amount of the Fee Award, the Panel shall not consider any Liquidated Fee agreed to by any other Outside Counsel, any offer of or negotiations relating to any proposed liquidated fee for STATE Outside Counsel or any Fee Award that already has been or yet may be awarded in connection with any other Tobacco Case. The Panel shall not be limited to an hourly-rate or lodestar analysis in determining the amount of the Fee Award of STATE Outside Counsel, but shall take into account the totality of the circumstances. The Panel's decisions as to the Fee Award of STATE Outside Counsel shall be in writing and shall report the amount of the fee awarded (with or without explanation or opinion, at the Panel's discretion). The Panel shall determine the amount of the Fee Award to be paid to STATE Outside Counsel within the later of 30 calendar days after receiving the Application (and all related materials) from the Director or 15 Business Days after the last date of any hearing held pursuant to subsection (d) of section 12 hereof. The Panel's decision as to the Fee Award of STATE Outside Counsel shall be final, binding and non-appealable.

SECTION 15. *Costs of Arbitration*.

All costs and expenses of the arbitration proceedings held by the Panel, including costs, expenses and compensation of the Director and of the Panel members (but not including any costs, expenses or compensation of counsel making applications to the Panel), shall be borne by the Original Participating Manufacturers in proportion to their Relative Market Shares.

SECTION 16. *Payment of Fee Award of STATE Outside Counsel*.

On or before the tenth Business Day after the last day of each calendar quarter beginning with the first calendar quarter of 1999, each Original Participating Manufacturer shall severally pay to the Designated Representative its Relative Market Share of the Allocated Amount for STATE Outside Counsel for the calendar quarter with respect to which such quarterly payment is being made (the "Applicable Quarter").

SECTION 17. *Allocated Amounts of Fee Awards*.

The Allocated Amount for each Private Counsel with respect to any payment to be made for any particular Applicable Quarter shall be determined as follows:

(a) The Quarterly Fee Amount shall be allocated equally among each of the three months of the Applicable Quarter. The amount for each such month shall be allocated among those Private Counsel retained in connection with Tobacco Cases settled before or during such month (each such Private Counsel being an "Eligible Counsel" with respect to such monthly amount), each of which shall be allocated a portion of each such monthly amount up to (or, in the event that the sum of all Eligible Counsel's respective Unpaid Fees exceeds such monthly amount, in proportion to) the amount of such Eligible Counsel's Unpaid Fees. The monthly amount for each month of the calendar quarter shall be allocated among those Eligible Counsel having Unpaid Fees, without regard to whether there may be Eligible Counsel that have not yet been granted or denied a Fee Award as of the last day of the Applicable Quarter. The allocation of subsequent Quarterly Fee Amounts for the calendar year, if any, shall be adjusted, as necessary, to account for any Eligible Counsel that are granted Fee Awards in a subsequent quarter of such calendar year, as provided in paragraph (b)(ii) of this section.

(b) In the event that the amount for a given month is less than the sum of the Unpaid Fees of all Eligible Counsel:

(i) in the case of the first quarterly allocation for any calendar year, such monthly amount shall be allocated among all Eligible Counsel for such month in proportion to the amounts of their respective Unpaid Fees.

(ii) in the case of a quarterly allocation after the first quarterly allocation, the Quarterly Fee Amount shall be allocated among only those Private Counsel, if any, that were Eligible Counsel with respect to any monthly amount for any prior quarter of the calendar year but were not allocated a proportionate share of such monthly amount (either because such Private Counsel's applications for Fee Awards were still under consideration as of the last day of the calendar quarter containing the month in question or for any other reason), until each such Eligible Counsel has been allocated a proportionate share of all such prior monthly payments for the calendar year (each such share of each such Eligible Counsel being a "Payable Proportionate Share"). In the event that the sum of all Payable Proportionate Shares exceeds the Quarterly Fee Amount, the Quarterly Fee Amount shall be allocated among such Eligible Counsel on a monthly basis in proportion to the amounts of their respective Unpaid Fees (without regard to whether there may be other Eligible Counsel with respect to such prior monthly amounts that have not yet been granted or denied a Fee Award as of the last day of the Applicable Quarter). In the event that the sum of all Payable Proportionate Shares is less than the Quarterly Fee Amount, the amount by which the Quarterly Fee Amount exceeds the sum of all such Payable Proportionate Shares shall be allocated among each month of the calendar quarter, each such monthly amount to be allocated among those Eligible Counsel having Unpaid Fees in proportion to the amounts of their respective Unpaid Fees (without regard to whether there may be Eligible Counsel that have not yet been granted or denied a Fee Award as of the last day of the Applicable Quarter).

(c) Adjustments pursuant to subsection (b)(ii) of this section 17 shall be made separately for each calendar year. No amounts paid in any calendar year shall be subject to refund, nor shall any payment in any given calendar year affect the allocation of payments to be made in any subsequent calendar year.

SECTION 18. *Credits to and Limitations on Payment of Fee Awards*.

Notwithstanding any other provision hereof, all payments by the Original Participating Manufacturers with respect to Fee Awards shall be subject to the following:

(a) Under no circumstances shall the Original Participating Manufacturers be required to make payments that would result in aggregate national payments and credits by Participating Defendants with respect to all Fee Awards of Private Counsel:

(i) during any year beginning with 1999, totaling more than the sum of the Quarterly Fee Amounts for each calendar quarter of the calendar year, excluding certain payments with respect to any Private Counsel for 1998 that are paid in 1999; and

(ii) during any calendar quarter beginning with the first calendar quarter of 1999, totaling more than the Quarterly Fee Amount for such quarter, excluding certain payments with respect to any Private Counsel for 1998 that are paid in 1999.

(b) The Original Participating Manufacturers' obligations with respect to the Fee Award of STATE Outside Counsel, if any, shall be exclusively as provided in this STATE Fee Payment Agreement, and notwithstanding any other provision of law, such Fee Award shall not be entered as or reduced to a judgment against the Original Participating Manufacturers or considered as a basis for requiring a bond or imposing a lien or any other encumbrance.

SECTION 19. *Reimbursement of Outside Counsel's Costs*.

(a) The Original Participating Manufacturers shall reimburse STATE Outside Counsel for reasonable costs and expenses incurred in connection with the Action, provided that such costs and expenses are of the same nature as costs and expenses for which the Original Participating Manufacturers ordinarily reimburse their own counsel or agents. Payment of any Approved Cost Statement pursuant to this STATE Fee Payment Agreement shall be subject to (i) the condition precedent of approval of the Agreement by the Court for the State of STATE and (ii) the payment schedule and the aggregate national caps specified in subsection (c) of this section, which shall apply to all payments made with respect to Cost Statements of all Outside Counsel.

(b) In the event that STATE Outside Counsel seek to be reimbursed for reasonable costs and expenses incurred in connection with the Action, the Designated Representative shall submit a Cost Statement to the Original Participating Manufacturers. Within 30 Business Days after receipt of any such Cost Statement, the Original Participating Manufacturers shall either accept the Cost Statement or dispute the Cost Statement, in which event the Cost Statement shall be subject to a full audit by examiners to be appointed by the Original Participating Manufacturers (in their sole discretion). Any such audit will be completed within 120 Business Days after the date the Cost Statement is received by the Original Participating Manufacturers. Upon completion of such audit, if the Original Participating Manufacturers and STATE Outside Counsel cannot agree as to the appropriate amount of STATE Outside Counsel's reasonable costs and expenses, the Cost Statement and the examiner's audit report shall be submitted to the Director for arbitration before the Panel or, in the event that STATE Outside Counsel and the Original Participating Manufacturers have agreed upon a Liquidated Fee pursuant to section 7 hereof, before a separate three-member panel of independent arbitrators, to be selected in a manner to be agreed to by STATE Outside Counsel and the Original Participating Manufacturers, which shall determine the amount of STATE Outside Counsel's reasonable costs and expenses for the Action. In determining such reasonable costs and expenses, the members of the arbitration panel shall be governed by the Protocol of Panel Procedures attached as an Appendix hereto. The amount of

STATE Outside Counsel's reasonable costs and expenses determined pursuant to arbitration as provided in the preceding sentence shall be final, binding and non-appealable.

(c) Any Approved Cost Statement of STATE Outside Counsel shall not become a Payable Cost Statement until approval of the Agreement by the Court for the State of STATE. Within five Business Days after receipt of notification thereof by the Designated Representative, each Original Participating Manufacturer shall severally pay to the Designated Representative its Relative Market Share of the Payable Cost Statement of STATE Outside Counsel, subject to the following:

(i) All Payable Cost Statements of Outside Counsel shall be paid in the order in which such Payable Cost Statements became Payable Cost Statements.

(ii) Under no circumstances shall the Original Participating Manufacturers be required to make payments that would result in aggregate national payments by Participating Defendants of all Payable Cost Statements of Private Counsel in connection with all of the actions identified in Exhibits D, M and N to the Agreement, totaling more than $75 million for any given year.

(iii) Any Payable Cost Statement of Outside Counsel not paid during the year in which it became a Payable Cost Statement as a result of paragraph (ii) of this subsection shall become payable in subsequent years, subject to paragraphs (i) and (ii), until paid in full.

(d) The Original Participating Manufacturers' obligations with respect to reasonable costs and expenses incurred by STATE Outside Counsel in connection with the Action shall be exclusively as provided in this STATE Fee Payment Agreement, and notwithstanding any other provision of law, any Approved Cost Statement determined pursuant to subsection (b) of this section (including any Approved Cost Statement determined pursuant to arbitration before the Panel or the separate three-member panel of independent arbitrators described therein) shall not be entered as or reduced to a judgment against the Original Participating Manufacturers or considered as a basis for requiring a bond or imposing a lien or any other incumbrance.

SECTION 20. *Distribution of Payments among STATE Outside Counsel*.

(a) All payments made to the Designated Representative pursuant to this STATE Fee Payment Agreement shall be for the benefit of each person or entity identified in Exhibit S to the Agreement by the Attorney General of the State of STATE [or as certified by the governmental prosecuting authority of the Litigating Political Subdivision], each of which shall receive from the Designated Representative a percentage of each such payment in accordance with the fee sharing agreement, if any, among STATE Outside Counsel (or any written amendment thereto).

(b) The Original Participating Manufacturers shall have no obligation, responsibility or liability with respect to the allocation among those persons or entities identified in Exhibit S to the Agreement by the Attorney General of the State of STATE [or as certified by the governmental prosecuting authority of the Litigating Political Subdivision], or with respect to any claim of misallocation, of any amounts paid to the Designated Representative pursuant to this STATE Fee Payment Agreement.

SECTION 21. *Calculations of Amounts*.

All calculations that may be required hereunder shall be performed by the Original Participating Manufacturers, with notice of the results thereof to be given promptly to the Designated Representative. Any disputes as to the correctness of calculations made by the Original Participating Manufacturers shall be resolved pursuant to the procedures described in Section XI(c) of the Agreement for resolving disputes as to calculations by the Independent Auditor.

SECTION 22. *Payment Responsibility*.

(a) Each Original Participating Manufacturer shall be severally liable for its share of all payments pursuant to this STATE Fee Payment Agreement. Under no circumstances shall any payment due hereunder or any portion thereof become the joint obligation of the Original Participating Manufacturers or the obligation of any person other than the Original Participating Manufacturer from which such payment is originally due, nor shall any Original Participating Manufacturer be required to pay a portion of any such payment greater than its Relative Market Share.

(b) Due to the particular corporate structures of R. J. Reynolds Tobacco Company ("Reynolds") and Brown & Williamson Tobacco Corporation ("Brown & Williamson") with respect to their non-domestic tobacco operations, Reynolds and Brown & Williamson shall each be severally liable for its respective share of each payment due pursuant to this STATE Fee Payment Agreement up to (and its liability hereunder shall not exceed) the full extent of its assets used in, and earnings and revenues derived from, its manufacture and sale in the United States of Tobacco Products intended for domestic consumption, and no recourse shall be had against any of its other assets or earnings to satisfy such obligations.

SECTION 23. *Termination*.

In the event that the Agreement is terminated with respect to the State of STATE pursuant to Section XVIII(u) of the Agreement (or for any other reason) the Designated Representative and each person or entity identified in Exhibit S to the Agreement by the Attorney General of the State of STATE [or as certified by the governmental prosecuting authority of the Litigating Political Subdivision] shall immediately refund to the Original Participating Manufacturers all amounts received under this STATE Fee Payment Agreement.

SECTION 24. *Intended Beneficiaries*.

No provision hereof creates any rights on the part of, or is enforceable by, any person or entity that is not a Party or a person covered by either of the releases described in section 4 hereof, except that sections 5 and 20 hereof create rights on the part of, and shall be enforceable by, the State of STATE. Nor shall any provision hereof bind any non-signatory or determine, limit or prejudice the rights of any such person or entity.

SECTION 25. *Representations of Parties*.

The Parties hereto hereby represent that this STATE Fee Payment Agreement has been duly authorized and, upon execution, will constitute a valid and binding contractual obligation, enforceable in accordance with its terms, of each of the Parties hereto.

SECTION 26. *No Admission*.

This STATE Fee Payment Agreement is not intended to be and shall not in any event be construed as, or deemed to be, an admission or concession or evidence of any liability or wrongdoing whatsoever on the part of any signatory hereto or any person covered by either of the releases provided under section 4 hereof. The Original Participating Manufacturers specifically disclaim and deny any liability or wrongdoing whatsoever with respect to the claims released under section 4 hereof and enter into this STATE Fee Payment Agreement for the sole purposes of memorializing the Original Participating Manufacturers' rights and obligations with respect to payment of attorneys' fees pursuant to the Agreement and avoiding the further expense, inconvenience, burden and uncertainty of potential litigation.

SECTION 27. *Non-admissibility*.

This STATE Fee Payment Agreement having been undertaken by the Parties hereto in good faith and for settlement purposes only, neither this STATE Fee Payment Agreement nor any evidence of negotiations relating hereto shall be offered or received in evidence in any action or proceeding other than an action or proceeding arising under this STATE Fee Payment Agreement.

SECTION 28. *Amendment and Waiver*.

This STATE Fee Payment Agreement may be amended only by a written instrument executed by the Parties. The waiver of any rights conferred hereunder shall be effective only if made by written instrument executed by the waiving Party. The waiver by any Party of any breach hereof shall not be deemed to be or construed as a waiver of any other breach, whether prior, subsequent or contemporaneous, of this STATE Fee Payment Agreement.

SECTION 29. *Notices*.

All notices or other communications to any party hereto shall be in writing (including but not limited to telex, facsimile or similar writing) and shall be given to the notice parties listed on Schedule A hereto at the addresses therein indicated. Any Party hereto may change the name and address of the person designated to receive notice on behalf of such Party by notice given as provided in this section including an updated list conformed to Schedule A hereto.

SECTION 30. *Governing Law*.

This STATE Fee Payment Agreement shall be governed by the laws of the State of STATE without regard to the conflict of law rules of such State.

SECTION 31. *Construction*.

None of the Parties hereto shall be considered to be the drafter hereof or of any provision hereof for the purpose of any statute, case law or rule of interpretation or construction that would or might cause any provision to be construed against the drafter hereof.

SECTION 32. *Captions*.

The captions of the sections hereof are included for convenience of reference only and shall be ignored in the construction and interpretation hereof.

SECTION 33. *Execution of STATE Fee Payment Agreement*.

This STATE Fee Payment Agreement may be executed in counterparts. Facsimile or photocopied signatures shall be considered valid signatures as of the date hereof, although the original signature pages shall thereafter be appended to this STATE Fee Payment Agreement.

SECTION 34. *Entire Agreement of Parties*.

This STATE Fee Payment Agreement contains an entire, complete and integrated statement of each and every term and provision agreed to by and among the Parties with respect to payment of attorneys' fees by the Original Participating Manufacturers in connection with the Action and is not subject to any condition or covenant, express or implied, not provided for herein.

IN WITNESS WHEREOF, the Parties hereto, through their fully authorized representatives, have agreed to this STATE Fee Payment Agreement as of this __th day of ________, 1998.

[SIGNATURE BLOCK]

APPENDIX
to MODEL FEE PAYMENT AGREEMENT

PROTOCOL OF PANEL PROCEEDINGS

This Protocol of procedures has been agreed to between the respective parties to the STATE Fee Payment Agreement, and shall govern the arbitration proceedings provided for therein.

SECTION 1. *Definitions*.

All definitions contained in the STATE Fee Payment Agreement are incorporated by reference herein.

SECTION 2. *Chairman*.

The person selected to serve as the permanent, neutral member of the Panel as described in paragraph (b)(ii) of section 11 of the STATE Fee Payment Agreement shall serve as the Chairman of the Panel.

SECTION 3. *Arbitration Pursuant to Agreement*.

The members of the Panel shall determine those matters committed to the decision of the Panel under the STATE Fee Payment Agreement, which shall govern as to all matters discussed therein.

SECTION 4. *ABA Code of Ethics*.

Each of the members of the Panel shall be governed by the *Code of Ethics for Arbitrators in Commercial Disputes* prepared by the American Arbitration Association and the American Bar Association (the "*Code of Ethics*") in conducting the arbitration proceedings pursuant to the STATE Fee Payment Agreement, subject to the terms of the STATE Fee Payment Agreement and this Protocol. Each of the party-appointed members of the Panel shall be governed by Canon VII of the *Code of Ethics*. No person may engage in any *ex parte* communications with the permanent, neutral member of the Panel selected pursuant to paragraph (b)(ii) of section 11, in keeping with Canons I, II and III of the *Code of Ethics*.

SECTION 5. *Additional Rules and Procedures*.

The Panel may adopt such rules and procedures as it deems necessary and appropriate for the discharge of its duties under the STATE Fee Payment Agreement and this Protocol, subject to the terms of the STATE Fee Payment Agreement and this Protocol.

SECTION 6. *Majority Rule*.

In the event that the members of the Panel are not unanimous in their views as to any matter to be determined by them pursuant to the STATE Fee Payment Agreement or this Protocol, the determination shall be decided by a vote of a majority of the three members of the Panel.

SECTION 7. *Application for Fee Award and Other Materials*.

(a) The Application of STATE Outside Counsel and any materials submitted to the Director relating thereto (collectively, "submissions") shall be forwarded by the Director to each of the members of the Panel in the manner and on the dates specified in the STATE Fee Payment Agreement.

(b) All materials submitted to the Director by either Party (or any other person) shall be served upon all Parties. All submissions required to be served on any Party shall be deemed to have been served as of the date on which such materials have been sent by either (i) hand delivery or (ii) facsimile and overnight courier for priority next-day delivery.

(c) To the extent that the Panel believes that information not submitted to the Panel may be relevant for purposes of determining those matters committed to the decision of the Panel under the terms of the STATE Fee Payment Agreement, the Panel shall request such information from the Parties.

SECTION 8. *Hearing*.

Any hearing held pursuant to section 12 of the STATE Fee Payment Agreement shall not take place other than in the presence of all three members of the Panel upon notice and an opportunity for the respective representatives of the Parties to attend.

SECTION 9. *Miscellaneous*.

(a) Each member of the Panel shall be compensated for his services by the Original Participating Manufacturers on a basis to be agreed to between such member and the Original Participating Manufacturers.

(b) The members of the Panel shall refer all media inquiries regarding the arbitration proceeding to the respective Parties to the STATE Fee Payment Agreement and shall refrain from any comment as to the arbitration proceedings to be conducted pursuant to the STATE Fee Payment Agreement during the pendency of such arbitration proceedings, in keeping with Canon IV(B) of the *Code of Ethics*.

EXHIBIT P
NOTICES

[Intentionally Omitted]

EXHIBIT Q
1996 AND 1997 DATA

(1) 1996 Operating Income

Original Participating Manufacturer	Operating Income
Brown & Williamson Tobacco Corp.	$801,640,000
Lorillard Tobacco Co.	$719,100,000
Philip Morris Inc.	$4,206,600,000
R.J. Reynolds Tobacco Co.	$1,468,000,000
Total (Base Operating Income)	$7,195,340,000

(2) 1997 volume (as measured by shipments of Cigarettes)

Original Participating Manufacturer	Number of Cigarettes
Brown & Williamson Tobacco Corp.*	78,911,000,000
Lorillard Tobacco Co.	42,288,000,000
Philip Morris Inc.	236,203,000,000
R.J. Reynolds Tobacco Co.	118,254,000,000
Total (Base Volume)	475,656,000,000

(3) 1997 volume (as measured by excise taxes)

Original Participating Manufacturer	Number of Cigarettes
Brown & Williamson Tobacco Corp.*	78,758,000,000
Lorillard Tobacco Co.	42,315,000,000
Philip Morris Inc.	236,326,000,000
R.J. Reynolds Tobacco Co.	119,099,000,000

* The volume includes 2,847,595 pounds of "roll your own" tobacco converted into the number of Cigarettes using 0.0325 ounces per Cigarette conversion factor.

EXHIBIT R
EXCLUSION OF CERTAIN BRAND NAMES

Brown & Williamson Tobacco Corporation

GPC
State Express 555
Riviera

Philip Morris Incorporated

Players
B&H
Belmont
Mark Ten
Viscount
Accord
L&M
Lark
Rothman's
Best Buy
Bronson
F&L
Genco
GPA
Gridlock
Money
No Frills
Generals
Premium Buy
Shenandoah
Top Choice

Lorillard Tobacco Company

None

R.J. Reynolds Tobacco Company

Best Choice
Cardinal
Director's Choice
Jacks
Rainbow
Scotch Buy
Slim Price
Smoker Friendly
Valu Time
Worth

EXHIBIT S
DESIGNATION OF OUTSIDE COUNSEL

[Intentionally Omitted]

EXHIBIT T
MODEL STATUTE

Section __. Findings and Purpose. [1]

(a) Cigarette smoking presents serious public health concerns to the State and to the citizens of the State. The Surgeon General has determined that smoking causes lung cancer, heart disease and other serious diseases, and that there are hundreds of thousands of tobacco-related deaths in the United States each year. These diseases most often do not appear until many years after the person in question begins smoking.

(b) Cigarette smoking also presents serious financial concerns for the State. Under certain health-care programs, the State may have a legal obligation to provide medical assistance to eligible persons for health conditions associated with cigarette smoking, and those persons may have a legal entitlement to receive such medical assistance.

(c) Under these programs, the State pays millions of dollars each year to provide medical assistance for these persons for health conditions associated with cigarette smoking.

(d) It is the policy of the State that financial burdens imposed on the State by cigarette smoking be borne by tobacco product manufacturers rather than by the State to the extent that such manufacturers either determine to enter into a settlement with the State or are found culpable by the courts.

(e) On _______, 1998, leading United States tobacco product manufacturers entered into a settlement agreement, entitled the "Master Settlement Agreement," with the State. The Master Settlement Agreement obligates these manufacturers, in return for a release of past, present and certain future claims against them as described therein, to pay substantial sums to the State (tied in part to their volume of sales); to fund a national foundation devoted to the interests of public health; and to make substantial changes in their advertising and marketing practices and corporate culture, with the intention of reducing underage smoking.

(f) It would be contrary to the policy of the State if tobacco product manufacturers who determine not to enter into such a settlement could use a resulting cost advantage to derive large, short-term profits in the years before liability may arise without ensuring that the State will have an eventual source of recovery from them if they are proven to have acted culpably. It is thus in the interest of the State to require that such manufacturers establish a reserve fund to guarantee a source of compensation and to prevent such manufacturers from deriving large, short-term profits and then becoming judgment-proof before liability may arise.

Section __. Definitions.

(a) "Adjusted for inflation" means increased in accordance with the formula for inflation adjustment set forth in Exhibit C to the Master Settlement Agreement.

(b) "Affiliate" means a person who directly or indirectly owns or controls, is owned or controlled by, or is under common ownership or control with, another person. Solely for purposes of this definition, the terms "owns," "is owned" and "ownership" mean ownership of an equity interest, or the equivalent thereof, of ten percent or more, and the term "person" means an individual, partnership, committee, association, corporation or any other organization or group of persons.

(c) "Allocable share" means Allocable Share as that term is defined in the Master Settlement Agreement.

(d) "Cigarette" means any product that contains nicotine, is intended to be burned or heated under ordinary conditions of use, and consists of or contains (1) any roll of tobacco wrapped in paper or in any substance not containing tobacco; or (2) tobacco, in any form, that is functional in the product, which, because of its appearance, the type of tobacco used in the filler, or its packaging and labeling, is likely to be offered to, or purchased by, consumers as a cigarette; or (3) any roll of tobacco wrapped in any substance containing tobacco which, because of its appearance, the type of tobacco used in the filler, or its packaging and labeling, is likely to be offered to, or purchased by, consumers as a cigarette described in clause (1) of this definition. The term "cigarette" includes "roll-your-own" (i.e., any tobacco which, because of its appearance, type, packaging, or labeling is suitable for use and likely to be offered to, or purchased by, consumers as tobacco for making cigarettes). For purposes of this definition of "cigarette," 0.09 ounces of "roll-your-own" tobacco shall constitute one individual "cigarette."

(e) "Master Settlement Agreement" means the settlement agreement (and related documents) entered into on _______, 1998 by the State and leading United States tobacco product manufacturers.

(f) "Qualified escrow fund" means an escrow arrangement with a federally or State chartered financial institution having no affiliation with any tobacco product manufacturer and having assets of at least $1,000,000,000 where such arrangement requires that such financial institution hold the escrowed funds' principal for the benefit of releasing parties and prohibits the tobacco product manufacturer placing the funds into escrow from using, accessing or directing the use of the funds' principal except as consistent with section ___(b)-(c) of this Act.

(g) "Released claims" means Released Claims as that term is defined in the Master Settlement Agreement.

(h) "Releasing parties" means Releasing Parties as that term is defined in the Master Settlement Agreement.

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[1] [A State may elect to delete the "findings and purposes" section in its entirety. Other changes or substitutions with respect to the "findings and purposes" section (except for particularized state procedural or technical requirements) will mean that the statute will no longer conform to this model.]

(i) "Tobacco Product Manufacturer" means an entity that after the date of enactment of this Act directly (and not exclusively through any affiliate):

(1) manufactures cigarettes anywhere that such manufacturer intends to be sold in the United States, including cigarettes intended to be sold in the United States through an importer (except where such importer is an original participating manufacturer (as that term is defined in the Master Settlement Agreement) that will be responsible for the payments under the Master Settlement Agreement with respect to such cigarettes as a result of the provisions of subsections II(mm) of the Master Settlement Agreement and that pays the taxes specified in subsection II(z) of the Master Settlement Agreement, and provided that the manufacturer of such cigarettes does not market or advertise such cigarettes in the United States);

(2) is the first purchaser anywhere for resale in the United States of cigarettes manufactured anywhere that the manufacturer does not intend to be sold in the United States; or

(3) becomes a successor of an entity described in paragraph (1) or (2).

The term "Tobacco Product Manufacturer" shall not include an affiliate of a tobacco product manufacturer unless such affiliate itself falls within any of (1) - (3) above.

(j) "Units sold" means the number of individual cigarettes sold in the State by the applicable tobacco product manufacturer (whether directly or through a distributor, retailer or similar intermediary or intermediaries) during the year in question, as measured by excise taxes collected by the State on packs (or "roll-your-own" tobacco containers) bearing the excise tax stamp of the State. The [fill in name of responsible state agency] shall promulgate such regulations as are necessary to ascertain the amount of State excise tax paid on the cigarettes of such tobacco product manufacturer for each year.

Section __. Requirements.

Any tobacco product manufacturer selling cigarettes to consumers within the State (whether directly or through a distributor, retailer or similar intermediary or intermediaries) after the date of enactment of this Act shall do one of the following:

(a) become a participating manufacturer (as that term is defined in section II(jj) of the Master Settlement Agreement) and generally perform its financial obligations under the Master Settlement Agreement; or

(b) (1) place into a qualified escrow fund by April 15 of the year following the year in question the following amounts (as such amounts are adjusted for inflation) --

1999: $.0094241 per unit sold after the date of enactment of this Act;[2]

2000: $.0104712 per unit sold after the date of enactment of this Act;[3]

for each of 2001 and 2002: $.0136125 per unit sold after the date of enactment of this Act;

for each of 2003 through 2006: $.0167539 per unit sold after the date of enactment of this Act;

for each of 2007 and each year thereafter: $.0188482 per unit sold after the date of enactment of this Act.

(2) A tobacco product manufacturer that places funds into escrow pursuant to paragraph (1) shall receive the interest or other appreciation on such funds as earned. Such funds themselves shall be released from escrow only under the following circumstances --

(A) to pay a judgment or settlement on any released claim brought against such tobacco product manufacturer by the State or any releasing party located or residing in the State. Funds shall be released from escrow under this subparagraph (i) in the order in which they were placed into escrow and (ii) only to the extent and at the time necessary to make payments required under such judgment or settlement;

(B) to the extent that a tobacco product manufacturer establishes that the amount it was required to place into escrow in a particular year was greater than the State's allocable share of the total payments that such manufacturer would have been required to make in that year under the Master Settlement Agreement (as determined pursuant to section IX(i)(2) of the Master Settlement Agreement, and before any of the adjustments or offsets described in section IX(i)(3) of that Agreement other than the Inflation Adjustment) had it been a participating manufacturer, the excess shall be released from escrow and revert back to such tobacco product manufacturer; or

(C) to the extent not released from escrow under subparagraphs (A) or (B), funds shall be released from escrow and revert back to such tobacco product manufacturer twenty-five years after the date on which they were placed into escrow.

(3) Each tobacco product manufacturer that elects to place funds into escrow pursuant to this subsection shall annually certify to the Attorney General [or other State official] that it is in compliance with this subsection. The Attorney General [or other State official] may bring a civil action on behalf of the State against any tobacco product

2 [All per unit numbers subject to verification]

3 [The phrase "after the date of enactment of this Act" would need to be included only in the calendar year in which the Act is enacted.]

manufacturer that fails to place into escrow the funds required under this section. Any tobacco product manufacturer that fails in any year to place into escrow the funds required under this section shall --

(A) be required within 15 days to place such funds into escrow as shall bring it into compliance with this section. The court, upon a finding of a violation of this subsection, may impose a civil penalty [to be paid to the general fund of the state] in an amount not to exceed 5 percent of the amount improperly withheld from escrow per day of the violation and in a total amount not to exceed 100 percent of the original amount improperly withheld from escrow;

(B) in the case of a knowing violation, be required within 15 days to place such funds into escrow as shall bring it into compliance with this section. The court, upon a finding of a knowing violation of this subsection, may impose a civil penalty [to be paid to the general fund of the state] in an amount not to exceed 15 percent of the amount improperly withheld from escrow per day of the violation and in a total amount not to exceed 300 percent of the original amount improperly withheld from escrow; and

(C) in the case of a second knowing violation, be prohibited from selling cigarettes to consumers within the State (whether directly or through a distributor, retailer or similar intermediary) for a period not to exceed 2 years.

Each failure to make an annual deposit required under this section shall constitute a separate violation.[4]

4 [A State may elect to include a requirement that the violator also pay the State's costs and attorney's fees incurred during a successful prosecution under this paragraph (3).]

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.

APPENDIX B

ARBITRATION FINAL AWARD RE: STATE OF WASHINGTON IN THE 2003 NPM ADJUSTMENT PROCEEDINGS

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ARBITRATOR

ARBITRATION

In the 2003 NPM Adjustment Proceedings

JAMS Ref No. 1100053390

FINAL AWARD RE: STATE OF WASHINGTON

CHAPTER I: THE PARTIES TO A SPECIFIC STATE AWARD

Petitioners are manufacturers of tobacco products that have joined the MSA ("Master Settlement Agreement"), entered into in 1998, and agreed to be bound by its terms. The MSA refers to such manufacturers as "Participating Manufacturers" or "PMs." *See* MSA § II(jj). The PMs fall into two categories. The "Original Participating Manufacturers," or "OPMs," are those manufacturers that were original parties to the MSA: Philip Morris USA Inc., R.J. Reynolds Tobacco Company, and Lorillard Tobacco Company. *See* MSA § II(hh). (A fourth OPM, Brown & Williamson Tobacco Corporation, combined with R.J. Reynolds Tobacco Company in 2004.) The "Subsequent Participating Manufacturers," or "SPMs," are smaller manufacturers, most of which were never sued by the States, but joined the MSA thereafter. *See* MSA § II(tt). The following SPMs claim entitlement to an NPM Adjustment for 2003 and are petitioners in these proceedings: Commonwealth Brands, Inc., Compania Industrial de Tabacos Monte Paz, S.A., Daughters & Ryan, Inc., House of Prince A/S, Japan Tobacco International U.S.A. Inc., King Maker Marketing, Inc., Kretek International, Liggett Group LLC, Peter Stokkebye

1 Tobaksfabrik A/S, P.T. Djarum, Santa Fe Natural Tobacco Company, Inc., Sherman 1400
2 Broadway N.Y.C., Inc., Top Tobacco LP, and Von Eicken Group. All Petitioners are
3 collectively referred to as PMs for purposes of this Award, and a finding as to one PM is a
4 finding as to all, unless specifically noted.

5 Respondents in the Petitioners' claim were initially listed as the 52 States and Territories
6 that are parties to the MSA. The MSA refers to these States and Territories as "Settling States."

7 The Settling States originally consisted of Alabama, Alaska, American Samoa, Arizona,
8 Arkansas, California, Colorado, Connecticut, Delaware, District of Columbia, Georgia, Guam,
9 Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland,
10 Massachusetts, Michigan, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey,
11 New Mexico, New York, North Carolina, North Dakota, the Northern Marianas Islands, Ohio,
12 Oklahoma, Oregon, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, South Dakota,
13 Tennessee, U.S. Virgin Islands, Utah, Vermont, Virginia, Washington, West Virginia,
14 Wisconsin, and Wyoming. (Four States–Florida, Minnesota, Mississippi, and Texas–had entered
15 into separate settlements with certain PMs prior to the MSA and, therefore, are not parties to the
16 MSA.) Since this proceeding began, the PMs have dismissed their allegations against several
17 states (Alaska, Delaware, Hawaii, Idaho, Massachusetts, New Jersey, Rhode Island, South
18 Dakota, Utah, Vermont, Wisconsin, Wyoming, Guam, the Northern Mariana Islands, American
19 Samoa, and the U.S. Virgin Islands; *see* Participating Manufacturers' Notice of Contest as to
20 Certain States' Claims of Diligent Enforcement, filed November 3, 2011). Further, numerous
21 other states entered into a Settlement Agreement with the PMs, dated March 12, 2013, leaving 15
22 States who remain in this proceeding for whom Awards are now addressed by this Arbitration
23 Panel (the "Panel"). Numerous issues ("Global Issues") are decided and applicable to all
24 remaining Parties; however, because each remaining Settling State may have recourse to its own
25 MSA Court, the Panel will issue a separate Award for each specific state, including therein both
26 the Global Issues and also determinations that are specific to that state only.

27 Although numerous references may be made to the National Association of Attorneys
28 General ("NAAG") and the "NAAG Tobacco Project," which assist the states in implementing

the MSA and through which the states often act with respect to NPM Adjustment issues and enforcement of the Escrow Statutes, NAAG was never made a party to this Arbitration proceeding. NAAG is defined in the Definitions section of the MSA as "the National Association of Attorneys General, or its successor organization that is directed by the Attorneys General to perform certain functions under this Agreement." MSA § II(bb). It is undisputed that NAAG served as an advisory and legal resource to the Settling States, including interpreting the MSA and opining on potential requirements for "diligent enforcement." These Awards may also refer to determinations made by the MSA's "Independent Auditor," which since 1998 has been PricewaterhouseCoopers LLP ("PwC"). The MSA provides that the "Independent Auditor" is responsible for "calculat[ing] and determin[ing] all payments" under the MSA, applying the MSA's various "adjustments, reductions and offsets" (including the NPM Adjustment) to those payments, and determining "the allocation of such payments, reductions, offsets . . . among the Settling States." MSA § XI(a)(1). Although the Independent Auditor plays a major role in the implementation of the MSA, it is not a party to this Arbitration, and the Panel has no jurisdiction over its actions or determinations.

CHAPTER II: THE BACKGROUND

A. Origin of the Dispute.

This section is set forth as a summary and does not constitute either findings of fact or conclusions of law by the Panel.

Both the Supreme Court and the Settling States have referred to the MSA as a "landmark" public health agreement. *Lorillard Tobacco Co. v. Reilly*, 533 U.S. 525, 533 (2001); NAAG March 8, 2006 News Release. The MSA settled and released past and future claims by the Settling States for, among other things, recovery of health-care costs attributed to smoking-related illnesses. In exchange, the PMs agreed to make substantial annual payments in perpetuity based upon their annual nationwide cigarette sales and to be subject to an array of advertising, marketing, and other restrictions. Since the MSA was first signed in November 1998, over 50 tobacco companies have agreed to be bound by its terms. Tobacco product manufacturers who have not joined the MSA and agreed to its terms are referred to as Non-Participating

1 Manufacturers ("NPMs").

2 Pursuant to the MSA, each PM makes a single annual payment based on its nationwide
3 cigarette sales volume during each calendar year. The annual payment on a year's volume is due
4 on April 15 of the following year. It is alleged, and not disputed, that these annual payments
5 total in the billions of dollars each year. For example, the OPMs' aggregate base payment
6 obligation was approximately $8 billion for 2003 (the year in question here). *See* MSA §§
7 IX(c)(1)-(2). The SPMs make separate annual payments also based on their sales volume during
8 the year. *See* MSA § IX(i). The PMs' annual payments are calculated by an "Independent
9 Auditor" agreed to by the parties. *See* MSA § XI(a)(1).

10 The MSA's annual base payment amounts are subject to various adjustments, including
11 an Inflation Adjustment and a Volume Adjustment (under which the base payments are increased
12 or decreased in proportion to changes in the OPMs' nationwide volume of sales). *See* MSA §§
13 IX(c), XI(a). According to the PMs, and not disputed, the OPMs' aggregate annual payments
14 after these and other adjustments (other than the NPM Adjustment) since the MSA was entered
15 into have been as follows: 1999–$3.545 billion; 2000–$4.022 billion; 2001–$5.066 billion;
16 2002–$4.967 billion; 2003–$5.950 billion; 2004–$6.048 billion; 2005–$6.128 billion; 2006–
17 $6.221 billion; 2007–$7.076 billion; 2008–$7.011 billion; and 2009–$6.497 billion. These
18 payments are split among the OPMs in proportion to their relative market shares. *See* MSA §§
19 IX(c)(1)-(2).

20 Each SPM makes annual payments that, on a per-cigarette basis, approximate the OPMs'
21 annual payments and that are likewise based on the SPMs' sales volume during the year in
22 question. *See* MSA § IX(i). The SPMs' aggregate annual payments for each year have been
23 claimed as follows: 1999–$46.4 million; 2000–$98.5 million; 2001–$200.4 million; 2002–
24 $319.0 million; 2003–$484.5 million; 2004–$433.7 million; 2005–$441.5 million; 2006–$517.7
25 million; 2007–$475.0 million; 2008–$569.5 million; and 2009–$571.5 million.

26 These annual payments continue each year into perpetuity. The PMs' total MSA
27 payments to the Settling States to date exceed $70 billion, including the annual payments listed
28 above and additional "initial" payments made by the OPMs.

The PMs do not make these payments to individual States. Instead, each PM makes a single, nationwide payment in the overall amount calculated and determined by the Independent Auditor. The Independent Auditor then allocates those nationwide payments among the States by applying pre-set "Allocable Share" percentages previously negotiated by the States (and set forth in Exhibit A to the MSA), which represent each State's percentage share of the PMs' nationwide payments. *See* MSA §§ II(f)-(g); IX(b)-(c); IX(j), clause thirteenth; MSA Ex. A.

The MSA's payment obligations impose substantial costs on the PMs. The NPMs, by contrast, do not bear these MSA costs and thus do not reflect them in their pricing. Absent enforcement of statutes imposing similar costs on NPMs, that differential cost between the PMs and the NPMs could be harmful to both the PMs and to the States, as well as to the public, by undermining the goals and purpose of the MSA.

In an attempt to minimize that disadvantage, the MSA included the prospect of reduced payments to supply an incentive for each Settling State to enact and enforce a statute that imposes similar payment obligations on NPMs and thereby neutralizes the MSA-related cost disadvantage imposed on PMs. Moreover, if Settling States nevertheless failed to enact and enforce such a statute, the payment reduction would compensate the PMs for their MSA-related loss of sales.

The NPM Adjustment was made a part of the MSA to address that cost differential or, as the PMs describe it, to "level the playing field." The MSA provides that "[t]o protect the public health gains achieved by this Agreement," the PMs' annual MSA payments "shall" be subject to an NPM Adjustment. *See* MSA § IX(d)(1)(A). The Adjustment provides for a potential reduction in the PMs' MSA payments in event of an MSA-related market-share shift to NPMs above a specified threshold. It is designed to give the States an incentive to eliminate the MSA cost disadvantage faced by PMs, and with it the threat to the MSA's public health gains--and to provide compensation to the PMs in the event such a market-share shift nevertheless occurs. The NAAG Tobacco Project has thus described the NPM Adjustment as follows:

> [The] NPM Adjustment provides [an] incentive to ameliorate these adverse effects [*i.e.*, "undermin[ing] the MSA's public health goals" and "unfairly

> disadvantag[ing] companies that had chosen to" join the MSA. It provides that if, because of the disadvantages imposed on them by the MSA, the PMs lose "Market Share" to NPMs, the PMs' payments to the States can be reduced.

NAAG Tobacco Project, *Understanding and Enforcing the NPM Statute*, MSA Issues Seminar (Oct. 15-16, 2001).

The NPM Adjustment is set forth in Section IX(d) of the MSA (beginning at page 58 of the Agreement). The first subsection, Section IX(d)(1), governs when the NPM Adjustment applies. It provides that the Adjustment "shall apply" to the PMs' annual payment for the year in question if two conditions are met. MSA § IX(d)(1)(C).

First, the PMs must have suffered a "Market Share Loss," which is defined to mean that the PMs' collective market share during that year decreased by more than two percentage points compared to their collective market share in 1997, the last full year before the MSA was signed. MSA §§ IX(d)(1)(A); IX(d)(1)(B).

Second, a nationally recognized firm of economic consultants jointly selected and retained by the OPMs and the States (the "Firm") must have determined that the disadvantages experienced by the PMs as a result of the provisions of the MSA were a "significant factor" contributing to the Market Share Loss for the year in question. *See* MSA § IX(d)(1)(C).

The only exception is where a State demonstrates that it has enacted and "diligently enforced" a "Qualifying Statute." MSA § IX(d)(2)(B). A "Qualifying Statute" is defined as a statute that "effectively and fully neutralizes the cost disadvantages that the Participating Manufacturers experience vis-à-vis Non-Participating Manufacturers within such Settling State as a result of [the MSA]." MSA § IX(d)(2)(E). States are thus not required either to enact or enforce such a statute, but if they want the benefit of the contractual exemption from the NPM Adjustment, they must do both.

If an individual Settling State demonstrates that it diligently enforced such a statute during the year in question, the NPM Adjustment still applies to the PMs' MSA payments for that year, but none of it is allocated to that Settling State's share of those payments. *See* MSA § IX(d)(2)(B). It is of critical import that nowhere in the MSA or any of the supporting exhibits, is the term "diligent enforcement" defined. The MSA merely states that an exception to the NPM

Adjustment shall be available ". . . if such Settling State continuously had a Qualifying Statute (as defined in subsection (2)(E) below) in full force and effect during the entire calendar year immediately preceding the year in which the payment in question is due and diligently enforced the provisions of such statute during such entire calendar year . . ." *Id.* Thus, defining what standard is required before a State qualifies for this critical exception is left for this Panel to decide.

Where an individual Settling State qualifies for this exception, the MSA provides that its share of the NPM Adjustment will be reallocated to all other States that do not qualify for the exception because they have not demonstrated diligent enforcement of their own Qualifying Statute. Section IX(d)(2)(C) of the MSA thus provides that the "aggregate amount of the NPM Adjustments that would have applied" to Settling States that prove they fall within the diligent enforcement exception "shall be reallocated among all other Settling States pro rata in proportion to their respective [payment shares]," and that those States' MSA payments "shall be further reduced" up to the full amount of their MSA payments for that year. MSA § IX(d)(2)(C); *see also id.* § IX(d)(2)(D). As a result of this reallocation provision, the greater the number of Settling States that did not diligently enforce a Qualifying Statute, the more widely the NPM Adjustment is spread and the less the share of the Adjustment that each such State bears. Conversely, if only a few Settling States fail to prove diligent enforcement, those Settling States face a more concentrated application of the NPM Adjustment – and hence a greater reduction of their payments, subject only to the limitation that the Adjustment applied to a Settling State can be no greater than the total MSA payment it received for that year. The diligent enforcement and reallocation provisions thus create a dual incentive for individual Settling States to enact and enforce a Qualifying Statute.

The MSA defines a "Qualifying Statute" as one that, among other things, "effectively and fully neutralizes the cost disadvantages that the [PMs] experience vis-à-vis [NPMs] within such Settling State as a result of" the MSA. MSA § IX(d)(2)(E). Exhibit T to the MSA provides a model for such a statute: a "model" Escrow Statute. The MSA provides that this "model" Escrow Statute, if enacted with those modifications necessary to reflect "particularized state

procedural or technical requirements" will "constitute a Qualifying Statute." *Id.*

The "model" Escrow Statute provides for each NPM to make escrow deposits on the cigarettes it sells in the enacting Settling State in the year in question. The escrow deposits are to be made into a "[q]ualified escrow fund," which is defined as an escrow arrangement with a qualifying financial institution in which the deposits are held for the benefit of the State. *See* MSA, Ex. T, at T-2 (§ (f)). The deposits are to remain in escrow for 25 years except insofar as they are used to pay a judgment to or settlement with the State for liability on claims like those the Settling States settled against the PMs in the MSA. *See* MSA, Ex. T, at T-4 & T-5 (§ (b)(2)(A)-(C)). The escrow deposits thus guarantee the State a source of recovery should it subsequently sue or settle with that NPM on claims like those the State settled against the PMs in the MSA, and avoid the risk that NPMs would otherwise use their MSA-related "cost advantage to derive large, short-term profits . . . and then becom[e] judgment-proof before liability [to the State] may arise." MSA Ex. T, at T-1 (§§ (a), (f)).

The Settling States all enacted Escrow Statutes following the MSA. But following the signing of the MSA in 1998, and despite the Settling States' universal enactment of Escrow Statutes imposing payment obligations on NPMs, the NPMs' market share increased at significant rates.

This shift of market share from PMs to NPMs has triggered the NPM Adjustment provision of the MSA for multiple years. The PMs and the States settled the NPM Adjustments through 2002. The NPM Adjustments for 2003 and subsequent years, however, were not resolved, and the dispute over the Adjustment for the first of these years–2003–has culminated in the proceedings before this Panel.

As a beginning and necessary step leading to this Arbitration, in connection with its April 2004 calculation of the PMs' MSA payment for 2003, the Independent Auditor determined that the MSA's first condition for application of the 2003 NPM Adjustment was satisfied: the PMs had suffered a "Market Share Loss" for 2003. The Auditor calculated that there had been a market-share shift of approximately 8% to the NPMs from 1997 to 2003, and thus a Market Share Loss of approximately 6% after giving effect to the two percentage point buffer.

The States have not disputed the Independent Auditor's determination that the PMs suffered a Market Share Loss for 2003, the magnitude of that loss or the amount of the 2003 NPM Adjustment.

After the Independent Auditor's finding of a Market Share Loss, the States and OPMs instituted proceedings in April 2005 for a determination by the Firm as to whether the disadvantages experienced by the PMs as a result of the provisions of the MSA were a "significant factor" contributing to that Market Share Loss. The OPMs and States engaged the Brattle Group to make this "significant factor" determination.

The OPMs and the States then participated in a 10-month evidentiary proceeding before the Firm. On March 27, 2006, the Firm issued a 163-page opinion and final determination, finding that the disadvantages experienced by the PMs as a result of the MSA were a "significant factor" contributing to the 2003 Market Share Loss. The MSA expressly provides that the Firm's significant factor determination is "conclusive and binding upon all parties" and "final and non-appealable." *See* MSA § IX(d)(1)(C).

Following the Firm's determination in March 2006, the PMs requested that the Independent Auditor apply the 2003 NPM Adjustment as a credit against their next MSA payments. The Settling States opposed the request, asking the Independent Auditor to "presume" diligent enforcement and to refuse to apply the 2003 adjustment.

Following the Independent Auditor's determination not to apply the NPM Adjustment, some of the PMs paid the disputed amounts into a "Disputed Payment Account," and the PMs requested that the Settling States arbitrate the dispute pursuant to the MSA's Arbitration Clause. That clause, which is set forth in Section XI(c) of the MSA, provides that "[a]ny dispute, controversy or claim arising out of or relating to" the Independent Auditor's calculations or determinations "shall be submitted to binding arbitration" before a panel of three former federal judges.

The Settling States initially refused to agree to arbitration, and sought relief in their individual state courts, which was denied in virtually every case. It was not until January 30, 2009, that 45 Settling States had signed an Agreement to Arbitrate ("the ARA"). Pursuant to the

ARA's "partial liability reduction," the PMs will reimburse each of those 45 Settling States that the Panel determines did not diligently enforce its Escrow Statute in 2003 with 20% of the portion of the 2003 NPM Adjustment that it bears as a result. *See* ARA § 3(b). Four Settling States–Ohio, Oklahoma, North Carolina, and Wisconsin–refused to sign the ARA, but were ordered to arbitration by their state courts, and participated in this Arbitration. Thereafter, the PMs and 48 Settling States, including the four Settling States that declined to sign the ARA, negotiated a separate "Agreement Regarding Procedures for Formation of Arbitration Panel." Pursuant to that Agreement and Section XI(c) of the MSA, this Panel was selected to resolve the 2003 NPM Adjustment dispute.

B. The Arbitration Clause.

The MSA is approximately 150 pages long, plus numerous exhibits. Despite the complexity and uniqueness of the issues in this matter, and the large number of parties involved, the Arbitration Clause ("the Clause") is virtually devoid of any procedural guidelines or objective criteria to be used by the Panel in deciding this matter. The Clause merely states as follows:

> Resolution of Disputes. Any dispute, controversy or claim arising out of or relating to calculations performed by, or any determinations made by, the Independent Auditor (including, without limitation, any dispute concerning the operation or application of any of the adjustments, reductions, offsets, carry-forwards and allocations described in subsection IX(j) or subsection XI(i)) shall be submitted to binding arbitration before a panel of three neutral arbitrators, each of whom shall be a former Article III federal judge. Each of the two sides to the dispute shall select one arbitrator. The two arbitrators so selected shall select the third arbitrator. The arbitration shall be governed by the United States Federal Arbitration Act.

MSA § XI(c).

C. The Arbitration Panel.

The Panel consists of the following Arbitrators, each of whom is a former Article III federal judge:

Judge William G. Bassler, selected by the PMs;

Judge Abner J. Mikva, selected by the Settling States; and

Judge Fern M. Smith, selected by Judges Bassler and Mikva.

CHAPTER III: THE PROCEDURAL HISTORY

The actual proceedings in the Arbitration began with the Parties filing mutual Motions for Case Management Schedule and Discovery Plan on July 2, 2010. The first joint status hearing took place in Chicago, Illinois. At that time, 17 PMs and 52 States and territories were parties of record, although several States appeared only with reservations of rights, including objections to the Panel's jurisdiction. Because neither the Agreement nor the Clause gave direction, decisions had to be made by the Panel as to the governing law, governing procedural rules, *e.g.*, rules of evidence, type of hearings required, dispositive motions, if any, burden of proof, priorities, and location of hearings, as well as other questions that arose as the Panel proceeded. Because the pre-hearing process was lengthy, as well as complex and significant, a meaningful summary is virtually impossible; therefore, the Panel has attached, as Appendix I, a list of all of the Panel's pre-hearing rulings. (Note: The Panel's rulings, as well as all of the Parties' filings, are posted on a LexisNexis data bank, which is available to authorized readers.)

CHAPTER IV: THE CONTENTIONS OF THE PARTIES

A. The Claimants' Contentions.

The PMs' Claim for Arbitration is almost 200 pages long, which is understandable, given the number of Settling States against whom claims are made. In essence, however, the PMs request that this Panel determine the following:

1. Determine that the Independent Auditor was required to apply the 2003 NPM Adjustment to the PMs' April 2006 annual payments once the Firm determined that the MSA was a significant factor contributing to the PMs' Market Share Loss for 2003.
2. Determine that the Independent Auditor erred when it refused to apply the 2003 NPM Adjustment to the PMs' April 2006 annual payments and when it adopted a presumption that each State had diligently enforced its Escrow Statute.
3. Determine that the Independent Auditor is required to immediately credit the 2003 NPM Adjustment, with applicable interest, to the PMs' next MSA payments.

4. Determine that individual States have the burden of proving diligent enforcement of a Qualifying Statute.
5. Allow the discovery necessary for the parties--and the Panel--to evaluate and determine individual States' claims that they diligently enforced a Qualifying Statute during 2003.
6. Determine the claims of individual States that they diligently enforced a Qualifying Statute during 2003 and that, accordingly, their Allocable Share of the 2003 NPM Adjustment should be reallocated to other States.
7. Determine such other issues related to the application, allocation, and recovery of the 2003 NPM Adjustment as the parties shall raise and the Panel shall deem appropriate.

The primary focus of this Arbitration has been on Contention Six, *i.e.*, which Settling States "diligently enforced" their respective Qualifying Statute in 2003, and the individual state-specific hearings have focused solely on that question. The first five Contentions were expressly or implicitly decided in the pre-hearing determinations set forth in Appendix I. Contention Seven will be addressed, if necessary, in these Awards.

B. The Respondents' Contentions.

Each of the Settling States filed its own response to the PMs' claims and contentions; however, the majority of the defenses raised were duplicative and common to each of the Settling States. There was also a joint response filed on behalf of all of the Settling States. By the time the state-specific hearings were held, the only remaining question for the Panel to answer was that set forth in PMs' Contention Six, *i.e.*, did the Settling State "diligently enforce" its Qualifying Statute in 2003.

CHAPTER V: DISCUSSION AND DECISION

A. Common Findings/Conclusions.

1. <u>Introduction.</u>

As stated above, the majority of defenses and issues raised by both the PMs and the Settling States were common to all parties and were either resolved in pre-arbitration motion proceedings, or were deferred until all of the state-specific hearings were completed. Included in

this Award, therefore, are final determinations of those deferred issues, each of which was a significant factor in the Panel's ultimate Awards and each of which is common to the each state-specific Award. They include the following:

- The Panel's definition of Diligent Enforcement
- The Panel's definition of Units Sold
- Whether a State used the Fabricator or Control Test in its enforcement efforts
- Defining "two knowing violations" in seeking injunctive relief
- Enforcement efforts against House of Prince/Carolina/Leonidias
- Whether a State had the obligation to amend or enact legislation as an aid to enforcement
- The use of Allocable Share Releases
- The significance, *i.e.*, use/weight of a State's "collection rate"

It is critical to note that although all of the above were "factors," which the Panel considered in deciding whether the defined diligent enforcement standard was met, the Panel did not rank the factors or give them a numerical score, *i.e.*, each, except for the definition of "diligent enforcement," was considered in the over-all context of a Settling State's existing policies and circumstances in 2003. It is therefore not a useful exercise, or even valid, to compare the decision as to one State against the decision as to another. It is also important to note that the Panel has not distinguished between "Findings" and "Conclusions." Most of the questions addressed are mixed questions, and the Panel views each with equal weight. All findings and/or conclusions were decided by a unanimous Panel.

It was decided during pre-hearing motions (*see* Appendix 1) that the Settling States had the burden of proof on the question of diligent enforcement. Thus, each State presented its case in chief first.

2. *"Diligent Enforcement" Defined.*

Diligent Enforcement is an ongoing and intentional consideration of the requirements of a Settling State's Qualifying Statute, and a significant attempt by the Settling State to meet those requirements, taking into account a Settling State's competing laws and policies that may

conflict with its MSA contractual obligations. Both the legislative and executive branches of a Settling State are bound by the MSA obligations.

That definition is measured by an objective standard, and the Panel has considered numerous factors in determining whether that standard has been met. The Panel has not ranked the factors, but has considered them as a whole in making its determination.

3. *"Units Sold" Defined.*

"Units Sold" is defined in Exhibit T to the MSA (commonly referred to in this Arbitration as the "Model Statute") as follows:

> "Units sold" means the number of individual cigarettes sold in the State by the applicable tobacco product manufacturer (whether directly or through a distributor, retailer or similar intermediary or intermediaries) during the year in question, as measured by excise taxes collected by the State on packs (or "roll-your-own" tobacco containers) bearing the excise tax stamp of the State . . . .

MSA Exhibit T, T-3, Definitions, (j).

As opposed to much of the MSA, that definition seems clear and unambiguous, and many of the Settling States requested that the Panel find to be binding, as a question of law. The PMs, however, as well as several of the Settling States, disagreed.

The PMs argued that the issue of "units sold" was state-specific and depended on the facts and circumstances of each individual state. For example, the PMs argued that while a minority of states attempted to exempt entire categories of NPM cigarette sales from the escrow payment obligations, such as NPM cigarettes sold through Native American reservations or unstamped roll-your-own cigarettes ("RYO"), other states assessed and attempted to enforce escrow with respect to all NPM cigarettes sold in their state. The PMs argued that the different states' understanding and course of performance in enforcing the NPM escrow obligations were thus factual issues subject to discovery which would have bearing on the Panel's determination of the "units sold" issue.

Because each side to this dispute raised colorable arguments, the Panel deferred ruling until all state-specific hearings were completed. That time has now arrived, and the Panel finds that the PMs have failed to support their arguments that the express definition means anything

other than what it says.

The collective evidence did show that different Settling States reacted in different ways to the Model Statute definition, *e.g.*, some Settling States modified their Qualifying Statute, some changed their practices regarding RYO or sales by tribes, and some took the stated definition literally and declined to include certain types of sales as "units sold." What the Panel did not see was any evidence of collusive behavior, *i.e.*, no Settling State, in the Panel's opinion, manipulated the definition or counting of "units sold" in order to purposefully evade their enforcement obligations. In particular, although some Settling States with large numbers of cigarettes sold on Tribal Lands declined to change their policy regarding non-taxation of such sales, those Settling States presented valid policy reasons for their decisions. Although the Settling States had binding contractual obligations to "diligently enforce," they were not required to elevate those obligations above other statutory or rational policy considerations. Unless otherwise stated in a state-specific Award, the Panel reaches the same conclusion for RYO sales.

For these reasons, the Panel finds, as a matter of law, that the Model Statute definition of "units sold" is unambiguous and binding. Further, even if parol evidence were considered, the PMs have failed to show that a different meaning should be applicable to any specific Settling State.

4. *Whether a State Used the "Fabricator" or "Control" Test.*

This issue also arises under the "Model Statute," which sets forth certain remedies that a State has against a "Tobacco Product Manufacturer" ("TPM"), a term specifically defined under the "Definitions" section of the Model Statute. In that definition, a TPM is defined as an entity that "manufactures cigarettes anywhere that such manufacturer intends to be sold in the United States, including cigarettes intended to be sold in the United States through an importer . . . ." MSA Ex. T, T-3.

The "Requirements" section of the Model Statute establishes that the Attorney General of a Settling State may file a civil action against a TPM under certain express conditions. MSA Ex. T, T-5. The right to file a civil action is the only express remedy against TPMs that is set forth in the MSA or Model Statute. The PMs argued in all state-specific hearings that the right to file a

lawsuit was critical to diligent enforcement and that the Settling States had an obligation to file such suits often and as soon as possible.

The controversy over this term arose because some Settling States interpreted the definition strictly, *i.e.*, as applying solely to manufacturers, many of which were in foreign jurisdictions, and not easily amenable to jurisdiction (the "Fabricator Test"). Other Settling States were more liberal in their interpretation, and included entities within the United States who played a significant role in getting the subject cigarettes into the market, *e.g.*, distributors and wholesalers (the "Control Test"). For obvious reasons, the Control Test made it easier and faster to file lawsuits. The PMs argue that Settling States that used the Fabricator Test were less "diligent" than followers of the Control Test. The Panel disagrees. The problem, if any, lies with the drafting of the Model Statute, which expressly limits the right to file civil actions to suits against "manufacturers." In hindsight, the definition of TPM should have been broader, but the fault for that does not lie with the Settling States.

5. *Defining "Two Knowing Violations" in Seeking Injunctive Relief.*

This question also arises out of the "Remedies" section of the Model Statute which limited injunctive relief to TPMs that have committed "two knowing violations." The dispute centers on defining a "knowing violation," and the differences among the Settling States in making that determination. Again, the PMs ask the Panel to penalize those States that accepted a more restrictive and literal definition of that term. The Panel finds no legal or equitable basis to penalize a Settling State who reads the express words of the Model Statute in a rational way. Again, the fault, if any, lies in the drafting of the Model Statute, for which the Settling States are no more to blame than the PMs.

6. *Enforcement Effort Against House of Prince/Carolina/Leonidias.*

Much time was spent in discussing the role that these entities played, and, more important, their status during the 2003 time period, *i.e.*, were they NPMs, SPMs, contract manufacturers, etc. The value of understanding the relationships lies only in how their status affected a given Settling State's "compliance rate," *i.e.*, the percentage of escrow paid against the total number of units sold in a Settling State by NPMs. The PMs' case rested in great part on the

use of expert testimony, an important facet of which was establishing a compliance rate for each state. Because of the legitimate confusion over whether the above entities were NPMs or not, many Settling States took a "wait and see" attitude and did not seek escrow from them, resulting in a lower compliance rate, based on the PMs' calculations. The Panel understands the PMs' theory, but also is unwilling, in hindsight, to classify such decisions as a failure in diligent enforcement. This is especially true because the status of those entities has since resolved.

7. *Whether a Settling State Had the Obligation to Amend or Enact Legislation as an Aid to Diligent Enforcement.*

The PMs have argued both implicitly and explicitly that Settling States could have and should have passed legislation that made enforcement easier to accomplish. The Panel has considered that as a factor, especially the alacrity of a Settling State in passing what has been referred to as "Complementary Legislation," which was specifically aimed at increasing remedies available against non-performing NPMs. On the other hand, the Panel has given less weight to the argument that a Settling State should have legislatively changed, for example, its taxation laws, in order to increase its escrow collection rate. The MSA put no such demand on the Settling States.

8. *Allocable Share Release.*

Significant time was spent by the PMs discussing the negative effect of the Allocable Share Release ("ASR"), which is set forth in the Model Statute. The Panel understands the PMs' theory, but does not agree that the Settling States should be faulted for what was a poorly conceived policy, set forth in the Model Statute. The deficiencies, if any, caused by the ASR provision, were eliminated by most states in 2003 with the passing of additional legislation. The Panel mentions the ASR in individual cases, if at all, only if it found that a Settling State's procedure for releasing ASR funds had a material effect on its enforcement results.

9. *The Significance, i.e., Use/Weight of a State's "Collection Rate."*

The PMs' case-in-chief relied almost completely on the testimony of expert witnesses. One category of expert testimony was provided by economists, who based their opinions primarily on the "collection rate" of a Settling State, *i.e.*, what amount of money was deposited

by NPMs into escrow accounts in a given year, as compared to the experts' determination of what amount was actually due. The collection rates among and between the Settling States differed significantly, and the variance was intended to be used in a comparative way for the Panel to determine the lack of diligent enforcement. The Panel concurs that the collection rate is a significant factor, but it is not the only factor, nor is it always the primary factor. Predicating a Settling State's diligence, therefore, based solely on the collection rate is unlikely to be fruitful. Further, because in most cases, the "underreported" collection rate is similar across states, the Panel has not factored that into its analysis, except in unusual circumstances.

B. State-Specific Findings and Conclusions as to the State of Washington.

1. *The Attorneys and Witnesses for the Washington Hearing.*

a. The Attorneys for Washington

i. Washington State Office of the Attorney General

Rene Tomisser

David Hankins

b. The Attorneys for the PMs

i. Jones Day

Barbara Harding

Jason Winchester

Abby Wakefield

William Laxton

Graham Keithley

ii. Winston & Strawn LLP

Alexander Shaknes

iii. Greenberg Traurig LLP

Scott Martin

c. Witnesses for the State

i. Lee Smith

Excise tax examiner for cigarette excise tax in the Department of Revenue

ii. David Hankins

Office of the Attorney General

d. Witnesses for the PMs

i. Daniel Garrett

Expert Witness

ii. Colleen Waring

Expert Witness

2. *Factors Considered in the Determination of Diligent Enforcement.*

The Panel has previously articulated a definition of diligent enforcement. In order to objectively assess a Settling State's diligent enforcement in light of that definition, the Panel has developed a number of components that it believes aid in evaluating a Settling State's enforcement of its Qualifying Statute and its diligence in doing so. Those factors are:

a. Collection Rate

b. Lawsuits Filed

c. Gathering Reliable Data

d. Resources Allocated to Enforcement

e. Preventing Non-Compliant NPMs from Future Sales

f. Legislation Enacted

g. Actions Short of Legislation

h. Efforts to be Aware of NAAG and Other States' Enforcement Efforts

These factors are not listed in their order of importance nor are they necessarily given equal weight. But overall they provide a reliable and objective metric to assess a Settling State's obligation to enforce its Qualifying Statute with diligence in order to avoid the contractually agreed upon determination that the PMs are entitled to a reduction in their payments for the calendar year 2003.

1 *3. Analysis.*

2 The following is an analysis of those facts found by the Panel to be true and necessary to
3 the Award. To the extent that this recitation differs from any Party's position, that is the result of
4 determinations as to credibility of witnesses, including experts, determinations of relevance,
5 burden-of-proof considerations, and the weighing of the evidence, both oral and written. The
6 Panel has also considered the inferences that could or could not be drawn from the testimony and
7 documents.

8 It should be noted that the analysis for Washington, much like that for New York, focuses
9 to a great extent on Washington's policy regarding tobacco sales on tribal lands, and
10 Washington's view of "Units Sold." Because that issue predominated in the evidentiary hearing,
11 and because it appears to be at the core of the PMs' dispute with Washington, the Panel's
12 discussion of that issue is more detailed than for other factors. That does not mean, however,
13 that the other factors listed have not been taken into account.

14 a. Collection Rate

15 Based on the Levinsohn, Reiss, and Garrett analysis, the collection rate for reported sales was
16 62%, or 60% if one deducts ASR payments. Those numbers, however, do not count tribal sales,
17 the actual number of which is unknown, but which appears to be very large. If tribal sales are
18 ignored, the collection rate is better than average for the contested states.

19 b. Lawsuits Filed

20 Washington filed eighteen lawsuits before 2003 and twelve in 2004, but none in 2003,
21 although they were still actively litigating nine from prior years, not including the House of
22 Prince litigation. Because Complementary Legislation was pending, more effort was spent on
23 getting non-compliant NPMs out of the market than on filing new lawsuits.

24 c. Gathering Reliable Data

25 Lee Smith headed the day-to-day Department of Revenue responsibilities. The
26 Department of Revenue was in charge of receiving and computing monthly distributor reports as
27 they came in and sending the numbers to Mr. Hankins at the Office of the Attorney General. The
28 departments coordinated their efforts reasonably well and used a system of monthly distributor

reports and annual NPM certifications as a verification method, although they did not perform audits. The Panel found the performance of the Department of Revenue to be limited, but its deficiencies were balanced by the dedicated and effective monitoring of David Hankins.

d. Resources Allocated to Enforcement

There was little, if any, evidence regarding this factor, leading the Panel to believe that the resources were sufficient.

e. Preventing Non-Compliant NPMs from Future Sales

Washington performed well in this regard. Although it filed no lawsuits in 2003, follow-up efforts resulted in eight non-compliant NPMs making voluntary payments. Further, by the end of 2003, the list of non-compliant NPMs went from fifteen to zero.

f. Legislation Enacted

In addition to having passed the Escrow Statute early on, Washington passed both Complementary Legislation and ASR repeal legislation in 2003. Complicating the picture, however, was the fact that in 2001 Washington passed legislation allowing tribes within the State to change from the prior "allocation" system, to a "compact" system. By the end of 2003, seven of the State's twenty-nine tribes had entered into compacts with Washington, and were selling cigarettes under that system. The PMs do not dispute Washington's right to tribal compacts, but seriously disagree with the concomitant decision that escrow was not due on any compact sales. The PMs' position is understandable, especially because the PMs were including compact sales in their MSA payment calculations, but were not getting what they perceive as "the benefit of the bargain" in return.

There was, in fact, strong disagreement within the State as to whether products sold by compact tribes should be escrowed and the disagreements continued throughout the year. David Hankins, who was the chief escrow officer for the Office of the Attorney General, believed that escrow obligations attached; however, the chief taxation officer for the Department of Revenue disagreed, based on a strict interpretation of the unit sold definition. The Attorney General sided with the Department of Revenue and overruled Hankins.

1 The PMs allege that NPM sales to tribes escalated sharply after the compacts were
2 signed; however, Washington provided rational policy reasons for instituting compacts with the
3 tribes, and the PMs provided no evidence to the contrary. Even if the Panel were to agree that
4 the PMs' and Hankins' position as to escrow was the correct one, the Panel's role is not to opine
5 on the wisdom of internal policy decisions or the correctness of their legal analysis.

6 g. Actions Short of Legislation

7 Washington formed a tobacco enforcement team in 2000, shortly after the MSA was
8 signed. The team was headed by David Hankins who did a very effective job. Both notice and
9 demand letters were sent.

10 h. Efforts to be Aware of NAAG and Other States' Enforcement Efforts

11 Mr. Hankins was actively involved in both NAAG and knowing what other states were
12 doing.

13 *4. Conclusion.*

14 The PMs ask the Panel to find that the Doctrine of Nullification applies in this case. The
15 Panel disagrees, although it does not endorse in any way a unilateral changing of any Settling
16 States' cigarette tax laws, without notice to the PMs. In fact, the Panel agrees that such action
17 will "raise a red flag." The Panel does not take a position as to when the PMs knew or should
18 have known that the tribal compacts had been legislated and entered into, although there was
19 admissible evidence of an active PM lobbyist within Washington. The Panel also notes that the
20 laws have since been changed in order to resolve the escrow problem as it relates to the
21 compacts.

22 Counsel for Washington made the following statement in his closing argument:

23

24 No matter how good the Court thinks it would have been . . . as a policy matter to make this circle a lot bigger, and to make the units sold be on a cigarette upon
25 which excise tax was due, the fact of the matter is at the bargaining table, that isn't what happened . . . . [T]he shrinking of the circle is not a diligent enforcement
26 issue. What the state has to do is regardless of how large or small we make this circle, we have to diligently enforce within it . . . . It was, in fact, done as a matter
27 of government-to-government relations with the tribes to reduce the conflict, to
28 reduce the contraband traffic flowing through the tribes that were selling allocated

cigarettes, all things that are aboveboard, legitimate government decisions to make, and not a bad faith effort to undermine NPM[s].

Washington Hearing Transcript, 1184:6-13; 1187:18-22; 1189:12-23 (Apr. 23, 2013). The Panel does not agree that a Settling State has an unfettered right to a "shrinking of the circle;" however, because a review of the record in this specific case indicates no evidence of intentional escrow evasion, but rather a good faith effort to address an intractable problem, the Panel accepts Counsel's argument.

Considering the record as a whole, the Panel finds that Washington has met its burden by a preponderance of the evidence.

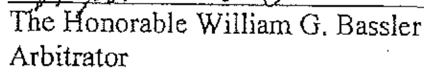
FINAL AWARD

The Panel unanimously finds that the State of Washington diligently enforced its Qualifying Statute during calendar year 2003 and therefore is not subject to an NPM Adjustment pursuant to Section IX(d)(2)(B) of the Master Settlement Agreement.

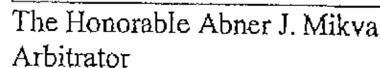
All other claims, if any, not specifically addressed in the Final Award are Denied. This Final Award therefore resolves all claims set forth in this proceeding.

SO ORDERED.

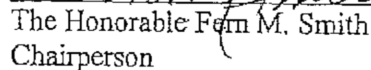
Dated: September 11, 2013



The Honorable William G. Bassler
Arbitrator



The Honorable Abner J. Mikva
Arbitrator



The Honorable Fern M. Smith
Chairperson

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APPENDIX C

DEFINITIONS AND SUMMARIES OF THE TRANSACTION DOCUMENTS

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THE SALE AGREEMENT

The following summary describes certain terms of the Sale Agreement. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to the provisions of the Sale Agreement. Copies of the Sale Agreement may be obtained upon written request to the Authority, 1000 Second Avenue, Suite 2700, Seattle, Washington 98104.

Authority

Pursuant to the Act, the Governor of the State is authorized to sell and assign to the Authority all of the State's right to receive a portion of the State's annual share of the revenue derived from the MSA.

Conveyance of Tobacco Assets

On the Tobacco Assets Purchase Date, and simultaneously with the Authority's delivery of the consideration in accordance with the provisions of the Sale Agreement summarized below under the caption "Purchase Consideration," the State sold and conveyed to the Authority without recourse (subject to certain continuing obligations set forth in the Sale Agreement) in accordance with and subject to the terms of the Sale Agreement, all of its right, title and interest on the Tobacco Assets Purchase Date in and to the Tobacco Assets, being that portion, as determined by the Governor of the State by the Sale Agreement pursuant to the Act, necessary to generate net proceeds to the State of $450 million for deposit to the Tobacco Securitization Trust Account created under Section 13 of the Act. The State has acknowledged and consented to the pledge, assignment and grant of a security interest by the Authority to the Indenture Trustee pursuant to the Indenture for the benefit of the Bondholders of any or all right, title and interest of the Authority in, to and under the Tobacco Assets and the assignment of any or all of the Authority's rights and obligations under the Sale Agreement to the Indenture Trustee.

The right of the Authority to receive 29.2% of (1) the payments received by the State under the MSA on and after July 1, 2003 (and all adjustments thereto), (2) all amounts received by the State under the MSA on and after July 1, 2003 consisting of adjustments to payments made to the State under the MSA prior to July 1, 2003, and (3) all Lump Sum Payments, Partial Lump Sum Payments and Total Lump Sum Payments, including those received prior to July 1, 2003, as Pledged TSRs, is valid and enforceable and on a parity with the claim of the State to 70.8% of said revenues. Neither the Authority nor the Indenture Trustee nor any Beneficiary, person or entity shall have the right to make a claim to make up all or any portion of a perceived deficiency in Pledged TSRs from the Unpledged TSRs and, likewise, the State shall have no right to make a claim to make up all or any portion of a perceived deficiency in the Unsold TSRs from the Pledged TSRs.

The State shall cooperate with the Authority to the full extent permitted by the terms of the Act and the MSA to assure receipt by the Authority of all of the Pledged TSRs when and as due in accordance with the true intent and meaning of the Sale Agreement.

Purchase Consideration

On the Tobacco Assets Purchase Date, and simultaneously with the State's sale and conveyance of the Tobacco Assets in accordance with the provisions of the Sale Agreement summarized above under the caption "Conveyance of Tobacco Assets," the Authority paid and otherwise conveyed to the State, without recourse, the proceeds (net of Financing Costs) of the Series 2002 Bonds and the Residual Certificate.

Representations of State

The State makes the following representations on which the Authority is deemed to have relied in acquiring the Tobacco Assets. The representations speak as of the Tobacco Assets Purchase Date, and survive the sale of the Tobacco Assets and the pledge thereof to the Indenture Trustee pursuant to the Indenture.

Power and Authority. The State is duly authorized through the Act to sell the Tobacco Assets and has full power and authority to execute and deliver the Sale Agreement and to carry out its terms.

Binding Obligation. The Sale Agreement has been duly executed and delivered by the State and, assuming the due authorization, execution and delivery of the Sale Agreement by the Authority, constitutes a legal, valid and binding obligation of the State enforceable in accordance with its terms.

No Consents. No consent, approval, authorization, order, registration or qualification of or with any court or governmental agency or body is required for the consummation of the transactions contemplated by the Sale Agreement, except for those which have been obtained and are in full force and effect.

No Violation. The consummation by the State of the transactions contemplated by the Transaction Documents and the fulfillment of the terms thereof do not, to the State's knowledge, in any material way conflict with, result in any material breach of any of the material terms and provisions of, or constitute (with or without notice or lapse of time) a material default under any indenture, agreement or other instrument to which the State is a party (including the MSA) or by which it shall be bound; nor violate any law or, to the State's knowledge, any order, rule or regulation applicable to the State of any court or of any federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the State or its property.

Title to Tobacco Assets. The State is the sole owner of the Tobacco Assets to be sold to the Authority under the Sale Agreement. On and after the Tobacco Assets Purchase Date, (1) the State shall have no right, title or interest in or to the Tobacco Assets, and (2) the Tobacco Assets shall be property of the Authority, and not of the State, and shall be owned, received, held and disbursed by the Authority or the Indenture Trustee and not by the State. Pursuant to the Act and the Sale Agreement, (1) the Pledged TSRs shall be paid directly to the Indenture Trustee, and (2) the Pledged TSRs shall not be received in the treasury of the State and shall not be or deemed to be "general state revenues" as that term is used in Article VIII, Section 1 of the State Constitution.

True Sale; Absence of Liens on Tobacco Assets. The State is irrevocably selling the Tobacco Assets free and clear of any and all State Liens, pledges, charges, security interests or any other statutory impediments to transfer or conveyance of any nature encumbering the Tobacco Assets. The sale of the Tobacco Assets is, and shall be treated as, a true sale and absolute transfer and conveyance of the property, and all of the right, title and interest in and to such property, so transferred and conveyed, and not as a pledge or any other security interest granted by the State for any borrowing. The characterization by the State of such sale as an absolute transfer or conveyance will not be negated or adversely affected by (1) the sale and assignment pursuant to the Sale Agreement of less than all of the State's tobacco receipts, (2) the issuance and delivery to the State of the Residual Certificate or any other subordinate interest in the Tobacco Assets, (3) any characterization of the Authority or its bonds for purposes of accounting, taxation or securities regulation, or (4) any other factor whatsoever. Upon receipt of the purchase price as set forth in the Sale Agreement, the State will have received equivalent value for the Tobacco Assets.

Assignment to the Indenture Trustee. The State acknowledges and consents to the pledge, assignment and grant of a security interest by the Authority to the Indenture Trustee pursuant to the Indenture for the benefit of the Bondholders and other Beneficiaries, of any or all right, title and interest of the Authority in, to and under the Pledged TSRs. The State acknowledges that the Authority will assign to the Indenture Trustee for the benefit of the Bondholders and other beneficiaries, all of its rights and remedies with respect to any breach by the State of any of its obligations, representations and warranties under the Sale Agreement, subject, however, to the limitations and provisions set forth in the following paragraph.

The State's acknowledgments and consents in the foregoing paragraph are subject to the condition that any and all pledges, assignment and grants made or to be made by the Authority pursuant to the foregoing paragraph will be limited solely to the Indenture Trustee for the benefit of Bondholders and other beneficiaries. The Authority agrees that any pledge, assignment and grant it makes in accordance therewith will be limited and restricted so that the Indenture Trustee may not further assign any such rights, remedies and interest to any other person or entity, including any different or additional assignment thereof to Bondholders or other beneficiaries.

Limitation on Liability

The State and any officer or employee or agent of the State may rely in good faith on the advice of counsel or on any document of any kind, prima facie properly executed and submitted by any person respecting any matters arising under the Sale Agreement.

Neither the State nor any of the officers or employees or agents of the State shall be under any liability to the Authority, except as provided under the Sale Agreement, for any action taken or for refraining from the taking of any action pursuant to the Sale Agreement or for errors in judgment.

Pledges; Protection of Title; Non-Impairment Covenant

The State covenants and agrees with the Authority, and the Authority is authorized to include such covenant and agreement in the Indenture for the benefit of the Beneficiaries, that the State will (1) irrevocably direct the Escrow Agent and Independent Auditor (as such terms are defined in the MSA) to transfer all Pledged TSRs, pursuant to paragraph 5 of section 7 of the Act, directly to the Indenture Trustee, (2) enforce, at the expense of the State, the Authority's rights to receive the Pledged TSRs to the full extent permitted by the MSA (it being understood that the State may satisfy its obligation under the Sale Agreement by taking such enforcement action through individual or joint or cooperative efforts with other states and their Attorneys General in a manner that it determines as most appropriate), (3) not agree to any amendment of the MSA in any manner that would materially and adversely affect the ability of the Authority to receive the Pledged TSRs, (4) not limit or alter the rights of the Authority to fulfill the terms of its agreements with Beneficiaries until the Bonds, together with the interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of the Bondholders, are fully paid and discharged, (5) enforce the Qualifying Statute, and (6) not amend, supersede or repeal the Qualifying Statute in any way that would materially and adversely affect the ability of the Authority to receive the Pledged TSRs.

The State covenants and agrees with the Authority, and the Authority is authorized to include such covenant and agreement in the Indenture for the benefit of the Beneficiaries, that until the Bonds, together with interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of Bondholders, are fully paid and discharged pursuant to the Indenture (1) the State will promptly pay to the Indenture Trustee any Pledged TSRs received by the State, (2) the State will take all actions as may be required by law and the MSA fully to preserve, maintain, defend, protect and confirm

the interest of the Authority in the Pledged TSRs and in the proceeds thereof in all material respects, (3) the State will not take any action that will materially and adversely affect the Authority's legal right to receive the Pledged TSRs, and (4) the State will not (a) release any Participating Manufacturer from any of its covenants or obligations to make payment under the MSA or (b) agree to the amendment, hypothecation, subordination, termination or discharge of, or impair the validity or effectiveness of, or waive timely performance or observance by Participating Manufacturers under, the MSA, in each case if the effect thereof would be to materially and adversely affect the Authority's ability to receive the Pledged TSRs, provided, however, that if a Rating Confirmation is received relating to such proposed action then such proposed action will be deemed not to be material or adverse.

In accordance with the Act, prior to the date that is 366 days after which the Authority no longer has any Bonds Outstanding, the Authority is prohibited from filing a voluntary petition under Chapter 9 of the Bankruptcy Code or such corresponding chapter or section as may, from time to time, be in effect, and a public official or organization, entity, or other person shall not authorize the Authority to be or become a debtor under Chapter 9 or any successor or corresponding chapter or sections during such periods. In accordance with the Act, this contractual obligation will be part of the contractual obligation owed to Bondholders and may not subsequently be modified by State law prior to the date that is 366 days after which the Authority no longer has any Bonds Outstanding.

Further Actions

Upon request of the Authority or the Indenture Trustee, the State will execute and deliver such further instruments and do such further acts as the parties reasonably agree are reasonably necessary or proper to carry out more effectively the purposes of the Sale Agreement. The State will enforce the provisions of the Qualifying Statute, MSA and the Consent Decree, and exercise such remedies as it considers necessary and appropriate, to assure receipt of payments required to be made under the MSA that constitute Pledged TSRs. Except (1) to the extent limited by the terms and provisions of the MSA and (2) to the extent disclosure may result in the loss of available attorney-client privilege or attorney work product privilege with respect to any documents, documents produced or received by the State in connection with payments, enforcement of, and exercise of remedies under, the Qualifying Statute, the MSA and the Consent Decree will be made available to the Authority and the Indenture Trustee.

Tax Covenants

Pursuant to section 7(3)(c) and section 13 of the Act, the State will take no action that would adversely affect the tax exempt status of the Bonds and will allocate the use of the proceeds of the Series 2002 Bonds to enable the interest thereon to be so excluded.

The State will at all times do and perform all acts and things permitted by law and necessary or desirable to assure that interest paid by the Authority on the Bonds will be excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Tax Code.

Residual Certificate and Unsold TSRs

The Authority shall determine the amounts of the residual interests represented by the Residual Certificate, and pay and transfer such residual interests to the registered owner of the Residual Certificate. To the extent that the Indenture Trustee shall receive an amount not constituting Pledged TSRs or any other Unsold TSRs, the Authority shall cause the Indenture Trustee to promptly remit such amount to or upon the order of the State.

Amendment

Except as otherwise provided in the third paragraph of "Pledges; Protection of Title; Non-Impairment Covenant," the Sale Agreement may be amended by agreement of the State and the Authority, with the consent of the Indenture Trustee but without the consent of any of the Bondholders: (1) to cure any ambiguity; (2) to correct or supplement any provisions in the Sale Agreement; (3) to correct or amplify the description of the Tobacco Assets; (4) to add additional covenants for the benefit of the Authority; or (5) for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions in the Sale Agreement that shall not, as evidenced by a Rating Confirmation delivered to the Indenture Trustee, adversely affect in any material respect the Bonds.

In addition to the provisions in the preceding paragraph, the Sale Agreement may also be amended from time to time by the Authority and the State, with the consent of a majority of the Bondholders for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Sale Agreement or of modifying in any manner the rights of the Bondholders, but no such amendment may reduce the aforesaid portion of the outstanding amount of the Bonds, the holders of which are required to consent to any such amendment, without the consent of all of the Bondholders.

Prior to the execution of any amendment ot the Sale Agreement, the Indenture Trustee will be entitled to receive and rely upon an Opinion of Counsel stating that the execution of such amendment is authorized or permitted by the Sale Agreement and will not adversely affect the exclusion of interest on any tax-exempt Bonds from gross income for federal income tax purposes. Without the prior written consent of the Indenture Trustee, no amendment, supplement or other modification of the Sale Agreement may be entered into or be effective.

Definitions

In addition to terms defined elsewhere herein, the following terms have the following meanings in this summary, unless the context otherwise requires:

"**Financing Costs**" means (1) any item of expense directly or indirectly payable or reimbursable by the Authority and related to the authorization, sale or issuance of the Bonds, including, without limitation, rating agency fees, underwriting fees, and fees and expenses of attorneys, consultants and fiduciaries and all costs, fees, expenses incurred by the Authority in connection with the issuance of the Bonds; (2) capitalized operating expenses; (3) capitalized interest on the Bonds; (4) all proceeds of the Bonds deposited in any debt service reserve fund to secure the Bonds; and (5) the cost of any credit or liquidity enhancement for the Bonds.

"**Rating Confirmation**" means written confirmation from each national rating agency which, at the request of the Authority, assigned a rating and continues to have a rating assigned to the Bonds, to the effect that the then-current rating assigned by such rating agency to the Bonds, without regard to any bond insurance or any other form of credit enhancement, will not be withdrawn, reduced or suspended solely as a result of the proposed action for which such written confirmation is sought.

"**State Lien**" means a security interest, lien, charge, pledge, equity or encumbrance of any kind, attaching to the interests of the State in and to the Tobacco Assets, whether or not as a result of any act or omission by the State.

"**Tobacco Assets**" means the sum of (1) the first $30,000,000 of payments received by the State under the MSA on and after the Tobacco Assets Purchase Date and before July 1, 2003, and (2) 29.2% of:

(a) the payments received by the State under the MSA on and after July 1, 2003 (and all adjustments thereto);

(b) all amounts received by the State under the MSA on and after July 1, 2003, consisting of adjustments to payments made to the State under the MSA prior to July 1, 2003; and

(c) all Lump Sum Payments, Partial Lump Sum Payments and Total Lump Sum Payments, including those received prior to July 1, 2003.

"**Tobacco Assets Purchase Date**" means November 5, 2002, being the date of issuance of the Series 2002 Bonds.

"**Transaction Documents**" means the Sale Agreement and the Indenture.

"**Unsold TSRs**" means the right, title and interest to the revenue (including but not limited to all payments required to be made under the MSA) that the State has a right to receive from time to time after the Tobacco Assets Purchase Date under the MSA, other than the Pledged TSRs.

THE INDENTURE

The following summary describes certain terms of the Indenture pursuant to which the Series 2018 Bonds will be issued. This summary does not purport to be complete and is subject and qualified in its entirety by reference to the provisions of the Indenture and the Series 2018 Bonds. Copies of the Indenture may be obtained upon written request to the Indenture Trustee. See "SECURITY" and "THE SERIES 2018 BONDS" for further descriptions of certain terms and provisions of the Indenture and the Series 2018 Bonds.

No Liability on Bonds

The Board and any person executing the Bonds are not liable personally on the indebtedness or subject to any personal liability or accountability by reason of the issuance thereof.

The Bonds shall not be obligations of the State and shall be obligations only of the Authority, payable solely from the special fund or funds created by the Authority for their payment. Payment of the principal of, interest on, and redemption premium, if any, on the Bonds shall be a valid claim only as against the special fund or funds relating thereto. Neither the faith and credit nor the taxing power of the State or any municipal corporation, subdivision, or agency of the State, other than the Authority as set forth in the Act, is pledged to the payment of the principal of, interest on, and premium, if any, on the Bonds.

Security Interest and Pledge

The Authority assigns and pledges to the Indenture Trustee and grants a first lien on and a first priority security interest in, in trust upon the terms of the Indenture, the Collateral, consisting of all of the Authority's right, title and interest, whether owned on the Closing Date or thereafter acquired, in, to and under the Collateral, consisting of: (1) the Collections, consisting of the Pledged TSRs and all fees, charges, payments, proceeds, collections, investment earnings and other income and receipts paid or payable to the Authority or the Indenture Trustee for the account of the Bondholders; (2) all rights to receive the Collections and the proceeds of such rights; (3) the Accounts (except for the Rebate Account)

and assets thereof, including money, contract rights, general intangibles or other personal property, held by the Indenture Trustee under the Indenture; (4) subject to certain rights reserved under the Indenture, all rights and interest of the Authority under the Sale Agreement, including the representations, warranties and covenants of the State in the Sale Agreement; (5) all present and future claims, demands, causes and things in action in respect of any or all of the foregoing and all payments on or under and all proceeds of every kind and nature whatsoever in respect of any or all of the foregoing, including all proceeds of the conversion, voluntary or involuntary, into cash or other liquid property, all cash proceeds, accounts, general intangibles, notes, drafts, acceptances, chattel paper, checks, deposit accounts, insurance proceeds, condemnation awards, rights to payment of any and every kind, and other forms of obligations and receivables, instruments and other property which at any time constitute all or part of or are included in the proceeds of any of the foregoing; (6) all proceeds of the foregoing; and (7) any and all other property of every kind and nature from time to time after the date of the Indenture, by delivery or by writing of any kind, conveyed, pledged, assigned or transferred as and for additional security under the Indenture.

Except as specifically provided in the Indenture, the foregoing assignment and pledge does not include: (1) the Unpledged TSRs, (2) the rights of the Authority pursuant to provisions for consent or other similar action by the Authority, notice to the Authority, indemnity or the filing of documents with the Authority, or otherwise for its benefit and not for that of the Bondholders, or (3) any right or power reserved to the Authority pursuant to the Act or other law; nor does the foregoing assignment and pledge preclude the Authority's enforcement of its rights under and pursuant to the Sale Agreement for the benefit of the Bondholders.

The Unpledged TSRs, and the proceeds of the Bonds, other than the amounts deposited in one or more of the Accounts, do not constitute any portion of the Pledged TSRs, are not pledged to the Bondholders and are not subject to the lien of the Indenture. The right of the Authority to receive 29.2% of (1) the payments received by the State under the MSA on and after July 1, 2003 (and all adjustments thereto), (2) all amounts received by the State under the MSA on and after July 1, 2003 consisting of adjustments to payments made to the State under the MSA prior to July 1, 2003, and (3) all Lump Sum Payments, Partial Lump Sum Payments and Total Lump Sum Payments, including those received prior to July 1, 2003, as Pledged TSRs, is valid and enforceable and on a parity with the claim of the State to 70.8% of said revenues. Neither the Authority nor the Indenture Trustee shall have the right to make a claim to make up all or any portion of a perceived deficiency in Pledged TSRs from the Unpledged TSRs and, likewise, the State shall have no right to make a claim to make up all or any portion of a perceived deficiency in the Unpledged TSRs from the Pledged TSRs.

The Authority will implement, protect and defend the assignment and pledge described above by all appropriate legal action, the costs thereof to be Operating Expenses. The pledge and assignment made by the Indenture and the covenants and agreements to be performed by or on behalf of the Authority will be for the equal and ratable benefit, protection and security of the Holders of any and all of the Outstanding Bonds, all of which, regardless of the time or times of their execution, issue or maturity, will be of equal rank without preference, priority or distinction of such Bonds over any other Bonds, except as expressly provided in the Indenture or permitted thereby. The lien of such pledge will be valid and binding as against all parties having claims of any kind against the Authority, whether or not such parties have notice of the lien, and shall have priority over any or all other obligations and liabilities of the Authority secured by the Collections. The Authority shall not incur any obligations, except as authorized by the Indenture, secured by a lien equal or prior to the lien thereof.

Defeasance

Total Defeasance. When (1) there is held by or for the account of the Indenture Trustee Defeasance Collateral in such principal amounts, bearing fixed interest at such rates and with such maturities, including any applicable redemption premiums as will provide sufficient funds to pay or redeem all obligations to Bondholders in full (to be verified by a nationally recognized firm of defeasance escrow verification agents) and the Indenture Trustee shall have received an opinion of nationally recognized bond counsel to the effect that such defeasance (a) is authorized or permitted by the Indenture and (b) will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes, (2) any required notice of redemption has been duly given in accordance with the Indenture or irrevocable instructions to give notice has been given to the Indenture Trustee, (3) all Operating Expenses due and payable constituting termination payments on investment contracts or investment agreements for Accounts, or on forward purchase contracts for investments in Accounts, shall have been paid, (4) the Residual Certificate shall have been surrendered to the Indenture Trustee for cancellation in exchange for a transfer of the Collateral, and (5) all the rights under the Indenture of the Fiduciaries have been provided for, then upon written notice from the Authority to the Indenture Trustee, the Bondholders will cease to be entitled to any benefit or security under the Indenture except the right to receive payment of the funds so held and other rights which by their nature cannot be satisfied prior to or simultaneously with termination of the lien of the Indenture, the security interests created by the Indenture (except in such funds and investments) will terminate, and the Authority and the Indenture Trustee will execute and deliver such instruments as may be necessary to discharge the Indenture Trustee's lien and security interests created under the Indenture and to make the Pledged TSRs and other Collateral payable to the order of the Authority. Upon such defeasance, the funds and investments required to pay or redeem the Bonds and other obligations to such Bondholders will be irrevocably set aside for that purpose, subject, however, to the provisions in the Indenture relating to unclaimed money, and money held for defeasance will be invested only as provided above and applied by the Indenture Trustee and other Paying Agents, if any, to the retirement of the Bonds and such other obligations. Upon the discharge of the Indenture Trustee's lien and security interests created under the Indenture, the Indenture Trustee will execute and deliver such instruments as may be necessary to discharge the Indenture Trustee's lien and security interests created under the Indenture.

Partial Defeasance. Subject to the provisions of the Indenture relating to the tax covenants of the Authority, the Authority may create a defeasance escrow for the retirement and defeasance of any Bonds in accordance with clauses (1) and (2) of *"Defeasance"* above. Thereafter, the Holders of such Defeased Bonds shall cease to be entitled to any benefit or security under the Indenture except the right to receive payment of the funds held in such defeasance escrow and other rights which by their nature cannot be satisfied prior to or simultaneously with termination of the lien of the Indenture.

Establishment of Accounts

The Indenture Trustee will establish and maintain the following segregated trust accounts in the Indenture Trustee's name:

(1) the Collections Account;

(2) the Operating Account;

(3) the Debt Service Account, and therein the Capitalized Interest Subaccount;

(4) the Liquidity Reserve Account;

(5) the Partial Lump Sum Payment Account;

(6) the Operating Contingency Account;

(7) the Costs of Issuance Account; and

(8) the Surplus Account.

Investments

Generally. Pending its use under the Indenture, money in the Accounts may be invested by the Indenture Trustee in Eligible Investments and will be so invested pursuant to written direction of the Authority if there is not then an Event of Default actually known to an Authorized Officer of the Indenture Trustee; provided, however, that amounts on deposit in the Surplus Account from time to time that are not reasonably expected by the Authority to be used to pay the purchase or redemption price of Bonds on or before the next Distribution Date shall be continuously invested in Non-AMT Tax-Exempt Obligations. Eligible Investments will mature or be redeemable at the option of the Authority on or before the Business Day preceding each next succeeding Distribution Date, except to the extent that other Eligible Investments timely mature or are so redeemable in an amount sufficient to make payments in respect of interest, Principal Maturities and Sinking Fund Installments pursuant to the terms of the Indenture on each such next succeeding Distribution Date. Investments will be held by the Indenture Trustee in the respective Accounts and will be sold or redeemed to the extent necessary to make payments or transfers from each Account. The Indenture Trustee will be entitled to assume, absent receipt by the Indenture Trustee of written notice to the contrary, that any investment that, at the time of purchase, is an Eligible Investment remains an Eligible Investment thereafter.

Valuation. In computing the amount in any Account, the value of Eligible Investments will be determined as of each Deposit Date and will be calculated as follows:

(1) Except as otherwise specifically provided in the Indenture, all Eligible Investments will be valued at fair market value based on accepted industry standards by accepted industry providers, which shall include, but are not limited to, pricing services provided by Barclays Capital Inc. or Financial Times Interactive Data Corporation;

(2) As to investments the bid and asked prices of which are published on a regular basis in *The Wall Street Journal* (or, if not there, then in *The New York Times*): the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination;

(3) As to investments the bid and asked prices of which are not published on a regular basis in *The Wall Street Journal* or *The New York Times:* the average bid price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Indenture Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;

(4) As to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest; and

(5) As to any investment not specified above: the value thereof established by agreement (prior to the making of such investment) between the Authority and the Indenture Trustee (with written notice to each Rating Agency of such agreement).

The Indenture Trustee may hold undivided interests in Eligible Investments for more than one Account (for which they are eligible, but not including the Rebate Account) and may make interfund transfers in kind. In respect of Defeasance Collateral held for Defeased Bonds, the provisions above will be effective only to the extent they are consistent with other applicable provisions of the Indenture or any separate escrow agreement.

If the Authority fails to give investment directions to the Indenture Trustee, then the Indenture Trustee will invest the funds in the Accounts in investments specified in subsection (9) of the definition of Eligible Investments.

Contract; Obligations to Bondholders

In consideration of the purchase and acceptance by those who hold any or all of the Bonds from time to time, the provisions of the Indenture will be a part of the contract of the Authority with the Bondholders. The pledge and grant of a security interest made in the Indenture and the covenants therein set forth to be performed by the Authority will be for the equal benefit, protection, and security of the Bondholders. All of the Bonds, regardless of the time or times of their Maturity Date, will be of equal rank without preference, priority or distinction of any thereof over any other except as expressly provided pursuant to the Indenture.

The Authority covenants to pay when due all sums payable on the Bonds, but only from the Collections and money designated in the Indenture, subject only to the Indenture. The obligation of the Authority to pay principal, interest, and premium, if any, to the Bondholders from the Collections and other money designated in the Indenture, subject only to the Indenture, will be absolute and unconditional, will be binding and enforceable in all circumstances whatsoever, and will not be subject to setoff, recoupment, or counterclaim.

The Authority represents in the Indenture that it is duly authorized pursuant to law to issue, sell and deliver the Bonds, to enter into the Indenture and to pledge and grant a security interest in the Collections and other Collateral as provided in the Indenture. The Collections and other Collateral are and will be free and clear of any pledge, lien, security interest, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge and security interest created by the Indenture, and all action on the part of the Authority to that end has been duly and validly taken. The Bonds and the provisions of the Indenture are and will be the valid and binding obligations of the Authority, enforceable in accordance with their terms, subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases.

The State has covenanted and agreed with the Authority in the Sale Agreement, and the Authority is authorized to include such covenant and agreement in the Indenture for the benefit of the Bondholders or other parties receiving the express benefit of the security for the Bonds ("**Beneficiaries**"), that the State will (1) irrevocably direct the Escrow Agent and Independent Auditor (as such terms are defined in the MSA) to transfer all Pledged TSRs, pursuant to paragraph 5 of section 7 of the Act, directly to the Indenture Trustee, (2) enforce, at the expense of the State, the Authority's rights to receive the Pledged TSRs to the full extent permitted by the MSA (it being understood that the State may satisfy its obligation thereunder by taking such enforcement action through individual or joint or cooperative efforts with other states and their Attorneys General in a manner that it determines as most appropriate), (3) not agree to any

amendment of the MSA in any manner that would materially and adversely affect the ability of the Authority to receive the Pledged TSRs, (4) not limit or alter the rights of the Authority to fulfill the terms of its agreements with Beneficiaries until the Bonds, together with the interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of the Bondholders, are fully paid and discharged, (5) enforce the Qualifying Statute, and (6) not amend, supersede or repeal the Qualifying Statute in any way that would materially and adversely affect the ability of the Authority to receive the Pledged TSRs.

The State has covenanted and agreed with the Authority in the Sale Agreement, and the Authority is authorized to include such covenant and agreement in the Indenture for the benefit of the Bondholders or other parties receiving the express benefit of the security for the Bonds ("Beneficiaries"), that until the Bonds, together with interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of Bondholders, are fully paid and discharged pursuant to the Indenture (1) the State will promptly pay to the Indenture Trustee any Pledged TSRs received by the State; (2) the State will take all actions as may be required by law and the MSA fully to preserve, maintain, defend, protect and confirm the interest of the Authority in the Pledged TSRs and in the proceeds thereof in all material respects; (3) the State will not take any action that will materially and adversely affect the Authority's legal right to receive the Pledged TSRs; and (4) the State will not (a) release any PM from any of its covenants or obligations to make payment under the MSA or (b) agree to the amendment, hypothecation, subordination, termination or discharge of, or impair the validity or effectiveness of, or waive timely performance or observance by PMs under, the MSA, in each case if the effect thereof would be to materially and adversely affect the Authority's ability to receive the Pledged TSRs; *provided,* that if a Rating Confirmation is received relating to such proposed action, then such proposed action will be deemed not to be material or adverse.

The State has provided through the MSA, the Consent Decree and the Sale Agreement for the (1) Authority's ownership and receipt of the Pledged TSRs, (2) the receipt or other application of the net proceeds of the Bonds and (3) the resulting benefits to the people of the State. The Authority acknowledges that the MSA, the Consent Decree and the Sale Agreement constitute important security provisions of the Bonds and waives any right to assert any claim to the contrary and agrees that it shall neither in any manner directly or indirectly assert, nor in any manner directly or indirectly support the assertion by the State or any other person of, any such claim to the contrary. By acknowledging that the MSA, the Consent Decree and the Sale Agreement constitute important security provisions of the Bonds, the Authority also acknowledges that, in the event of any failure or refusal by the State to comply with its agreements included in the MSA, the Consent Decree and the Sale Agreement, the Bondholders may have suffered monetary damages, the extent of the remedy for which may be, to the fullest extent permitted by applicable federal and State law, determined, in addition to any other remedy available at law or in equity, in the course of any action taken pursuant to the Indenture; and the Authority thereby waives any right to assert any claim to the contrary and agrees that it shall neither in any manner directly or indirectly assert, nor in any manner directly or indirectly support the assertion by the State or any other person of, any claim to the effect that no such monetary damages have been suffered.

Operating Expenses

The Authority may deliver an Officer's Certificate to the Indenture Trustee on or before April 15 of each year during which Bonds are Outstanding (1) certifying the amount of the Operating Cap for the upcoming Fiscal Year, and (2) specifying the amount of Operating Expenses estimated to be incurred or paid by the Authority during the upcoming Fiscal Year. Such Officer's Certificate may also set forth Operating Expenses that have already been incurred by the Authority but that have not yet been paid or repaid; *provided,* that the Operating Cap will nonetheless continue to apply to all such amounts. In the event that the Authority does not deliver an Officer's Certificate on or prior to any April 15 as described

above, the Authority will be deemed to have delivered an Officer's Certificate on such April 15 certifying and specifying that both the amount of the Operating Cap for the upcoming Fiscal Year and the amount of the Operating Expenses estimated to be incurred or paid by the Authority during the upcoming Fiscal Year will be equal to the Inflated Operating Cap Component in effect as of such April 15.

The Authority covenants, for the benefit of the Bondholders, to pay its Operating Expenses, but only to the extent that funds are available for such purpose as provided in the Indenture.

Tax Covenants

The Authority will at all times do and perform all acts and things permitted by law and the Indenture which are necessary or desirable in order to assure that interest paid on the Tax-Exempt Bonds (or any of them) will be excluded from gross income for federal income tax purposes and will take no action that would result in such interest not being excluded from gross income for federal income tax purposes. Without limiting the generality of the foregoing, the Authority agrees that it will comply with the provisions of the Authority Tax Certificate. This covenant will survive defeasance or redemption of the Bonds.

Pursuant to the Act, the State will at all times do and perform all acts and things permitted by law and necessary or desirable to assure that interest paid by the Authority on the Tax-Exempt Bonds will be excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Tax Code.

Pursuant to the Act, the State will not directly or indirectly use or permit the use of any of the proceeds of the Tax-Exempt Bonds that would cause the Tax-Exempt Bonds to be "private activity bonds" within the meaning of Section 141(a) of the Tax Code or would cause interest on the Tax-Exempt Bonds to not be excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Tax Code.

Pursuant to the Act, the State agrees that no gross proceeds (as such term is defined in Section 1.148-1 of the Treasury Regulations promulgated under Section 148 of the Tax Code, as such Treasury Regulations and the Tax Code may be amended from time to time) of the Tax-Exempt Bonds will at any time be used directly or indirectly to acquire securities or obligations the acquisition or holding of which would cause any Tax-Exempt Bond to be an "arbitrage bond" as defined in the Tax Code or any applicable Treasury Regulations promulgated thereunder.

Non-Petition Covenant

Prior to the date which is 366 days after the date on which the Authority no longer has any Bonds Outstanding, the Authority will not file a voluntary petition under Chapter 9 of the Bankruptcy Code or such corresponding law as may, from time to time, be in effect, and neither any public official nor any other organization, entity, or other person may authorize the Authority to be or become a debtor under the Bankruptcy Code or any corresponding law during such periods. Pursuant to the Act, the State agrees with the Bondholders that it will not modify or delete these provisions prior to the date which is 366 days after the date on which the Authority no longer has any Bonds Outstanding.

Accounts and Reports

The Authority will (1) cause to be kept books of account in which complete and accurate entries will be made of its transactions relating to all funds and accounts under the Indenture, which books will at all reasonable times be subject to the inspection of the Indenture Trustee and the Bondholders or their

representatives duly authorized in writing; and (2) annually, within 210 days after the close of each Fiscal Year, deliver to the Indenture Trustee and each Rating Agency, a copy of its financial statements for such Fiscal Year, as audited by an independent certified public accountant or accountants.

Rating

The Authority will pay such reasonable fees and provide such available information as may be necessary to obtain and keep in effect ratings on all the Outstanding Bonds from at least one nationally recognized statistical rating organization.

Affirmative Covenants

Punctual Payment. The Authority will duly and punctually pay debt service on the Bonds in accordance with the terms of the Bonds and the Indenture.

Maintenance of Existence. Unless the Special Conditions are met, the Authority will keep in full effect its existence, rights and franchises as a public entity under the laws of the State.

Protection of Collateral. The Authority will from time to time execute and deliver all documents and instruments, and will take such other action, as is necessary or advisable to (1) maintain or preserve the lien and security interest (and the priority thereof) of the Indenture; (2) perfect or protect the validity of any grant made or to be made by the Indenture; (3) preserve and defend title to the Collections and the other Collateral and the rights of the Indenture Trustee, on behalf of the Bondholders, in the Collateral against the claims of all Persons and parties, including the challenge by any party to the validity or enforceability of the MSA, the Indenture, the Sale Agreement or the Authority Tax Certificate or the performance by any party thereunder; (4) enforce the Sale Agreement; (5) pay any and all taxes levied or assessed upon all or any part of the Collateral; or (6) carry out more effectively the purposes of the Indenture.

Performance of Obligations. The Authority (1) will diligently pursue any and all actions to enforce its rights under each instrument or agreement included in the Collateral; (2) will not take any action and will use its best efforts not to permit any action to be taken by others that would release any Person from any of such Person's covenants or obligations under any such instrument or agreement or that would result in the amendment, hypothecation, subordination, termination, or discharge of, or impair the validity or effectiveness of, any such instrument or agreement, except, in each case, as expressly provided in the Indenture, the Sale Agreement or the Authority Tax Certificate; and (3) with respect to Pledged TSRs, the Authority will direct the Attorney General to enforce, in the name of the State and, if permissible, to enforce directly through the Authority's own attorneys in the name of the State, with notice to the Attorney General, the MSA.

Notice of Events of Default. The Authority will give the Indenture Trustee and Rating Agencies prompt Written Notice of each Event of Default under the Indenture.

Other. The Authority will:

(1) conduct its own business in its own name and not in the name of any other Person and correct any known misunderstandings regarding its separate identity;

(2) maintain or contract for a sufficient number of employees and compensate all employees, consultants and agents directly, from the Authority's bank accounts, for services provided to the Authority by such employees, consultants and agents and, to the extent any

employee, consultant or agent of the Authority is also an employee, consultant or agent of another Person, allocate the compensation of such employee, consultant or agent between the Authority and such Person on a basis that reflects the services rendered to the Authority and such Person;

(3) conduct all transactions with any other Person strictly on an arm's-length basis, allocate all overhead expenses (including, without limitation, telephone and other utility charges) for items shared between the Authority and such Person on the basis of actual use to the extent practicable and, to the extent such allocation is not practicable, on a basis reasonably related to actual use;

(4) observe all formalities as a distinct entity, and ensure that all actions relating to (a) the dissolution or liquidation of the Authority or (b) the initiation of, participation in, acquiescence in or consent to any bankruptcy, insolvency, reorganization or similar proceeding involving the Authority, are duly authorized by unanimous vote of its members;

(5) maintain its books and records separate from those of any other Person and maintain its assets readily identifiable as its own assets rather than assets of any other Person and not commingle its assets with those of any other Person;

(6) prepare its financial statements separately from those of any other Person and not prepare any financial statements that are consolidated with those of any other Person;

(7) maintain only those bank accounts or other depository accounts to which the Authority alone is the account party, and from which only the Authority has the power to make withdrawals;

(8) pay all of the Authority's operating expenses from the Authority's own assets;

(9) operate its business and activities such that: it does not engage in any business or activity of any kind, or enter into any transaction or indenture, mortgage, instrument, agreement, contract, lease or other undertaking, other than the transactions contemplated and authorized by its organizational documents; and does not create, incur, guarantee, assume or suffer to exist any indebtedness or other liabilities, whether direct or contingent, other than (a) as a result of the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business, (b) the incurrence of obligations under the Indenture, the Sale Agreement or the Authority Tax Certificate, (c) the incurrence of operating expenses in the ordinary course of business of the type otherwise contemplated by the Indenture, the Sale Agreement or the Authority Tax Certificate, and (d) the incurrence of obligations payable solely from specified assets of the Authority not subject to the lien of the Indenture and the holders of which expressly have no recourse to any other assets of the Authority in the event of non-payment;

(10) maintain its organization in conformity with the Indenture; and

(11) object in any relevant bankruptcy case to the consolidation of the assets of the Authority with those of the State.

Negative Covenants

Sale of Assets. Except as expressly permitted by the Indenture, the Authority will not sell, transfer, exchange or otherwise dispose of any of its properties or assets that are subject to the lien of the Indenture.

No Setoff. The Authority will not claim any credit on, or make any deduction from the principal or premium, if any, or interest on, the Bonds or assert any claim against any present or former Bondholder by reason of payment of taxes levied or assessed upon any part of the Collateral.

Liquidation. Unless the Special Conditions are met, the Authority will not terminate its existence or dissolve or liquidate in whole or in part.

Limitation of Liens. The Authority will not (1) permit the validity or effectiveness of the Indenture to be impaired, or permit the lien of the Indenture to be amended, hypothecated, subordinated, terminated, or discharged, or permit any Person to be released from any covenants or obligations with respect to the Bonds under the Indenture except as may be expressly permitted thereby, (2) permit any lien, charge, excise, claim, security interest, mortgage or other encumbrance (other than the lien of the Indenture) to be created on or extend to or otherwise arise upon or burden the Collateral or any part thereof or any interest therein or the proceeds thereof on a parity with or senior to the lien of the Indenture or (3) permit the lien of the Indenture not to constitute a valid first priority security interest in the Collateral.

Limitations on Consolidation, Merger, Sale of Assets, etc. Except as otherwise provided in the Indenture, the Authority will not consolidate or merge with or into any other Person, or convey or transfer all or substantially all of its properties or assets, unless the following conditions (the "**Special Conditions**" are met:

(1) an entity survives such event, and such entity is organized and existing under the laws of the United States, the State or any state and expressly assumes the due and punctual payment of the principal of and premium, if any, and interest on all Bonds and the performance or observance of every agreement and covenant of the Authority in the Indenture;

(2) immediately after giving effect to such transaction, no Event of Default has occurred under the Indenture;

(3) the Authority has received an opinion of Counsel to the effect that such transaction will not have a material adverse tax consequence to the Authority and will not adversely affect the exclusion of interest on any of the Tax-Exempt Bonds from gross income for federal income tax purposes;

(4) any action as is necessary to maintain the lien and security interest created by the Indenture has been taken; and

(5) the Authority has delivered to the Indenture Trustee an Officer's Certificate and an opinion of Counsel to the effect that such transaction complies with the Indenture and that all conditions precedent to such transaction have been complied with.

Restricted Payments. The Authority will not, directly or indirectly, make distributions from the Collections Account except in accordance with the Indenture.

Prior Notice

The Indenture Trustee will give each Rating Agency 15 days' prior written notice of any amendment to the Indenture or the defeasance or redemption of Bonds. The Indenture Trustee will give each Rating Agency 15 days' prior written notice of any amendment (of which the Indenture Trustee has knowledge) to the Sale Agreement.

Indenture Trustee's Organization, Authorization, Capacity, and Responsibility

The Indenture Trustee represents and warrants in the Indenture that it is duly organized and validly existing under the laws of the jurisdiction of its organization, having the authority to exercise trust powers within the State, including the capacity to exercise the powers and duties of the Indenture Trustee under the Indenture, and that by proper corporate action it has duly authorized the execution and delivery of the Indenture. The Indenture Trustee will maintain on file with the Authority a written certificate specifying the name, address, telephone number, email address and telefacsimile number of every Authorized Officer of the Indenture Trustee (1) having direct responsibility for the administration of the Indenture or (2) to whom a particular matter is referred because of such officer's knowledge of and familiarity with the particular subject.

The duties and responsibilities of the Indenture Trustee will be as set forth in the Indenture. Notwithstanding the foregoing, no provision of the Indenture will require the Indenture Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Indenture, or in the exercise of any of its rights or powers, unless it receives indemnity reasonably satisfactory to it against any loss, liability, or expense; *provided,* that the Indenture Trustee will make the payments and distributions required by the Indenture without requiring that any indemnity be provided to it. Whether or not therein expressly so provided, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Indenture Trustee will be subject to the provisions of the Indenture.

As Indenture Trustee under the Indenture:

(1) the Indenture Trustee may conclusively rely and will be fully protected in acting or refraining from acting upon any Officer's Certificate, opinion of Counsel (or both), resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document reasonably believed by it to be genuine and to have been signed or presented by the proper person or persons. The Indenture Trustee need not investigate any fact or matter stated in the document, but the Indenture Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit;

(2) before the Indenture Trustee acts or refrains from acting, it may require an Officer's Certificate and/or an opinion of Counsel. The Indenture Trustee will not be liable for any action it takes or omits to take in good faith in reliance on such certificate or opinion. Whenever in the administration of the trusts of the Indenture the Indenture Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering or omitting to take any action under the Indenture, such matter (unless other evidence in respect thereof is specifically prescribed in the Indenture) may, in the absence of negligence or bad faith on the part of the Indenture Trustee, be deemed to be conclusively proved and established by an Officer's Certificate delivered to the Indenture Trustee, and such certificate, in the absence of negligence or bad faith on the part of the Indenture Trustee, will be full warrant to the Indenture

Trustee for any action taken, suffered or omitted to be taken by it under the provisions of the Indenture upon the faith thereof;

(3) any request, direction, order, or demand of the Authority mentioned in the Indenture will be sufficiently evidenced by an Officer's Certificate (unless other evidence in respect thereof is specifically prescribed in the Indenture); and any Authority resolution may be evidenced to the Indenture Trustee by a copy thereof certified by the secretary or an assistant secretary of the Authority;

(4) prior to the occurrence of an Event of Default under the Indenture and after the curing or waiving of all Events of Default, the Indenture Trustee will not be bound to make any investigation into the facts or matters stated in any resolution, certificate, Officer's Certificate, opinion of Counsel, Authority resolution, statement, instrument, opinion, report, notice, request, consent, order, approval, appraisal, bond, debenture, note, coupon, security, or other paper or document unless requested in writing so to do by the Holders of a majority of the principal amount of the Bonds affected and then Outstanding; and if the payment within a reasonable time to the Indenture Trustee of the costs, expenses or liabilities likely to be incurred by it in the making of such investigation is, in the opinion of the Indenture Trustee, not reasonably assured to the Indenture Trustee by the security afforded to it by the terms of the Indenture, the Indenture Trustee may require indemnity reasonably satisfactory to it against such expenses or liabilities as a condition to proceeding;

(5) the Indenture Trustee will be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of the Authority or Bondholders, unless the Authority or Bondholders have offered to the Indenture Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction; *provided,* that the Indenture Trustee will make the payments and distributions required by the Indenture without requiring any indemnity be provided to it;

(6) the Indenture Trustee may execute any of the trusts or powers under the Indenture or perform any duties under the Indenture either directly or by or through agents or attorneys;

(7) the recitals contained in the Indenture and in the Bonds, except any such recitals relating to the Indenture Trustee, will be taken as the statements of the Authority, and the Indenture Trustee assumes no responsibility for their correctness. The Indenture Trustee makes no representation as to the validity or sufficiency of the Indenture or of the Bonds. The Indenture Trustee will not be accountable for the use or application by the Authority of the Bonds or the proceeds thereof or of any moneys paid to the Authority pursuant to the terms of the Indenture. The Indenture Trustee will have no responsibility with respect to any information, statement or recital in any offering circular or other disclosure material prepared or distributed with respect to the Bonds. The Indenture Trustee will be responsible, however, for its representations contained in its certificate of authentication pertaining to each Bond;

(8) the Indenture Trustee (a) undertakes to perform such duties and only such duties as are specifically set forth in the Indenture, and no implied covenants or obligations may be read into the Indenture against the Indenture Trustee and (b) in the absence of negligence, bad faith or willful misconduct on its part, may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished pursuant to and conforming to the requirements of the Indenture; but in the case of any such certificates or opinions which by any provision of the Indenture are specifically required to be furnished to the

Indenture Trustee, will be under a duty to examine the same to determine whether or not they conform to the requirements of the Indenture; and

(9) the Indenture Trustee will exercise such of the rights and powers vested in it by the Indenture, and following the occurrence of an Event of Default, or a written allegation to the Indenture Trustee that an Event of Default has occurred, use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

Rights and Duties of the Fiduciaries

All money and investments received by the Fiduciaries under the Indenture will be held in trust in the trust department of such Fiduciary, not commingled with any other funds, and applied solely pursuant to the provisions of the Indenture.

The Fiduciaries will keep proper accounts of their transactions under the Indenture (separate from its other accounts), which will be open to inspection on reasonable notice by the Authority and its representatives duly authorized in writing.

The Fiduciaries will not be required to monitor the financial condition of the Authority and, unless otherwise expressly provided, will not have any responsibility with respect to reports, notices, certificates or other documents filed with them under the Indenture, except to make them promptly available for inspection by Bondholders.

Each Fiduciary will be entitled to the advice of counsel (who may be counsel for any party) and will not be liable for any action taken in good faith in reliance on such advice. Each Fiduciary may rely conclusively on any notice, certificate or other document furnished to it under the Indenture and reasonably believed by it to be genuine. A Fiduciary will not be liable for any action taken or omitted to be taken by it in good faith and reasonably believed by it to be within the discretion or power conferred upon it, or taken by it pursuant to any direction or instruction by which it is governed under the Indenture or omitted to be taken by it by reason of the lack of direction or instruction required for such action, or be responsible for the consequences of any error of judgment reasonably made by it. When any payment or consent or other action by a Fiduciary is called for by the Indenture, the Fiduciary may defer such action pending receipt of such evidence, if any, as it may reasonably require in support thereof; except that the Indenture Trustee and any Paying Agent will make the payments and distributions required by the Indenture without requiring that any further evidence be provided to it. A permissive right or power to act will not be construed as a requirement to act.

The Fiduciaries will in no event be liable for the application or misapplication of funds, or for other acts or failures to act, by any person, firm or corporation except by their respective directors, officers, agents, and employees. No recourse will be had for any claim based on the Indenture or the Bonds against any director, officer, agent or employee of any Fiduciary unless such claim is based upon the bad faith, negligence, willful misconduct, fraud or deceit of such person.

Nothing in the Indenture will obligate any Fiduciary to pay any debt or meet any financial obligations to any Person in relation to the Bonds except from money received for such purposes under the provisions of the Indenture or from the exercise of the Indenture Trustee's rights under the Indenture.

The Fiduciaries may be or become the owner of or trade in the Bonds with the same rights as if they were not the Fiduciaries.

Unless otherwise specified by a Supplemental Indenture, the Fiduciaries will not be required to furnish any bond or surety.

The Authority will, as and only as an Operating Expense, indemnify and save each Fiduciary harmless against any expenses and liabilities (including reasonable legal fees and expenses) that it may reasonably incur in the exercise of its duties under the Indenture and that are not due to such Fiduciary's negligence, willful misconduct or bad faith. This paragraph will survive the discharge of the Indenture or the earlier resignation or removal of such Fiduciary.

Nothing in the Indenture will relieve any Fiduciary of responsibility for its negligence, bad faith or willful misconduct.

Paying Agents

The Authority in the Indenture designates the Indenture Trustee as Paying Agent. The Authority may appoint additional Paying Agents, generally or for specific purposes, may discharge a Paying Agent from time to time and may appoint a successor, in each case with written notice to each Rating Agency. The Authority will designate a successor if the Indenture Trustee ceases to serve as Paying Agent. Each Paying Agent will be a bank or trust company eligible under the laws of the State, and will have (together with its corporate parent, if applicable) a capital and surplus of not less than $50,000,000 and be registered as a transfer agent with the Securities and Exchange Commission. The Authority will give notice of the appointment of a successor to the Indenture Trustee as Paying Agent in writing to each Bondholder shown on the books of the Indenture Trustee. A Paying Agent may but need not be the same Person as the Indenture Trustee. Unless otherwise provided by the Authority, the Indenture Trustee as Paying Agent will act as registrar and transfer agent.

Resignation or Removal of the Indenture Trustee

The Indenture Trustee may resign on not less than 30 days' written notice to the Authority, the Bondholders and each Rating Agency. The Indenture Trustee will promptly certify to the Authority that it has given written notice to all Bondholders and such certificate will be conclusive evidence that such notice was given as required by the Indenture. The Indenture Trustee will be removed if rated below investment grade by each Rating Agency and each successor Indenture Trustee must have an investment grade rating from each Rating Agency. The Indenture Trustee may be removed by written notice from the Authority (if an Event of Default has not occurred) or the Holders of a majority of the principal amount of the Outstanding Bonds to the Indenture Trustee, the Authority and each Rating Agency. Such resignation or removal will not take effect until a successor has been appointed and has accepted the duties of Indenture Trustee.

Notwithstanding the above, pursuant to the Series 2018 Supplement, the Indenture Trustee shall be removed if rated below "BBB" (long-term), or if rated below "A-2" (short-term), by each Rating Agency.

Successor Fiduciaries

In case a Fiduciary resigns or is removed or becomes incapable of acting, or is merged or converted into (or consolidated with) another corporation or association, or sells, assigns or otherwise transfers all or substantially all of its corporate trust business, or becomes bankrupt or insolvent, or if a receiver, liquidator, or conservator of a Fiduciary or of its property is appointed, or if a public officer takes charge or control of a Fiduciary, or of its property or affairs, then such Fiduciary will with due care terminate its activities under the Indenture and a successor may, or in the case of the Indenture Trustee

will, be appointed by the Authority. If the Indenture Trustee is merged or converted into (or consolidated with) another corporation or association, or if the Indenture Trustee sells, assigns or otherwise transfers all or substantially all of its corporate trust business, then such appointed successor trustee may, but need not, be the corporation or association resulting from such merger, conversion or consolidation. The Authority will notify the Bondholders and each Rating Agency of the appointment of a successor Indenture Trustee in writing within 20 days after the appointment. The Authority will promptly certify to the successor Indenture Trustee that it has given such notice to all Bondholders and such certificate will be conclusive evidence that such notice was given as required by the Indenture. If no appointment of a successor Indenture Trustee is made within 45 days after the giving of written notice in accordance with the provisions of the Indenture relating to the resignation or removal of the Indenture Trustee or after the occurrence of any other event requiring or authorizing such appointment, the outgoing Indenture Trustee or any Bondholder may apply to any court of competent jurisdiction for the appointment of such a successor, and such court may thereupon, after such notice, if any, as such court may deem proper, appoint such successor. Any successor Indenture Trustee appointed under as described in this paragraph must be a trust company or a bank (i) having trust powers and having a capital and surplus of not less than $50,000,000 and (ii) whose long term debt obligations have been assigned an investment grade rating by each Rating Agency. Any such successor Indenture Trustee will notify the Authority of its acceptance of the appointment and, upon giving such notice, will become the Indenture Trustee, vested with all the property, rights, powers and duties of the Indenture Trustee under the Indenture, without any further act or conveyance. Such successor Indenture Trustee will execute, deliver, record and file such instruments as are required to confirm or perfect its succession under the Indenture and any predecessor Indenture Trustee will from time to time execute, deliver, record and file such instruments as the incumbent Indenture Trustee may reasonably require to confirm or perfect any succession under the Indenture.

In addition to the requirements described above, pursuant to the Series 2018 Supplement, any successor Indenture Trustee appointed as described above shall be a trust company or a bank whose long-term debt obligations have been assigned by each Rating Agency a long-term rating not lower than "BBB" and a short-term rating not lower than "A-2".

Action by Bondholders

Any request, authorization, direction, notice, consent, waiver or other action provided by the Indenture to be given or taken by Bondholders may be contained in and evidenced by one or more writings of substantially the same tenor signed by the requisite number of Bondholders or their attorneys duly appointed in writing. Proof of the execution of any such instrument, or of an instrument appointing any such attorney, will be sufficient for any purpose of the Indenture (except as otherwise expressly provided) if made in the following manner, but the Authority or the Indenture Trustee may nevertheless in its discretion require further or other proof in cases where it deems the same desirable. The fact and date of the execution by any Bondholder or its attorney of such instrument may be proved by the certificate or signature guarantee by a guarantor institution participating in a guarantee program acceptable to the Indenture Trustee; or of any notary public or other officer authorized to take acknowledgements of deeds to be recorded in the jurisdiction in which such notary public or other officer purports to act, that the person signing such request or other instrument acknowledged to such notary public or other officer the execution thereof; or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. The authority of the person or persons executing any such instrument on behalf of a corporate Bondholder may be established without further proof if such instrument is signed by a person purporting to be the chairperson or an executive officer of such corporation with a corporate seal affixed and attested by a person purporting to be its clerk or secretary or an assistant clerk or secretary. Any action of the Bondholder will be irrevocable and bind all future record and beneficial owners thereof.

Registered Holders

The enumeration of certain provisions of the Indenture applicable to DTC as Holder of immobilized Bonds will not be construed in limitation of the rights of the Authority and each Fiduciary to rely upon the registration books in all circumstances and to treat the registered owners of Bonds as the owners thereof for all purposes not otherwise specifically provided for by law or in the Indenture. Notwithstanding any other provisions of the Indenture, any payment to the registered owner of a Bond will satisfy the Authority's obligations thereon to the extent of such payment.

Events of Default

"**Event of Default**" in the Indenture means any one of the events set forth below:

(1) failure to pay, when due, interest on any Bond;

(2) failure to pay, when due, any Principal Maturity or Sinking Fund Installment;

(3) failure of the Authority to observe or perform any other provision of the Indenture which is not remedied within 60 days after written notice thereof is given to the Authority by the Indenture Trustee or to the Authority and the Indenture Trustee by the Holders of at least 25% in principal amount of the Bonds then Outstanding. In the case of a default specified in this paragraph, if the default is such that it cannot be corrected within the said 60-day period, it will not constitute an Event of Default if corrective action is instituted by the Authority within said 60-day period and diligently pursued until the default is corrected; or

(4) a material breach by the State of its covenants contained or referred to in "Contract; Obligations to Bondholders," "Tax Covenants" or "Non-Petition Covenant," which breach is not remedied within 60 days after written notice, specifying such default and requiring the same to be remedied, has been given to the Authority and the State by the Indenture Trustee or to the Indenture Trustee, the Authority and the State by the Holders of at least 25% in principal amount of the Bonds then Outstanding. In the case of a default specified in this paragraph, if the default is such that it cannot be corrected within the said 60-day period, it will not constitute an Event of Default if corrective action is instituted by the State within said 60-day period and diligently pursued until the default is corrected.

Remedies

Remedies of the Indenture Trustee. If an Event of Default occurs and is continuing:

(1) The Indenture Trustee may, and upon written request of the Holders of at least 25% in principal amount of the Bonds Outstanding will, in its own name by action or proceeding in accordance with law:

(a) enforce all rights of the Bondholders and require the Authority and the State to carry out their respective agreements with the Bondholders;

(b) sue upon the Bonds;

(c) require the Authority to account as if it were the trustee of an express trust for the Bondholders; and

(d) enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

(2) The Indenture Trustee will, in addition to the other remedies provisions described herein, have and possess all of the powers necessary or appropriate for the exercise of any functions incident to the general representation of Bondholders in the enforcement and protection of their rights.

(3) Upon an Event of Default under (1) or (2) under "Events of Default," or a failure actually known to an Authorized Officer of the Indenture Trustee to make any other payment required by the Indenture within 7 days after the same becomes due and payable, the Indenture Trustee will give written notice thereof to the Authority. The Indenture Trustee will give default notices under (3) or (4) under "Events of Default" when instructed to do so by the written direction of another Fiduciary or the Holders of at least 25% in principal amount of the Outstanding Bonds. The Indenture Trustee will proceed for the benefit of the Bondholders in accordance with the written direction of the Holders of a majority in principal amount of the Outstanding Bonds. The Indenture Trustee will not be required to take any remedial action (other than the giving of notice) unless reasonable indemnity is furnished for any expense or liability to be incurred therein. Upon receipt of written notice, direction, and indemnity, and after making such investigation, if any, as it deems appropriate to verify the occurrence of any event of which it is notified as aforesaid, the Indenture Trustee will promptly pursue the remedies provided by the Indenture or any such remedies (not contrary to any such direction) as it deems appropriate for the protection of the Bondholders, and shall act for the protection of the Bondholders with the same promptness and prudence as would be expected of a prudent person in the conduct of such person's own affairs.

(4) The Holders of a majority in aggregate principal amount of the Outstanding Bonds may direct the time, method and place of conducting any proceeding for any remedy available to the Indenture Trustee with respect to the Indenture; *provided,* that (a) such direction is not in conflict with any rule of law or with the Indenture, (b) the Indenture Trustee has been provided with indemnity reasonably satisfactory to it, and (c) the Indenture Trustee may take any other action deemed proper by it that is not inconsistent with such direction.

Payment of Bonds Upon Event of Default. On each Distribution Date after the occurrence of an Event of Default under the Indenture, the Bonds shall be paid on a Pro Rata basis.

Individual Remedies. No one or more Bondholders may by its or their action affect, disturb or prejudice the pledge created by the Indenture, or enforce any right under the Indenture, except in the manner therein provided; and all proceedings at law or in equity to enforce any provision of the Indenture will be instituted, had and maintained in the manner provided therein and for the equal benefit of all Bondholders of the same class; but nothing in the Indenture will affect or impair the right of any Bondholder to enforce payment of the principal of, premium, if any, or interest on each of such Holder's Bonds at and after the same comes due pursuant to the Indenture, or the obligation of the Authority to pay the principal, premium, if any, and interest on each of the Bonds to the respective Holders thereof at the time, place, from the source and in the manner expressed in the Indenture and in the Bonds.

Venue. The venue of every action, suit, or special proceeding against the Authority will be laid in the Superior Court of the State of Washington for King County.

Waiver. If the Indenture Trustee determines that a Default has been cured before becoming an Event of Default and before the entry of any final judgment or decree with respect to it, the Indenture

Trustee may waive the Default and its consequences, by written notice to the Authority, and will do so upon written instruction of the Holders of at least 25% in principal amount of the Outstanding Bonds.

Supplements and Amendments to the Indenture

(1) The Indenture may be:

(a) supplemented in writing by the Authority and the Indenture Trustee to (i) provide for earlier or greater deposits into the Debt Service Account, (ii) subject any additional property to the lien of the Indenture, (iii) add to the covenants and agreements of the Authority or surrender or limit any right or power of the Authority, (iv) identify particular Bonds for purposes not inconsistent with the Indenture, including remarketing and defeasance, (v) cure any ambiguity or defect, or (vi) protect the exclusion of interest on the Tax-Exempt Bonds from gross income for federal income tax purposes, or the exemption from registration of the Bonds under the Securities Act of 1933, as amended, or of the Indenture under the Trust Indenture Act of 1939, as amended, and (vii) to provide any other things relative to the Bonds that are not materially adverse to the Holders of Outstanding Bonds; or

(b) amended in writing by the Authority and the Indenture Trustee, (i) to add provisions that are not materially adverse to the Bondholders, (ii) to adopt amendments that do not take effect unless and until (A) no Bonds Outstanding prior to the adoption of such amendment remain Outstanding or (B) such amendment is consented to by such Bondholders in accordance with the further provisions of the Indenture, or (iii) pursuant to the following paragraph (2).

(2) Except as provided in the foregoing paragraph (1), the Indenture may be amended in writing by the Authority and the Indenture Trustee:

(a) only with written notice to the Rating Agencies and the written consent of the Holders of a majority of the principal amount of the Bonds to be Outstanding at the effective date thereof and affected thereby; but

(b) only with the unanimous written consent of the affected Bondholders for any of the following purposes: (i) to extend the stated Maturity Date of any Bond, (ii) to reduce the principal amount, applicable premium or interest rate of any Bond, (iii) to make any Bond redeemable other than in accordance with its terms, or (iv) to reduce the percentage of the Bonds required to be represented by the Bondholders giving their consent to any amendment.

Any amendment of the Indenture must be accompanied by an opinion of Counsel to the effect that the amendment is permitted by law and does not, in and of itself, result in the inclusion of interest on the Tax-Exempt Bonds in gross income for federal income tax purposes.

When the Authority determines that the requisite number of consents have been obtained for an amendment to the Indenture or to the agreement which requires consents, it will file a certificate to that effect in its records and give notice to the Indenture Trustee and the Bondholders. The Indenture Trustee will promptly certify to the Authority that it has given such notice to all Bondholders and such certificate will be conclusive evidence that such notice was given in the manner required by the Indenture. It will not be necessary for the consent of Bondholders pursuant to the Indenture amendment provisions of the

Indenture to approve the particular form of any proposed amendment, but it will be sufficient if such consent approves the substance thereof.

Supplements and Amendments to the Sale Agreement

Except as otherwise provided in the third paragraph of "THE SALE AGREEMENT—Pledges; Protection of Title; Non-Impairment Covenant" and "THE INDENTURE—Non-Petition Covenant," the Sale Agreement may be amended by agreement of the State and the Authority, with the consent of the Indenture Trustee but without the consent of any of the Bondholders, for any purpose that will not adversely affect the Bonds in any material respect, as evidenced by an Opinion of Counsel that the amendment is permitted under the Sale Agreement and will not adversely affect the tax exemption of interest on the Tax-Exempt Bonds. The Sale Agreement may also be amended for any purpose, other than as provided in the third paragraph of "THE SALE AGREEMENT—Pledges; Protection of Title; Non-Impairment Covenant" and "THE INDENTURE—Non-Petition Covenant," or other than to reduce the number of Bondholders specified in the Indenture required to consent to an amendment of the Sale Agreement, by satisfying the conditions in the previous sentence and by obtaining the consent of the Holders of a majority in aggregate principal amount of Outstanding Bonds.

Except as otherwise provided in the preceding paragraph, the Sale Agreement may also be amended from time to time by the State and the Authority with the consent of the Holders of a majority in principal amount Outstanding of the Bonds for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Sale Agreement or of modifying in any manner the rights of the Holders of the Bonds, but no such amendment, unless consented to by the Holders of all of the Outstanding Bonds, shall reduce the percentage of the Outstanding amount of Bonds the Holders of which are required to consent to any such amendment.

It will not be necessary for the consent of Bondholders pursuant to the Sale Agreement amendment provisions of the Indenture to approve the particular form of any proposed amendment or consent, but it will be sufficient if such consent approves the substance thereof.

Definitions

In addition to terms defined elsewhere in the Indenture, the following words and terms as used in the Indenture will have the following meanings unless the context or use clearly indicates another or different meaning or intent:

"**Authority Tax Certificate**" means the Issuer Tax Certificate executed by the Authority at the time of issuance of Bonds, as originally executed and as it may be amended or supplemented from time to time in accordance with the terms thereof.

"**Authorized Officer**" means, (1) in the case of the Authority, the Chairperson, the Secretary, and any other person authorized to act by the Board members under the Indenture by appropriate Written Notice to the Indenture Trustee, and (2) in the case of the Indenture Trustee, any officer assigned to the Corporate Trust Office, including any managing director, vice president, assistant vice president, assistant treasurer, assistant secretary or any other officer of the Indenture Trustee customarily performing functions similar to those performed by any of the above designated officers and having direct responsibility for the administration of the Indenture, and also, with respect to a particular matter, any other officer, to whom such matter is referred because of such officer's knowledge of and familiarity with the particular subject.

“**Beneficiaries**” means Bondholders, the Indenture Trustee, and to the extent specified in the Indenture, parties to Swap Contracts (as defined in the Indenture).

“**Bondholders**” means the registered owners of the Bonds from time to time as shown on the books of the Indenture Trustee.

“**Corporate Trust Office**” means (1) the office of the Indenture Trustee at which the corporate trust business of the Indenture Trustee related to the Indenture will, at any particular time, be principally administered, which office is, at the date of the Indenture, located at 1420 Fifth Avenue, 7th Floor, Seattle, Washington 98101, and (2) with respect to payments on the Bonds and any exchange, transfer or surrender of the Bonds, means 60 Livingston Avenue, St. Paul, Minnesota 55107 or such other location designated by the Indenture Trustee in writing to the Authority, DTC and each Rating Agency.

“**Counsel**” means nationally recognized bond counsel or such other counsel as may be selected by the Authority for a specific purpose under the Indenture.

“**Default**” means an Event of Default without regard to any declaration, notice or lapse of time.

“**Defeasance Collateral**” means cash and any of the following:

(1) non-callable direct obligations of the United States of America, non-callable and non-prepayable direct federal agency obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America, non-callable direct obligations of the United States of America which have been stripped by the United States Treasury itself or by any Federal Reserve Bank (not including “CATS,” “TIGRS” and “TRS’’) and the interest components of REFCORP bonds for which the underlying bond is non-callable (or non-callable before the due date of such interest component) for which separation of principal and interest is made by request to the Federal Reserve Bank of New York in book-entry form, and excludes investments in mutual funds and unit investment trusts;

(2) non-callable obligations timely maturing and bearing interest (but only to the extent that the full faith and credit of the United States of America are pledged to the timely payment thereof); and

(4) bonds or other obligations of any state of the United States of America or any agency, instrumentality or local governmental unit of any such state (a) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, and (b) timely payment of which is fully and irrevocably secured by a fund consisting only of cash or obligations of the character described in clause (1) or (2) which fund may be applied only to the payment when due of such bonds or other obligations; provided, however, that at the time of purchase of such bonds or other obligations, each Rating Agency shall have rated them based solely upon the security provided by the fund described in clause (b).

“**Defeased Bonds**” means Bonds that remain in the hands of their Holders but are no longer deemed Outstanding.

“**Eligible Investments**” means (in each case to the extent that such is a legal investment for moneys of the Authority):

(1) Defeasance Collateral;

(2) direct obligations of, or obligations guaranteed as to timely payment of principal and interest by, the Federal Home Loan Mortgage Corporation, Fannie Mae, the Federal Home Loan Bank, the Federal Farm Credit System, the Export-Import Bank of the United States, the Federal Financing Bank, the Government National Mortgage Association, the Federal Housing Administration, the Private Export Funding Corporation or the Resolution Trust Company;

(3) demand and time deposits in or certificates of deposit of, or bankers' acceptances issued by, any bank or trust company, savings and loan association, or savings bank, payable on demand or on a specified date no more than six months after the date of issuance thereof, if such deposits or instruments are rated "A-1" by S&P;

(4) certificates, notes, warrants, bonds, obligations, or other evidences of indebtedness of a state or a political subdivision thereof rated by each Rating Agency rating such bonds in one of its two highest rating categories;

(5) commercial or finance company paper (including both non-interest-bearing discount obligations and interest bearing obligations) having short-term ratings of "A-1" by S&P and that are either (a) payable at par on demand or on a specified date not more than 270 days, after the date of issuance thereof and that have long-term ratings of "A" by S&P, or (c) payable at par on demand or on a specified date not more than 99 days, after the date of issuance thereof;

(6) repurchase obligations with respect to any security described in clauses (1), (2), or (3) above entered into with a primary dealer, depository institution, or trust company (acting as principal) rated "A-1" by S&P (if payable on demand or on a specified date no more than six months after the date of issuance thereof), or rated by each Rating Agency rating such bonds in one of its two highest long-term rating categories, or collateralized by securities described in clauses (1), (2), or (3) above with any registered broker/dealer or with any domestic commercial bank whose long-term debt obligations are rated at least "BBB" by S&P; *provided,* that (a) a specific written agreement governs the transaction, (b) the securities are held, free and clear of any lien, by the Indenture Trustee or an independent third party acting solely as agent for the Indenture Trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a member of the Federal Deposit Insurance Corporation that has combined surplus and undivided profits of not less than $25 million, and the Indenture Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Indenture Trustee, (c) the agreement has a term of thirty days or less, or the Indenture Trustee will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within five Business Days of such valuation, and (d) the fair market value of the collateral securities in relation to the amount of the obligation, including principal and interest, is equal to at least 102% or, if greater, the amount then required by S&P in order that the ratings then assigned by S&P to the Bonds will not be lowered or suspended;

(7) forward purchase agreements with respect to the future purchase by the Authority or the Indenture Trustee of any security described in clauses (1), (2), (3) or (5) above entered into with any financial institution whose senior long-term debt obligations are rated, or guaranteed by a financial institution whose senior long-term debt obligations are rated, at the time such agreement is entered into, by each Rating Agency, in one of its three highest rating categories; provided that securities purchased pursuant to such agreement shall in all respects comply with the requirements set forth in those provisions of the Indenture summarized above under the caption "Investments";

(8) securities bearing interest or sold at a discount (payable on demand or on a specified date no more than three months after the date of issuance thereof) that are issued by any corporation incorporated under the laws of the United States of America or any state thereof and rated "A-1" by S&P at the time of such investment or contractual commitment providing for such investment; *provided,* that securities issued by any such corporation will not be Eligible Investments to the extent that investment therein would cause the then outstanding principal amount of securities issued by such corporation that are then held to exceed 20% of the aggregate principal amount of all Eligible Investments then held;

(9) units of taxable or tax-exempt money market funds which funds are regulated investment companies and seek to maintain a constant net asset value per share and have been rated by each Rating Agency rating such funds in one of its two highest rating categories, including if so rated any such fund which the Indenture Trustee or an affiliate of the Indenture Trustee serves as an investment advisor, administrator, shareholder, servicing agent and/or custodian or sub-custodian, notwithstanding that (a) the Indenture Trustee or an affiliate of the Indenture Trustee charges and collects fees and expenses (not exceeding current income) from such funds for services rendered, (b) the Indenture Trustee charges and collects fees and expenses for services rendered pursuant to the Indenture, and (c) services performed for such funds and pursuant to the Indenture may converge at any time;

(10) investment agreements or guaranteed investment contracts rated, or with any financial institution or corporation whose senior long-term debt obligations are rated, or guaranteed by a financial institution whose senior long-term debt obligations are rated, at the time such agreement or contract is entered into, by each Rating Agency rating such agreements, contracts, or obligations, as the case may be, in one of its two highest rating categories, if the Authority has an option to terminate such agreement in the event that such rating is downgraded below the rating on the Bonds, or if not so rated, then collateralized by securities described in clauses (1), (2), or (3) above with any registered broker/dealer or with any domestic commercial bank whose long-term debt obligations are rated "investment grade" by each Rating Agency; *provided,* that (a) a specific written agreement governs the transaction, (b) the securities are held, free and clear of any lien, by the Indenture Trustee or an independent third party acting solely as agent for the Indenture Trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a member of the Federal Deposit Insurance Corporation that has combined surplus and undivided profits of not less than $25 million, and the Indenture Trustee has received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Indenture Trustee, (c) the agreement has a term of 30 days or less, or the Indenture Trustee will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within five Business Days of such valuation, and (d) the fair market value of the collateral securities in relation to the amount of the obligation, including principal and interest, is equal to at least 102% or, if greater, the amount then required by S&P in order that the ratings then assigned by S&P to the Bonds will not be lowered or suspended;

(11) solely for investment of money in the Surplus Account, Non-AMT Tax-Exempt Obligations; and

(12) other obligations or securities that are non-callable and that are acceptable to each Rating Agency;

provided, that no Eligible Investment may (a) except for Defeasance Collateral, evidence the right to receive only interest with respect to the obligations underlying such instrument, or (b) be purchased at a

price greater than par if such instrument may be redeemed at a price less than its purchase price prior to its stated maturity.

"**Fiduciary**" means the Indenture Trustee and each Paying Agent, if any.

"**Fiscal Year**" means the 12-month period ending each June 30.

"**Holders**" means the registered owners of the Bonds from time to time as shown on the books of the Indenture Trustee.

"**Inflated Operating Cap Component**" means the amount determined from time to time pursuant to clause (1) of the definition of the term "Operating Cap."

"**Non-AMT Tax-Exempt Obligation**" means a debt obligation the interest on which (i) is excludible from gross income for federal income tax purposes pursuant to Section 103 of the Code, (ii) is not a preference item for purposes of computing alternative minimum tax by reason of Section 57(a)(5) of the Code, and (iii) is rated "A-1" or "A" or higher by S&P.

"**Officer's Certificate**" means a certificate signed by an Authorized Officer of the Authority.

"**Operating Expenses**" means operating and administrative expenses of the Authority (including, without limitation, the cost of preparation of accounting and other reports, costs of maintenance of the ratings on the Bonds, arbitrage payments and rebate penalties, insurance premiums, costs and expenses of indemnification pursuant to the Indenture, and costs of annual meetings or other required activities of the Authority), fees and expenses incurred for the Indenture Trustee (including the reasonable fees and expenses of its counsel), any Paying Agents, professional consultants and fiduciaries, termination payments on investment contracts or investment agreements for Accounts, or on forward purchase contracts for investments in Accounts, enforcement related costs with federal and state agencies incurred, as determined by the Authority, in order to preserve the tax-exempt status of any Tax-Exempt Bonds, and the costs related to enforcement of the Authority's or the Indenture Trustee's enforcement rights with respect to the the Indenture, the Sale Agreement, the Authority Tax Certificate or the Bonds, and all other expenses so identified as Operating Expenses in the Indenture.

"**Outstanding**" when used as to Bonds, or a series thereof, as the context requires, means Bonds issued under the Indenture, excluding: (1) Bonds that have been exchanged or replaced, or delivered to the Indenture Trustee for credit against a principal payment; (2) Bonds that have been paid in full; (3) Bonds that have become due and for the payment of which money has been duly provided to the Indenture Trustee for deposit in the Debt Service Account; (4) Bonds the payment of which has been provided for pursuant to the defeasance provisions of the Indenture; (5) Bonds purchased with money in the Surplus Account; and (6) for purposes of any consent or other action to be taken by a specified percentage of Bondholders under the Indenture, Bonds held by or for the account of the Authority, or any Person controlling, controlled by or under common control with the Authority. For the purposes of this definition, "control," when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"**Paying Agent**" means each Paying Agent designated from time to time pursuant to the Indenture.

"**Person**" means any individual, corporation, estate, partnership, joint venture, association, joint stock company, limited liability company, trust, unincorporated organization, government or any agency or political subdivision thereof, or any other entity of any type.

"**Pro Rata**" means, for an allocation of available amounts to any payment of interest or principal to be made under the Indenture, the application of a fraction to such available amounts (a) the numerator of which is equal to the amount due to the respective Bondholders to whom such payment is owing, and (b) the denominator of which is equal to the total amount due to all Bondholders to whom such payment is owing.

"**Rating Confirmation**" means, with respect to the Bonds, written confirmation from each Rating Agency which, at the request of the Authority, assigned a rating and continues to have a rating assigned to the Bonds, to the effect that the then-current rating assigned by such Rating Agency to the Bonds, without regard to any bond insurance or any other form of credit enhancement, will not be withdrawn, reduced or suspended solely as a result of the proposed action for which such written confirmation is sought.

"**Residual Certificate**" means an instrument in the form of Appendix B to the Indenture as in effect on the Tobacco Assets Purchase Date, evidencing the right to receive any amounts remaining in any Account after all deposits and payments set forth in the Indenture have been made and there are no Bonds Outstanding.

"**Tax-Exempt Bonds**" means all Bonds so identified in any Series Supplement, including the Series 2018 Bonds.

"**Unpledged TSRs**" means 70.8% of:

(a) the payments received by the State under the MSA on and after July 1, 2003 (and all adjustments thereto);

(b) all amounts received by the State under the MSA on and after July 1, 2003 consisting of adjustments to payments made to the State under the MSA prior to July 1, 2003; and

(c) all Lump Sum Payments, Partial Lump Sum Payments and Total Lump Sum Payments, including those received prior to July 1, 2003.

"**Written Notice**," "**written notice**" or "**notice in writing**" means notice in writing which may be delivered by hand or first class mail and also means facsimile transmission.

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APPENDIX D

PROPOSED FORMS OF OPINIONS OF CO-BOND COUNSEL

Upon delivery of the Series 2018 Bonds in definitive form, Hawkins Delafield & Wood LLP, New York, New York, proposes to render its final approving opinion in substantially the following form:

June __, 2018

Tobacco Settlement Authority
Seattle, Washington

Ladies and Gentlemen:

We have examined the Constitution and laws of the State of Washington (the "State") and a record of proceedings relating to the issuance of $43,630,000 aggregate principal amount of Tobacco Settlement Revenue Refunding Bonds, Series 2018 (the "Series 2018 Bonds"), of the Tobacco Settlement Authority (the "Authority"), a public instrumentality and agency of the State, separate and distinct from the State, exercising public and essential governmental functions, and created by and existing under Chapter 43.340, Revised Code of Washington codifying Chapter 365, Laws of the State, 2002, as amended (the "Act").

In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity with originals of all documents submitted to us as copies thereof.

The Series 2018 Bonds are authorized and issued pursuant to the Act and a resolution of the Authority adopted May 15, 2018, and are issued as Refunding Bonds pursuant to an Indenture dated as of October 1, 2002, as amended and restated on October 17, 2013, and a Series 2018 Supplement dated June __, 2018, each by and between U.S. Bank National Association, as trustee (the "Indenture Trustee") and the Authority (together, the "Indenture"). Capitalized terms used herein and not defined herein are used as defined in the Indenture.

The Authority is authorized and has reserved the right to issue one or more series of Refunding Bonds, secured on a parity with the Series 2018 Bonds and the Outstanding Series 2013 Bonds, only on the terms and conditions set forth in the Indenture.

In rendering our opinion, we have relied, to the extent we have deemed such reliance proper, on certain representations, certifications of fact, and statements of reasonable expectation made by the Authority and the State, and certain opinions provided to us, and we have assumed compliance by the Authority and the State with certain ongoing covenants to comply with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), to assure the exclusion of interest on the Series 2018 Bonds from gross income under section 103 of the Code. We have assumed the due authorization, execution and delivery of the Sale Agreement by the State and of the Indenture by the Indenture Trustee.

We have also assumed the enforceability of the Sale Agreement against the State and the enforceability of the Indenture against the Indenture Trustee, each in accordance with its respective terms.

Subject to the foregoing, we are of the opinion that:

1. Under the laws of the State, including the Constitution of the State, and under the Constitution of the United States, the Act is valid with respect to all provisions thereof material to the subject matters of this opinion letter.

2. The Authority is duly created and established and validly exists under the Act as a public instrumentality and agency of the State, separate and distinct from the State, exercising public and essential governmental functions, with the right and lawful authority and power to enter into the Indenture and the Sale Agreement, to perform the duties and obligations of the Authority under the Indenture and the Sale Agreement, and to issue the Series 2018 Bonds.

3. Each of the Sale Agreement and the Indenture has been duly and lawfully authorized, executed and delivered by the Authority, is in full force and effect and is the legal, valid and binding agreement of the Authority, enforceable against the Authority in accordance with its terms.

4. The Indenture creates the valid pledge of, and first priority lien on, the Collateral (including, without limitation, the Pledged TSRs) that it purports to create. Pursuant to the Act, the lien of such pledge and security interest is valid and binding as against all parties asserting or having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

5. The claim of the Indenture Trustee (as assignee and pledgee of the Authority) upon the right, title and interest to twenty-nine and two-tenths percent (29.20%) of (i) the payments received by the State under the MSA on and after July 1, 2003 (and all adjustments thereto), (ii) all amounts received by the State under the MSA on and after July 1, 2003 consisting of adjustments to payments made to the State under the MSA prior to July 1, 2003, and (iii) all Lump Sum Payments, Partial Lump Sum Payments and Total Lump Sum Payments, including those received prior to July 1, 2003, as Pledged TSRs, is valid and enforceable and on a parity with the claim of the State to seventy and eight-tenths percent (70.80%) of said revenues.

6. The Series 2018 Bonds have been duly and validly authorized and issued by the Authority in accordance with the provisions of the Act and the Indenture and are valid and binding special revenue obligations of the Authority, payable only out of the Collateral pledged by the Authority under the Indenture in Section 201 thereof.

7. In accordance with the Act, the Series 2018 Bonds are not obligations of the State and are obligations only of the Authority, payable solely from the special fund or funds created by the Authority for their payment. Payments of the principal of, interest on, and redemption or prepayment premium, if any, on the Series 2018 Bonds shall be a valid claim only as against the special fund or funds relating thereto. Neither the faith and credit nor the taxing power of the State or any municipal corporation, subdivision, or agency of the State, other than the Authority as set forth in the Act, is pledged to the payment of the principal of, interest on, and redemption or prepayment premium, if any, on the Series 2018 Bonds.

8. Under existing statutes and court decisions, (i) interest on the Series 2018 Bonds is excluded from the gross income of the owners for federal income tax purposes pursuant to section 103 of the Code, and (ii) interest on the Series 2018 Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code; such interest, however, is included in the adjusted current earnings

of certain corporations for purposes of calculating the alternative minimum tax imposed for taxable years beginning prior to January 1, 2018.

We express no opinion as to any other federal, state or local tax consequences arising with respect to the Series 2018 Bonds, or the ownership or disposition thereof, except as stated in paragraph 8 above. We render our opinion under existing statutes and court decisions as of the date hereof, and assume no obligation to update, revise or supplement our opinion to reflect any action hereafter taken or not taken, any fact or circumstance that may hereafter come to our attention, any change in law or interpretation thereof that may hereafter occur, or for any other reason. We express no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, we express no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the Series 2018 Bonds.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Series 2018 Bonds, the Indenture and the Sale Agreement may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted, and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2018 Bonds and we express no opinion with respect thereto.

This opinion is rendered as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

Upon delivery of the Series 2018 Bonds in definitive form, Pacifica Law Group LLP, Seattle, Washington, proposes to render its final approving opinion in substantially the following form:

June __, 2018

Tobacco Settlement Authority
Seattle, Washington

Re: Tobacco Settlement Authority Tobacco Settlement Revenue Refunding Bonds, Series 2018

Ladies and Gentlemen:

We have examined the Constitution and laws of the State of Washington (the "State") and a record of proceedings relating to the issuance of $43,630,000 aggregate principal amount of Tobacco Settlement Revenue Refunding Bonds, Series 2018 (the "Series 2018 Bonds"), of the Tobacco Settlement Authority (the "Authority"), a public instrumentality and agency of the State, separate and distinct from the State, exercising public and essential governmental functions, and created by and existing under Chapter 43.340, Revised Code of Washington codifying Chapter 365, Laws of the State, 2002, as amended (the "Act").

In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity with originals of all documents submitted to us as copies thereof.

The Series 2018 Bonds are authorized and issued pursuant to the Act and a resolution of the Authority adopted May 15, 2018, and are issued as Refunding Bonds pursuant to an Indenture dated as of October 1, 2002, as amended and restated on October 17, 2013, and a Series 2018 Supplement dated June __, 2018, each by and between U.S. Bank National Association, as trustee (the "Indenture Trustee") and the Authority (together, the "Indenture"). Capitalized terms used herein and not defined herein are used as defined in the Indenture.

The Authority is authorized and has reserved the right to issue one or more series of Refunding Bonds, secured on a parity with the Series 2018 Bonds and the Outstanding Series 2013 Bonds, only on the terms and conditions set forth in the Indenture.

In rendering our opinion, we have relied, to the extent we have deemed such reliance proper, on certain representations, certifications of fact, and statements of reasonable expectation made by the Authority and the State, and certain opinions provided to us, and we have assumed compliance by the Authority and the State with certain ongoing covenants to comply with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), to assure the exclusion of interest on the Series 2018 Bonds from gross income under Section 103 of the Code. We have assumed the due authorization, execution and delivery of the Sale Agreement by the State and of the Indenture by the Indenture Trustee. We have also assumed the enforceability of the Sale Agreement against the State and the enforceability of the Indenture against the Indenture Trustee, each in accordance with its respective terms.

Subject to the foregoing, we are of the opinion that:

1. Under the laws of the State, including the Constitution of the State, and under the Constitution of the United States, the Act is valid with respect to all provisions thereof material to the subject matters of this opinion letter.

2. The Authority is duly created and established and validly exists under the Act as a public instrumentality and agency of the State, separate and distinct from the State, exercising public and essential governmental functions, with the right and lawful authority and power to enter into the Indenture and the Sale Agreement, to perform the duties and obligations of the Authority under the Indenture and the Sale Agreement, and to issue the Series 2018 Bonds.

3. Each of the Sale Agreement and the Indenture has been duly and lawfully authorized, executed and delivered by the Authority, is in full force and effect and is the legal, valid and binding agreement of the Authority, enforceable against the Authority in accordance with its terms.

4. The Indenture creates the valid pledge of, and first priority lien on, the Collateral (including, without limitation, the Pledged TSRs) that it purports to create. Pursuant to the Act, the lien of such pledge and security interest is valid and binding as against all parties asserting or having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

5. The claim of the Indenture Trustee (as assignee and pledgee of the Authority) upon the right, title and interest to twenty-nine and two-tenths percent (29.20%) of (i) the payments received by the State under the MSA on and after July 1, 2003 (and all adjustments thereto), (ii) all amounts received by the State under the MSA on and after July 1, 2003 consisting of adjustments to payments made to the State under the MSA prior to July 1, 2003, and (iii) all Lump Sum Payments, Partial Lump Sum Payments and Total Lump Sum Payments, including those received prior to July 1, 2003, as Pledged TSRs, is valid and enforceable and on a parity with the claim of the State to seventy and eight-tenths percent (70.80%) of said revenues.

6. The Series 2018 Bonds have been duly and validly authorized and issued by the Authority in accordance with the provisions of the Act and the Indenture and are valid and binding special revenue obligations of the Authority, payable only out of the Collateral pledged by the Authority under the Indenture in Section 201 thereof.

7. In accordance with the Act, the Series 2018 Bonds are not obligations of the State and are obligations only of the Authority, payable solely from the special fund or funds created by the Authority for their payment. Payments of the principal of, interest on, and redemption or prepayment premium, if any, on the Series 2018 Bonds shall be a valid claim only as against the special fund or funds relating thereto. Neither the faith and credit nor the taxing power of the State or any municipal corporation, subdivision, or agency of the State, other than the Authority as set forth in the Act, is pledged to the payment of the principal of, interest on, and redemption or prepayment premium, if any, on the Series 2018 Bonds.

8. Under existing statutes and court decisions, (i) interest on the Series 2018 Bonds is excluded from the gross income of the owners for Federal income tax purposes pursuant to Section 103 of the Code, and (ii) interest on the Series 2018 Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed for taxable years beginning prior to January 1, 2018.

We express no opinion as to any other federal, state or local tax consequences arising with respect to the Series 2018 Bonds, or the ownership or disposition thereof, except as stated in paragraph 8 above. We render our opinion under existing statutes and court decisions as of the date hereof, and assume no obligation to update, revise or supplement our opinion to reflect any action hereafter taken or not taken, any fact or circumstance that may hereafter come to our attention, any change in law or interpretation thereof that may hereafter occur, or for any other reason. We express no opinion as to the consequence of any of

the events described in the preceding sentence or the likelihood of their occurrence. In addition, we express no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the Series 2018 Bonds.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Series 2018 Bonds, the Indenture and the Sale Agreement may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted, and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2018 Bonds and we express no opinion with respect thereto.

This opinion is rendered as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

PACIFICA LAW GROUP LLP

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

$43,630,000
Tobacco Settlement Authority
Tobacco Settlement Revenue Refunding Bonds, Series 2018

This Continuing Disclosure Agreement (this "Disclosure Agreement"), dated as of June 20, 2018, is executed and delivered by the Tobacco Settlement Authority (the "Issuer") and U.S. Bank National Association, Seattle, Washington, as Dissemination Agent (the "Dissemination Agent") in connection with the issuance by the Issuer of its $43,630,000 Tobacco Settlement Revenue Refunding Bonds, Series 2018 (the "Bonds"). In this Disclosure Agreement, the Issuer and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer and the Dissemination Agent for the benefit of the Bondholders and Beneficial Owners of the Bonds and in order to assist the Underwriter in complying with subsection (b)(5) of the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, dated as of October 1, 2002, as amended and restated on October 17, 2013, and the Series 2018 Supplement, dated as of June 20, 2018 (together, the "Indenture"), each between the Issuer and U.S. Bank National Association, Seattle, Washington, as trustee (the "Indenture Trustee"), which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined herein, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Bondholder" and **Holder** shall have the meaning of such term as defined in the Indenture.

"Disclosure Representative" shall mean the Executive Director of the Issuer or his or her designee, or such other officer or employee as the Issuer shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean U.S. Bank National Association, or any dissemination agent appointed hereunder.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Agreement.

"Official Statement" shall mean the Issuer's Official Statement relating to the Bonds dated June 12, 2018.

"Repository" shall mean each nationally recognized municipal securities repository approved by the SEC within the meaning of the Rule. The Repositories currently approved by the SEC are listed on the SEC website at http://www.sec.gov/info/municipal/nrmsir.htm. Currently, the SEC has designed the MSRB, through its Electronic Municipal Market Access ("EMMA"), as the sole Repository.

"Rule" shall mean Rule 15c2-12 promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as the same may be amended from time to time.

"SEC" shall mean the Securities and Exchange Commission.

"State" shall mean the State of Washington.

"Underwriter" shall mean the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall not later than 210 days after the end of the Issuer's fiscal year (currently June 30), commencing with the fiscal year ending June 30, 2018, provide or cause to be provided to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Issuer's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Issuer shall provide the Annual Report to the Dissemination Agent. If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer is in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall on such date send a notice to the MSRB in substantially the form attached as Exhibit A.

(d) Each Annual Report submitted hereunder shall be in readable PDF or other acceptable electronic form.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference the following:

Item 1. The audited financial statements of the Issuer for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Issuer's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available; and

Item 2. The material historical quantitative data on the Issuer's revenues and indebtedness, generally of the types discussed in the Official Statement under the heading "PLEDGED TSRS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" under the last column in the tables captioned "Projection of Pledged TSRs to be Received by the Indenture Trustee" in the Official Statement; and

Item 3. The debt service coverage for the Issuer's most recent fiscal year for Outstanding Bonds, after giving credit for any redemptions that have been paid.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to the MSRB. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

1. Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given with each Repository or with the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence thereof, notice of the occurrence of any of the following events with respect to the Bonds[*]:

1. principal and interest payment delinquencies;
2. non-payment related defaults, if material;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit or liquidity providers, or their failure to perform;
6. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 – TEB) or other material notices or determinations with respect to

[*] In this Section, references to "obligated person" mean the Issuer, and references to security or securities mean the Bonds.

the tax status of the security, or other material events affecting the tax status of the security;

7. modifications to rights of security holders, if material;

8. bond calls, if material, and tender offers;

9. defeasances;

10. release, substitution, or sale of property securing repayment of the securities, if material;

11. rating changes;

12. bankruptcy, insolvency, receivership or similar event of the obligated person*;

13. the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

14. appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) The Dissemination Agent shall, within two (2) Business Days of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the Issuer promptly provide instructions to the Dissemination Agent in writing for the purpose of reporting the event pursuant to this Section 5.

(c) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence in the form and text provided by the Issuer with the MSRB.

SECTION 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the

* As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 7. Dissemination Agent. From time to time, the Issuer may appoint or engage a Dissemination Agent to assist the Issuer in carrying out its obligations under this Disclosure Agreement, and may discharge any such agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Issuer shall be the Dissemination Agent. The initial Dissemination Agent shall be U.S. Bank National Association. The sole remedy of any party against the Dissemination Agent shall be nonmonetary and specific performance. The Dissemination Agent shall not be responsible for the form or content of any Annual Report, notice of Listed Event, or other document furnished to the Dissemination Agent by the Issuer. The Dissemination Agent may resign at any time by providing at least 60 days' notice to the Issuer.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the Issuer that does not affect its rights or immunities, or increase its duties hereunder), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Issuer or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Dissemination Agent may (and, at the request of the Underwriter or the Holders of at least 51% aggregate principal amount of Outstanding Bonds, shall), or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Transmission of Notices, Documents and Information.

(a) Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB pursuant to this Disclosure Agreement shall be provided to the MSRB's Electronic Municipal Markets Access (EMMA) system, the current internet web address of which is www.emma.msrb.org.

(b) All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the Issuer:

Tobacco Settlement Authority
1000 Second Avenue
Suite 2700
Seattle, Washington 98104-1046
Attention: Executive Director
Telephone: 206-464-7139

To the Dissemination Agent:

U.S. Bank National Association, Seattle, Washington
Attention: Corporate Trust Department
1420 Fifth Avenue, 7th Floor
Seattle, Washington 98101
Telephone/Fax: 206-344-4630

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Dated: June 20, 2018

TOBACCO SETTLEMENT AUTHORITY

____
Name: Kim Herman
Title: Executive Director

U.S. BANK NATIONAL ASSOCIATION, SEATTLE, WASHINGTON, as Dissemination Agent

____
Name:
Title:

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Tobacco Settlement Authority
Name of Bond Issue:	$43,630,000 Tobacco Settlement Revenue Refunding Bonds, Series 2018
Date of Issuance:	June 20, 2018

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of June 20, 2018, between the Issuer and the Dissemination Agent. [The Issuer anticipates that the Annual Report will be filed by _____________.]

Dated: _______________

U.S. Bank National Association,
Seattle, Washington, as Dissemination Agent
on behalf of Tobacco Settlement Authority

cc: Issuer

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APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this APPENDIX F concerning The Depository Trust Company (“***DTC***”)*, New York, New York, and DTC’s book-entry system has been obtained from DTC, and the Authority and the Underwriter takes no responsibility for the completeness or accuracy thereof. The Authority and the Underwriter cannot and do not give any assurances that DTC, Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of principal of and interest on the Series 2018 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2018 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2018 Bonds, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.*

DTC will act as securities depository for the Series 2018 Bonds. The Series 2018 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Series 2018 Bonds of like series and interest rate, each in the aggregate principal amount of such maturity, and will be deposited with DTC. The following discussion will not apply to any Series 2018 Bonds issued in certificate form due to the discontinuance of DTC’s book-entry system, as described below.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“**Direct Participants**”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“**DTCC**”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“**Indirect Participants**”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of Series 2018 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2018 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2018 Bond (“**Beneficial Owner**”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of

ownership interests in the Series 2018 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2018 Bonds, except in the event that use of the book-entry system for the Series 2018 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2018 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2018 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2018 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2018 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2018 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2018 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2018 Bond documents. For example, Beneficial Owners of Series 2018 Bonds may wish to ascertain that the nominee holding the Series 2018 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2018 Bonds within a maturity of like series and interest rate are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2018 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2018 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and payments of principal of, premium, if any, and interest on the Series 2018 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Indenture Trustee, on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Indenture Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and payments of principal of, premium, if any, and interest on the Series 2018 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Indenture Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2018 Bonds at any time by giving reasonable notice to the Authority or Trustee. Under such circumstances, in the event that a successor depository is not obtained, such Series 2018 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC. In the event that the book-entry system is discontinued as described above, the requirements of the Indenture will apply.

NEITHER THE AUTHORITY, THE STATE NOR THE INDENTURE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY SUCH DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (II) THE PAYMENT BY ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2018 BONDS; (III) THE DELIVERY BY ANY SUCH DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO THE HOLDERS OF THE SERIES 2018 BONDS; AND (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

So long as Cede & Co. is the registered owner of the Series 2018 Bonds, as nominee for DTC, references in this Official Statement to Owners or registered owners of the Series 2018 Bonds (other than under the caption “TAX MATTERS”) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2018 Bonds.

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APPENDIX G

BONDS TO BE REFUNDED

The Authority will use a portion of the proceeds from the sale of the Series 2018 Bonds together with certain amounts available under the Indenture, to refund, on a current basis, certain of the Authority's outstanding Series 2013 Bonds, as specified below, on the redemption date of July 2, 2018.

Maturity Date (June 1)	CUSIP[1]	Outstanding Principal Amount	Interest Rate
2027	88880MAY7	$11,850,000	5.000%
2028	88880MAZ4	17,670,000	5.250
2029	88880MBA8	18,125,000	5.250

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INDEX OF DEFINED TERMS

PAGE

1934 Act ... 122
Accounts ... S-3
Act ... cover, S-1, 2
Actual Operating Income ... 61
Actual Volume ... 61
Adjusted SPM Market Share ... 27
AGO ... 81
Allocable Share Release Amendment ... 71
Altria ... 84
Annual Payments ... S-5
ANPRM ... 36, 96
ANRF ... 42, 88
APA ... 37, 101
Arbitration Panel ... 73
Authority ... cover, S-1, 1
B&W ... S-4, 84
Bankruptcy Code ... 49
Base Aggregate Participating Manufacturer Market Share ... 63
Base Operating Income ... 61
Base Share ... 59
Base Volume ... 61
BAT ... S-4, 84
Beneficial Owner ... E-1
Bond Structuring Assumptions ... 25
Bond Year ... 5
Bonds ... cover, S-1, S-3, 2
Business Day ... 8
Cambridge Filter Method ... 104
CBI ... 85
CDC ... 35
cigarette ... 59
Class Action Cases ... 111
Closing Date ... S-2
Co-Bond Counsel ... S-9
Collateral ... S-3, 2
Collections ... S-3, 2
Collections Account ... S-8
Commission ... 11

PAGE

Complementary Legislation ... 71
Consent Decree ... S-7
Continuing Disclosure Agreement ... S-10, 122
CPI ... 60
CPI-U ... 26
Data Clearinghouse ... 76
Deposit Date ... 5
Direct Participants ... E-1
Distribution Date ... S-9, 2
DOJ Case ... 47, 111
Domestic Cigarette Shipments ... 25
DOR ... 79
DPA ... 34
DTC ... S-2, 7, E-1
DTCC ... E-1
e-cigarette ... 40
electronic cigarette ... 40
EMMA ... 122
Engle Progeny Cases ... 46, 111
Escrow Statute ... 69
ETS ... 45
Event of Default ... 9
FCTC ... 109
FD&C Act ... 94
FDA ... 36, 88
FET ... 76
Fiscal Year ... 5
Flight Attendant Cases ... 111
Foundation ... 68
FSPTCA ... 36, 94
FTC ... 48
General Tobacco ... 50
Health Care Cost Recovery Cases ... 111
Imperial Tobacco ... S-4, 85
Income Adjustment ... 61
Indenture ... cover, S-1, 1
Indenture Trustee ... cover, S-1, 1
Indirect Participants ... E-1

Individual Smoking and Health Cases.....111
Inflation Adjustment.....60
Initial Payments.....S-5
JPMDL.....117
LBSF.....126
LCB.....81
Liggett.....85
Liquidity Reserve Account.....S-7
Liquidity Reserve Requirement.....S-7
Litigating Releasing Parties Offset.....64
Lorillard.....S-4, 84
Lump Sum Payment.....4
Market Share.....S-6, 65
Maturity Date.....cover
Middleton.....99
Model Statute.....69
MRTP.....92
MSA.....cover, S-2, 1
MSA Auditor.....58
MSA Escrow Agent.....S-6, 58
MSA Escrow Agreement.....58
MSAI.....S-7, 59
MSRB.....122
Municipal Advisor.....127
NAAG.....S-7
NAFTA.....44
National Escrow Agreement.....S-6
New Product Application Process.....94
NIH.....103
Non-Compliant NPM Cigarettes.....75
non-contested states.....73
Non-Participating Manufacturers.....S-5
Non-Released Parties.....64
Non-SET-Paid NPM Sales.....76
NPM Adjustment.....S-5, 35, 62
NPM Adjustment Settlement.....74
NPM Adjustment Settlement Agreement..73
NPM Adjustment Settlement Non-Signatories.....74
NPM Adjustment Settlement Signatories..74
NPM Adjustment Settlement Term Sheet..73
NPM Adjustment Stipulated Partial Settlement and Award.....74
NPMs.....S-5, 35
Offset for Claims-Over.....65
Offset for Miscalculated or Disputed Payments.....64
OID.....123
Operating Cap.....5
Operating Expenses.....5
OPMs.....S-4
Original Participating Manufacturers.....S-4
PACT.....81
Partial Lump Sum Payment.....4
Participating Manufacturers.....S-5
Payment Default.....9
Philip Morris.....S-4, 84
Pledged TSRs.....cover, S-1
Pledged TSRs Projection Methodology and Assumptions.....25
PMs.....cover, S-5, 1, 55
PMTA.....97
Preliminary Evaluation.....96
Premium Bond.....124
Previously Settled State Settlements.....48
Previously Settled States.....55
Previously Settled States Reduction.....61
Principal Maturity.....5
PSS Credit Amendment.....34, 61
Qualifying Statute.....69
Rating Agency.....S-10, 51
Record Date.....8
Refunding Bonds.....S-8, 9
Relative Market Share.....59
Released Parties.....57
Released Party.....57
Releasing Parties.....57
Residual Certificate.....S-8
Reynolds American.....S-4, 84
Reynolds Tobacco.....S-4, 84
RICO.....45
Rule.....122
S&P.....S-10, 51, 125
Sale Agreement.....cover, S-1, 1
Santa Fe Natural Tobacco Company.....85
Series 2002 Bonds.....1
Series 2013 Bonds.....cover, S-1, 1
Series 2018 Bonds.....cover, S-1, 1
SET.....75
SET-Paid NPM Sales.....75
Settling States.....S-4

SLATI 105
SPMs S-5, 55
State.. cover, S-1, 1
State Settlement Agreements 48
State's Complementary Legislation 79
Strategic Contribution Payments S-5
Subsequent Participating Manufacturers . S-5
Tax Code .... cover, S-10
Tobacco Products.......................................67
Total Lump Sum Payment 4
TPSAC 38, 94
TTB 87
UMSRC..89
Underwriter 125
United States 59
Unpledged TSRs S-2, 3
UST 84
Vector Group Ltd. 85
Vector Tobacco 85
Volume Adjustment 61
West Virginia Cases................................118

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