NEW ISSUE **BOOK-ENTRY ONLY**

*In the opinion of Nixon Peabody LLP, Bond Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the Authority and the State of Illinois described herein, interest on the Series 2010 Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "**Code**"). Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Bond Counsel and Golden & Associates, P.C., Co-Bond Counsel, are further of the opinion that under existing statutes, interest on the Series 2010 Bonds is not exempt from State of Illinois taxes. See "TAX MATTERS" herein regarding certain other tax considerations.*

$1,503,460,000
RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
Tobacco Settlement Revenue Bonds, Series 2010

The Railsplitter Tobacco Settlement Authority (the "**Authority**") is a special purpose corporation and a body corporate and politic of, but having a legal existence independent and separate from, the State of Illinois (the "**State**"), and was established under the Railsplitter Tobacco Settlement Authority Act (30 ILCS §171/3-1 et seq.) (as amended from time to time, the "**Act**").

$1,503,460,000 Tobacco Settlement Revenue Bonds, Series 2010 (the "**Series 2010 Bonds**") of the Authority are to be issued pursuant to the Indenture, dated as of December 1, 2010 (the "**Indenture**"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as Trustee (the "**Trustee**").

The Series 2010 Bonds are being issued as fixed interest rate, fixed scheduled amortization, serial and term bonds. Interest on the outstanding principal amount of the Series 2010 Bonds will be payable on each June 1 and December 1, commencing June 1, 2011. The Series 2010 Bonds mature on June 1 in the years as set forth on the inside front cover. The Series 2010 Bonds are subject to mandatory redemption (including redemption by operation of Sinking Fund Installments applicable to term bonds) and optional redemption prior to maturity, as described herein, but are not subject to any "turbo" redemptions from excess revenues under the Indenture. Failure to pay interest when due or the principal of any Series 2010 Bonds when due (including principal due by Sinking Fund Installments) will constitute an Event of Default under the Indenture.

To date, the State has been the recipient of approximately $3.3 billion of tobacco settlement payments required to be made to the State pursuant to the terms of the Master Settlement Agreement (the "**MSA**") entered into by participating tobacco product manufacturers (the "**PMs**"), 46 states and six other U.S. jurisdictions in November 1998 in settlement of certain smoking-related litigation. Any such payments paid or payable by the PMs to the State on and after the date of issuance of the Series 2010 Bonds (the "**Closing Date**"), consisting of Annual Payments and Strategic Contribution Fund Payments, as defined in the MSA, and both partial and lump sum payments, if any, paid or payable pursuant to the terms of the MSA, and the State's rights to receive such tobacco settlement payments, are collectively referred to herein as the "**Tobacco Assets**".

Pursuant to a purchase and sale agreement dated as of December 1, 2010 (the "**Sale Agreement**"), between the State and the Authority, the State will sell to the Authority, and the Authority will purchase from the State, the "**Pledged Settlement Payments**" consisting of 100% of the Tobacco Assets exclusive of the "**State's Unsold Assets**" (which the State will not sell, and the Authority will not purchase), consisting of (i) any payments made with respect to liability to make those payments under the MSA for calendar years completed prior to calendar year 2010, and (ii) those amounts otherwise to be received by the State which were deposited by PMs into the Disputed Payments Account (as herein defined) or withheld by PMs in accordance with Section XI(f)(2) of the MSA prior to the Closing Date. The Escrow Agent under the MSA will be irrevocably instructed by the State to remit all Tobacco Assets directly to the Trustee. The Trustee will apply, no later than ten business days after receipt of such Tobacco Assets, amounts to fund the payment of fees, operating expenses and debt service on the Series 2010 Bonds and the replenishment of the Debt Service Reserve Account. The Trustee will not remit to the State the State's Unsold Assets and the Residual Revenues until after receipt of an Officer's Certificate of the Authority, which is dependent upon delivery of certain information by the State.

The Series 2010 Bonds are special obligations of the Authority and are secured solely by a pledge under the Indenture of (i) the Pledged Revenues (including the Pledged Settlement Payments), (ii) all amounts and assets on deposit in the Pledged Accounts established under the Indenture, including the Debt Service Reserve Account maintained under the Indenture, and (iii) all other property pledged for the payment of the Series 2010 Bonds under the Indenture. The Indenture provides for the release to the State of all "**Residual Revenues**" consisting of all Pledged Revenues deposited in the Residual Account maintained under the Indenture after prior funding of certain operating expenses, amounts attributable to debt service on Bonds and replenishment of the Debt Service Reserve Account, and any Junior Payments described in the Indenture, within five business days after the Trustee's deposit of such Residual Revenues in the Residual Account.

Payments with respect to the Series 2010 Bonds are dependent upon receipt of the Pledged Settlement Payments. The Authority has no assets available for the payment of the Series 2010 Bonds other than the Collateral (as defined in the Indenture) pledged under the Indenture.

The amount of Pledged Settlement Payments received is dependent on many factors, including future domestic cigarette consumption, the financial capability of the PMs, litigation concerning the MSA and related state legislation and enforcement of state legislation related to the MSA, and litigation as well as Federal, state and local regulation affecting the tobacco industry generally. Payments by the PMs under the MSA are subject to certain adjustments, including the NPM Adjustment (defined herein), some of which have occurred and may continue to occur and may be material. Bondholders should assume that future Annual Payments and Strategic Contribution Fund Payments (as defined herein) may be reduced. See "RISK FACTORS".

Numerous lawsuits have been filed challenging the MSA and related state statutes, including two cases (*Grand River* and *Freedom Holdings*) that are pending in the U.S. District Court for the Southern District of New York and one case (*VIBO*) that is pending in the U.S. District Court for the Western District of Kentucky. The plaintiffs in these cases seek, inter alia, determinations that the MSA or state statutes enacted pursuant to the MSA conflict with and are preempted by the federal antitrust laws and violate the Commerce Clause and other provisions of the U.S. Constitution. The lower court decision in *Freedom Holdings* in favor of the defendant state officials was recently affirmed in whole by the U.S. Court of Appeals for the Second Circuit, which rejected all of the plaintiffs' antitrust and Commerce Clause claims. The time for plaintiffs in *Freedom Holdings* to file a petition for a writ of certiorari from the Supreme Court of the United States has not yet expired. An ultimate determination in *Freedom Holdings* or any of these other cases that the MSA or state legislation enacted pursuant to the MSA is void or unenforceable (a) could have a materially adverse effect on the payments by PMs under the MSA and the amount or the timing of receipt of Pledged Settlement Payments available to the Authority to pay the principal of and interest on the Series 2010 Bonds, (b) could lead to a decrease in the market value and/or liquidity of the Series 2010 Bonds, and (c) in certain circumstances could result in the complete loss of a Bondholder's investment. See "THE MASTER SETTLEMENT AGREEMENT – Litigation Challenging the MSA, the Qualifying Statutes and Related Legislation", "RISK FACTORS" and "LEGAL CONSIDERATIONS".

See "RISK FACTORS" for a discussion of certain factors that should be considered in connection with an investment in the Series 2010 Bonds.

See the Inside Front Cover for Maturities, Principal Amounts, Interest Rates, Prices or Yields, and CUSIPs.

Pursuant to the Act, the Series 2010 Bonds shall not constitute an indebtedness or an obligation of the State or any subdivision thereof, within the purview of any constitutional or statutory limitation or provision or a charge against the general credit or taxing powers, if any, of any of them but shall be payable solely from the Collateral (as defined in the Indenture). No owner of any Series 2010 Bond shall have the right to compel the exercise of the taxing power of the State to pay any principal installment of, redemption premium, if any, or interest on the Series 2010 Bonds.

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

The Series 2010 Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approval of legality by Nixon Peabody LLP, Chicago, Illinois, Bond Counsel, and Golden & Associates, P.C., Chicago, Illinois, Co-Bond Counsel. Certain legal matters will be passed upon for the State by Lisa Madigan, as State Attorney General. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York, and Chapman and Cutler LLP, Chicago, Illinois, as Underwriters' Counsel, and by Gonzalez, Saggio and Harlan, L.L.C., Chicago, Illinois, as Co-Underwriters' Counsel. It is expected that the Series 2010 Bonds will be available for delivery in book-entry only form through The Depository Trust Company in New York, New York, on or about December 8, 2010.

Citi **Barclays Capital**

Jefferies & Company **J.P. Morgan** **Morgan Stanley**

BofA Merrill Lynch **Goldman, Sachs & Co.** **Grigsby & Associates, Inc.**

Loop Capital Markets, LLC **Morgan Keegan** **Siebert Brandford Shank & Co., L.L.C.**

December 1, 2010

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

$1,503,460,000 Tobacco Settlement Revenue Bonds, Series 2010

Dated: Date of Delivery

$926,030,000 Serial Bonds

Maturity (June 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP†
2012	$ 25,620,000	3.000%	2.100%	75076PAA3
2012	33,755,000	4.000	2.100	75076PAK1
2013	63,550,000	4.000	2.600	75076PAB1
2014	25,260,000	3.125	100	75076PAC9
2014	45,600,000	5.000	3.125	75076PAL9
2015	76,820,000	5.000	3.625	75076PAD7
2016	21,570,000	4.125	4.150	75076PAE5
2016	59,085,000	5.000	4.150	75076PAM7
2017	84,700,000	5.000	4.680	75076PAF2
2018	89,040,000	5.000	100	75076PAG0
2019	66,325,000	5.000	5.200	75076PAN5
2019	27,295,000	5.125	5.200	75076PAH8
2020	98,565,000	5.250	5.320	75076PAP0
2021	78,360,000	5.250	5.450	75076PAQ8
2021	25,540,000	5.375	5.450	75076PAJ4
2024	104,945,000	6.250	5.750††	75076PAR6

$216,915,000 5.500% Term Bonds due June 1, 2023; Yield: 5.680%; CUSIP†: 75076PAS4

$360,515,000 6.000% Term Bonds due June 1, 2028; Yield: 6.100%; CUSIP†: 75076PAT2

† Copyright 2010, American Bankers Association. CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, a Division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Series 2010 Bonds. The Authority, the State and the Underwriters do not 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 2010 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 2010 Bonds.

†† Priced at the stated yield to the first optional redemption date of June 1, 2016.

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 OR THE UNDERWRITERS. THIS OFFERING CIRCULAR 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 CAN BE NO ASSURANCE THAT A SECONDARY MARKET FOR THE SERIES 2010 BONDS WILL DEVELOP OR, IF ONE DEVELOPS, THAT IT WILL CONTINUE FOR THE LIFE OF THE SERIES 2010 BONDS.

The Underwriters have provided the following sentence for inclusion in this Offering Circular: The Underwriters have reviewed the information in this Offering Circular 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 Underwriters do not guarantee the accuracy or completeness of such information.

The Offering Circular has been prepared by the Authority and contains information furnished by the State and the Authority and includes information obtained from other sources, all of which are believed to be reliable. Information concerning the tobacco industry and industry participants has been obtained from certain publicly available information provided by certain industry participants and certain other sources. See “DOMESTIC TOBACCO INDUSTRY”. The industry participants have not provided any information to the Authority for use in connection with this offering. In certain cases, tobacco industry information provided herein (such as market share data) may be derived from sources that are inconsistent or in conflict with each other. The Authority has not independently verified the information under the caption “DOMESTIC TOBACCO INDUSTRY”; the Authority 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 Offering Circular 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 tobacco industry information, since the date hereof, or that the information contained in this Offering Circular is correct as of any date subsequent to the date hereof. Such information and expressions of opinion are made 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 Offering Circular contains forecasts, projections and estimates that are based on current expectations or assumptions. In light of the factors that may materially affect the amount of Pledged Settlement Payments (see “RISK FACTORS”, “LEGAL CONSIDERATIONS” and “THE MASTER SETTLEMENT AGREEMENT”), the inclusion in this Offering Circular of such forecasts, projections and estimates should not be regarded as a representation by the Authority, its financial advisor, or the Underwriters that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results.

If and when included in this Offering Circular, the words “expects”, “forecasts”, “projects”, “intends”, “anticipates”, “estimates”, “assumes” and analogous expressions are intended to identify forward-looking statements and any such 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, many of which are beyond the control of the Authority. These forward-looking statements speak only as of the date of this Offering Circular. The Authority disclaims 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.

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SUMMARY STATEMENT

This Summary Statement is subject in all respects to more complete information contained in this Offering Circular and should not be considered a complete statement of the facts material to making an investment decision. The offering of the Series 2010 Bonds to potential investors is made only by means of the entire Offering Circular. Capitalized terms used in this Summary Statement and not otherwise defined shall have the meanings given such terms in the Indenture and the Sale Agreement. See "APPENDIX C — DEFINITIONS AND SUMMARY OF THE INDENTURE" and "APPENDIX D — DEFINITIONS AND SUMMARY OF THE PURCHASE AND SALE AGREEMENT". For definitions of certain terms used herein, see also "APPENDIX G — INDEX OF DEFINED TERMS".

Overview .... The Railsplitter Tobacco Settlement Authority (the "**Authority**") is a special purpose corporation and a body corporate and politic of, but having a legal existence independent and separate from, the State of Illinois (the "**State**") and was established under the Railsplitter Tobacco Settlement Authority Act (30 ILCS §171/3-1 et seq.) (the "**Act**"). $1,503,460,000 Tobacco Settlement Revenue Bonds, Series 2010, of the Authority are fixed interest rate, fixed scheduled amortization, serial and term bonds (the "**Series 2010 Bonds**"). The Series 2010 Bonds are to be issued pursuant to the Indenture, dated as of December 1, 2010 (the "**Indenture**") by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as Trustee (the "**Trustee**").

To date, the State has been the recipient of approximately $3.3 billion of tobacco settlement payments required to be made to the State pursuant to the terms of the Master Settlement Agreement (the "**MSA**") entered into by participating tobacco product manufacturers (the "**PMs**"), 46 states and six other U.S. jurisdictions in November 1998 in settlement of certain smoking-related litigation. As used herein, "**Tobacco Assets**" consist of all tobacco settlement payments paid or payable to the State on and after the date of issuance by the Authority of the Series 2010 Bonds (the "**Closing Date**") and required to be made, pursuant to the terms of the MSA, by PMs to the State, and the State's rights to receive such tobacco settlement payments, consisting of the Annual Payments (as defined in the MSA) payable on or before each April 15 in perpetuity, the Strategic Contribution Fund Payments (as defined in the MSA) payable on each April 15, commencing April 15, 2008 and continuing through April 15, 2017, and lump sum payments, if any, received as a payment from a PM that results in, or is due to, a release of that PM from all of its future obligations under the MSA (defined in the Indenture as "**Lump Sum Payments**") or from any portion of its future obligations under the MSA (defined in the Indenture as "**Partial Lump Sum Payments**") (and all adjustments thereto).

Pursuant to a Purchase and Sale Agreement, dated as of December 1, 2010 (the "**Sale Agreement**"), between the State, as seller, and the Authority, as purchaser, the State will sell to the Authority, and the Authority will purchase, the "**Pledged Settlement Payments**", which the Authority is pledging and assigning under the Indenture as security and as a source of payment for the Series 2010 Bonds. The Pledged Settlement Payments consist of 100% of the Tobacco Assets exclusive

of the "**State's Unsold Assets**" (which the State will not sell, and the Authority will not purchase), consisting of (i) any payments made with respect to liability to make those payments under the MSA for calendar years completed prior to the effective date of the Act (July 1, 2010) and (ii) those amounts otherwise to be received by the State which were deposited by PMs into the Disputed Payments Account (as hereinafter defined) or withheld by PMs in accordance with Section XI(f)(2) of the MSA prior to the Closing Date.

"**Disputed Payments Account**" means any account into which the disputed portion of payments required to be made by the PMs under the MSA are withheld or deposited pending resolution of the dispute.

The pledge of Pledged Revenues (as defined below) contained in the Indenture does not apply to the State's Unsold Assets. However, the Escrow Agent under the MSA will be irrevocably instructed by the State to remit all Tobacco Assets (which includes the State's Unsold Assets) directly to the Trustee, and the Indenture requires that the Trustee remit to the State all of the State's Unsold Assets within five business days after receipt by the Trustee of the Officer's Certificate of the Authority (which is dependent upon delivery of certain information by the State).

The Series 2010 Bonds are special obligations of the Authority and are secured solely by a pledge of (i) the Pledged Revenues (including the Pledged Settlement Payments), (ii) all amounts and assets on deposit in the Pledged Accounts established under the Indenture, including the Debt Service Reserve Account, and (iii) all other property pledged for the payment of the Series 2010 Bonds under the Indenture. The Indenture provides for the release to the State of all "**Residual Revenues**" consisting of all Pledged Revenues deposited in the Residual Account maintained under the Indenture after prior funding of certain operating expenses, amounts attributable to debt service on Bonds and replenishment of the Debt Service Reserve Account, and any Junior Payments (as defined in the Indenture), within five business days after the Trustee's deposit of such Residual Revenues in the Residual Account. Residual Revenues, once deposited in the Residual Account, are not Pledged Revenues under the Indenture.

Master Settlement Agreement ... The MSA was entered into on November 23, 1998, among the attorneys general of 46 states (including Illinois), 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 the then four largest United States tobacco manufacturers: Philip Morris Incorporated ("**Philip Morris**"), R.J. Reynolds Tobacco Company ("**Reynolds Tobacco**"), Brown & Williamson Tobacco Corporation ("**B&W**") and Lorillard Tobacco Company ("**Lorillard**") (collectively, the "**Original Participating Manufacturers**" or "**OPMs**"). The MSA resolved cigarette smoking-related litigation between the Settling States and the OPMs and released the OPMs 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 (including Annual Payments and Strategic Contribution Fund Payments, as defined herein), and the imposition of certain tobacco advertising and marketing restrictions, among other things. The Authority is not a party to the MSA.

On January 5, 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, which occurred on June 30, 2004. References herein to the "Original Participating Manufacturers" or "OPMs" mean, for the period prior to June 30, 2004, collectively, Philip Morris, Reynolds Tobacco, B&W and Lorillard and for the period on and after June 30, 2004, collectively Philip Morris, Reynolds American and Lorillard. 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 82.85%[*] of the U.S. domestic cigarette market in 2009, based upon shipments (and measuring roll-your-own cigarettes at 0.0325 ounces per cigarette conversion rate).

The MSA is an industry-wide settlement of litigation between the Settling States and the PMs. The MSA provides for tobacco companies other than the OPMs to become parties to the MSA. Tobacco companies that become parties to the MSA after the OPMs are referred to herein as "**Subsequent Participating Manufacturers**" or "**SPMs**", and the SPMs, together with the OPMs, are referred to herein as the "**Participating Manufacturers**" or "**PMs**". Tobacco companies that do not become parties to the MSA are referred to in the MSA and herein as "**Non-Participating Manufacturers**" or "**NPMs**". See "THE MASTER SETTLEMENT AGREEMENT". As reported by NAAG, the OPMs together with the SPMs accounted for approximately 93.61% of the U.S. domestic cigarette market in 2009, based upon shipments.

Under the MSA, each OPM is required to pay an allocable portion of each Annual Payment and each Strategic Contribution Fund Payment based on its relative market share of the United States cigarette market during the preceding calendar year, subject to certain adjustments as described herein. Each SPM has Annual Payment and Strategic Contribution Fund Payment obligations under the MSA (separate from the payment obligations of the OPMs) according to its market share only

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[*] The aggregate market share information is based on information as reported by the 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 "SUMMARY OF CASH FLOW ASSUMPTIONS USED IN PREPARING CONSTANT ANNUAL RATE OF CIGARETTE CONSUMPTION DECLINE TABLES" and "DOMESTIC TOBACCO INDUSTRY." The aggregate market share information for 2009 from NAAG used in the Cash Flow Assumptions may differ materially in the future from the market share information used by the MSA Auditor in calculating the adjustments to Annual Payments and Strategic Contribution Fund Payment in future years. See "THE MASTER SETTLEMENT AGREEMENT – Adjustments to Payments."

if its market share exceeds the higher of its 1998 market share or 125% of its 1997 market share. The payment obligations follow tobacco product brands if they are transferred by any of the PMs. Payments by the PMs are required to be made to the MSA Escrow Agent, which is required, in turn, to remit an allocable share of such payments to the State. See "THE MASTER SETTLEMENT AGREEMENT".

Under the MSA, the State is entitled to 4.6542472% of the Annual Payments (as defined below) made by PMs under the MSA. In addition, pursuant to the procedures agreed to in the MSA, the State is entitled to receive 2.7169243% of the total amount of Strategic Contribution Fund Payments (as defined below) made by PMs under the MSA. As and when the Authority purchases the Pledged Settlement Payments under the Sale Agreement, the Authority will thereafter be entitled to receive all of the future Annual Payments and Strategic Contribution Fund Payments received by the State under the MSA.

Sale of Pledged Settlement Payments................................... Pursuant to the Sale Agreement, the Authority will purchase from the State and the State will sell to the Authority the Pledged Settlement Payments simultaneously with the issuance of the Series 2010 Bonds. The net proceeds of the Series 2010 Bonds and other elements of the purchase price transferred to the State (including the Residual Certificate described below), other than proceeds deposited in the Debt Service Reserve Account, are not pledged to the payment of, nor are they security for, the Series 2010 Bonds.

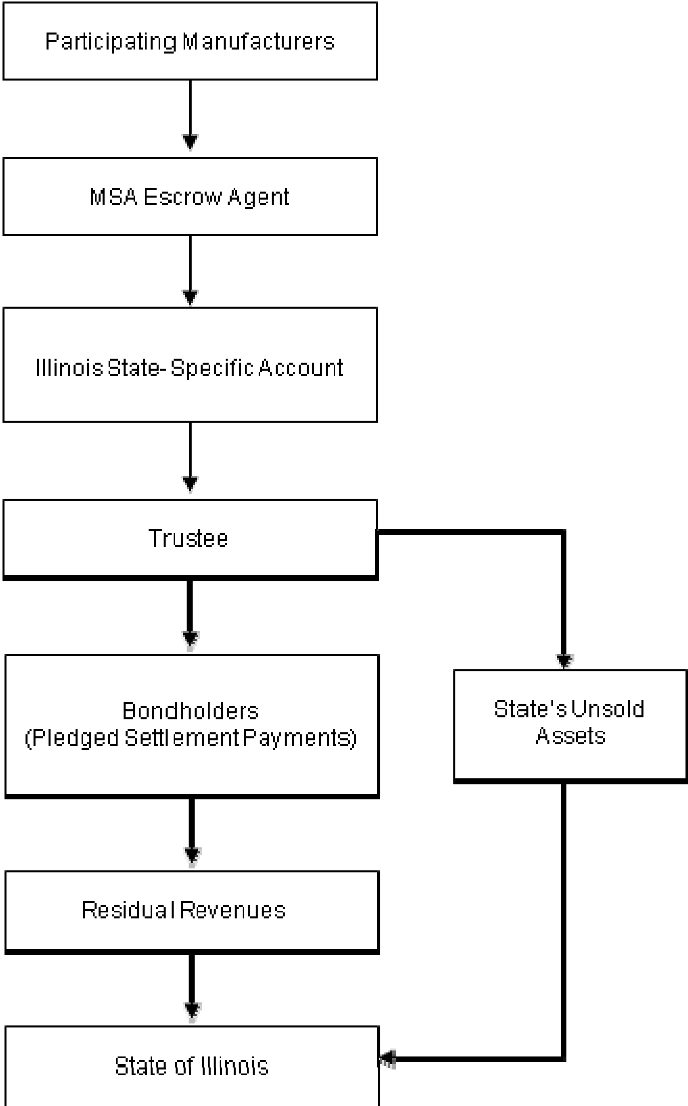
The purchase price to be paid by the Authority to the State under the Sale Agreement will consist of: (i) the net proceeds of the Series 2010 Bonds and (ii) a security (the "**Residual Certificate**"), issued by the Authority under the Indenture, which will entitle the State as holder of the Residual Certificate to the Residual Revenues.

The sale of the Pledged Settlement Payments and the lien created under the Indenture will stay in effect so long as the Series 2010 Bonds remain outstanding. The Act provides that the Authority and its corporate existence will continue until six months after all the Authority's liabilities (which include the Series 2010 Bonds) have been met or otherwise discharged, and upon the termination of the existence of the Authority, all of the Authority's rights and property will pass to and be vested in the State.

Flow of Tobacco Assets.............. From and after the sale of the Pledged Settlement Payments to the Authority, which sale will occur simultaneously with the issuance of the Series 2010 Bonds, the MSA Escrow Agent will be irrevocably instructed by the State to disburse all Tobacco Assets from the Illinois State-Specific Account directly to the Trustee. The Trustee will apply, no later than ten business days after receipt of such Tobacco Assets, amounts to fund the payment of fees, operating expenses and debt service on the Series 2010 Bonds and the replenishment of the Debt Service Reserve Account. The Trustee will remit to the State all of the State's Unsold Assets and the Residual Revenues within five business

days after receipt of an Officer's Certificate of the Authority (which is dependent upon delivery of certain information by the State). The following diagram depicts the flow of the Tobacco Assets under the Indenture, including the Pledged Settlement Payments pledged by the Authority to the payment of the Series 2010 Bonds.

Representative Flow of Tobacco Assets for the Authority



Securities Offered.................... The Series 2010 Bonds are being issued as fixed interest rate, fixed scheduled amortization, serial and term bonds. Interest on the outstanding principal amount of the Series 2010 Bonds will be payable on each June 1 and December 1, commencing June 1, 2011. The Series 2010 Bonds mature on June 1 in the years as set forth on the inside front cover. The Series 2010 Bonds are subject to mandatory redemption (including redemption by Sinking Fund Installments applicable to term bonds) and optional redemption prior to maturity, as described herein, but are not subject to any "turbo" redemptions from excess revenues under the Indenture. Failure to pay interest when due or the principal of any Series 2010 Bonds when due (including principal due by Sinking Fund Installments) will constitute an Event of Default under the Indenture.

It is expected that the Series 2010 Bonds will be delivered in book-entry form through the facilities of The Depository Trust Company, New York, New York ("**DTC**"), on or about December 8, 2010 (the "**Closing Date**"). See "APPENDIX E — BOOK-ENTRY ONLY SYSTEM".

Individual purchases of beneficial ownership interests may be made in the principal amount of $5,000 or any integral multiple thereof (an "**Authorized Denomination**"). Beneficial owners of the Series 2010 Bonds will not receive physical delivery of bond certificates.

Collateral .... The Series 2010 Bonds are special revenue obligations of the Authority payable solely from and secured solely by a pledge under the Indenture of (a) the Pledged Revenues (including all Pledged Settlement Payments), (b) all rights to receive the Pledged Revenues and the proceeds of such rights, (c) the Pledged Accounts (excluding any State's Unsold Assets deposited in the Tobacco Assets Account) and assets thereof, including money, contract rights, general intangibles or other personal property, held by the Trustee under the Indenture, (d) subject to the following sentence, all rights and interest of the Authority under the Sale Agreement including the representations, warranties and covenants of the State therein, and (e) any and all other property of every kind and nature from time to time, by delivery or by writing of any kind, conveyed, pledged, assigned or transferred as and for additional security under the Indenture (collectively, the "**Collateral**"). The Collateral does not include the State's Unsold Assets, the Residual Revenues once deposited in the Residual Account, and certain other reserved rights of the Authority set forth in the Indenture.

The proceeds of the Series 2010 Bonds, except the amount deposited in the Debt Service Reserve Account, are not pledged to the payment of, and are therefore not available to, the holders of the Series 2010 Bonds.

Pledged Revenues .... "**Pledged Revenues**" means: (i) the Pledged Settlement Payments, (ii) to the extent set forth in the applicable series supplement or series indenture, payments made to the Authority or Trustee under Related Contracts (as defined herein), and (iii) all fees, charges, payments, investment earnings and other income and receipts (including proceeds of the Series 2010 Bonds, but only to the extent deposited in the Debt Service Reserve Account) paid or payable to the Authority or the Trustee for the account of the Authority or Beneficiaries (as defined herein), but excluding all Residual Revenues once deposited in the Residual Account.

Bonds not a Debt of the State Pursuant to the Act, the Series 2010 Bonds shall not constitute an indebtedness or an obligation of the State or any subdivision thereof within the purview of any constitutional or statutory limitation or provision or a charge against the general credit or taxing powers, if any, of any of them but shall be payable solely from the Collateral. No owner of any Series 2010 Bond shall have the right to compel the exercise of the taxing power of the State to pay any principal installment of, redemption premium, if any, or interest on the Series 2010 Bonds.

Litigation Regarding MSA and Related Statutes .... Numerous lawsuits have been filed challenging the MSA and related state statutes, including two cases (*Grand River* and *Freedom Holdings*) that have been pending in the U.S. District Court for the Southern District of New York and one case (*VIBO*) pending in the U.S. District Court for the Western District of Kentucky. The plaintiffs in these cases seek, inter alia, a determination that the MSA or state statutes enacted pursuant to the MSA conflict with and are preempted by the federal antitrust laws and violate the Commerce Clause and other provisions of the U.S. Constitution. The lower court decision in *Freedom Holdings* in favor of the defendants was recently affirmed in whole by the U.S. Court of Appeals for the Second Circuit, which rejected all of the plaintiffs' antitrust and Commerce Clause claims. However, an ultimate determination in this case or any of these other cases that the MSA or state legislation enacted pursuant to the MSA is void or unenforceable (a) could have a materially adverse effect on the payments by PMs under the MSA and the amount or the timing of receipt of Pledged Settlement Payments available to the Authority to pay the principal of and interest on the Series 2010 Bonds, (b) could lead to a decrease in the market value and/or liquidity of the Series 2010 Bonds, and (c) in certain circumstances could result in the complete loss of a Bondholder's investment. See "RISK FACTORS" and "THE MASTER SETTLEMENT AGREEMENT".

Payments Pursuant to the MSA.. Under the MSA, the OPMs are required to pay to the Settling States:

(a) five initial payments, all of which have been paid (the "**Initial Payments**").

(b) annual payments on each April 15 after April 15, 1999 and continuing in perpetuity (of which the 2000 through 2010 annual payments have already been paid) (the "**Annual Payments**") in the following base amounts (subject to adjustment as described herein):

Year	Base Amount†	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**	**2018**	**9,000,000,000**
2009	**8,139,000,000**	**thereafter**	**9,000,000,000**

(c) ten annual payments of $861 million (subject to adjustment as described herein) on each April 15, commencing April 15, 2008 and continuing through April 15, 2017 (of which the 2008 through 2010 payments have already been paid) (the "**Strategic Contribution Fund Payments**").

See "THE MASTER SETTLEMENT AGREEMENT — Annual Payments" and "— Strategic Contribution Fund Payments".

Under the MSA, each OPM is required to pay an allocable portion of each Annual Payment and each Strategic Contribution Fund Payment based on its respective market share of the United States cigarette market during the preceding calendar year, in each case subject to certain adjustments as described herein. Each SPM has Annual Payment and Strategic Contribution Fund 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.

† As described herein, the base amounts of Annual Payments are subject to various adjustments which have resulted in reduced Annual Payments in all prior years. See "THE MASTER SETTLEMENT AGREEMENT — Annual Payments," and "RISK FACTORS — Other Potential Payment Decreases Under the Terms of the Master Settlement Agreement Could Reduce Payments on and the Value of the Series 2010 Bonds."

The payment obligations under the MSA follow tobacco product brands if they are transferred by any of the PMs. Payments by the PMs under the MSA are required to be made to the MSA Escrow Agent, which is required, in turn, pursuant to the instructions of the MSA Escrow Agreement, to remit an allocable share of such payments to the parties entitled thereto.

Under the MSA, the Annual Payments and the Strategic Contribution Fund Payments due are subject to numerous adjustments, some of which have occurred and may continue to occur and may be material, such as the NPM Adjustment. See "RISK FACTORS". Such adjustments include, among others, reductions when a PM experiences a loss of market share to NPMs as a result of such PM's participation in the MSA, reductions for decreased domestic cigarette shipments and to account for those states that settle or have previously settled their claims against the PMs independently of the MSA, increases related to inflation in an amount of not less than 3% per year, and offsets for disputed and/or miscalculated payments. See "THE MASTER SETTLEMENT AGREEMENT — Adjustments to Payments" and "THE MASTER SETTLEMENT AGREEMENT — Potential Payment Decreases Under the Terms of the MSA – *NPM Adjustment*" and "*– Disputed or Recalculated Payments and Disputes under the Terms of the MSA*".

Industry Overview .... The three OPMs – Philip Morris, Reynolds American and Lorillard – are the largest manufacturers of cigarettes in the United States (based on 2009 domestic market share). The market for cigarettes is highly competitive and is characterized by brand recognition. See "DOMESTIC TOBACCO INDUSTRY".

Cigarette Volumes .... Domestic cigarette consumption grew dramatically in the 20th century, reaching a peak of 640 billion cigarettes in 1981. Consumption declined in the 1980s and 1990s, falling to less than 400 billion cigarettes in 2003 and, when measured by cigarette shipments, is estimated to have fallen to approximately 325 billion cigarettes (measuring roll-your-own cigarettes at 0.0325 ounces per cigarette conversion rate) in 2009, as reported by NAAG.

Interest .... Interest on the outstanding principal amount of the Series 2010 Bonds will be payable on each June 1 and December 1, commencing June 1, 2011.

Interest on the Series 2010 Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. The Debt Service Reserve Account is available to pay current interest on the Series 2010 Bonds when due to the extent Pledged Revenues are insufficient for such purpose.

Optional Redemption of the Series 2010 Bonds....................... The Series 2010 Bonds maturing on June 1, 2023 and June 1, 2028 are subject to redemption, on any date on and after June 1, 2021, and the Series 2010 Bonds maturing on June 1, 2024 are subject to redemption, on any date on and after June 1, 2016, at the option of the Authority, from any source including the proceeds of Refunding Bonds or other refunding obligations, at a redemption price equal to 100% of the principal amount of Series 2010 Bonds to be redeemed, plus interest accrued thereon to the redemption date.

Mandatory Redemption by Sinking Fund Installments........ The Series 2010 Term Bonds due June 1, 2023 are subject to mandatory redemption on and after June 1, 2022, and the Series 2010 Term Bonds due June 1, 2028 are subject to mandatory redemption on and after June 1, 2025, at a redemption price equal to 100% of the principal amount of Series 2010 Bonds to be redeemed, plus interest accrued thereon to the redemption date, from Sinking Fund Installments in the respective amounts and on each of the dates set forth herein under "THE SERIES 2010 BONDS – Sinking Fund Installments".

Partial Lump Sum Payments and Lump Sum Payments......... The Indenture provides that Partial Lump Sum Payments (as defined herein) are to be deposited in the Lump Sum Account and shall be transferred to the Debt Service Account at the times and in the amounts necessary to pay the principal or Sinking Fund Installments of the Bonds on the respective Distribution Dates covered by such Partial Lump Sum Payments. The Indenture provides that any Lump Sum Payments (as defined herein) shall be placed into a defeasance escrow to pay or redeem the Series 2010 Bonds, pro rata by principal amount among maturities and within a maturity, in an aggregate principal amount equal to the amount of such Lump Sum Payments.

Extraordinary Prepayments..... Following the occurrence of a Payment Default, the Series 2010 Bonds are subject to redemption, on each Distribution Date thereafter, pro rata among maturities and within a maturity, at a redemption price equal to 100% of the principal amount of Series 2010 Bonds to be redeemed, plus interest accrued thereon to the redemption date, from Extraordinary Prepayments derived from amounts on deposit in the Pledged Revenues Account (after application to payment of Operating Expenses not in excess of the Operating Cap, and to funding attributable to interest on the Bonds), from amounts on deposit in the Debt Service Reserve Account, and from Partial Lump Sum Payments in the Lump Sum Account.

Optional Clean-up Call............. The Series 2010 Bonds are subject to redemption at the option of the Authority on any Distribution Date at a redemption price equal to 100% of the principal amount of Series 2010 Bonds to be redeemed, plus interest accrued thereon to the redemption date, in the event liquidation of the aggregate amount on deposit in the Pledged Accounts (other than the State's Unsold Assets in the Tobacco Assets Account and amounts set aside for the payment of Bonds) is greater than the principal amount of and accrued interest (if any) on the Bonds after the application of Pledged Revenues in accordance with the Indenture on such Distribution Date.

Debt Service Reserve Account .. Upon the Closing Date of the Series 2010 Bonds, a liquidity reserve account (the "**Debt Service Reserve Account**") will be funded at its required level of $146,768,256.26 (the "**Debt Service Reserve Requirement**"), which level is required to be maintained through required deposits of Pledged Revenues for so long as any Series 2010 Bonds remain Outstanding. However, the Indenture does not require a ratable increase in the Debt Service Reserve Requirement, or any further funding of the Debt Service Reserve Requirement, in connection with the issuance of Refunding Bonds.

Prior to an Event of Default, amounts on deposit in the Debt Service Reserve Account will be available to pay the principal of and interest on the Series 2010 Bonds when due, to the extent Pledged Revenues are insufficient for such purpose. After an Event of Default, money in the Debt Service Reserve Account will be available to pay the principal of and interest on the Series 2010 Bonds pursuant to Extraordinary Prepayments.

Unless an Event of Default has occurred, amounts withdrawn from the Debt Service Reserve Account will be replenished from Pledged Revenues as described herein.

If an Event of Default has not occurred, money in the Debt Service Reserve Account may be applied to the redemption of outstanding bonds, under the circumstances described under the caption "THE SERIES 2010 BONDS — Optional Clean-Up Call".

Distributions .... The Trustee will deposit all Pledged Revenues in the Pledged Revenues Account and distribute them in accordance with the "– Application of Pledged Revenues" set forth under the caption "SECURITY FOR THE SERIES 2010 BONDS".

Event of Default.......................... If an Event of Default (as defined herein) occurs, the Trustee may, and upon written request of the holders of 25% in principal amount of the Series 2010 Bonds outstanding shall, in its own name by action or proceeding in accordance with the law: (a) enforce all rights of the holders and require the Authority or, to the extent permitted by law, the State to carry out its agreements with the holders and to perform its duties under the Sale Agreement, (b) sue upon such Series 2010 Bonds, (c) require the Authority to account

as if it were the trustee of an express trust for the holders of such Series 2010 Bonds and (d) enjoin any acts or things which may be unlawful or in violation of the rights of the holders of such Series 2010 Bonds. Failure to pay interest when due or the principal of any Series 2010 Bonds (including by Sinking Fund Installment) when due will constitute an Event of Default under the Indenture (a "**Payment Default**"). Upon a Payment Default, the Bonds shall not be subject to acceleration of the maturity of principal, but shall be subject to pro rata redemption among maturities from Extraordinary Prepayments on each Distribution Date thereafter. For a description of Events of Default under the Indenture, see "APPENDIX C — DEFINITIONS AND SUMMARY OF THE INDENTURE – *Events of Default*".

Refunding Bonds........................ One or more additional Series of Bonds (the "**Refunding Bonds**") may be issued by the Authority solely for refunding purposes (each, a "**Series**"). In accordance with the Indenture, no such Refunding Bonds may be issued that mature on or after the final maturity date of the Bonds to be refunded. See "THE SERIES 2010 BONDS - Refunding Bonds". No other additional bonds may be issued under the Indenture with a parity claim against the Pledged Revenues.

Covenants of the State and the Authority............ The State has covenanted in the Sale Agreement that, among other things, it will (i) irrevocably direct, through the Attorney General, the Independent Auditor and the Escrow Agent (as such terms are defined in the MSA) to transfer all Tobacco Assets directly to the Trustee as the assignee of the Authority, (ii) enforce its right to collect all moneys due from the PMs under the MSA, (iii) diligently enforce the Qualifying Statute as contemplated in section IX(d)(2)(B) of the MSA against all NPMs selling tobacco products in the State that are not in compliance with the Qualifying Statute, in each case in the manner and to the extent deemed necessary in the judgment of, and consistent with the discretion of, the Attorney General (provided, that remedies available to the Authority and the owners of the Series 2010 Bonds for any breach of these agreements of the State shall be limited to injunctive relief), (iv) neither amend the MSA nor the Consent Decree or take any other action in any way that would materially adversely (a) impair the Authority's right to receive Pledged Settlement Payments, or (b) limit or alter the rights vested in the Authority to fulfill the terms of its agreements with the Beneficiaries, or (c) impair the rights and remedies of the Beneficiaries or the security for the Series 2010 Bonds until the Series 2010 Bonds, together with the interest thereon and all costs and expenses in connection with any action or proceedings by or on behalf of the Beneficiaries, are fully paid and discharged and (v) not amend, supersede or repeal the MSA or the Qualifying Statute, in any way that would materially adversely affect the amount of any payment to, or the rights to such payments of, the Authority or the Beneficiaries. Notwithstanding these pledges and agreements by the State, nothing in the Sale Agreement, the Indenture, the Bonds or

the Act shall be construed or interpreted to limit or impair the authority or discretion of the Attorney General to administer and enforce provisions of the MSA or to direct, control and settle any litigation or arbitration proceeding arising from or relating to the MSA.

The Authority has covenanted in the Indenture that, among other things, it will (a) duly and punctually pay the principal or Sinking Fund Installments of and premium, if any, and interest on the Series 2010 Bonds in accordance with the terms of the Series 2010 Bonds and the Indenture, (b) (i) maintain or preserve the lien and security interest (and the priority thereof) of the Indenture; (ii) perfect, publish notice of or protect the validity of any grant made or to be made by the Indenture; (iii) preserve and defend title to the Pledged Revenues and other collateral pledged under the Indenture and the rights of the Trustee and the registered owners of the Series 2010 Bonds ("**Bondholders**") and Beneficiaries in such collateral against the claims of all persons and parties, including the challenge by any party to the validity or enforceability of the Consent Decree, the Indenture, the Act or the Sale Agreement or the performance by any party thereunder and (iv) cause the Trustee to enforce the Sale Agreement and (c) diligently pursue any and all actions to enforce its rights under each instrument or agreement included in the Collateral. In accordance with the Act, the Indenture provides that the Authority has no authority to file a voluntary petition under, or become a debtor or bankrupt under, the Federal Bankruptcy Code or any other federal or State bankruptcy, insolvency, or moratorium law or statute as may from time to time be in effect and neither any public officer nor any organization, entity, or other person shall authorize the Authority to become a debtor or bankrupt under the Federal Bankruptcy Code or any other federal or State bankruptcy, insolvency or moratorium law or statute as may from time to time be in effect.

The Authority and the State have each covenanted not to impair the exclusion of interest on the Series 2010 Bonds from gross income for federal income tax purposes. See "APPENDIX C — DEFINITIONS AND SUMMARY OF THE INDENTURE" for a summary of the covenants made by the Authority and "APPENDIX D — DEFINITIONS AND SUMMARY OF THE PURCHASE AND SALE AGREEMENT" for a summary of the covenants made by the State.

Ratings .... Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("**S&P**"), is expected to assign the ratings of "A" to the Series 2010 Bonds maturing on June 1, 2012 through June 1, 2021 and "A-" to the Series 2010 Bonds maturing on June 1 in the years 2023, 2024 and 2028, and Fitch Ratings ("**Fitch**"; each of Fitch and S&P are referred to herein as a "**Rating Agency**") is expected to assign the rating of "BBB+" to the Series 2010 Bonds.

Such ratings reflect only the views of such organizations, and explanations of the significance of such ratings may be obtained only from such organizations. The Authority makes no representation as to the appropriateness of the ratings. The ratings for the Series 2010 Bonds address (i) the payment of interest on the Series 2010 Bonds when due, and (ii) the payment of principal of the Series 2010 Bonds on any Sinking Fund Installment dates and on their respective maturity dates. The principal amounts, Sinking Fund Installment dates and maturity dates of the Series 2010 Bonds were structured to produce cash flow stress test performance necessary for the Authority to achieve the targeted credit ratings. 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 ratings may have an adverse effect on the market price of the Series 2010 Bonds. See “RATINGS”.

Risk Factors................................ Reference is made to “RISK FACTORS” for a description of certain considerations relevant to an investment in the Series 2010 Bonds.

Legal Considerations .... Reference is made to “LEGAL CONSIDERATIONS” for a description of certain legal issues relevant to an investment in the Series 2010 Bonds.

Tax Matters .... In the opinion of Nixon Peabody LLP, Bond Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the Authority and the State of Illinois described herein, interest on the Series 2010 Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “**Code**”). Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Bond Counsel and Golden & Associates, P.C., Co-Bond Counsel, are further of the opinion that under existing statutes, interest on the Series 2010 Bonds is not exempt from State of Illinois taxes. See “TAX MATTERS” herein regarding certain other tax considerations.

Availability of Documents .... Included herein are brief summaries of certain documents, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. Copies of the Indenture and the Sale Agreement may be obtained by written request from the Trustee at Two North LaSalle Street, Suite 1020, Chicago, Illinois 60602. Any statements in this Offering Circular involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Offering Circular is not to be construed as a contract or agreement among the Authority, the State and the Bondholders.

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$1,503,460,000

Railsplitter Tobacco Settlement Authority

Tobacco Settlement Revenue Bonds, Series 2010

This Offering Circular sets forth information concerning the issuance by Railsplitter Tobacco Settlement Authority of its $1,503,460,000 Tobacco Settlement Revenue Bonds, Series 2010, pursuant to the Indenture. Defined terms used herein not otherwise defined below shall have the meanings set forth therefor in the Summary Statement and as referenced in Appendix G.

RISK FACTORS

The Series 2010 Bonds differ from many other tax-exempt securities in a number of respects. Prospective investors should carefully consider the factors set forth below regarding an investment in the Series 2010 Bonds, as well as other information contained in this Offering Circular. The following discussion of the risks facing 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 file annual, quarterly and certain other reports with the Securities and Exchange Commission (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) 551-5450; fax: (202) 343-1028; e-mail: publicinfo@sec.gov). The following discussion is not a complete list of the risks associated with the purchase of the Series 2010 Bonds nor does the order of presentation necessarily reflect the relative importance of the various risks. Potential purchasers of the Series 2010 Bonds are advised to consider the following factors, among others, and to review the other information in this Offering Circular in evaluating the Series 2010 Bonds. Any one or more of the risks discussed, and other risks, could lead to a decrease in the market value and/or the liquidity of the Series 2010 Bonds, or, in certain circumstances, could lead to a complete loss of a Bondholder's investment. There can be no assurance that other risk factors will not become material in the future. Further information regarding these risk factors can be found under "THE MASTER SETTLEMENT AGREEMENT" and "DOMESTIC TOBACCO INDUSTRY" below.

If Litigation Challenging the MSA, the Qualifying Statutes and Related Legislation is Successful, Payments under the MSA may be Suspended or Terminated

Certain parties, including smokers, smokers' rights organizations, consumer groups, cigarette importers, cigarette distributors, cigarette manufacturers, 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, related legislation including the Qualifying Statutes, Allocable Share Amendments, and legislation such as "Contraband Statutes" (collectively referred to herein as "**Complementary Legislation**"), are void or unenforceable under certain provisions of law, such as the U.S. Constitution, state constitutions, federal antitrust laws, state consumer protection laws, bankruptcy laws, federal cigarette advertising and labeling law, and unfair competition laws. Certain of the lawsuits further seek, among other things, an injunction against one or more of the Settling States from collecting any moneys under the MSA and barring the PMs from collecting cigarette price increases related to the MSA. 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 the MSA and Complementary Legislation challenges presented in the cases. In the most recent decision, *Freedom Holdings v. Cuomo,* 2010 U.S. App. Lexis 21392 (2d Cir. 2010) ("**Freedom Holdings IV**"), as discussed more fully herein, the U.S. Courts of Appeals for the Second Circuit (the "**Second Circuit**") affirmed the judgment of the U.S. District Court for the Southern District of New York (the "**Southern District**"), that the New York Qualifying Statute did not violate federal antitrust laws or the Commerce Clause of the U.S. Constitution. The enforceability of the MSA and the State's Qualifying Statute and Complementary Legislation is also at issue in *VIBO Corporation, Inc. d/b/a/ General Tobacco v. Conway*, *et al.,* ("**VIBO**"), now on appeal before the U.S. Court of Appeals for the Sixth Circuit, and in *Grand River Enterprises Six Nations, Ltd. v. Pryor* ("**Grand River**"), pending in the Southern District. Certain decisions by the Second Circuit during the course of the litigation in *Grand River* and *Freedom Holdings* have created some uncertainty as a result of that court's interpretation of federal antitrust immunity and Commerce Clause doctrines as applied to the MSA and related statutes, which interpretation appears to conflict with interpretations by other courts which have rejected challenges to the MSA and related statutes. A final non-appealable decision in *Grand River* or *VIBO* that the MSA, Qualifying Statute, the Complementary Legislation or any of them violates the federal antitrust laws, the U.S. Constitution, or any other provision of law would be binding on the State.

The MSA and related state legislation may continue to be challenged in the future. A determination by a court having jurisdiction over the State and the Authority that the MSA or related State legislation is void or unenforceable (a) could have a materially adverse effect on the payments by the PMs under the MSA and the amount and/or the timing of Pledged Settlement Payments available to the Authority, (b) could lead to a decrease in the market value and/or liquidity of the Series 2010 Bonds, and (c) in certain circumstances, could lead to a complete loss of a Bondholder's investment. A determination by any court that the MSA or state legislation enacted pursuant to the MSA is void or unenforceable could also lead to a decrease in the market value and/or liquidity of the Series 2010 Bonds. See "THE MASTER SETTLEMENT AGREEMENT" and "LEGAL CONSIDERATIONS".

If there is an adverse ruling in one or more of the cases challenging the MSA, the Qualifying Statutes and related legislation, it could have a material adverse effect on the amount and/or timing of Pledged Settlement Payments available to the Authority, and could lead to a decrease in the market value and/or the liquidity of the Series 2010 Bonds and, in certain circumstances, could lead to a complete loss of a Bondholder's investment. For a description of the opinions of Nixon Peabody LLP, Bond Counsel, addressing such matters, see "LEGAL CONSIDERATIONS — MSA and Qualifying Statute Enforceability".

Potential Payment Decreases Under the Terms of the MSA Could Reduce Payments on and the Value of the Series 2010 Bonds

Adjustments to MSA Payment.

The MSA provides that the amounts payable by the PMs are subject to numerous adjustments, offsets and recalculations, some of which are material. Such adjustments, offsets and recalculations could reduce the Pledged Settlement Payments available to the Authority below the respective amounts required to pay the Series 2010 Bonds and could lead to a decrease in the market value and/or the liquidity of the Series 2010 Bonds, which in certain circumstances could lead to a complete loss of a Bondholder's investment. The Settling States and one or more of the PMs are disputing or have disputed the calculations of some Annual Payments and Strategic Contribution Fund Payments totaling over $6.3 billion for the years 2003 through 2009; including, with respect to April 2006 through April 2010 payments due, moneys withheld outright, deposited to the Disputed Payments Account or, as in the case of the largest OPM (Philip Morris USA), moneys actually paid by the PM to the states, but with the PM

asserting a reservation of right to dispute such amount paid pursuant to the MSA. This total includes amounts that the OPMs have indicated that they have filed dispute notices with respect to significant additional amounts with respect to the years 2008 and 2009 that may lead to claimed reductions in their MSA payments due on April 2011 and April 2012. No assurance can be given as to the magnitude of the adjustments that may result upon resolution of those disputes, which resolution may occur either through the judicial process or by arbitration. Any such adjustments could trigger the Offset for Miscalculated or Disputed Payments and lead to significant reductions in Pledged Settlement Payments. For additional information regarding the MSA and the payment adjustments, see "THE MASTER SETTLEMENT AGREEMENT – Adjustments to Payments".

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

Disputes concerning 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 Annual Payments and Strategic Contribution Fund Payments and such offsets may materially adversely affect the amount and timing of the payment of Pledged Settlement Payments available to pay debt service on the Series 2010 Bonds. In particular, the largest of the OPMs (Philip Morris USA) has indicated that its approximate share of prior year Disputed NPM Adjustments is $1.74 billion, plus an asserted claim for interest on such moneys at the prime rate, and that, if the OPMs do receive adjustments as a result of pending NPM arbitration proceedings, Philip Morris USA would receive its share of any such adjustments in the form of a credit against future MSA Payments. The future diversion of disputed payments to the Disputed Payments Account, the withholding of all or a portion of any disputed amounts, or the application of offsets against future payments could lead to a decrease in the market value and/or the liquidity of the Series 2010 Bonds, and could also have an adverse effect on the amount and/or timing of Pledged Settlement Payments available to pay debt service on the Series 2010 Bonds. Amounts held in the Disputed Payments Account could be released to those Settling States which, in the future, are found to have diligently enforced their Qualifying Statutes, or pursuant to a settlement of the disputes among the Settling States and the PMs. Current amounts held in Disputed Payments Accounts on or prior to the Closing Date, if released to the State, would not benefit Bondholders as such amounts are part of the State's Unsold Assets. 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 Disputed Payments Account. Any adjustments made in the form of a credit against future MSA payments could lead to material reductions in the Pledged Settlement Payments available to pay principal and interest on the Series 2010 Bonds. See "THE MASTER SETTLEMENT AGREEMENT — Adjustments to Payments – *Offset for Miscalculated or Disputed Payments*".

Litigation Seeking Monetary 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. 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 MSA was the result of such litigation. If additional litigation against the PMs is successful on a significant level, the ability of the PMs to continue to operate their businesses and make payments under the MSA may be adversely affected, thus affecting the value or repayment of the Series 2010 Bonds. See "DOMESTIC TOBACCO INDUSTRY — Civil Litigation" and "THE MASTER SETTLEMENT AGREEMENT" for more information regarding the litigation described below.

The tobacco companies are defendants in over 11,200 tobacco-related lawsuits, which are extremely costly to defend, could result in substantial judgments, liabilities and bonding difficulties, and may negatively impact their ability to continue to operate.

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. The claimants seek 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 Racketeering 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 seek treble damages, statutory damages, disgorgement of rights, equitable and injunctive relief and medical monitoring, among other damages.

It is possible that the outcome of these 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. Even if the PMs are successful in defending some or all of these actions, these types of cases are very expensive to defend. A material increase in the number of pending claims could significantly increase defense costs and have an adverse effect on the results of operations and financial condition of the PMs. Adverse decisions in litigation against the tobacco companies could have an adverse impact on the industry overall.

Any of the foregoing results could potentially lower the volume of cigarette sales and thus payments under the MSA. See "DOMESTIC TOBACCO INDUSTRY — Civil Litigation".

The Florida Supreme Court's ruling in Engle has resulted in additional litigation against cigarette manufacturers.

The case of *Engle v. R.J. Reynolds Tobacco Co., et al.* (Circuit Court, Dade County, Florida, filed May 5, 1994) was certified 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 actual damages to three individuals and approximately $145 billion in punitive damages to the certified class. During 2006, the Florida Supreme Court issued a ruling that, among other things, vacated the punitive damages award and determined that the case could not proceed further as a class action.

However, the Florida Supreme Court ruling in *Engle* permitted members of the *Engle* class to file individual claims, including claims for punitive damages. The Florida Supreme Court 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. The PMs are defendants in over 7,500 cases pending in various state and federal courts in Florida that were filed by members of the *Engle* class (the "**Engle Progeny Cases**"). It is not possible to predict the final outcome of this litigation but it may adversely affect the operations of the defendants and thus payments under the MSA. See "DOMESTIC TOBACCO INDUSTRY — Civil Litigation — *Engle Progeny Cases*".

A December 2008 decision by the United States Supreme Court could limit the ability of cigarette manufacturers to contend that certain claims asserted against them in product liability litigation are barred. The Supreme Court's decision also could encourage litigation involving cigarettes labeled as "lights" or "low tar".

In December 2008, the United States 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. The OPMs recently reported that there are approximately 35 such "lights" class actions pending in various courts.

The amount or range of losses that could result from unfavorable outcomes of pending litigation are unable to be meaningfully estimated.

Except for the impact of the State Settlement Agreements (defined below) on an annual basis when calculated, the PMs state that they are unable to make meaningful estimates of the amount or range of loss that could result from an unfavorable outcome of material pending litigation and, therefore, they generally have not made provisions in their consolidated financial statements for any such unfavorable outcomes. It is possible that their results of operations, cash flows and financial positions could be adversely affected by an unfavorable outcome of certain pending or future litigation, potentially leading to cessation of operations or insolvency or bankruptcy of one or more PMs.

The ultimate outcome of these and any other 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 could negatively affect perceptions of potential triers of fact with respect to the tobacco industry, possibly to the detriment of pending litigation. An unfavorable outcome or settlement or one or more adverse judgments could result in bankruptcy, insolvency or a decision by the affected PMs to substantially increase cigarette prices, thereby reducing cigarette consumption. In addition, the financial condition of any or all of the PM defendants could be adversely affected by the ultimate outcome of pending litigation, including bonding and litigation costs or a verdict or verdicts awarding substantial compensatory or punitive damages. Depending upon the magnitude of any such negative financial impact (and irrespective of whether the PM is thereby rendered insolvent), an adverse outcome in one or more of the lawsuits could substantially impair the affected PM's ability to make payments under the MSA, could have an adverse effect on the amount and/or timing of Pledged Settlement Payments available to the Authority and could lead to a decrease in the market value (including a complete loss of a Bondholder's investment in the Series 2010 Bonds) and/or the liquidity of the Series 2010 Bonds. See "DOMESTIC TOBACCO INDUSTRY — Civil Litigation" and "LEGAL CONSIDERATIONS".

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 various other governments and 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, in the year preceding the year in which payment is due, and, with respect to the Previously Settled State Settlements, in the year in which payment is due. If the volume of cigarette sales by the PMs were materially reduced, these payment obligations could adversely affect the financial condition of the PMs and potentially the ability of PMs to make payments under the MSA. See "THE MASTER SETTLEMENT AGREEMENT".

Failures by any of the PMs to make payments under the MSA could lead to a delay of or default under the payment obligations of the PMs.

If a PM were to discontinue making payments under the MSA for any reason, the corresponding payments to the State would be adversely affected. Any attempts to enforce payments under the MSA from a PM in breach 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**") has stated that it has ceased production of cigarettes and has defaulted upon its MSA payments for cigarette sales prior to 2004 as well as its Annual Payments. General Tobacco has also stated that it will be unable to make any back payments it owes under the MSA. Two Settling States have 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 coupled with an inability on the part of the Settling States to enforce and collect defaulted payments under the MSA could adversely affect the payments actually received by the Authority.

The verdict returned in the federal government's reimbursement case (the "DOJ Case") could impose financial burdens on the tobacco industry and adversely affect future cigarette sales and thus payments under the MSA.

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 would place certain prohibitions on the manner in which defendants market their cigarette products and would eliminate any use of "lights" or similar product descriptors. It is possible that the remedial order, including the prohibitions on the use of the descriptors relating to low tar cigarettes, will negatively affect the PMs' future sales of and profits from cigarettes. See "DOMESTIC TOBACCO INDUSTRY — Civil Litigation".

Declines in Cigarette Consumption May Materially Adversely Affect Payments on the Series 2010 Bonds.

Cigarette consumption in the U.S. has declined significantly over the last several decades. Continuing declines in cigarette consumption could adversely impact the amount and timing of the Pledged Settlement Payments available to pay debt service on the Series 2010 Bonds. The following factors, among others, may negatively impact cigarette consumption in the U.S.

A deterioration in general economic conditions in the U.S. could lead to a decrease in cigarette consumption and adversely affect 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. To the extent that such conditions are experienced over the life of the Series 2010 Bonds, payments under the MSA could be adversely affected, which may result in a deterioration in the value of, or the ability to make payment on, the Series 2010 Bonds. 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. Reductions in consumption could lead to reductions of payments under the MSA and could have an adverse affect on the amount and/or timing of Pledged Settlement Payments available to the Authority.

The regulation of tobacco products by the Food and Drug Administration may adversely affect overall consumption of cigarettes in the U.S.

The Family Smoking Prevention and Tobacco Control Act ("**FSPTCA**"), signed by President Obama on June 22, 2009, granted the Food and Drug Administration ("**FDA**") broad authority over the manufacture, sale, marketing and packaging of tobacco products. The legislation:

- 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 within one year of the committee's establishment;
- grants the FDA the regulatory authority to consider and impose broad additional restrictions through a rule making process, including a ban on the use of menthol in cigarettes;
- requires larger and more severe health warnings on cigarette packs and cartons;
- bans the use of descriptors on tobacco products, such as "low tar" and "light";
- requires the disclosure of ingredients and additives to consumers;
- requires pre-market approval by the FDA for claims made with respect to reduced risk or reduced exposure products;
- allows the FDA to require the reduction of nicotine or any other compound in cigarettes;
- allows the FDA to mandate the use of reduced risk technologies in conventional cigarettes;
- allows the FDA to place more severe restrictions on the advertising, marketing and sales of cigarettes; and

- permits inconsistent state regulation of the advertising or promotion of cigarettes and eliminates the existing federal preemption of such regulation.

The legislation permits the FDA to ban menthol upon a finding that such a prohibition would be appropriate for the public health.

It is likely that regulations promulgated by the FSPTCA, including regulation of menthol short of an outright ban thereof, 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. The FDA has issued a proposed rule which requires cigarette packages and advertisements to have larger and more visible graphic health warnings by the fall of 2012. The FDA has yet to issue guidance with respect to many other provisions of the FSPTCA, which may result in less efficient operation by the PMs in the near term as they may be reluctant to increase production, research or development prior to final regulations from the FDA. Additionally, the ability of the PMs to gain efficient market clearance for new cigarette products or establish a new brand name could be affected by FDA rules and regulations. The negative impact of the foregoing factors could be to reduce consumption of cigarettes in the U.S.

Concerns that mentholated cigarettes may pose greater health risks could result in further FDA regulation which could materially 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 may seek restrictions or a ban on the production and sale of mentholated 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 Lorillard, which is heavily dependent on sales of its *Newport* brand mentholated cigarettes. According to Lorillard, mentholated cigarettes are reported to comprise nearly 30% of the U.S. domestic cigarette market in 2009 and 2010 (through September 30). The FSPTCA 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 held its first meeting on March 30 and 31, 2010, at which the TPSAC began the process of considering the issues surrounding the use of menthol in cigarettes. No formal resolutions were passed at this meeting. The TPSAC held further meetings on the issue in 2010 and is expected to issue a report thereon in the first quarter of 2011. 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.

Payments under the MSA are determined in part by the volume of cigarettes sold by PMs in the U.S. cigarette market, which is expected to continue to decline, negatively impacting such payments.

Payments under the MSA are determined in part by volumes of cigarettes sold by the PMs in the U.S. cigarette market. Price increases, restrictions on advertising and promotions, funding of smoking prevention campaigns, increases in regulation and excise taxes, health concerns, a decline in the social acceptability of smoking, smoking bans in public places, increased pressure from anti-tobacco groups and other factors have reduced U.S. cigarette consumption. U.S. cigarette consumption is expected to continue to decline. Reductions in consumption could lead to reductions of payments under the MSA and could have an adverse effect on the amount and/or timing of Pledged Settlement Payments available to the Authority.

In the U.S., tobacco products are subject to substantial and increasing taxation, which has a negative effect on consumption.

Tobacco products are subject to substantial federal and state excise taxes in the United States. On April 1, 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. 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 $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. The average state cigarette tax stands at $1.45 per pack, up from approximately $0.41 per pack in 2000.

In addition to federal and state excise taxes, certain city and county governments also impose substantial excise taxes on tobacco products sold. Increased excise taxes are likely to result in declines in overall sales volume and shifts by consumers to less expensive brands, deep discount brands, counterfeit bands or pipe tobacco for roll-your-own consumers. Reductions in consumption will lead to reductions of payments under the MSA and could have a negative effect on the amount and/or timing of Pledged Settlement Payments available to the Authority.

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, states 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, 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 and parks, 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 may have a material adverse effect on payments under the MSA. See "DOMESTIC TOBACCO INDUSTRY—State and Local Regulation; Private Restrictions".

U.S. tobacco companies are subject to significant limitations on advertising and marketing cigarettes that could negatively impact sales volumes.

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. The FSPTCA grants authority over the regulation of tobacco products to the FDA. Under the FSPTCA, the FDA has issued rules restricting access and marketing of cigarettes and smokeless tobacco products to youth. 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 cigarette manufacturers to launch new premium brands. Moreover, these limitations may make it difficult to maintain sales volumes of cigarettes in the U.S.

Several of the PMs and their competitors have developed alternative tobacco and cigarette products, sales of which would not result in payments under the MSA.

Certain of the major cigarette makers have developed and marketed alternative cigarette products. For example, Philip Morris developed an alternative cigarette, called Accord, in which the tobacco is heated rather than burned. RJR Tobacco has developed and is marketing dissolvable tobacco tablets, orbs, strips and sticks. Sales of moist snuff products have increased recently. RJR Tobacco and Philip Morris are both marketing their versions of "snus", a smokeless, spitless tobacco product that originated in Sweden. Numerous manufacturers have developed and are marketing "electronic cigarettes", battery powered devices that vaporize liquid nicotine which is then inhaled. Should such alternative cigarette products that do not involve burning tobacco gain a significant share of the domestic cigarette market, payments under the MSA, and thus amounts of Pledged Settlement Payments available to the Authority, may decrease as payments under the MSA derive from the sale of products that involve the burning of tobacco.

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 cessations products. Companies such as GlaxoSmithKline, Johnson & Johnson, Novartis and Pfizer are very 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 now 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 $520 million business in the U.S. at the drug store level. Studies have shown that these programs are effective, and that excise taxes and smoking restrictions drive additional expenditures to the smoking cessation market. In 2004, it was estimated that over 50 percent of all smokers had quit smoking, and it is likely that many of those former smokers were aided by smoking cessation products. To the extent that these products, new products or products used in combination become more effective and more widely available, or that more smokers avail themselves of these products, sales volumes of cigarettes in the U.S. may decline, adversely affecting payments under the MSA. See "DOMESTIC TOBACCO INDUSTRY — Smoking Cessation Products".

The U.S. cigarette industry is subject to significant law, regulation and other requirements that could materially adversely affect their businesses, results of operations or financial condition.

The consumption of cigarettes in the U.S., and therefore the amounts payable under the MSA, 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.

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 an adverse effect on the sales volume of the PMs, resulting in lower payments under the MSA.

A decline in the overall consumption of cigarettes could have an adverse effect on the payments by PMs under the MSA and the amount and/or timing of Pledged Settlement Payments available to the Authority, and could impact the ability of the Authority to make payments on the Series 2010 Bonds and the value thereof. See "DOMESTIC TOBACCO INDUSTRY" for a further discussion of the foregoing factors and events.

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. See "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 has no right to challenge any such amendment, waiver or termination. While the economic interests of the State and the Bondholders will presumably be the same in many circumstances, no assurance can be given that such an amendment, waiver or termination of the MSA would not have a material adverse effect on the Bondholders. See "THE MASTER SETTLEMENT AGREEMENT — Amendments and Waivers".

Reliance on State Enforcement of the MSA and State Non-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. Failure by the State to enforce the MSA may have a material adverse effect on the Bondholders. In the Sale Agreement, the State has covenanted that it will take all actions as may be required by law to preserve, maintain, defend and protect the interests of the Authority and the interests of the Trustee on behalf of the Bondholders to the Pledged Settlement Payments. See "LEGAL CONSIDERATIONS". It is also possible that the State could attempt to claim some or all of the Pledged Settlement Payments for itself or otherwise interfere with the security for the Series 2010 Bonds. In that event, the Bondholders, the Trustee or the Authority may assert claims based on contractual, fiduciary or constitutional rights, but no prediction can be made as to the disposition of such claims. See "LEGAL CONSIDERATIONS".

General Economic Conditions and Lack of Access to Favorable Financing May Materially Adversely Impact the Ability of the PMs to Continue to Operate, Leading to Reduced Sales of Volumes of Cigarettes and Payments under the MSA.

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 the ability to access the capital markets on favorable

terms. To the extent that market conditions materially adversely impact their operations, the PMs may sell fewer cigarettes, potentially resulting in reduced payments under the MSA.

Adverse changes in financial market conditions or the credit ratings of the PMs could result in lack of access to financing, losses, higher costs and decreased profitability for the PMs, potentially affecting the volume of cigarette sales.

Adverse changes in the liquidity in the financial markets could result in additional realized or unrealized losses associated with the value of the investments of the PMs, which would negatively impact the PMs consolidated results of operations, cash flows and financial position. Changes in financial market conditions could negatively impact the PMs interest rate risk, foreign currency exchange rate risk and the return on corporate cash, thus increasing costs, lowering income and reducing profitability. If these losses negatively affect the overall volume of cigarette sales, payments under the MSA may decrease.

The outstanding notes issued by certain of the PMs are rated investment grade. If their credit ratings fall below investment grade, certain debt securities may adjust interest payments upwards or require posting of additional collateral. Additionally, if credit ratings fall below investment grade, the PMs affected may not be able to sell additional debt securities or borrow money in such amounts, at the times, at the lower interest rates or upon the more favorable terms and conditions that might be available if its debt was rated investment grade. Furthermore, future debt security issuances or other borrowings may be subject to further negative terms, including limitations on indebtedness or similar restrictive covenants. If these conditions negatively affect the overall volume of cigarette sales, payments under the MSA may decrease.

Bankruptcy of a PM May Delay, Reduce, or Eliminate Payments of Pledged Settlement Payments

The only significant source of payment for the Series 2010 Bonds (other than amounts in the Debt Service Reserve Account and interest earnings) is the Pledged Settlement Payments that are paid by the PMs. Therefore, if one or more PMs were to become a debtor in a case under Title 11 of the United States Code (the "**Bankruptcy Code**"), there could be delays in or reductions or elimination of payments on the Series 2010 Bonds, and Bondholders and beneficial owners of the Series 2010 Bonds could incur losses on their investments.

In the event of the bankruptcy of a PM, unless approval of the bankruptcy court is obtained, the automatic stay provisions of the Bankruptcy Code could prevent any action by the State, the Authority, the Trustee, the Bondholders, or the beneficial owners of the Series 2010 Bonds to collect any Pledged Settlement Payments or any other amounts owing by the bankrupt PM. In addition, even if the bankrupt PM wanted to continue paying the Pledged 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 Pledged Settlement Payments. If the MSA is determined in a bankruptcy case to be an "executory contract" under the Bankruptcy Code, the bankrupt PM may be able to repudiate the MSA and stop making payments under it.

Furthermore, payments previously made to the Bondholders or the beneficial owners of the Bonds could be avoided as preferential payments, so that the Bondholders and the beneficial owners of the Bonds 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 Trustee, the Bondholders, or the beneficial owners of

the Series 2010 Bonds. Finally, while there are provisions of the MSA that purport to deal with the situation when a PM goes into bankruptcy (including provisions regarding the termination of that PM's obligations (see "THE MASTER SETTLEMENT AGREEMENT — Termination of Agreement"), such provisions may be unenforceable. The National Association of Attorneys General ("**NAAG**") actively monitors any bankruptcy related activity of the PMs with the goals of preventing the debtors from using bankruptcy law to avoid their MSA or state law payment obligations to the state and ensuring that states can continue to perform their regulatory duties despite the bankruptcy filing. There may be other possible effects of a bankruptcy of a PM that could result in delays or reductions or elimination of payments to the Bondholders or the beneficial owners of the Series 2010 Bonds. Regardless of any specific adverse determination in a PM bankruptcy proceeding, the fact of a PM bankruptcy proceeding could have an adverse effect on the timing of receipt, amount and value of the Pledged Settlement Payments, and thus could have an adverse effect on the liquidity and value of the Series 2010 Bonds. For a further discussion of certain bankruptcy issues, see "LEGAL CONSIDERATIONS—Bankruptcy Considerations".

Bonds Secured Solely by the Collateral

Investors in the Series 2010 Bonds must look solely to the Collateral for repayment of their investment. The Series 2010 Bonds do not constitute an indebtedness or an obligation of the State or any subdivision thereof, within the purview of any constitutional or statutory limitation or provision or a charge against the general credit or taxing powers, if any, of any of them. No owner of any Series 2010 Bond has the right to compel the exercise of the taxing power of the State to pay any amounts owing on the Series 2010 Bonds. The assets of the Authority (other than the Collateral) are not pledged to the payment of, nor are they security for, the Series 2010 Bonds. The Authority's only source of funds for payments on the Series 2010 Bonds is the Pledged Revenues and amounts on deposit in pledged funds and accounts pursuant to the Indenture. The Authority has no taxing power.

Limited Liquidity of the Series 2010 Bonds; Price Volatility

There is currently a limited secondary market for securities such as the Series 2010 Bonds. The Underwriters are under no obligation to make a secondary market. There can be no assurance that a secondary market for the Series 2010 Bonds will develop, or if a secondary market does develop, that it will provide Bondholders with liquidity or that it will continue for the life of the Series 2010 Bonds. Tobacco settlement securitization bonds generally have also exhibited greater price volatility than traditional municipal bonds. Any purchaser of the Series 2010 Bonds must be prepared to hold such securities for an indefinite period of time or until redemption or final payment thereof.

Limited Remedies

The Trustee is limited under the terms of the Sale Agreement to enforcing the terms of such agreement and to receiving the Pledged Settlement Payments and applying them in accordance with the Indenture. If an Event of Default occurs, the Trustee cannot sell or foreclose on the Pledged Settlement Payments or its rights under the Sale Agreement. Pursuant to the Act, the Sale Agreement provides that the remedies available to the Bondholders for any breach of the pledges and agreements of the State will be limited to injunctive relief. In any suit against the State or the Authority, the State or the Authority may seek to assert statutory or constitutional defenses and limitations on remedies and payment of claims.

Limited Nature of the Rating of the Series 2010 Bonds; Reduction, Suspension or Withdrawal of a Rating

The Series 2010 Bonds will be assigned ratings by Fitch and S&P prior to the Closing Date. Any rating assigned to the Series 2010 Bonds by a Rating Agency will reflect such Rating Agency's

assessment of the likelihood of the payment of the principal of (including by operation of Sinking Fund Installments) the Series 2010 Bonds. The ratings of the Series 2010 Bonds will not be a recommendation to purchase, hold or sell the Series 2010 Bonds and such rating will not address the marketability of the Series 2010 Bonds, any market price or suitability for a particular investor. There is no assurance that any rating will remain for any given period of time or that any rating will not be lowered, suspended or withdrawn entirely by a Rating Agency if, in such Rating Agency's judgment, circumstances so warrant based on factors prevailing at the time. Any such reduction, suspension or withdrawal of a rating, if it were to occur, could materially adversely affect the availability of a market for, or the market price of, the Series 2010 Bonds.

S&P, on August 4, 2010, revised its assumptions for all tobacco settlement securitizations and placed 122 classes from 31 tobacco settlement securitizations on CreditWatch with negative implications. On November 11, 2010, S&P lowered its ratings on 51 classes from 16 tobacco settlement securitizations with most ratings falling from investment grade to speculative grade. S&P affirmed 71 ratings on 24 transactions, removing these ratings from CreditWatch with negative implications. S&P maintains a Negative Outlook on all other tobacco settlement securitizations. See "RATINGS".

On June 18, 2009, Fitch announced a new tobacco settlement bond cash flow model based on the percent annual change in MSA payment revenues that each tobacco settlement bond can sustain and still be paid in full by its legal final maturity. Fitch then began a review of outstanding tobacco settlement bonds. Fitch's view of the tobacco industry is a key factor in its ratings of settlement securitizations and tobacco settlement bond ratings issued by Fitch are capped by this industry view at "BBB+", or one notch above Fitch's assessment of the tobacco industry, accounting for the risk of manufacturer default. On September 8, 2010, Fitch published "delinked ratings" for individual tobacco settlement bonds outstanding, which were based on Fitch's assessment of the maximum annual rate of decline in the MSA payments that each bond can withstand without a default.

LEGAL CONSIDERATIONS

The following discussion summarizes some, but not all, of the possible legal issues that could affect the Series 2010 Bonds. The discussion does not address every possible legal challenge that could result in a decision that would cause the Tobacco Assets (including Pledged Settlement Payments) to be reduced or eliminated. References in the discussion to various opinions are incomplete summaries of such opinions and are qualified in their entirety by reference to the actual opinions.

Bankruptcy Considerations

General. The enforceability of the rights and remedies of the State (and thus the Series 2010 Bondholders) and of the obligations of a PM under the MSA 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. Some of the risks associated with a bankruptcy of a PM are described below and include the risks of delay in or reduction of amount of the payment or of nonpayment under the MSA and the risk that the State (and, thus, the Authority) may be stayed for an extended time from enforcing any rights under the MSA or with respect to the payments owed by the bankrupt PM or from commencing legal proceedings against the bankrupt PM. As a result, if a PM becomes a debtor in a bankruptcy case and defaults in making payments required under the MSA, funds available to the Authority to pay Bondholders may be reduced or eliminated. Furthermore, certain payments previously made to Bondholders could be avoided as preferential payments, so that Bondholders would be required to return such payments to the bankrupt PM.

Chapter 7 Bankruptcy. If a PM becomes bankrupt and does not reorganize under Chapter 11, it will be liquidated under Chapter 7 of the Bankruptcy Code, in which event its operations will cease and its assets will be sold. In such an event, there would likely be a significant reduction, or even elimination, of payments received from the PM that is in the Chapter 7 case. To the extent that the volume of cigarettes sold by other PMs increased as a result of cessation of operations by the PM being liquidated under Chapter 7 of the Bankruptcy Code, the market share of such other PMs should increase.

Chapter 11 Reorganization. Should a PM become a debtor in a Chapter 11 reorganization bankruptcy case, the PM may not be authorized to make any payments owing under the MSA, or may be required to obtain bankruptcy court approval before making such payments. Legal proceedings necessary to determine whether such PM's obligations under the MSA can be paid during the pendency of the bankruptcy proceedings could be time-consuming and could result in delays in, or elimination of, payments by the bankrupt PM.

Examples of other bankruptcy-related risks include:

MSA as Executory Contract. The treatment of the MSA under the Bankruptcy Code may be dependent upon whether the MSA is construed to be an executory contract (which is not defined by the Bankruptcy Code but generally is considered to be a contract in which performance remains due to some extent from both parties). Under the Bankruptcy Code, if the MSA is treated as an executory contract, a trustee in bankruptcy or a PM acting as a debtor-in-possession would have the right to assume or reject the MSA. However, there is no time period within which a trustee or PM in bankruptcy would be required to assume or reject the MSA. Legal proceedings necessary to resolve the issue of whether the MSA is an executory contract under the Bankruptcy Code could be time consuming and could result in delays in, or elimination of, payments by the bankrupt PM.

Nixon Peabody LLP, as Bond Counsel, will render an opinion to the Authority and the Rating Agencies, subject to all the facts, assumptions and qualifications stated therein (there being no precedent directly on point), that in a case commenced under the Bankruptcy Code by or against an OPM, a court, exercising reasonable judgment after full consideration of all relevant factors in a properly presented and argued case, would (a) find, applying State law, that the release and covenant not to sue in the MSA are material contractual obligations the breach of which would excuse further performance by the other parties to the MSA, (b) treat the MSA as an executory contract pursuant Section 365 of the Bankruptcy Code and (c) approve a decision by an OPM to assume or reject the MSA as an executory contract.

Assumption or Rejection of MSA. Should a bankrupt PM determine to assume the MSA, it would have to cure all outstanding MSA payment defaults and provide "adequate assurance" that all future payments under the MSA will be paid in full. "Adequate assurance" is not defined in the Bankruptcy Code and is determined by the bankruptcy court. If the bankruptcy court rules that the PM cannot provide such adequate assurance, payments under the MSA may be delayed or eliminated.

If a bankrupt PM determines to reject the MSA, the State (and thus the Authority, the Trustee and the Bondholders, as collateral assignees) may then have a prepetition unsecured, nonpriority claim for damages. Rejection of an executory contract should be treated as a breach of the contract by the PM. However, under the Bankruptcy Code, the State (and thus the Authority, the Trustee and the Bondholders) nevertheless may be enjoined from commencing or continuing any action against the PM to enforce remedies under the MSA (including an action to collect payments due under the MSA). In addition, because amounts owed by the PM under the MSA are not fixed, legal proceedings may be necessary to quantify the claims of the State (and thus the Authority, the Trustee and the Bondholders) for damages as a result of the PM's rejection of the MSA. Such legal proceedings could be time consuming and could result in delays, reductions, or elimination of, payments by the bankrupt PM.

Modification of MSA Obligations. If the MSA is determined not to be an "executory contract", the PM determines to reject the MSA or the PM is otherwise not authorized to make payments under the MSA, then a bankruptcy of the PM could result in long delays and possibly in large reductions in the amount of Pledged Settlement Payments available to pay the Bondholders because, under the Bankruptcy Code, the obligations of the PM under the MSA could be modified or discharged in their entirety. For example, the bankruptcy court may approve a plan of reorganization or liquidation of the PM that alters the timing or the amount of payments to be made by the PM under the MSA to the State (and, thus, to the Authority, the Trustee and Bondholders).

MSA and Qualifying Statute Enforceability

Most of the major provisions of the MSA are not severable. If a court materially modifies, renders unenforceable or finds unlawful any nonseverable provision, the attorneys general of the Settling States and the OPMs are required by the MSA to attempt to negotiate substitute terms. However, if any OPM does not agree to the substitute terms, the MSA would terminate 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 and could reduce the amount available to pay the principal of and interest on the Series 2010 Bonds.

Certain cigarette manufacturers, cigarette importers, cigarette distributors, Native American tribes and smokers' rights organizations have instituted lawsuits against some, and in certain cases all, of the signatories to the MSA, alleging, among other things, that the MSA violates certain provisions of the United States Constitution, the federal antitrust laws, federal civil rights laws, state constitutions, state consumer protection laws and unfair competition laws, which actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. The lawsuits seek, among other things, an injunction against one or more of the Settling States from collecting any moneys under the MSA and barring the PMs from collecting cigarette price increases related to the MSA or a determination that the MSA is void or unenforceable. To date, all of the judgments on the merits have rejected the challenges presented in the cases. In the most recent decision, *Freedom Holdings IV*, the Second Circuit affirmed the district court's judgment, after a bench trial, that the Qualifying Statute as modified by the subsequent legislation and the Contraband Statute did not violate Section 1 of the Sherman Antitrust Act or the Commerce Clause of the Constitution of the United States. In the other decisions upholding the MSA or accompanying legislation, the decisions were rendered either on motions to dismiss or motions for summary judgment. Certain cases have survived pre-trial motions to dismiss and have proceeded to a stage of litigation where the ultimate outcome may be determined in part by findings of fact based on extrinsic evidence as to the operation and impact of the MSA and appeals are pending or still possible in certain other cases. A determination by a court that a nonseverable provision of the MSA is void or voidable would, in the absence of an agreement to a substitute term as described above, result in the termination of the MSA in any Settling States affected by the court's ruling. Accordingly, in the event of an adverse court ruling, Bondholders could incur a complete loss of their investment. See "THE MASTER SETTLEMENT AGREEMENT — Litigation Challenging the MSA, the Qualifying Statute and Related Legislation".

The Qualifying Statute and related legislation, like the MSA, have also been the subject of litigation in cases alleging that the Qualifying Statute and related legislation violate certain provisions of the United States Constitution or state constitutions or are preempted by federal antitrust laws. The lawsuits seek, among other things, injunctions against the enforcement of the Qualifying Statute and related legislation. To date, such challenges have not been ultimately successful, although the enforcement of the Allocable Share Release Amendment has been preliminarily enjoined in certain Settling States. Appeals are still possible in certain cases. The Qualifying Statutes and related legislation may continue to be challenged in the future. Although a determination that the Qualifying Statute is

unconstitutional would have no effect on the enforceability of the MSA, such a determination could have an adverse effect on payments to be made under the MSA if an NPM were to gain market share in the future and there occurred the requisite impact on the market share of the PMs under the MSA. See "THE MASTER SETTLEMENT AGREEMENT — Litigation Challenging the MSA, the Qualifying Statute and Related Legislation".

In rendering the opinion described below, Nixon Peabody LLP considered the claims asserted in the federal and state actions described above under the caption "THE MASTER SETTLEMENT AGREEMENT — Litigation Challenging the MSA, the Qualifying Statutes and Related Legislation" that it believes are representative of the legal theories that an opponent of the MSA would advance in an attempt to invalidate the MSA. Subject to the qualifications and assumptions set forth in such opinion, Nixon Peabody LLP will render an opinion to the Authority and the Rating Agencies that, subject to certain qualifications and assumptions expressed therein, a court exercising reasonable judgment, after full consideration of all relevant factors in a properly presented and argued case applying existing legal rules, would hold that the MSA is a valid, binding and enforceable obligation of the signatories thereto and that the Qualifying Statute is lawful and enforceable, and that it is likely that an Illinois federal or state court would hold that the MSA and the Qualifying Statute do not violate the Illinois Antitrust Act either because the Illinois Antitrust Act is inapplicable or should be construed the same as an equivalent federal antitrust law. This opinion as to the enforceability of the MSA, the Qualifying Statute and the obligations of the aforementioned signatories is also subject to the effect of bankruptcy, insolvency, reorganization, receivership, moratorium and other similar laws affecting creditors' rights or remedies and general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law, and the availability of any specific remedy.

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, such as that the MSA is void or voidable or that the Qualifying Statute is unenforceable, 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 Tobacco Assets

It is possible that the State could in the future attempt to claim some or all of the Pledged Settlement Payments for itself, or otherwise interfere with the security for the Series 2010 Bonds. In that event, the Bondholders, the Trustee or the Authority could assert claims based on contractual or constitutional rights.

Contractual Remedies. Under Illinois 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 Tobacco Assets. The Sale Agreement obligates the State to take all necessary action to protect the Authority's interest in the Pledged Settlement Payments. Thus, if the State violates the provisions of the MSA, the Trustee, as

assignee of the Authority's rights under the Sale Agreement, could seek to compel the State to enforce its payment rights under the MSA. As interested parties, the Authority on its own behalf and the 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.

The Pledged Settlement Payments and money derived therefrom are the sole source of payment for the Series 2010 Bonds.

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 the MSA or the financing arrangements in a manner that would substantially impair the rights of the Bondholders to be paid from the Pledged Settlement Payments. 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 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 Bondholders to be paid from the Pledged Settlement Payments, 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 Bondholder's rights are based upon reasonable conditions and are of a character appropriate to the public purpose justifying the legislation's adoption.

Finally, Bondholders may also have constitutional claims under the Due Process Clauses of the United States Constitution and State Constitution.

No Assurance as to the Outcome of Litigation

With respect to all matters of litigation 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 Settlement Payments or otherwise filed in connection with the tobacco industry, the outcome of such litigation, 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 (ii) the courts, having been presented with such issues, correctly applying applicable legal principles in reaching appropriate decisions regarding the merits. In addition, the courts 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 and any such adverse outcome could have a material and adverse impact on the amount of Pledged Settlement Payments available to the Authority to pay the principal of and interest on the Series 2010 Bonds.

THE SERIES 2010 BONDS

The following summary describes certain terms of the Series 2010 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 2010 Bonds. Copies of the Indenture may be obtained upon written request to the Trustee.

The Series 2010 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 2010 Bonds. Individual purchases of beneficial ownership interests in the Series 2010 Bonds may be made for principal amounts of $5,000 or any integral multiple thereof (an "**Authorized Denomination**"). Except under the limited circumstances described herein, no Beneficial Owner (as defined herein) of the Series 2010 Bonds will be entitled to receive a physical certificate representing its ownership interest in such Bonds. See "APPENDIX E — BOOK-ENTRY ONLY SYSTEM".

For each Distribution Date, payments will be made to registered owners of the Series 2010 Bonds (the "**Holders**") as of the last Business Day of the calendar month immediately preceding the calendar month in which a Distribution Date occurs (the "**Record Date**"). The Trustee and the Authority may establish special record dates for the determination of the Holders for various purposes of the Indenture, including giving consent or direction to the Trustee.

Sources and Uses of Funds

Estimated sources and uses of funds are as follows:

Sources of Funds

Principal amount of Series 2010 Bonds	$1,503,460,000.00
Plus: Net Premium	6,606,578.70
Total Sources	$1,510,066,578.70

Uses of Funds

Proceeds to State	$1,350,000,000.00
Deposit to Debt Service Reserve Account	146,768,256.26
Costs of Issuance*	10,548,322.44
Deposit to Operating Account	2,750,000.00
Total Uses	$1,510,066,578.70

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* Costs of issuance include underwriters' discount, legal fees, rating agency fees, printing costs and certain other expenses related to the issuance of the Series 2010 Bonds.

Payments of Interest

Interest on the outstanding principal amount of the Series 2010 Bonds will be payable on each June 1 and December 1, commencing June 1, 2011, until the Maturity Date or earlier redemption of such Series 2010 Bond. Interest on Series 2010 Bonds will accrue from the Closing Date, or from the most recent Distribution Date on which interest has been paid, to but excluding the subsequent Distribution Date on which interest is payable. Interest on the Series 2010 Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. Amounts on deposit in the Debt Service Reserve Account are available to make payments of interest on the Series 2010 Bonds. If on any Distribution Date there are insufficient funds to pay all interest then due on the Series 2010 Bonds, this will constitute a Payment Default under the Indenture, and the Bonds shall be subject to pro rata redemption among maturities from Extraordinary Prepayments on each Distribution Date thereafter.

Payments of Principal

The Series 2010 Bonds are issued as serial and term bonds subject to mandatory redemption (including by Sinking Fund Installments with respect to term bonds) and optional redemption prior to maturity as described below. A failure to pay principal of a Bond pursuant to Sinking Fund Installments or on its Maturity Date will constitute a Payment Default under the Indenture, and the Bonds shall be subject to pro rata redemption among maturities from Extraordinary Prepayments on each Distribution Date thereafter.

Except to the extent redemption of Series 2010 Bonds is to be by pro rata selection, including within a maturity, if less than all of the Series 2010 Bonds of any maturity are to be redeemed, the Holders of the Series 2010 Bonds of such maturity will be paid as described under the caption "– Partial Redemptions" below.

Optional Redemption

The Series 2010 Bonds maturing on June 1, 2023 and June 1, 2028 are subject to redemption, on any date on and after June 1, 2021, and the Series 2010 Bonds maturing on June 1, 2024 are subject to redemption, on any date on and after June 1, 2016, at the option of the Authority, from any source including the proceeds of Refunding Bonds or other refunding obligations, at a redemption price equal to 100% of the principal amount of Series 2010 Bonds to be redeemed, plus interest accrued thereon to the redemption date.

Sinking Fund Installments

The Series 2010 Term Bonds due June 1, 2023 are subject to mandatory redemption, at a redemption price equal to 100% of the principal amount of Series 2010 Bonds to be redeemed, plus interest accrued thereon to the redemption date, from Sinking Fund Installments in the respective amounts and on each of the dates (including the final payment at maturity) set forth below:

Date	Sinking Fund Installment
June 1, 2022	$109,655,000
June 1, 2023	107,260,000†

† Final maturity.

The Series 2010 Term Bonds due June 1, 2028 are subject to mandatory redemption, at a redemption price equal to 100% of the principal amount of Series 2010 Bonds to be redeemed, plus interest accrued thereon to the redemption date, from Sinking Fund Installments in the respective amounts and on each of the dates (including the final payment at maturity) set forth below:

Date	Sinking Fund Installment
June 1, 2025	$103,455,000
June 1, 2026	102,380,000
June 1, 2027	101,275,000
June 1, 2028	53,405,000†

† Final maturity.

Extraordinary Prepayments

Following the occurrence of a Payment Default, the Series 2010 Bonds are subject to mandatory redemption, on each Distribution Date, pro rata as to principal amount among maturities and within a maturity, at a redemption price equal to 100% of the principal amount of Series 2010 Bonds to be redeemed, plus interest accrued thereon to the redemption date, from Extraordinary Prepayments derived from amounts on deposit in the Pledged Revenues Account (after application to Operating Expenses not in excess of the Operating Cap as set forth in the Indenture and after funding amounts attributable to interest on the Bonds), from funds on deposit in the Debt Service Reserve Account, and from Partial Lump Sum Payments in the Lump Sum Account.

Optional Clean-Up Call

The Series 2010 Bonds are subject to redemption on any Distribution Date, at the option of the Authority, at a redemption price equal to 100% of the principal amount of Series 2010 Bonds to be redeemed, plus interest accrued thereon to the redemption date, in the event liquidation of the aggregate amount on deposit in the Pledged Accounts (other than the State's Unsold Assets in the Tobacco Assets Account and amounts set aside for the payment of Bonds) is greater than the principal amount of and accrued interest (if any) on the Series 2010 Bonds after the application of Pledged Revenues in accordance with the Indenture on such Distribution Date.

Partial Redemptions

Unless otherwise subject to redemption selection pro rata within a maturity, if less than all of the Series 2010 Bonds of a maturity are to be redeemed, the particular Series 2010 Bonds within such maturity to be redeemed will be selected by the Trustee on such basis as the Trustee deems fair and appropriate, and which may provide for the selection for redemption of portions (equal to any authorized denominations) of the principal of Series 2010 Bonds of a denomination larger than the minimum authorized denomination. So long as Cede & Co. is the registered owner of the Series 2010 Bonds, as nominee of DTC, all notices of redemption, including partial redemptions, will go only to DTC. In the case of a partial redemption of the Series 2010 Bonds, DTC will determine the amount of the interest of each Direct Participant (as defined by DTC) to be redeemed.

Notice of Redemption

When a Series 2010 Bond is to be redeemed prior to its stated Maturity Date, the Trustee will give notice to the Holder thereof in the name of the Authority, which notice will identify the Series 2010 Bond to be redeemed, state the date fixed for redemption, and state that such Series 2010 Bond will be redeemed at the Corporate Trust Office of the Trustee or a Paying Agent. The notice will further state that on such date there will become due and payable upon each Series 2010 Bond to be redeemed the redemption price thereof, together with interest accrued to the date fixed for redemption, and that money therefor having been deposited with the Trustee or Paying Agent, from and after such date, interest on the Series 2010 Bonds to be redeemed will cease to accrue.

The Trustee will give at least 20 days' notice (or such shorter period permitted by DTC so long as DTC remains the registered Bondholder) by mail, or otherwise transmit the redemption notice in accordance with any appropriate provisions under the Indenture, to the registered owners of any Series 2010 Bonds that are to be redeemed, at their addresses shown on the registration books of the Authority. Such notice may be waived by any Holders holding Series 2010 Bonds to be redeemed. Failure by a particular Holder to receive notice, or any defect in the notice of such Holder, will not affect the redemption of any other Series 2010 Bond. Any notice of redemption given pursuant to the Indenture may be rescinded by written notice to the Trustee by the Authority no later than five days prior to the date specified for redemption. The 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.

Refunding Bonds

The Authority may authorize, issue, sell and deliver Bonds under the Indenture from time to time in such principal amounts as the Authority may determine but solely to refund Series 2010 Bonds, by exchange, purchase, redemption or payment, and establish such escrows therefor as it may determine ("**Refunding Bonds**"). In accordance with the Indenture, no such Refunding Bonds may be issued that mature on or after the final maturity date of the Bonds to be refunded. No other additional bonds may be issued under the Indenture with a parity claim against the Pledged Revenues.

Events of Default and Remedies

Under the Indenture, any one of the following events is an "**Event of Default**":

(a) principal or Sinking Fund Installments of or interest on any Series 2010 Bond has not been paid, when due (a "**Payment Default**");

(b) the Authority fails to observe or perform any other provision of the Indenture, which failure is not remedied within 60 days after written notice thereof is given to the Authority by the Trustee or to the Authority and the Trustee by the Bondholders of at least 25% in principal amount of the Series 2010 Bonds then Outstanding; provided that if such default cannot be corrected within the 60-day period and is diligently pursued until the default is corrected, it shall not constitute an Event of Default if corrective action is instituted by the Authority within the 60-day period and diligently pursued until the default is corrected;

(c) the State fails to observe or perform its covenants in the Indenture or the Sale Agreement, which failure is not remedied within 60 days after written notice thereof is given to the Authority and the State by the Trustee or to the Authority and the Trustee by the Bondholders of at least 25% in principal amount of the Series 2010 Bonds then Outstanding; or

(d) bankruptcy, reorganization, arrangement or insolvency proceedings, or other proceedings for relief under any bankruptcy or similar law or laws for the relief of debtors, are instituted by or against the Authority and, if instituted against the Authority, are not dismissed within 60 days after such institution.

If an Event of Default occurs, the Trustee may, and upon written request of the Bondholders of 25% in principal amount of the Series 2010 Bonds Outstanding shall, in its own name by action or proceeding in accordance with the law:

(i) enforce all rights of the Bondholders and require the Authority or, to the extent permitted by law, the State to carry out its agreements with the Bondholders and to perform its duties under the Sale Agreement;

(ii) sue upon such Series 2010 Bonds;

(iii) require the Authority to account as if it were the trustee of an express trust for the Bondholders of such Series 2010 Bonds; and

(iv) enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders of such Series 2010 Bonds.

In no event shall the principal of any Series 2010 Bond be declared due and payable in advance of its stated maturity.

Upon a failure of the Authority to pay when due, principal or Sinking Fund Installments of or interest on any Series 2010 Bond or a failure actually known to an Authorized Officer of the Trustee to make any other payment required thereby within seven days after the same becomes due and payable, the Trustee must give written notice thereof to the Authority. The Trustee is required to proceed for the benefit of the Bondholders in accordance with the written direction of a Majority in Interest of the Outstanding Series 2010 Bonds.

Notwithstanding the foregoing, the Act provides that injunctive relief shall be the sole remedy available to the Trustee for any breach of the pledge and agreement of the State to diligently enforce the Qualifying Statute against all tobacco products manufacturers selling tobacco products in the State that are not in compliance with the Qualifying Statute.

Upon a Payment Default, the Series 2010 Bonds are subject to redemption, on each Distribution Date, pro rata by principal amount among maturities and within a maturity, at a redemption price equal to 100% of the principal amount of Series 2010 Bonds to be redeemed, plus interest accrued thereon to the redemption date, from Extraordinary Prepayments derived from amounts on deposit in the Pledged Revenues Account (after application to Operating Expenses not in excess of the Operating Cap as set forth in the Indenture and after funding amounts attributable to interest on the Bonds), from funds on deposit in the Debt Service Reserve Account, and from Partial Lump Sum Payments in the Lump Sum Account.

SECURITY FOR THE SERIES 2010 BONDS

Pledge of Collateral

Under the Indenture, the Series 2010 Bonds are secured by a pledge and assignment of the Authority's right, title and interest in:

(a) the Pledged Revenues (including all Pledged Settlement Payments),

(b) all rights to receive the Pledged Revenues and the proceeds of such rights,

(c) the Pledged Accounts and assets thereof, including money, contract rights, general intangibles or other personal property, held by the Trustee under the Indenture,

(d) all rights and interest of the Authority under the Sale Agreement including the representations, warranties and covenants of the State therein, and

(e) any and all other property of every kind and nature from time to time, by delivery or by writing of any kind, conveyed, pledged, assigned or transferred as and for additional security under the Indenture (collectively, the "**Collateral**").

Except as specifically provided in the Indenture, this assignment and pledge does not include: (i) the State's Unsold Assets and the Residual Revenues (upon deposit in the Residual Account), (ii) the rights of the Authority pursuant to provisions for consent or other 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 Beneficiaries, (iii) any right or power reserved to the Authority pursuant to the Act or other law, (iv) any Defeasance Collateral held by the Trustee for the benefit of Defeased Beneficiaries in accordance with the Indenture, and (v) as to any Series of Bonds, any other property or interest explicitly excluded from Collateral pursuant to the terms of the related Series Supplement. The Residual Revenues, the State's Unsold Assets, and the proceeds of the Series 2010 Bonds, other than the amount deposited in the Debt Service Reserve Account, do not constitute any portion of the Pledged Revenues, are not pledged to the holders of the Bonds and are not subject to the lien of the Indenture.

For the purposes of the Indenture, the following portions of Tobacco Assets are "**State's Unsold Assets**":

(1) any payments made with respect to liability to make those payments under the MSA for calendar years completed prior to the effective date of the Act (July 1, 2010); and

(2) those amounts otherwise to be received by the State which were deposited by PMs into the Disputed Payments Account or withheld by PMs in accordance with Section XI(f)(2) of the MSA prior to the Closing Date.

For the purposes of the Indenture, the "**Residual Revenues**" consist of the Pledged Revenues deposited in the Residual Account that are in excess of the amounts required to pay, as allocated under the Indenture to each Distribution Date, (1) (a) the Trustee fees and expenses and (b) Operating Expenses (subject to the Operating Cap); (2) interest due on Bonds; (3) principal and Sinking Fund Installments due on Bonds; (4) amounts required to replenish the Debt Service Reserve Account until the amount on deposit therein equals the Debt Service Reserve Requirement; and (5) Junior Payments.

The pledge of the Collateral will stay in effect so long as the Series 2010 Bonds remain outstanding. The Act provides that the Authority and its corporate existence will continue until six months after all the Authority's liabilities (which include the Series 2010 Bonds) have been met or otherwise discharged, and upon the termination of the existence of the Authority, all of the Authority's rights and property will pass to and be vested in the State.

Accounts

All of the following accounts will be established under the Series Indenture and held by the Trustee for the benefit of the holders of the Bonds (except the Tobacco Assets Account to the extent that State's Unsold Assets are deposited therein). All money on deposit in the following accounts will be invested in Eligible Investments.

Tobacco Assets Account. All Tobacco Assets received by the Trustee shall immediately be deposited in the Tobacco Assets Account. Within five business days after receipt of an Officer's Certificate of the Authority (identifying the total amount of Tobacco Assets received, the amount representing State's Unsold Assets, the amount representing Pledged Settlement Payments and the amount representing Residual Revenues, which information will be based upon documentation received by the Authority from the State Attorney General), the Trustee will make the following transfers: (i) Pledged Settlement Payments (other than Partial Lump Sum Payments and Lump Sum Payments) to the Pledged Revenues Account; (2) Partial Lump Sum Payments and Lump Sum Payments to the Lump Sum Account; and (3) State's Unsold Assets to, or upon the order of, the State; provided, however, that if by the earlier of the business day prior to a Distribution Date and the tenth business day after receipt of any Tobacco Assets the Authority has not received documentation required from the State Attorney General or has not delivered the required Officer's Certificate described above, the Trustee will apply amounts to fund the payment of fees, operating expenses and debt service on the Series 2010 Bonds and the replenishment of the Debt Service Reserve Account (as described in subclauses (i) through(v) of clause (A) under the subheading "Application of Pledged Revenues" below).

Pledged Revenues Account. Funds in the segregated trust account designated the "**Pledged Revenues Account**" will be transferred to various other accounts under the Indenture, in accordance with the priorities described below under "—Application of Pledged Revenues".

Debt Service Account. The Trustee will deposit into the "**Debt Service Account**" amounts transferred from the Pledged Revenues Account in respect of interest on and principal of the Bonds. The Trustee will make payments on the Bonds from the Debt Service Account in accordance with the priority of payments as described below under "Application of Pledged Revenues".

Debt Service Reserve Account. On the Closing Date of the Series 2010 Bonds, the Debt Service Reserve Account will be funded at its required level of $146,768,256.26 (the "**Debt Service Reserve Requirement**"), which level is required to be maintained for so long as any Series 2010 Bonds remain Outstanding. However, the Indenture does not require a ratable increase in the Debt Service Reserve Requirement, or any further funding of the Debt Service Reserve Requirement, in connection with the issuance of Refunding Bonds. Unless a Payment Default has occurred, amounts withdrawn from the Debt Service Reserve Account will be replenished from Pledged Revenues as described herein. On any Distribution Date, unless a Payment Default has occurred and is continuing, any amount remaining in the Debt Service Reserve Account in excess of the Debt Service Reserve Requirement will be transferred to the Pledged Revenues Account and applied in accordance with the Indenture.

Each of the following accounts will be established under the Indenture and held by the Trustee. None of these accounts is a Pledged Account, and amounts on deposit therein are not available to pay principal of and interest on the Series 2010 Bonds.

Costs of Issuance Account. Upon issuance of the Series 2010 Bonds, the amount of proceeds thereof specified for payment of costs of issuance will be deposited in the "**Costs of Issuance Account**" for payment of such costs of issuance. Any money or investments held in the Costs of Issuance Account

for more than 180 days shall be transferred to the State for deposit in the Tobacco Settlement Bond Proceeds Account within the Tobacco Settlement Recovery Fund established in the State Treasury.

Operating Account. The Trustee will hold the "**Operating Account**" into which the Trustee will deposit amounts transferred from the Pledged Revenues Account as set forth in the Officer's Certificate as Operating Expenses and from which Operating Expenses will be paid in accordance with the priority of payments as described below under "Application of Pledged Revenues".

Rebate Account. The Trustee will hold the "**Rebate Account**" into which the Trustee will deposit amounts to the extent required to satisfy the Rebate Requirement (as defined, computed and provided to the Trustee in accordance with the Tax Certificate), for payment to the United States Treasury. Neither the Authority nor any Bondholder will have any rights in or claim to such money in the Rebate Account.

Residual Account. The Trustee will hold the "**Residual Account**" into which the Trustee will deposit the Residual Revenues, which are those Pledged Revenues in excess of those required to make the deposits required by clauses (i) through (vi) of paragraph (A) set forth below under the sub-caption "Application of Pledged Revenues. Amounts on deposit in the Residual Account will be delivered to the holder of the Residual Certificate as described below.

Application of Pledged Revenues

Unless otherwise specified in the Indenture, the Trustee will deposit all Pledged Revenues received by it in the Pledged Revenues Account.

(A) No later than five (5) Business Days following each deposit of Pledged Revenues to the Pledged Revenues Account (but in no event later than the next Distribution Date), the Trustee will withdraw Pledged Revenues on deposit in the Pledged Revenues Account and transfer such amounts as follows and in the following order of priority; provided, however, that investment earnings on amounts in the funds and accounts (other than the Debt Service Reserve Account, investment earnings on which shall be retained therein until the amounts on deposit therein are at least equal to the Debt Service Reserve Requirement, and on the fifth Business Day preceding each Distribution Date amounts on deposit in the Debt Service Reserve Account in excess of the Debt Service Reserve Requirement may, at the direction of the Authority, be deposited directly to the Debt Service Account) will be deposited directly to the Debt Service Account; and provided, further, that upon the occurrence of a Payment Default, Pledged Revenues shall be transferred as set forth in clauses (i), (ii) and (iv) below and then all remaining Pledged Revenues shall be applied to make Extraordinary Prepayments as described in clause (D) below.

(i) (a) to the Authority Operating Subaccount, the amount required to pay (i) Trustee fees and expenses (including reasonable attorneys' fees, if applicable) reasonably expected to be due during the next fiscal year and (ii) an amount specified by an Officer's Certificate for operating and administrative expenses incurred by the Authority ("**Operating Expenses**") for the next fiscal year (provided that such amounts paid pursuant to this clause (a) shall not exceed the "**Operating Cap**" (defined as $250,000.00 in the fiscal year ending June 30, 2011 inflated annually in each following fiscal year in accordance with the Indenture) and Operating Expenses shall not include any termination payments or loss amounts on Related Contracts) and (b) to the State Attorney General Operating Subaccount, the amount required to be deposited therein to fund such subaccount in an amount not to exceed $2,500,000 for the next fiscal year;

(ii) to the Debt Service Account an amount sufficient to cause the amount therein (together with interest and earnings reasonably expected by the Authority to be received on investments in the Debt Service Account on or prior to the next Distribution Date), to equal interest (including interest

at the stated rate on the principal of outstanding bonds, and on overdue interest, if any) due on the next succeeding Distribution Date;

(iii) to the Debt Service Account, exclusive of the amounts deposited therein pursuant to clause (ii) above, an amount sufficient to cause the amount on deposit therein (together with any Partial Lump Sum Payment to be applied to the payment of principal or Sinking Fund Installments on the next succeeding June 1 and interest and earnings reasonably expected by the Authority to be received on investments in the Debt Service Account on or prior to the next succeeding June 1 to the extent not counted for purposes of clause (ii) above), to equal the principal and Sinking Fund Installments due on the next succeeding June 1;

(iv) to the Debt Service Account, exclusive of the amount on deposit therein under clauses (ii) and (iii) above, an amount sufficient to cause the amount therein (together with interest and earnings reasonably expected by the Authority to be received on investments in the Debt Service Account on or prior to the second succeeding Distribution Date to the extent not counted for purposes of clause (ii) or (iii) above), to equal interest (including interest at the stated rate on the principal of Outstanding Series 2010 Bonds, and on overdue interest, if any) due on the second succeeding Distribution Date;

(v) to replenish the Debt Service Reserve Account until the amount on deposit therein equals the Debt Service Reserve Requirement;

(vi) in the amounts and to the accounts established by the Series Indenture for (i) termination payments and loss amounts on related bond facilities, (ii) amounts due under related bond facilities and not payable as debt service, (iii) operating expenses, including litigation expenses, if any, incurred by the Authority, incurred in the previous fiscal year in excess of the applicable Operating Cap or reasonably expected to be incurred in the current or next succeeding fiscal years in excess of the applicable Operating Cap for such fiscal years and (iv) any other Junior Payments so identified in or by reference to the Indenture or any Series Indenture (the "**Junior Payments**"); and

(vii) to the Residual Account, the remaining Pledged Revenues (the "**Residual Revenues**").

On the first (lst) Business Day of the calendar month preceding a month in which a Distribution Date occurs, the Trustee will compare (i) the liquidation value of the aggregate amount on deposit in the Pledged Accounts (other than the State's Unsold Assets in the Tobacco Assets Account and amounts set aside for the payment of Bonds) to (ii) the principal amount of and accrued interest (if any) on Bonds that will remain Outstanding after the application of amounts described below on such Distribution Date, and if the amount in clause (i) is greater than the amount described in clause (ii) as of such Distribution Date, then the Trustee will, at the direction of the Authority, liquidate the investments in the Pledged Accounts and will withdraw from the Pledged Accounts an amount sufficient to, and shall, retire the Bonds in full on such Distribution Date.

(B) Unless a Payment Default shall have occurred, on each Distribution Date (except with respect to clause (i) below), the Trustee will apply amounts in the various accounts in the following order of priority:

(i) at any time, from (A) the Authority Operating Subaccount, to the parties entitled thereto, to pay the expenses of Authority described in clause (i) of the definition of Operating Expenses, in the amount specified in an Officer's Certificate of the Authority and (B) the State Attorney General Operating Subaccount, to pay the expenses of the State Attorney General described in clause (ii) of the

definition of the Operating Expenses, in the amount specified in a certificate delivered by an Authorized Officer of the State Attorney General;

(ii) from the Debt Service Account (and to the extent that amounts in the Debt Service Account are insufficient therefor, from amounts that shall be transferred on such Distribution Date to the Debt Service Account from the Debt Service Reserve Account), to pay interest on the outstanding bonds (including interest on overdue interest, if any) due on such Distribution Date, plus any such unpaid interest due on prior Distribution Dates;

(iii) from the Debt Service Account (and to the extent that amounts in the Debt Service Account are insufficient therefor, from amounts that shall be transferred on such Distribution Date to the Debt Service Account from the Debt Service Reserve Account), to pay, in order of Maturity Dates and Sinking Fund Installment Dates, the principal and Sinking Fund Installments due on Distribution Date; and

(iv) from the funds and accounts therefor, to make Junior Payments.

(C) Promptly, and in no event more than five (5) Business Days after the deposit of such funds in the Residual Account, the Residual Revenues shall be transferred to the registered owner of the Residual Certificate.

(D) Upon the occurrence of a Payment Default, the Trustee shall transfer Pledged Revenues in accordance with the priorities and purposes set forth in clauses (A)(i), (ii) and (iv) above and then, together with all funds on deposit in the Debt Service Reserve Account and all Partial Lump Sum Payments in the Lump Sum Account, shall apply any remaining funds to redeem Bonds on each Distribution Date, pro rata as to principal amount among maturities and within a maturity, without regard to Authorized Denominations, at the redemption price of 100% of the Outstanding principal amount thereof plus accrued interest to the date of redemption.

DEBT SERVICE REQUIREMENTS AND COVERAGE UNDER CERTAIN CONSTANT ANNUAL RATES OF CONSUMPTION DECLINE

The Series 2010 Bonds are being issued as fixed interest rate, fixed scheduled amortization serial and term bonds. Set forth below are schedules showing debt service for the Series 2010 Bonds and the resulting projected debt service coverage ratios, assuming the Series 2010 Bonds bear interest at the rates described on the inside cover hereof and that Pledged Settlement Payments are received in accordance with the Cash Flow Assumptions set forth below. Each of the five projection tables assumes a 6.0% decline in cigarette consumption in the United States in 2010 (as further described below), and from 2011 and thereafter a different constant annual rate of consumption (as measured by shipments) decline equal to 3%, 4%, 5%, 7%, and a calculated constant annual "break-even" consumption decline rate at which debt service on all Series 2010 Bonds would still be paid in full, respectively, assuming in each case that Pledged Settlement Revenues are received in accordance with that respective table's annual rate of decline and in accordance with the Cash Flow Assumptions. The cigarette shipment levels corresponding to these four constant annual rates of decline are shown in the following table.

Cigarette Consumption (bn)

Year	3% Decline Case	4% Decline Case	5% Decline Case	7% Decline Case	10.03% Decline/ Breakeven Case
2009 (1)	324.95	324.95	324.95	324.95	324.95
2010 (2)	305.45	305.45	305.45	305.45	305.45
2011	296.29	293.23	290.18	284.07	274.81
2012	287.40	281.50	275.67	264.18	247.25
2013	278.78	270.24	261.89	245.69	222.45
2014	270.41	259.43	248.79	228.49	200.13
2015	262.30	249.06	236.35	212.50	180.06
2016	254.43	239.09	224.53	197.62	162.00
2017	246.80	229.53	213.31	183.79	145.75
2018	239.40	220.35	202.64	170.92	131.13
2019	232.21	211.54	192.51	158.96	117.98
2020	225.25	203.07	182.88	147.83	106.14
2021	218.49	194.95	173.74	137.48	95.50
2022	211.93	187.15	165.05	127.86	85.92
2023	205.58	179.67	156.80	118.91	77.30
2024	199.41	172.48	148.96	110.59	69.55
2025	193.43	165.58	141.51	102.85	62.57
2026	187.62	158.96	134.44	95.65	56.29
2027	182.00	152.60	127.72	88.95	50.65
2028	176.54	146.50	121.33	82.72	45.57
2029	171.24	140.64	115.26	76.93	41.00

(1) As reported by the National Association of Attorneys General, measuring roll your own tobacco at 0.0325 ounces per cigarette conversion rate.

(2) Assumes 6% decline in 2010, as further described below.

As used herein, "**debt service coverage ratio**" means, for any period, a fraction, expressed as a multiple, the numerator of which is the amount of Pledged Settlement Payments received in such period (less Operating Expenses at the Operating Cap) and the denominator of which is the sum, for the Series 2010 Bonds, of interest and principal required to be paid in such period (less earnings on the Debt Service Reserve Account).

Estimated Debt Service Coverage of Series 2010 Bonds

3% Constant Annual Consumption Decline, 2011-2028

Year	Pledged Settlement Payments	Operating Expenses	Net Revenue	Total Debt Service	Debt Service Reserve Earnings	Net Debt Service	Residual Revenues	Coverage
2011	305,203,078	(2,757,500)	302,445,578	78,051,174	43,174	78,008,000	224,437,578	3.88x
2012	305,276,783	(2,765,225)	302,511,558	137,914,531	366,921	137,547,611	164,963,947	2.20x
2013	305,360,873	(2,773,182)	302,587,692	139,759,131	587,073	139,172,058	163,415,633	2.17x
2014	305,455,653	(2,781,377)	302,674,276	144,263,444	733,841	143,529,602	159,144,674	2.11x
2015	305,561,436	(2,789,819)	302,771,617	146,768,256	953,994	145,814,263	156,957,355	2.08x
2016	305,678,544	(2,798,513)	302,880,031	146,760,750	1,100,762	145,659,988	157,220,043	2.08x
2017	305,807,310	(2,807,468)	302,999,842	146,766,244	1,100,762	145,665,482	157,334,360	2.08x
2018	320,155,255	(2,816,693)	317,338,563	146,762,744	1,100,762	145,661,982	171,676,581	2.18x
2019	320,315,485	(2,826,193)	317,489,292	146,759,184	1,100,762	145,658,422	171,830,870	2.18x
2020	320,489,022	(2,835,979)	317,653,043	146,759,294	1,100,762	145,658,532	171,994,511	2.18x
2021	320,676,258	(2,846,058)	317,830,199	146,763,625	1,100,762	145,662,863	172,167,336	2.18x
2022	320,877,595	(2,856,440)	318,021,155	146,759,775	1,100,762	145,659,013	172,362,142	2.18x
2023	321,093,449	(2,867,133)	318,226,316	138,399,613	1,100,762	137,298,851	180,927,465	2.32x
2024	321,324,249	(2,878,147)	318,446,101	129,855,431	1,100,762	128,754,669	189,691,432	2.47x
2025	321,570,434	(2,889,492)	318,680,942	121,982,250	1,100,762	120,881,488	197,799,454	2.64x
2026	321,832,459	(2,901,177)	318,931,282	114,732,200	1,100,762	113,631,438	205,299,844	2.81x
2027	322,110,791	(2,913,212)	319,197,579	107,517,550	1,100,762	106,416,788	212,780,791	3.00x
2028	322,405,912	(2,925,608)	319,480,304	55,007,150	550,381	54,456,769	265,023,535	5.87x
	5,671,194,586	(51,029,217)	5,620,165,369	2,341,582,346	16,444,527	2,325,137,819	3,295,027,550	

Estimated Debt Service Coverage of Series 2010 Bonds

4% Constant Annual Consumption Decline, 2011-2028

Year	Pledged Settlement Payments	Operating Expenses	Net Revenue	Total Debt Service	Debt Service Reserve Earnings	Net Debt Service	Residual Revenues	Coverage
2011	305,203,078	(2,757,500)	302,445,578	78,051,174	43,174	78,008,000	224,437,578	3.88x
2012	302,249,321	(2,765,225)	299,484,096	137,914,531	366,921	137,547,611	161,936,485	2.18x
2013	299,342,581	(2,773,182)	296,569,399	139,759,131	587,073	139,172,058	157,397,341	2.13x
2014	296,482,750	(2,781,377)	293,701,373	144,263,444	733,841	143,529,602	150,171,770	2.05x
2015	293,669,733	(2,789,819)	290,879,915	146,768,256	953,994	145,814,263	145,065,652	1.99x
2016	290,903,451	(2,798,513)	288,104,937	146,760,750	1,100,762	145,659,988	142,444,949	1.98x
2017	288,183,834	(2,807,468)	285,376,366	146,766,244	1,100,762	145,665,482	139,710,884	1.96x
2018	298,768,976	(2,816,693)	295,952,283	146,762,744	1,100,762	145,661,982	150,290,301	2.03x
2019	296,020,590	(2,826,193)	293,194,397	146,759,184	1,100,762	145,658,422	147,535,974	2.01x
2020	293,320,920	(2,835,979)	290,484,941	146,759,294	1,100,762	145,658,532	144,826,409	1.99x
2021	290,669,960	(2,846,058)	287,823,902	146,763,625	1,100,762	145,662,863	142,161,038	1.98x
2022	288,067,718	(2,856,440)	285,211,277	146,759,775	1,100,762	145,659,013	139,552,264	1.96x
2023	285,514,218	(2,867,133)	282,647,085	138,399,613	1,100,762	137,298,851	145,348,234	2.06x
2024	283,009,504	(2,878,147)	280,131,356	129,855,431	1,100,762	128,754,669	151,376,687	2.18x
2025	280,553,633	(2,889,492)	277,664,141	121,982,250	1,100,762	120,881,488	156,782,653	2.30x
2026	278,146,683	(2,901,177)	275,245,507	114,732,200	1,100,762	113,631,438	161,614,069	2.42x
2027	275,788,749	(2,913,212)	272,875,537	107,517,550	1,100,762	106,416,788	166,458,749	2.56x
2028	273,479,943	(2,925,608)	270,554,335	55,007,150	550,381	54,456,769	216,097,566	4.97x
	5,219,375,642	(51,029,217)	5,168,346,425	2,341,582,346	16,444,527	2,325,137,819	2,843,208,606	

Estimated Debt Service Coverage of Series 2010 Bonds

5% Constant Annual Consumption Decline, 2011-2028

Year	Pledged Settlement Payments	Operating Expenses	Net Revenue	Total Debt Service	Debt Service Reserve Earnings	Net Debt Service	Residual Revenues	Coverage
2011	305,203,078	(2,757,500)	302,445,578	78,051,174	43,174	78,008,000	224,437,578	3.88x
2012	299,221,858	(2,765,225)	296,456,633	137,914,531	366,921	137,547,611	158,909,023	2.16x
2013	293,386,654	(2,773,182)	290,613,472	139,759,131	587,073	139,172,058	151,441,414	2.09x
2014	287,694,849	(2,781,377)	284,913,471	144,263,444	733,841	143,529,602	141,383,869	1.99x
2015	282,143,897	(2,789,819)	279,354,079	146,768,256	953,994	145,814,263	133,539,816	1.92x
2016	276,731,326	(2,798,513)	273,932,813	146,760,750	1,100,762	145,659,988	128,272,825	1.88x
2017	271,454,731	(2,807,468)	268,647,262	146,766,244	1,100,762	145,665,482	122,981,780	1.84x
2018	278,678,380	(2,816,693)	275,861,688	146,762,744	1,100,762	145,661,982	130,199,706	1.89x
2019	273,434,078	(2,826,193)	270,607,885	146,759,184	1,100,762	145,658,422	124,949,462	1.86x
2020	268,324,947	(2,835,979)	265,488,968	146,759,294	1,100,762	145,658,532	119,830,436	1.82x
2021	263,348,753	(2,846,058)	260,502,695	146,763,625	1,100,762	145,662,863	114,839,832	1.79x
2022	258,503,331	(2,856,440)	255,646,891	146,759,775	1,100,762	145,659,013	109,987,878	1.76x
2023	253,786,583	(2,867,133)	250,919,450	138,399,613	1,100,762	137,298,851	113,620,599	1.83x
2024	249,196,478	(2,878,147)	246,318,330	129,855,431	1,100,762	128,754,669	117,563,661	1.91x
2025	244,731,048	(2,889,492)	241,841,557	121,982,250	1,100,762	120,881,488	120,960,068	2.00x
2026	240,388,395	(2,901,177)	237,487,218	114,732,200	1,100,762	113,631,438	123,855,780	2.09x
2027	236,166,680	(2,913,212)	233,253,468	107,517,550	1,100,762	106,416,788	126,836,680	2.19x
2028	232,064,131	(2,925,608)	229,138,523	55,007,150	550,381	54,456,769	174,681,754	4.21x
	4,814,459,197	(51,029,217)	4,763,429,980	2,341,582,346	16,444,527	2,325,137,819	2,438,292,161	

Estimated Debt Service Coverage of Series 2010 Bonds

7% Constant Annual Consumption Decline, 2011-2028

Year	Pledged Settlement Payments	Operating Expenses	Net Revenue	Total Debt Service	Debt Service Reserve Earnings	Net Debt Service	Residual Revenues	Coverage
2011	305,203,078	(2,757,500)	302,445,578	78,051,174	43,174	78,008,000	224,437,578	3.88x
2012	293,166,933	(2,765,225)	290,401,708	137,914,531	366,921	137,547,611	152,854,098	2.11x
2013	281,661,897	(2,773,182)	278,888,716	139,759,131	587,073	139,172,058	139,716,657	2.00x
2014	270,666,342	(2,781,377)	267,884,965	144,263,444	733,841	143,529,602	124,355,362	1.87x
2015	260,159,572	(2,789,819)	257,369,754	146,768,256	953,994	145,814,263	111,555,491	1.77x
2016	250,121,786	(2,798,513)	247,323,273	146,760,750	1,100,762	145,659,988	101,663,284	1.70x
2017	240,534,038	(2,807,468)	237,726,569	146,766,244	1,100,762	145,665,482	92,061,088	1.63x
2018	242,122,615	(2,816,693)	239,305,923	146,762,744	1,100,762	145,661,982	93,643,941	1.64x
2019	232,975,449	(2,826,193)	230,149,256	146,759,184	1,100,762	145,658,422	84,490,834	1.58x
2020	224,244,765	(2,835,979)	221,408,786	146,759,294	1,100,762	145,658,532	75,750,254	1.52x
2021	215,913,970	(2,846,058)	213,067,911	146,763,625	1,100,762	145,662,863	67,405,048	1.46x
2022	207,967,199	(2,856,440)	205,110,758	146,759,775	1,100,762	145,659,013	59,451,745	1.41x
2023	200,389,283	(2,867,133)	197,522,149	138,399,613	1,100,762	137,298,851	60,223,299	1.44x
2024	193,165,722	(2,878,147)	190,287,575	129,855,431	1,100,762	128,754,669	61,532,905	1.48x
2025	186,282,658	(2,889,492)	183,393,166	121,982,250	1,100,762	120,881,488	62,511,678	1.52x
2026	179,726,848	(2,901,177)	176,825,671	114,732,200	1,100,762	113,631,438	63,194,233	1.56x
2027	173,485,637	(2,913,212)	170,572,426	107,517,550	1,100,762	106,416,788	64,155,637	1.60x
2028	167,546,941	(2,925,608)	164,621,333	55,007,150	550,381	54,456,769	110,164,564	3.02x
	4,125,334,734	(51,029,217)	4,074,305,516	2,341,582,346	16,444,527	2,325,137,819	1,749,167,697	

Estimated Debt Service Coverage of Series 2010 Bonds

10.03% Breakeven Constant Annual Consumption Decline, 2011-2028

Year	Pledged Settlement Payments	Operating Expenses	Net Revenue	Total Debt Service	Debt Service Reserve Earnings	Net Debt Service	Residual Revenues	Coverage
2011	305,203,078	(2,757,500)	302,445,578	78,051,174	43,174	78,008,000	224,437,578	3.88x
2012	283,991,935	(2,765,225)	281,226,710	137,914,531	366,921	137,547,611	143,679,099	2.04x
2013	264,370,833	(2,773,182)	261,597,652	139,759,131	587,073	139,172,058	122,425,593	1.88x
2014	246,224,248	(2,781,377)	243,442,871	144,263,444	733,841	143,529,602	99,913,269	1.70x
2015	229,445,155	(2,789,819)	226,655,337	146,768,256	953,994	145,814,263	80,841,074	1.55x
2016	213,934,408	(2,798,513)	211,135,895	146,760,750	1,100,762	145,659,988	65,475,907	1.45x
2017	199,600,164	(2,807,468)	196,792,696	146,766,244	1,100,762	145,665,482	51,127,214	1.35x
2018	195,011,143	(2,816,693)	192,194,451	146,762,744	1,100,762	145,661,982	46,532,469	1.32x
2019	182,213,024	(2,826,193)	179,386,830	146,759,184	1,100,762	145,658,422	33,728,408	1.23x
2020	170,398,173	(2,835,979)	167,562,194	146,759,294	1,100,762	145,658,532	21,903,662	1.15x
2021	159,495,853	(2,846,058)	156,649,794	146,763,625	1,100,762	145,662,863	10,986,931	1.08x
2022	149,440,550	(2,856,440)	146,584,110	146,759,775	1,100,762	145,659,013	925,097	1.01x
2023	140,171,597	(2,867,133)	137,304,463	138,399,613	1,100,762	137,298,851	5,613	1.00x
2024	131,632,817	(2,878,147)	128,754,669	129,855,431	1,100,762	128,754,669	0	1.00x
2025	123,772,195	(2,889,492)	120,882,703	121,982,250	1,100,762	120,881,488	1,215	1.00x
2026	116,541,577	(2,901,177)	113,640,401	114,732,200	1,100,762	113,631,438	8,963	1.00x
2027	109,896,385	(2,913,212)	106,983,173	107,517,550	1,100,762	106,416,788	566,385	1.01x
2028	103,795,358	(2,925,608)	100,869,750	55,007,150	550,381	54,456,769	46,412,981	1.85x
	3,325,138,495	(51,029,217)	3,274,109,278	2,341,582,346	16,444,527	2,325,137,819	948,971,459	

The projected debt service coverage ratios shown in the preceding tables assume that Pledged Revenues are received in accordance with the Cash Flow Assumptions and applied, subject to the payment priorities set forth in the Indenture, to pay expenses, interest as due and principal when due on the Series 2010 Bonds.

Detailed schedules showing the application of the Cash Flow Assumptions to generate the figures contained in each Constant Annual Rate of Cigarette Consumption Decline table are included in Appendix F.

BREAKEVEN CONSUMPTION AND REVENUE DECLINE RATES BY MATURITY

The following table sets forth the “break even” constant annual rate of consumption and revenue declines, respectively, at which each maturity of the Series 2010 Bonds would still be paid in full at maturity or, in the case of term bonds, earlier redemption from Sinking Fund Installments.

Year	Principal/Sinking Fund	Breakeven Consumption Decline (1)(2)	Breakeven Revenue Decline (2)
2011	--	77.78%	71.55%
2012	$ 59,375,000	57.49%	29.70%
2013	63,550,000	35.44%	20.63%
2014	70,860,000	25.28%	15.27%
2015	76,820,000	19.94%	12.14%
2016	80,655,000	16.86%	10.24%
2017	84,700,000	14.72%	8.84%
2018	89,040,000	13.78%	7.78%
2019	93,620,000	12.53%	6.95%
2020	98,565,000	11.54%	6.27%
2021	103,900,000	10.74%	5.72%
2022	109,655,000	10.03%	5.26%
2023	107,260,000	10.03%	5.26%
2024	104,945,000	10.03%	5.34%
2025	103,455,000	10.03%	5.38%
2026	102,380,000	10.03%	5.38%
2027	101,275,000	10.03%	5.38%
2028	53,405,000	10.03%	5.38%
	1,503,460,000		

(1) Breakeven consumption decline calculations for year 2012 and thereafter assume a 6% cigarette shipment decline in calendar year 2010 for purposes of calculating 2011 revenues.

(2) Breakeven decline figures for all Sinking Fund Installments of term bonds are computed to the Sinking Fund Installment of such term bond with the lowest breakeven decline.

SUMMARY OF CASH FLOW ASSUMPTIONS USED IN PREPARING CONSTANT ANNUAL RATE OF CIGARETTE CONSUMPTION DECLINE TABLES

Introduction

The following discussion describes the methodology and assumptions used to calculate projections of Pledged Revenues to be received by the Trustee (the "**Cash Flow Assumptions**") used for the purposes of preparing the foregoing Constant Annual Rate of Consumption Decline Debt Service Coverage Tables.

Cash Flow Assumptions

Constant Decline Rates, 2009 Base Volume and Relative Market Share.

For each projection, a constant rate of annual decline of cigarette consumption in the United States was applied to calculate the Annual Payments and Strategic Contribution Fund Payments to be made by the PMs pursuant to the MSA in the years 2012 and thereafter. The cigarette shipment volume for calendar year 2009 was reported by NAAG to be 324.95 billion cigarettes, measuring roll-your-own

cigarettes ("**RYO**") at 0.0325 ounces per cigarette conversion rate. The cigarette shipment volume for calendar year 2010 is assumed to decline 6.0% from 2009, based on the estimate of Altria Group, Inc. for industry shipments for the first nine months of 2010, adjusted for inventories as reported in its quarterly filing with the SEC for the third quarter ended September 30, 2010. The calculations of Annual Payments and Strategic Contribution Fund Payments required to be made were performed in accordance with the terms of the MSA; however, as described below, certain assumptions were made with respect to consumption of cigarettes in the United States and the applicability of certain adjustments and offsets to such payments set forth in the MSA. In addition, it was assumed that the PMs will make all payments required to be made by them pursuant to the MSA, and that the relative market share for each remains constant throughout the projection period at 82.85% for the OPMs, 10.76% for the SPMs and 6.39% for the NPMs, as reported by NAAG for calendar year 2009, measuring RYO at 0.0325 ounces per cigarette conversion rate. It was assumed, as noted below, that there will be no offsets to the Annual Payments or Strategic Contribution Fund Payments due to the NPM Adjustment and that there will be no deposits paid into the Disputed Payments Account or withheld. It was further assumed that each company that is currently a PM remains such throughout the term of the Series 2010 Bonds. The aggregate market share information assumed in the Cash Flow Assumptions may differ materially from the market share information used by the MSA Auditor in calculating adjustments to Annual Payments and Strategic Contribution Payments. See "THE MASTER SETTLEMENT AGREEMENT--Adjustments to Payments" herein.

Annual Payments

For each projection, the amount of Annual Payments to be made by the PMs was calculated by applying the adjustments applicable to the Annual Payments in the amounts set out in the MSA, as follows.

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 rate is compounded annually at the greater of 3.0% or the percentage increase in the actual Consumer Price Index for All Urban Consumers (the "**CPI**") in the prior year as published by the Bureau of Labor Statistics (released each January). The calculations of Annual Payments assume the minimum Inflation Adjustment provided in the MSA of 3.0% in every year except for calendar years 2000, 2004, 2005 and 2007, where actual CPI results of 3.387%, 3.256%, 3.416% and 4.081% respectively, were used.

Volume Adjustment. Next, the Annual Payments calculated for each year after application of the Inflation Adjustment were adjusted for the Volume Adjustment by applying the projected cigarette consumption for each scenario to the market share of the OPMs for the prior year. No add back or benefit was assumed from any Income Adjustment. See "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, the annual 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 Annual Payments owed by the OPMs. The Previously Settled States Reduction is as follows for each year of the following periods:

2000 through 2007	**12.4500000%**
2008 through 2017	**12.2373756%**
2018 and after	**11.0666667%**

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 a state that remains a party to the MSA. The Cash Flow Assumptions include an assumption that the State will remain a party to the MSA.

NPM Adjustment. The Cash Flow Assumptions assume that the NPM Adjustment will not apply to the Annual Payments payable to any state that enacts and diligently enforces a Qualifying Statute, where such statute is not held to be unenforceable. The Cash Flow Assumptions include an assumption that the State has and will diligently enforce a Qualifying Statute that is not held to be unenforceable. For a discussion of the State's Qualifying Statute, see "THE MASTER SETTLEMENT AGREEMENT — MSA Provisions Relating to Model/Qualifying Statutes – State's Qualifying Statute". For a description of the opinion of Nixon Peabody LLP to be delivered to the Authority with respect to the State's Qualifying Statute, see "LEGAL CONSIDERATIONS — Model Statute Constitutionality".

Offset for Miscalculated or Disputed Payments. The Cash Flow 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 Cash Flow Assumptions include an assumption that the Litigating Releasing Parties Offset will have no effect on payments.

Offset for Claims-Over. The Cash Flow Assumptions include an assumption that the Offset for Claims-Over will not apply.

Subsequent Participating Manufacturers. The Cash Flow Assumptions assume that the relative market share of the SPMs remains constant at 10.76%. Because the 10.76% 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 amounts owed by the SPMs under Section IX(i) of the MSA, which uses market shares measuring RYO at 0.09 ounces per cigarette conversion rate, the Cash Flow Assumptions further assume that the quotient produced by dividing (a) the SPMs' relative market share, minus the greater of (i) or (ii) above, by (b) the aggregate market share of the OPMs, is equal to 7.819%.

Strategic Contribution Fund Payments

For each projection, the amount of Strategic Contribution Fund Payments to be made by the PMs was calculated by applying the adjustments applicable to the Strategic Contribution Fund Payments in the amounts set out in the MSA, as follows.

Inflation Adjustment. First, the Inflation Adjustment was applied to the schedule of base amounts for the Strategic Contribution Fund Payments set forth in the MSA. The inflation rate is compounded annually at the greater of 3.0% or the percentage increase in the CPI in the prior year as published by the Bureau of Labor Statistics (released each January). The calculations of Strategic Contribution Fund Payments assume the minimum Inflation Adjustment provided in the MSA of 3.0% in every year except for calendar years 2000, 2004, 2005 and 2007, where actual CPI results of 3.387%, 3.256%, 3.416% and 4.081% respectively, were used.

Volume Adjustment. Next, the Strategic Contribution Fund Payments calculated for each year after application of the Inflation Adjustment were adjusted for the Volume Adjustment by applying the projected cigarette consumption for each scenario to the market share of the OPMs for the prior year. No add back or benefit was assumed from any Income Adjustment. See "THE MASTER SETTLEMENT

AGREEMENT — Adjustments to Payments – Volume Adjustment" for a description of the formula used to calculate the Volume Adjustment.

NPM Adjustment. The Cash Flow Assumptions assume that the NPM Adjustment will not apply to the Strategic Contribution Fund Payments payable to any state that enacts and diligently enforces a Qualifying Statute, where such statute is not held to be unenforceable. The Cash Flow Assumptions include an assumption that the State has and will diligently enforce a Qualifying Statute that is not held to be unenforceable. For a discussion of the State's Qualifying Statute, see "THE MASTER SETTLEMENT AGREEMENT — MSA Provisions Relating to Model/Qualifying Statutes – State's Qualifying Statute". For a description of the opinion of Nixon Peabody LLP to be delivered to the Authority with respect to the State's Qualifying Statute, see "LEGAL CONSIDERATIONS — Model Statute Constitutionality".

Offset for Miscalculated or Disputed Payments. The Cash Flow Assumptions include an assumption that there will be no adjustments to the Strategic Contribution Fund Payments due to miscalculated or disputed payments.

Litigating Releasing Parties Offset. The Cash Flow Assumptions include an assumption that the Litigating Releasing Parties Offset will have no effect on payments.

Offset for Claims-Over. The Cash Flow Assumptions include an assumption that the Offset for Claims-Over will not apply.

Non-Settling States Reduction. For the reasons described above under "—Annual Payments", the Non-Settling States Reduction was not applied to the Strategic Contribution Fund Payments.

Subsequent Participating Manufacturers. The Cash Flow Assumptions assume that the relative market share of the SPMs remains constant at 10.76%. Because the 10.76% 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 Strategic Contribution Fund Payments in each year. For purposes of calculating amounts owed by the SPMs under Section IX(i) of the MSA, which uses market shares measuring RYO at 0.09 ounces per cigarette conversion rate, the Cash Flow Assumptions further assume that the quotient produced by dividing (a) the SPMs' relative market share, minus the greater of (i) or (ii) above, by (b) the aggregate market share of the OPMs, is equal to 7.819%.

Interest Earnings

The Cash Flow Assumptions assume that the Trustee will receive the Authority's share of the Annual Payments owed by the PMs ten days after April 15th in 2011 and each year thereafter. Earnings are assumed at 0% per annum on the Annual Payments from the date of receipt by the Trustee until the applicable Distribution Date.

Moneys deposited in the Debt Service Reserve Account are assumed to be invested at rates increasing from 0.03% per annum in 2011 to 0.75% per annum in years 2016 and thereafter.

Other Assumptions

Fixed Amortization of Series 2010 Bonds. The Series 2010 Bonds mature as set forth on the inside front cover hereof and certain Series 2010 Bonds are subject to mandatory redemption by operation of Sinking Fund Installments as set forth under "THE SERIES 2010 BONDS—Sinking Fund Installments".

Debt Service Reserve Account. The Debt Service Reserve Account Requirement was established for the Series 2010 Bonds at $146,768,256.26. It has been assumed that no surety, guaranty or similar agreement will be deposited in lieu of cash in the Debt Service Reserve Account.

Operating Expense Assumptions. Annual operating expenses of the Authority have been assumed at the Operating Cap limit, which is $250,000 assumed to be inflated at 3% per year for each year after 2011. Operating Expenses of $250,000 representing fiscal year 2011 Authority operating expenses will be funded from proceeds of the Series 2010 Bonds. No operating expenses in excess of the annual Operating Cap are assumed. The enforcement expenses of the Office of the Attorney General of State that are paid as Operating Expenses are capped at $2.5 million.

Issuance Date. The Series 2010 Bonds were assumed to be issued on December 8, 2010.

Interest Rates and Computation of Interest. The Series 2010 Bonds were assumed to bear interest at the rates set forth on the inside front cover hereof. Computations of interest were assumed to be made on the basis of a 360-day year consisting of twelve 30-day months for the Series 2010 Bonds.

Miscellaneous. The Cash Flow Assumptions assume that there is no optional redemption of the Series 2010 Bonds, that no Payment Default occurs, that no Lump Sum Payment or Partial Lump Sum Payment is received, that no Refunding Bonds are issued and that there is no Optional Clean-up Call exercised by the Authority from balances in the Debt Service Reserve Account. 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.

Detailed schedules showing the application of the Cash Flow Assumptions to generate the figures contained in each Constant Annual Rate of Cigarette Consumption Decline table are included in Appendix F.

THE SALE AGREEMENT

The following 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. A copy of the Sale Agreement may be obtained upon written request to the Trustee.

Conveyance of Pledged Settlement Payments

The Sale Agreement provides that the State irrevocably sells and conveys to the Authority, as of the Closing Date, without recourse (subject to certain continuing obligations described herein) in accordance with and subject to the terms of the Sale Agreement, all right, title and interest of the State on the Closing Date in and to the Pledged Settlement Payments. As consideration for such sale and conveyance of the Pledged Settlement Payments by the State to the Authority, the Authority promises to pay and otherwise convey to the State, without recourse, on the Closing Date, the proceeds (net of the Financing Costs) of the Series 2010 Bonds and the Residual Certificate in accordance with and subject to the terms of the Indenture and the Act.

In accordance with the Act, the Sale Agreement provides that upon execution and delivery of the Sale Agreement, the sale and conveyance and other transfer of the right to receive the Pledged Settlement Payments shall for all purposes be a true sale and absolute conveyance of all right, title, and interest therein and not as a pledge or other security interest for any borrowing, valid, binding and enforceable in accordance with the terms of the Sale Agreement and the Indenture shall not be subject to disavowal,

disaffirmance, cancellation, or avoidance by reason of insolvency of any party, lack of consideration, or any other fact, occurrence or rule of law.

Delivery of Tobacco Assets to the Trustee; Remittance of State's Unsold Assets to the State

From and after the Closing Date all Tobacco Assets required by the MSA to be made to the State are by the terms of the Sale Agreement to be made to the Trustee in accordance with the provisions of the Indenture. Simultaneously with the delivery of the Bonds and the purchase of the Pledged Settlement Payments, the State, acting through the Attorney General, must notify the MSA Escrow Agent and the Independent Auditor that the Pledged Settlement Payments have been sold to the Authority and must irrevocably instruct the MSA Escrow Agent that the Tobacco Assets are to be paid directly to the Trustee on behalf of the Authority. Should the State receive any such payments from the MSA Escrow Agent, it is required to immediately remit such payments to the Trustee. Additionally, the Attorney General agrees to promptly (but in no event later than five Business Days after receipt of conclusive documentation from the Independent Auditor or the MSA Escrow Agent) provide to the Authority and the Trustee a certification with respect to the amount of Tobacco Assets constituting State's Unsold Assets. The Trustee shall immediately deposit such Tobacco Assets in the Tobacco Assets Account and, to the extent that a portion of the Tobacco Assets received by the Trustee consists of State's Unsold Assets, the Trustee shall promptly, but not later than five Business Days after receipt, transfer such State's Unsold Assets to, or at the order of, the State.

Covenants of the Authority and the State

Protection of Title; Non-Impairment Covenant. Pursuant to the Act, the State pledges and agrees with the Authority in the Sale Agreement that the State shall (i) irrevocably direct, through the Attorney General, the Independent Auditor and the MSA Escrow Agent to transfer all Tobacco Assets directly to the Trustee as the assignee of the Authority, (ii) enforce its right to collect all moneys due from the PMs under the MSA, (iii) diligently enforce the Qualifying Statute as contemplated in section IX(d)(2)(B) of the MSA against all nonparticipating manufacturers selling tobacco products in the State that are not in compliance with the Qualifying Statute, in each case in the manner and to the extent deemed necessary in the judgment of, and consistent with the discretion of, the Attorney General, provided, however, (A) that the remedies available to the Authority and the Beneficiaries for any breach of the pledges and agreements of the State set forth in this clause (iii) shall be limited to injunctive relief, and (B) that the State shall be deemed to have diligently enforced the Qualifying Statute so long as there has been no judicial determination by a court of competent jurisdiction in the State, in an action commenced by a PM under the MSA, that the State has failed to diligently enforce the Qualifying Statute for the purposes of section IX(d)(2)(B) of the MSA, (iv) neither amend the MSA nor the Consent Decree or take any other action in any way that would materially adversely (A) impair the Authority's right to receive Pledged Settlement Payments, or (B) limit or alter the rights vested in the Authority to fulfill the terms of its agreements with the Beneficiaries, or (C) impair the rights and remedies of the Beneficiaries or the security for the Bonds until the Bonds, together with the interest thereon and all costs and expenses in connection with any action or proceedings by or on behalf of the Beneficiaries, are fully paid and discharged (provided, that nothing in the Act, the Sale Agreement or the Indenture shall be construed to preclude the State's regulation of smoking, smoking cessation activities and laws, and taxation and regulation of the sale of cigarettes or the like or to restrict the right of the State to amend, modify, repeal or otherwise alter statutes imposing or relating to the taxes), and (v) not amend, supersede or repeal the MSA or the Qualifying Statute, in any way that would materially adversely affect the amount of any payment to, or the rights to such payments of, the Authority or the Beneficiaries. Notwithstanding these pledges and agreements by the State, nothing in the Sale Agreement, in the Indenture, in the Bonds or in the Act shall be construed or interpreted to limit or impair the authority or discretion of the Attorney

General to administer and enforce provisions of the MSA or to direct, control and settle any litigation or arbitration proceeding arising from or relating to the MSA.

No Bankruptcy of the Authority. In accordance with the Act, the Authority shall have no authority to file a voluntary petition under, or become a debtor or bankrupt under, the Federal Bankruptcy Code or any other federal or State bankruptcy, insolvency, or moratorium law or statute as may, from time to time, be in effect and neither any public officer nor any organization, entity, or other person shall authorize the Authority to become a debtor or bankrupt under the Federal Bankruptcy Code or any other federal or State bankruptcy, insolvency or moratorium law or statute as may, from time to time, be in effect.

Tax Covenant. The State agrees in the Sale Agreement that it shall 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 Tax-Exempt Bonds shall be excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Code; and no funds of the State shall at any time be used directly or indirectly to acquire securities, obligations or investment property the acquisition or holding of which would cause any Tax-Exempt Bond to be an arbitrage bond as defined in the Code and any applicable regulations issued thereunder and in furtherance of such covenant shall execute and comply with the tax certificate provided by Bond Counsel.

Further Actions. Upon request of the Authority or the 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. Upon request of the State or the Trustee, the Authority will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purposes of the Sale Agreement.

Amendment

Except as otherwise described under "Further Actions" above, after issuance of the Series 2010 Bonds, the Sale Agreement may be amended by the State and the Authority with the consent of the Trustee, but without the consent of any of the Bondholders: (a) to cure any ambiguity; (b) to correct or supplement any provisions in the Sale Agreement; (c) to correct or amplify the description of the Tobacco Assets or the Pledged Settlement Payments; (d) to add additional covenants for the benefit of the Authority; or (e) 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 adversely affect in any material respect the 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 a Majority in Interest 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 Bondholders; but no such amendment shall 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 the Holders of all the outstanding bonds.

Without the prior written consent of the holder of the Residual Certificate and the Trustee, which consent may be granted or withheld in such Person's sole discretion, no amendment, supplement or other modification of the Sale Agreement shall be entered into or be effective if such amendment, supplement or modification affects the holder of the Residual Certificate or the Trustee's, as applicable, own rights, duties or immunities under the Sale Agreement or otherwise.

Use of the Purchase Price

In accordance with the Act, the purchase price of the Pledged Settlement Payments payable to the State pursuant to the Sale Agreement corresponding directly or indirectly to the proceeds of the Series 2010 Bonds (net of Financing Costs) shall be deposited, on the Closing Date, into the Tobacco Settlement Bond Proceeds Account of the Tobacco Settlement Recovery Fund and thereafter deposited in the general revenue funds of the State and used for general working capital purposes.

Assignment to Trustee

The State acknowledges that the Authority will assign to the Trustee for the benefit of the Bondholders all of its rights and remedies with respect to the breach of any representations and warranties of the State under the Sale Agreement. Upon discovery by the State or the Authority of a breach of any of the foregoing representations, warranties or covenants that materially and adversely affects the value of the Pledged Settlement Payments or the sale thereof to the Authority under the Sale Agreement, the party discovering such breach shall give prompt written notice to the other party and to the Trustee.

The State shall not be liable to the Trustee or the Bondholders for any loss, cost or expense resulting solely from the failure of the Trustee to promptly notify the State upon the discovery by a Responsible Officer of the Trustee of a breach of any representation, warranty or covenant contained in the Sale Agreement.

THE MASTER SETTLEMENT AGREEMENT

The following includes a brief summary of certain provisions of the MSA. This summary is not complete and is subject to, and qualified in its entirety by reference to, the copy of the MSA, as amended, which 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 (as defined below), such amendments involve technical and administrative provisions not material to the summary below. In addition, the following includes certain information related to litigation challenges to the MSA and disputes regarding the NPM Adjustment, both of which are referenced under "RISK FACTORS" herein.

General

The MSA is an industry-wide settlement of litigation between the Settling States (including the State) and the OPMs and was entered into between the attorneys general of the Settling States and the OPMs on November 23, 1998. The MSA provides for other tobacco companies (the "**SPMs**") to become parties to the MSA. The three OPMs together with the 52 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 cigarette consumers. 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 OPMs prior to the adoption of the MSA (the "**Previously Settled States**"). According to NAAG, as of July 27, 2010, 55 PMs were parties to the MSA. The chart below identifies each of the PMs which was a party to the MSA as of July 27, 2010:

OPMs

- **Lorillard Tobacco Company**
- **Philip Morris, USA (formerly Philip Morris Incorporated)**
- **Reynolds American, Inc. (formerly R.J. Reynolds Tobacco Company and Brown & Williamson Tobacco Corporation)**

SPMs

- **Bekenton, S.A.[*]**
- **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[*]**
- **Eastern Company S.A.E.**
- **Ets L Lacroix Fils NV S.A. (Belgium)**
- **Farmer's Tobacco Co. of Cynthiana, Inc.**
- **General Jack's Incorporated**
- **General Tobacco (VIBO Corporation d/b/a General Tobacco)[**]**
- **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.**
- **Japan Tobacco International USA, Inc.**
- **King Maker Marketing**
- **Konci G&D Management Group (USA) Inc.**
- **Kretek International**
- **Lane Limited (formerly Lane Limited and Tobacco Exporters International (USA) Ltd.)**
- **Liberty Brands, LLC[*]**
- **Liggett Group, LLC**
- **Lignum-2, Inc.**
- **Mac Baren Tobacco Company A/S**
- **Monte Paz (Compania Industrial de Tabacos Monte Paz S.A.)**
- **NASCO Products Inc.**
- **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.**
- **Sherman's 1400 Broadway N.Y.C. Inc.**
- **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**

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

* Has filed for bankruptcy relief.

** Ceased production of cigarettes and other tobacco products.

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 and, further, that the remedies, penalties or 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 the State does not have the power or authority to bind any of the Releasing Parties in the 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" below.

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 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 Fund Payments.* See "– Initial Payments", "– Annual Payments" and "– Strategic Contribution Fund Payments" below. These payments (except with the exception of the up front 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. Thus far, the OPMs have made all of the Initial Payments, and the PMs have made the Annual Payments for 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009 and 2010 (subject to certain withholdings described in "RISK FACTORS — Other Potential Payment Decreases Under the Terms of the MSA"). See "– Payments Made to Date" below. Strategic Contribution Fund Payments began April 15, 2008 and will continue through April 15, 2017.

Payments required to be made by the OPMs are calculated by reference to the OPM's domestic shipments of cigarettes, with the amount of the payments adjusted annually roughly in proportion to the changes in total volume of cigarettes shipped by the OPMs in the United States in the preceding year. Payments to be made by the PMs are recalculated each year, based on the United States market share of each individual PM for the prior year, with consideration under certain circumstances, for the profitability of each OPM. The Annual Payments and Strategic Contribution Fund Payments required to be made by the SPMs are based on increases in their shipment market share. See "− Subsequent Participating Manufacturers" below. Pursuant to an escrow agreement (the "**MSA Escrow Agreement**") established in conjunction with the MSA, remaining Annual Payments and Strategic Contribution Fund 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 Settling States.

Beginning with the payments due in the year 2000, PricewaterhouseCoopers LLP (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), 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 $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 $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 $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 Disputed Payments Account. Approximately $204 million, which was substantially all of the money previously deposited in the Disputed Payments Account for payment to the Settling States, was distributed to the Settling States with the Annual Payment due

* 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 are not available to the Bondholders, and consequently are not discussed here.

April 15, 2002. The 2003 Initial Payment, which had a scheduled base amount of $2.7 billion, was paid in December 2002 and January 2003, in the approximate amount of $2.14 billion after taking into account various adjustments.

Annual Payments

The OPMs and the other PMs are required to make Annual Payments on each April 15 in perpetuity. The PMs made the first eleven Annual Payments due April 15 in each of the years 2000 through 2010, the scheduled base amounts of which (before adjustments discussed below) were $4.5 billion, $5.0 billion, $6.5 billion, $6.5 billion, $8.0 billion, $8.0 billion, $8.0 billion, $8.0 billion, $8.139 billion, $8.139 billion and $8.139 billion, respectively. After application of the adjustments, the Annual Payment made (i) in April 2000 was approximately $3.5 billion, (ii) in April 2001 was approximately $4.1 billion, (iii) in April 2002 was approximately $5.2 billion, (iv) in April 2003 was approximately $5.1 billion, (v) in April 2004 was approximately $6.2 billion, (vi) in April 2005 was approximately $6.3 billion, (vii) in April 2006 was approximately $5.8 billion, (viii) in April 2007 was approximately $6.0 billion, (ix) in April 2008 was approximately $6.2 billion, (x) in April 2009 was approximately $6.3 billion and (xi) in April 2010 was approximately $5.7 billion. The scheduled base amount (before adjustments discussed below) of each Annual Payment, subject to adjustment, is set forth below:

Annual Payments

Year	Base Amount	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**		

* The Annual Payments from 2000 through 2010 have been made; however, subsequent adjustments to such Annual Payments may impact subsequent Annual Payments.

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 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.

"**Relative Market Share**" is defined as an OPM's percentage share of the number of 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. (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, 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 made to the State from the scheduled base amounts of the Annual Payments made by the PMs in April for the years 2000 through 2010, as discussed below under the caption "– Payments Made to Date".

Strategic Contribution Fund Payments

The OPMs are also required to make Strategic Contribution Fund Payments on April 15 of each year from 2008 through 2017. The base amount of each Strategic Contribution Fund Payment is $861 million. 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 during the preceding calendar year. The SPMs will be required to make Strategic Contribution Fund Payments if their market share increases above the higher of their respective 1998 market share or 125% of their 1997 market share. See"– Subsequent Participating Manufacturers".

The base amounts of the Strategic Contribution Fund Payments are subject to the following adjustments applied in the following order:

- the Inflation Adjustment,
- the Volume Adjustment,
- 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.

Adjustments to Payments

The base amounts of the Initial Payments were, and the Annual Payments and Strategic Contribution Fund Payments described above 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 and Strategic Contribution Fund 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 Initial Payments was, and each of the Annual Payments and Strategic Contribution Fund 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 (in the case of Annual Payments and Strategic Contribution Fund Payments, 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 (in the case of Annual Payments and Strategic Contribution Fund Payments, 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 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.

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. Initial Payments were not, and Strategic Contribution Fund Payments are not, subject to the Previously Settled States Reduction.

Non-Settling States Reduction. In the event that the MSA terminates as to any Settling State, the remaining Annual Payments and Strategic Contribution Fund 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 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. 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. The "**NPM Adjustment**" is applied to the subsequent year's Annual Payment and Strategic Contribution Fund 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. 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 16 ⅔% 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 16 ⅔%, 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 and Strategic Contribution Fund 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 and Strategic Contribution Fund Payments due to such state. The NPM Adjustment applies only to the Annual Payments and Strategic Contribution Fund Payments, and 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 State has adopted the Model Statute. 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. 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 — Other Potential Payment Decreases Under the Terms of the MSA" above and "– MSA Provisions Relating to Model/Qualifying Statutes" below.

The MSA provides that if any Settling State resolves claims against any NPM that are comparable to any of the claims released in the MSA on overall terms more favorable to such NPM 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.

Offset for Miscalculated or Disputed Payments. If the MSA Auditor receives notice of a miscalculation of an Initial Payment made by an OPM, an Annual Payment made by a PM within four years, or a Strategic Contribution Fund Payment made by a PM within four years, 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 is required to be paid into the Disputed Payments Account pending resolution of the dispute. Failure to pay such disputed amounts into the Disputed Payments Account can result in liability for interest at the penalty rate if the disputed amount was in fact properly due and owing. See "RISK FACTORS — Other Potential 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 and Strategic Contribution Fund Payments which are made at the same times as the Annual Payments and Strategic Contribution Fund Payments to be

made by OPMs. Annual Payments and Strategic Contribution Fund Payments for SPMs are calculated differently, however, from Annual Payments and Strategic Contribution Fund 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**", defined as the higher of its 1998 Market Share or 125% of its 1997 Market Share. If an SPM executes the MSA after February 22, 1999, its 1997 or 1998 Market Share, as applicable, is deemed to be zero. Fourteen of the current 52 SPMs signed the MSA on or before the February 22, 1999 deadline.

For each Annual Payment and Strategic Contribution Fund Payment, each SPM is required to pay an amount equal to the base amount of the Annual Payment and the Strategic Contribution Fund Payment owed by the OPMs, collectively, adjusted for the Volume Adjustment described above but prior to any other adjustments, reductions or offsets, multiplied by (i) the difference between that SPM's Market Share for the preceding year and its Base Share, divided 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 and Strategic Contribution Fund Payments to be made by the SPMs are calculated in a manner different from the calculations for Annual Payments and Strategic Contribution Fund 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 and Strategic Contribution Fund 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 and Strategic Contribution Fund Payments because the Annual Payments and Strategic Contribution Fund 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 and Strategic Contribution Fund Payments because the SPMs are not required to make any Annual Payments or Strategic Contribution Fund 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.

Payments Made to Date

As required, the OPMs have made all of the Initial Payments, the PMs have made Annual Payments since 2000 and Strategic Contribution Fund Payments since 2008, and the MSA Escrow Agent has disbursed to the State its allocable portions thereof and certain other amounts under the MSA totaling approximately $3.3 billion to date. Amounts received prior to the Closing Date are not pledged to payment of the Series 2010 Bonds. Under the MSA, the computation of Initial Payments, Annual Payments and Strategic Contribution Fund Payments by the MSA Auditor is confidential and may not be used for purposes other than those stated in the MSA.

	State Unadjusted Allocable Share of MSA Base Payment Amount	The State's Actual Receipts*
Up-Front Initial Payment	**$111,701,933**	**$114,914,785.84**
2000 Initial Payment	**$115,052,991**	**$100,096,101.98**
2001 Initial Payment	**$118,504,581**	**$96,337,238.07**
2002 Initial Payment	**$122,059,718**	**$84,935,282.55**
2003 Initial Payment	**$125,721,509**	**$99,564,983.58**
2000 Annual Payment	**$209,441,124**	**$134,164,697.66**
2001 Annual Payment	**$232,712,360**	**$171,570,281.01**
2002 Annual Payment	**$302,526,068**	**$225,249,007.05**
2003 Annual Payment	**$302,526,068**	**$222,370,284.69**
2004 Annual Payment	**$372,339,776**	**$270,065,960.91**
2005 Annual Payment	**$372,339,776**	**$274,208,945.24**
2006 Annual Payment	**$372,339,776**	**$271,467,637.70**
2007 Annual Payment	**$372,339,776**	**$282,520,341.03**
2008 Payments	**$402,201,898**	**$310,001,623.65**
2009 Payments	**$402,201,898**	**$340,172,902.87**
2010 Payments	**$402,201,898**	**$283,887,102.82**

* As reported by the State, to the best of the State's knowledge, amounts reflect the State's actual receipts after applicable adjustments or disputes. Any subsequent recalculation is reflected in the period that it impacted the State's receipts. Excludes attorney fees paid. 2008, 2009 and 2010 receipts include both Annual Payments and Strategic Contribution Fund Payments.

The terms of the MSA relating to such payments and various adjustments thereto are described above under the captions "– Initial Payments", "– Annual Payments", "– Strategic Contribution Fund Payments" and "– Adjustment to Payments". Both the Settling States and one or more of the PMs are disputing or have disputed the calculations of some of the Initial Payments for the years 2000 through 2003, and some Annual Payments for the years 2000 through 2010 and have filed dispute notices with respect to certain amounts due in 2011 and 2012. In addition, subsequent revisions in the information delivered to the MSA Auditor (on which the MSA Auditor's calculations of the Initial Payments and 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 — Other Potential Payment Decreases Under the Terms of the MSA – *Disputed or Recalculated Payments and Disputes under the Terms of the MSA*".

State-Specific Finality and Final Approval

The MSA provides that payments could not be disbursed to the individual Settling States until the occurrence of each of two events: State-Specific Finality (achieved as of December 12, 2000) and Final Approval (achieved on November 12, 1999). State-Specific Finality for the State was achieved on December 8, 1998, through the Consent Decree and Final Judgment of the Circuit Court of Cook County, Illinois (the "**Consent Decree**"), dated December 8, 1998, in the action entitled *People of the State of Illinois v. Philip Morris Incorporated, et al*. The Consent Decree contains provisions governing, among other things, the jurisdiction of the court over the parties, and marketing restrictions and other equitable relief. The Consent Decree is not subject to further appeal.

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 Holders.

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 PMs 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 will be to support programs to reduce the use of Tobacco Products by underage persons and to prevent diseases associated with the use of Tobacco Products. On March 31, 1999, and on March 31 of each subsequent year for a period of nine years thereafter, each OPM was required to pay its Relative Market Share of $25,000,000 (which is not subject to any adjustments, offsets or reductions pursuant to the MSA) to fund the Foundation. In addition, each OPM is required to pay its Relative Market Share of $250,000,000 on March 31, 1999, and $300,000,000 on March 31 of each of the subsequent four years to fund the Foundation. Furthermore, each PM may be required to pay its Relative Market Share of $300,000,000 on April 15, 2004, and on April 15 of each year thereafter in perpetuity if, during the year preceding the year when payment is due, the sum of the Market Shares of the PMs equals or exceeds 99.05%. The Foundation may also be funded by contributions made by other entities.

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 to 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 Agreement

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.

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 PMs and Settling States affected by the amendment. The terms of any amendment will not be enforceable against any 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 and Strategic Contribution Fund 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 as a result of participation in the MSA.

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**") 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 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 — Other Potential Payment Decreases under the Terms of the MSA – *NPM Adjustment*" and "RISK FACTORS — Litigation Challenging the MSA, the Qualifying Statute and Related Legislation".

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 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 enforced a Qualifying Statute. Thus, Settling States that do not adopt and 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 State has enacted the Model Statute, which is 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.

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 below 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)).

In recent years legislation has been enacted in all but two of the Settling States, including the State, 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**").

If the NPM fails to place funds into escrow as required, 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. However, enforcement of the Model Statute against such foreign manufacturers that do not do business in the United States may be difficult. See "RISK FACTORS — Litigation Challenging the MSA, the Qualifying Statutes and Related Legislation".

State's Qualifying Statute. Both houses of the State Legislature passed a Qualifying Statute, cited as the Tobacco Product Manufacturers' Escrow Act, codified as 30 ILCS §168/1 et seq., which became effective on June 30, 1999. By letter dated September 27, 1999, counsel to the OPMs confirmed that the OPMs will not dispute that the State Qualifying Statute constitutes the Model Statute under the MSA. By Public Act 93-446 effective January 1, 2004, Illinois adopted the Allocable Share Release Amendment.

Complementary Legislation. Pursuant to the provisions of the Tobacco Products Manufacturers' Escrow Enforcement Act of 2003, codified as 30 ILCS §167/1 et seq. (together with the Attorney General Rules Implementing the Tobacco Product Manufacturers' Escrow Enforcement Act, the "**State's Complementary Legislation**"), every tobacco product manufacturer whose cigarettes are sold in the State whether directly or through a distributor, retailer or similar intermediary or intermediaries is required to execute and deliver on a form prescribed by the Attorney General of the State (through its Tobacco Enforcement Bureau) a certification to the Attorney General, annually, no later than the thirtieth day of April each year, with an officer, principal or director of each tobacco product manufacturer certifying under penalty of perjury that as of the date of the certification, the tobacco product manufacturer either (i) is a participating manufacturer and has generally performed its financial obligations under the MSA or (ii) is in full compliance with the Tobacco Product Manufacturers' Escrow Act, including all quarterly installment payments. In addition, pursuant to the State's Complementary Legislation, no stamps or imprints may be affixed to a package or other container of cigarettes of a tobacco product manufacturer or brand family not included in the Attorney General's directory (maintained by the Tobacco Enforcement Bureau) listing all tobacco product manufacturers that have provided current and accurate annual certifications, and no cigarettes of a tobacco product manufacturer or brand family not included in such directory may be sold, offered for sale or possessed for sale in the State or imported for personal consumption in the State. In addition to any other penalties that may be imposed by law, the Director of Revenue of the State may revoke or suspend the license of any distributor that violates the law described in the preceding sentence, 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 subject to seizure and forfeiture.

Statutory Enforcement Framework and Enforcement Agencies

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 Illinois includes the:

- Illinois Qualifying Statute,
- Complementary Legislation (as amended, including the Allocable Share Release Amendments previously described herein), known as the Tobacco Products Manufacturers' Escrow Enforcement Act of 2003,
- Cigarette Tax Act & Cigarette Use Tax Act (including Illinois cigarette tax stamping requirements and tax rates),
- Tobacco Products Tax Act of 1995 which include tobacco products such as cigars, other smoking tobacco, pipe tobacco, among other products,
- Tobacco Accessories and Smoking Herbs Control Act of 1982, as amended in 1991 (prohibiting the sale of cigarette rolling papers and other accessories to minors and prohibiting outright the sale of "bidi" leaf cigarettes and vending machine sales of cigarette paper),
- Prevention of Tobacco Use by Minors and Sale and Distribution of Tobacco Products Act,
- Prevention of Cigarette Sales to Minors Act of 2004 (prohibiting shipment or delivery of cigarettes in Illinois by any common carrier without proof of legal age),
- Cigarette Fire Safety Standard Act of 2008 (requiring self-extinguishing cigarettes and cross-certification of compliance by the State Fire Marshall), and
- various implementing regulations promulgated by the Office of the Illinois Attorney General and the Illinois Department of Revenue.

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), the Family Smoking Prevention and Tobacco Control Act of 2009 ("**FSPTCA**") (amending the FDA's Food, Drug and Cosmetics Act) and the Prevention of All Cigarette Trafficking ("**PACT**") Act of 2010.

This statutory enforcement framework is administered and enforced by the Office of the Illinois Attorney General's Tobacco Enforcement Bureau and by the Illinois Department of Revenue's office, including its Excise Taxes Division and its Bureau of Criminal Investigations, among other agencies and divisions.

Attorney General Tobacco Enforcement Bureau. The Tobacco Enforcement Bureau of the Office of the Illinois Attorney General (the "**Bureau**") is responsible for enforcing the MSA, maintaining the State of Illinois Directory of Participating Manufacturers (including brand-specific information) and the State of Illinois Directory of Compliant NPMs, and for receiving the annual compliance certifications

from PMs and NPMs. Tobacco product manufacturers report directly to the Bureau within the Office of the Illinois Attorney General and senior officers or directors of the manufacturers must file annual certifications of compliance under penalty of perjury. Cigarette distributor licensees must file with the Bureau a quarterly report of sales of NPM brands and such sales must bear Illinois cigarette tax stamps and distributors that are licensed to pay the tobacco products tax must file quarterly reports for sales of NPM RYO. New NPMs and NPMs with a history of less than complete compliance are required to file and pay quarterly. Cigarette and roll-your-own brands that are not listed, together with the manufacturer, on either the State of Illinois Directory of Participating Manufacturers or the State of Illinois Directory of Compliant NPMs, and that do not bear Illinois cigarette tax stamps, may not be sold in Illinois. Both directories are published on the Attorney General's website at www.IllinoisAttorneyGeneral.gov. The PM certifications required by the Bureau were recently amended to incorporate supplemental certifications of compliance with the "light", "mild", and "low", descriptor requirements and prohibitions, and the bans on certain additives, including artificial or natural flavors that are characterizing flavors of tobacco products, in the federal FSPTCA.

The Bureau and its predecessor units have brought numerous enforcement actions and have been responsible since inception for pursuing non-compliant NPMs. The State believes there currently are no non-compliant NPMs for which licensed distributors have reported sales of units sold in the State of Illinois and that the market share of all NPMs for which licensed distributors have reported sales of units sold in the State has been de minimis (approximately 1% or less) in each year from and including 2003 to present. The State estimates that the market share of NPMs in Illinois in each year since 2004 has been less than 0.5% and believes that all NPMs listed on the Directory of Compliant NPMs currently are in compliance with their NPM escrow obligations under the Illinois Qualifying Statute.

The Bureau 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, the Bureau 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 $2.5 million for the State of Illinois. After working with other states for several years, in February 2010, the Bureau de-listed another PM (Vibo d/b/a General Tobacco) from the State's Directory of Participating Manufacturers for non-payment of its MSA payments. Two other states have filed suit seeking full payment by General Tobacco of its MSA Payment obligations. Such actions will benefit all Settling States, including the State, if payments are ordered and made. The Bureau also has participated actively in various multi-state initiatives against certain OPMs to enforce the advertising and promotion restrictions in the MSA.

The Office of the Illinois Attorney General's Criminal Prosecutions and Trial Assistance Bureau also represents the State Department of Revenue in administrative and judicial proceedings involving the seizure and forfeiture of contraband, unstamped cigarettes possessed in Illinois.

Department of Revenue Actions Seeking Penalties, Seizure and Forfeiture of Contraband Cigarettes. The Illinois Department of Revenue, Bureau of Criminal Investigation coordinates 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 Office of the Illinois Attorney General Criminal Enforcement Division for forfeiture proceedings. The Illinois Department of Revenue of the State 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. The Illinois Department of Revenue website contains numerous reported administrative decisions regarding the seizure and forfeiture of unstamped cigarettes seized by the Department.

Department of Revenue Excise Tax Bureau Role. The Department of Revenue's Excise Tax Division is responsible for licensing all cigarette distributors and manufacturers, tracking cigarette shipments in and out of the State of Illinois and enforcing state and federal laws restricting and taxing Internet sales, among other duties. Since the Illinois sales tax applies to "sales and use", sales via the Internet are subject to the state cigarette excise tax. The Excise Tax Division keeps track of all shipments of cigarettes in and out of Illinois, compares those records to the cigarette sales records of licensed distributors 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 Bureau and with other state revenue departments and has used the provisions of the Federal Jenkins Act, and has begun using the provisions of the 2010 PACT Act, to enforce its laws relating to Internet sales and taxation of cigarettes and other tobacco products.

Limited Internet Sales. While it is difficult for any taxing authority to precisely estimate the extent of Internet sales within its jurisdiction, the Illinois Department of Revenue published a February 2009 study estimating Illinois's "e-commerce losses" on account of Internet sales. The study indicated that, across all categories of consumer product sales, Illinois was losing $153 million per year in unpaid taxes on online sales and that, of that amount, only 0.3% of such amount (less than $500,000 per year) was attributable to sales of cigars, cigarettes and tobacco product accessories. Prior to enactment of the PACT Act in 2010, New York, on behalf of all states, including the State, entered into voluntary compliance agreements with several major national package delivery firms, including Fedex, UPS and DHL, prohibiting the private package delivery to consumers of cigarettes into Illinois and in other states nationwide. The PACT Act broadens this prohibition to include a prohibition of the delivery of cigarettes by U.S. Mail except to licensed distributors.

Absence of Tribal Reservations. There are no federally recognized Native American reservation lands located within the borders of the State of Illinois. Accordingly, unlike some other states, the State does not experience off-reservation Tribal sales of cigarettes within the State from reservations located within its borders.

Litigation Challenging the MSA, the Qualifying Statutes and Related Legislation

General Overview. Certain smokers, smokers' rights organizations, consumer groups, cigarette importers, cigarette distributors, cigarette manufacturers, 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 Complementary Legislation are void or unenforceable under certain provisions of law, such as the U.S. Constitution, state constitutions, federal antitrust laws, state consumer protection laws, bankruptcy laws, federal cigarette advertising and labeling law, and unfair competition laws as described below in this subsection. Certain of the lawsuits further seek, among other things, an injunction against one or more of the Settling States from collecting any moneys under the MSA and barring the PMs from collecting cigarette price increases related to the MSA. 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 the MSA and Complementary Legislation challenges presented in the cases. In the most recent decision, *Freedom Holdings IV,* as discussed more fully below, the Second Circuit affirmed the judgment of the Southern District, after a bench trial and findings of fact by the Southern District, that the New York Qualifying Statute as modified by the subsequent legislation and the New York Contraband Statute did not violate Section 1 of the Sherman Antitrust Act of 1890 (the "**Sherman Act**"), or the Commerce Clause of the U.S.

Constitution. The time for the plaintiffs in *Freedom Holdings* to file a petition for a writ of certiorari from the U.S. Supreme Court has not yet expired. In the other decisions upholding the MSA or accompanying legislation, the decisions were rendered either on motions to dismiss or motions for summary judgment. Courts rendering those decisions include the U.S. Courts of Appeals for the Fifth Circuit in *S&M Brands Inc. v. Caldwell,* and *Xcaliber Int'l v. Caldwell;* the Eighth Circuit, in *Grand River Enterprises v. Beebe;* the Tenth Circuit in *KT & G Corp. v. Edmondson*, and *Hise v. Philip Morris Inc.*; the Ninth Circuit in *Sanders v. Brown*; 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 Sixth Circuit in *S&M Brands v. Cooper*, *S&M Brands, Inc. v. Summers* and *Tritent Inter'l Corp. v. Commonwealth of Kentucky*; and multiple lower courts.

The enforceability of the MSA and the State's Qualifying Statute and Complementary Legislation is also at issue in *VIBO*, now on appeal before the U.S. Court of Appeals for the Sixth Circuit, and in *Grand River*, pending in the Southern District. In *VIBO*, the district court granted defendants' motion to dismiss plaintiffs' federal antitrust, federal constitutional and common law challenges to the enforceability of the MSA, and plaintiffs have appealed that dismissal to the U.S. Court of Appeals for the Sixth Circuit. In *Grand River*, the Second Circuit held at an early stage of that case both that the Southern District has jurisdiction over the non-New York defendants (including the Attorney General of the State) and that the plaintiffs could proceed to litigate their federal antitrust, Commerce Clause and Equal Protection claims against the MSA, the Qualifying Statutes, and Complementary Legislation of the various state defendants. The parties in *Grand River* have since moved for summary judgment with respect to those claims (the equal protection claim is no longer at issue in the case). The Southern District heard oral argument on those motions, but has not yet issued a decision.

Certain decisions by the Second Circuit during the course of the litigation in *Grand River* and *Freedom Holdings* have created some uncertainty as a result of that court's interpretation of federal antitrust immunity and Commerce Clause doctrines as applied to the MSA and related statutes, which interpretation appears to conflict with interpretations by other courts which have rejected challenges to the MSA and related statutes. A final non-appealable decision in *Grand River* or *VIBO* that the MSA, Qualifying Statute, the Complementary Legislation or any of them violates the federal antitrust laws, the U.S. Constitution, or any other provision of law would be binding on the State. The federal antitrust and commerce clause claims in *Grand River* and *VIBO* are in many respects similar to those claims the dismissal of which the Second Circuit affirmed in the last of its four opinions rendered in *Freedom Holdings*. *Freedom Holdings* and its potential impact on *Grand River* is discussed in more detail below.

The MSA and related state legislation may also be challenged in the future. A determination by a court having jurisdiction over the State and the Authority that the MSA or related State legislation is void or unenforceable (a) could have a materially adverse effect on the payments by the PMs under the MSA and the amount and/or the timing of Pledged Settlement Payments available to the Authority, (b) could lead to a decrease in the market value and/or liquidity of the Series 2010 Bonds, and (c) in certain circumstances could lead to a complete loss of a Bondholder's investment. A determination by any court that the MSA or State legislation enacted pursuant to the MSA is void or unenforceable could also lead to a decrease in the market value and/or liquidity of the Series 2010 Bonds. See "LEGAL CONSIDERATIONS".

Qualifying Statute and Related Legislation. Under the MSA's NPM Adjustment, downward adjustments may be made to the Annual Payments payable by a PM if the PM experiences a loss of market share in the United States to NPMs as a result of the PM's participation in the MSA. See "Potential Payment Decreases Under the Terms of the MSA – *NPM Adjustment*" below and "THE MASTER SETTLEMENT AGREEMENT — MSA Provisions Relating to Model/Qualifying Statutes". A Settling State may avoid the effect of this adjustment by adopting and diligently enforcing a Qualifying

Statute, as hereinafter described. The State has adopted the Model Statute, which by definition is a Qualifying Statute under the MSA. 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. Legislation has been enacted in at least 44 of the Settling States, including the State, amending the Qualifying Statutes in those states by eliminating the reference to the allocable share and limiting the possible release an NPM may obtain under the statute to the excess above the total payment that the NPM would have paid had it been a PM (each an "**Allocable Share Release Amendment**").

In addition, at least 45 Settling States (including the State) have passed Complementary Legislation to further ensure that NPMs are making required escrow payments under the states' respective Qualifying Statutes. Pursuant to the State's Complementary Legislation, every tobacco product manufacturer whose cigarettes are sold directly or indirectly in the State is required to certify annually that it is a PM or that it is an NPM and is in full compliance with the State's Qualifying Statute. The Qualifying Statutes and related legislation (including those of the State), like the MSA, have also been the subject of litigation in cases alleging that the Qualifying Statutes and related legislation violate certain provisions of the U.S. Constitution and/or state constitutions and are preempted by federal antitrust laws. The lawsuits seek, among other things, injunctions against the enforcement of the Qualifying Statutes and the related legislation. To date such challenges have not been ultimately successful, although the enforcement of Allocable Share Release Amendments has been preliminarily enjoined in certain other states. Appeals are also possible in certain other cases. The Qualifying Statutes and related legislation may also continue to be challenged in the future. Pending challenges to the Qualifying Statutes and related legislation are described below under "*Grand River, Freedom Holdings, VIBO and Related Cases*" in this subsection.

A determination that a Qualifying Statute is unconstitutional would have no effect on the enforceability of the MSA itself; such a determination could, however, have an adverse effect on payments to be made under the MSA if one or more NPMs were to gain market share. See "Other Potential Payment Decreases Under the Terms of the MSA – *NPM Adjustment*" below, "THE MASTER SETTLEMENT AGREEMENT — MSA Provisions Relating to Model/Qualifying Statutes" and "LEGAL CONSIDERATIONS".

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, target sales in states without Allocable Share Release Amendments, and thereby potentially increase their market share at the expense of the PMs. See "THE MASTER SETTLEMENT AGREEMENT — MSA Provisions Relating to Model/Qualifying Statutes".

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 "THE MASTER SETTLEMENT AGREEMENT — MSA Provisions Relating to Model/Qualifying Statutes".

Grand River, Freedom Holdings, VIBO and Related Cases. In *Grand River*, two cigarette manufacturers and a distributor who were NPMs brought suit against 30 states[†], including the State, and their Attorneys Generals, alleging, among other things, that the Escrow Statutes contravened the Commerce Clause of the U.S. Constitution, the Sherman Act, and in the case of plaintiff Grand River, the Constitution's Indian Commerce Clause. The district court had dismissed all claims against the states other than New York for lack of personal jurisdiction, and dismissed all claims except the antitrust claim against New York. On interlocutory appeal, the Second Circuit reversed the district court's dismissal against the non-New York defendants, including the State, reversed the dismissal of the dormant Commerce Clause claim, and affirmed the dismissal of the plaintiffs' other constitutional claims. As to the Commerce Clause claim, the Second Circuit held that the plaintiffs "state a possible claim that the practical effect of the challenged statutes and the MSA is to control prices outside of the enacting states by tying both the SPM settlement and NPM escrow payments to national market share, which in turn affects interstate pricing decisions". Plaintiffs subsequently sought a preliminary injunction barring enforcement of the Allocable Share Release Amendments and other relief related to the MSA and the accompanying legislation, which the district court denied. The Second Circuit affirmed the denial on the ground that plaintiffs had failed to show a likelihood of irreparable injury. Plaintiffs subsequently amended their complaint including new facts and allegations on their antitrust and commerce clause claims, and the parties engaged in discovery. The parties each moved for summary judgment, and the district court heard oral argument on April 27, 2010. The district court has not ruled on the motions.

In *Freedom Holdings*, two cigarette importers who were NPMs sought to enjoin the enforcement of the New York Qualifying Statute and the New York Contraband Statute, claiming that the MSA and the legislation violated Section 1 of the Sherman Act, and the Commerce Clause of the U.S. Constitution. The Southern District dismissed the plaintiffs' complaint for failure to state a claim. On appeal, a three judge panel of the Second Circuit reversed the district court's dismissal *(*"***Freedom Holdings I***"). The Court held that, accepting the allegations of the complaint as true, the complaint alleged an "express market-sharing agreement among private tobacco manufacturers", and that the MSA, Escrow Statutes, and complementary legislation allowed the originally settling defendants to "set supracompetitive prices that effectively cause other manufacturers either to charge similar prices or to cease selling". The Court additionally held that, at the pleading stage, the defendants had not established that the legislation was protected by the state action exemption articulated under *Parker v. Brown* ("***Parker***") and its progeny, or as protected petitioning of government under the *Noerr-Pennington* ("***NP***" ") doctrine. The Court upheld the dismissal of the plaintiffs' Commerce Cause claim—although reserving the dormant Commerce Clause issue that plaintiffs had not asserted—and permitted the plaintiffs to amend to add allegations in their Fourteenth Amendment Equal Protection claim. The Second Circuit issued a subsequent opinion in denying a motion for rehearing ("***Freedom Holdings II***"). The plaintiffs thereafter amended their complaint and brought a motion for a preliminary injunction against the New York Qualifying Statute and Contraband Statutes. The district court granted an injunction against the Allocable Share Amendment, but otherwise denied the motion. The plaintiffs appealed and the Second Circuit affirmed the district court's denial of the broader preliminary injunction on the ground that plaintiffs had not established irreparable injury ("***Freedom Holdings III***").

After remand from the Second Circuit, the district court in *Freedom Holdings* conducted an evidentiary hearing and bench trial, and issued judgment for defendants on all of the plaintiffs' claims.

[†] The *Grand River* defendant states are: Alabama, Alaska, Arizona, California, Colorado, Delaware, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Maine, Maryland, Massachusetts, Michigan, Missouri, Montana, Nebraska, New York, North Carolina, Ohio, Oregon, South Carolina, South Dakota, Tennessee, Washington, Wisconsin and Wyoming. The complaint was initially filed against 31 defendant states, but by stipulation so ordered by Judge Keenan on February 26, 2008, plaintiff and the State of Kentucky agreed to a voluntary dismissal of the complaint as against those defendants.

The court held that the MSA and its implementing legislation were not illegal per se and not pre-empted by the Sherman Act, that even if it was necessary to reach the issue of state action exemption, that it shielded the defendants' conduct, and that the MSA and the legislation did not contravene the dormant Commerce Clause. On October 18, 2010, the Second Circuit affirmed the dismissal of the plaintiffs' claims ("***Freedom Holdings IV***"*)*.

First, with respect to plaintiffs' antitrust claim, in *Freedom Holdings IV* the Second Circuit held that, because the plaintiffs were NPMs, they did not have standing to challenge the MSA alone (as opposed to the Qualifying Statute and Contraband Statute). As competitors of the settling defendants, the court held, the plaintiffs would have benefited, and not been harmed, by any increase in the settling defendants' price caused by the MSA. Thus, they did not have the requisite injury for such standing. Second, the court held that the plaintiffs did not establish a violation of the antitrust laws. The facts as found by the district court failed to show that the Escrow Statutes and complementary legislation compelled NPMs to join the MSA—indeed, the district court found as a fact that NPMs pay less under the Qualifying Statute than they would had they joined the MSA. Furthermore, the MSA and the legislation did not give private parties "anticompetitive regulatory authority". The NPMs retained pricing authority and gained market share at the expense of the original settling defendants. Finally, the court held that although it did not need to reach the issue of whether the state action exemption applied, the exemption immunized the legislation at issue. The court noted "we generally agree" with the decisions in other circuits that the MSA and the related legislation are "unilateral state action exempt from the application of the antitrust laws". But even if the defendants were required to establish that any restraints on competition were "clearly articulated and affirmatively expressed as state policy" and "actively supervised by the [s]tate itself" (under *California Retail Liquor Dealers Ass'n v. Midcal Aluminum)*, that test was satisfied based on the facts as found by the district court. As to the latter point, the court noted that New York reviews audit reports detailing the competitive effects of the MSA and the challenged statutes, and enacted legislation in response to those reports. And it was the State of New York, not private parties, who determined the amount of payments that NPMs were required to place into escrow. The *Freedom Holdings IV* court also noted that its opinion was "limited in scope" because the plaintiffs lacked standing to assert certain claims about the MSA, including, among others, whether the MSA impermissibly penalizes manufacturers that subsequently join the MSA.

With respect to the plaintiffs' Commerce Clause claims, the Second Circuit in *Freedom Holdings IV* ruled that plaintiffs had failed to prove any of the allegations of their complaint that the challenged statutes are "inconsistent with the legitimate regulatory regimes of the other states, that [they] force out-of-state merchants to seek New York regulatory approval before undertaking an –out-of-state transaction, or that any sort of interstate regulatory gridlock would occur if 'many or every state' adopted similar legislation". The Second Circuit concluded that plaintiffs offered no evidence indicating that the practical effect of New York statutes at issue reaches beyond their terms to set minimum or maximum cigarette prices outside of New York and, thus, "plaintiffs have not proved that the challenged statutes have the practical effect of regulating commerce extraterritorially" in violation of the Commerce Clause. The time for the plaintiffs in *Freedom Holdings* to file a petition for a writ of certiorari from the U.S. Supreme Court has not expired.

The plaintiffs' claims in *Freedom Holdings* are similar to those in *Grand River*. Nevertheless, *Freedom Holdings IV* does not require that the Southern District in *Grand River* grant judgment in favor of the defendants and uphold the MSA and the statutes at issue, or that, in the event of an appeal of a district court decision in *Grand River*, that the Second Circuit hold for the defendants. *Freedom Holdings IV* affirmed a decision reached after a bench trial, and the Second Circuit in that case deferred to the Southern District's findings of fact under a clear error standard. The Second Circuit based its decision on the factual record. *Grand River* may have a different factual record, and the facts thus could be different than those found in *Freedom Holdings*. A court's decision in *Grand River* would be based on the court's

own analysis and interpretation of the factual evidence before it and of applicable legal principles. Thus, in *Grand River*, the Southern District or the Second Circuit (and, of course, the U.S. Supreme Court if it hears the case) could reach a different result than *Freedom Holdings IV*. Furthermore, a decision in favor of the MSA and supporting legislation in *Grand River* would not bar other cases challenging the MSA or the State's Qualifying Statute and Complementary Legislation.

In *VIBO*, a tobacco manufacturer who became a party to the MSA in 2004, sued the Attorneys General of the Settling States, the OPMs, and other SPMs in the U.S. District Court for Western Kentucky. It alleged that the MSA and the refusal of the PMs to waive the PMs' most-favored nation rights and the Settling States refusal to settle with the plaintiff on terms that the plaintiff preferred violated the federal antitrust laws and the Equal Protection, Commerce, Due Process, and Compact Clauses of the U.S. Constitution, and that the settling governmental entities fraudulently induced it to enter into the MSA. The district court granted motions to dismiss on all claims. First, the district court held that the PMs' involvement in the creation of the MSA, and their assertion of influence on the Settling States by refusing to give up any most favored nation protections that they held under the MSA (and thus deterring the Settling States from providing the plaintiff the settlement terms that the plaintiff desired) was protected from antitrust liability by the *NP* doctrine. The judicially created *NP* doctrine protects certain acts of petitioning government from antitrust liability. Second, the district court held that the Attorneys General's involvement in and enforcement of the MSA, and their refusal to grant the plaintiff certain settlement terms, were sovereign acts of the states and immune from antitrust attack under the state action exemption. Third, the district court ruled that plaintiff had waived all of its federal constitutional challenges based on the Equal Protection, Due Process, and Commerce Clauses when it became a party to the MSA because the MSA provides in Section XV that all parties agree to waive "for the purposes of performance of the [MSA] any and all claims that the provisions of [the MSA] violate the state or federal constitutions". The district court further held that plaintiff's Compact Clause claim should be dismissed because the MSA does not enhance state power to the detriment of the federal government power. In addition, the district court ruled that the defendant Attorneys General have sovereign immunity from plaintiffs' fraudulent inducement claim. The district court also denied as moot the non-resident Attorneys' General motion to dismiss for lack of personal jurisdiction. Plaintiff appealed the dismissal of its claims, and its appeal is now pending before the U.S. Court of Appeals for the Sixth Circuit.

A final decision in *Grand River* by the Southern District would be subject to appeal as of right to the Second Circuit. However, any decision by the Second Circuit in *Grand River* or any decision by the Sixth Circuit in *VIBO* would not be subject to appeal as of right to the U.S. Supreme Court. No assurance can be given: (1) that the Supreme Court would choose to hear and determine any appeal relating to the validity or enforceability of MSA or related legislation in *Grand River*, *VIBO*, or any other case; or (2) as to the outcome of any petition of writ of certiorari or any appeal, even if heard by the Supreme Court. A Supreme Court decision to affirm or to decline to review a ruling that is adverse to the State regarding the validity or enforceability of the MSA or related legislation (a) could ultimately result in the complete cessation of the Pledged Settlement Payments available to the Authority, (b) could lead to a decrease in the market value and/or liquidity of the Series 2010 Bonds, and (c) in certain circumstances could result in the complete loss of a Bondholder's investment. Moreover, even if ultimately reversed by the Supreme Court, a decision by the district court, Second Circuit or the Sixth Circuit that is adverse to the defendants in *Grand River* or *VIBO* could, unless stayed pending appeal at the discretion of the court, (1) result in the complete cessation of Pledged Settlement Payments available to make payments on the Series 2010 Bonds; or (2) have a material adverse effect on the secondary market for the Series 2010 Bonds and, as a result, lead to a decrease in the market value and/or the liquidity of the Series 2010 Bonds during the pendency of the appeal.

Possibility of Conflict Among Federal Courts. Certain decisions by the Second Circuit in *Freedom Holdings* have created some uncertainty as a result of the court's interpretation of federal

antitrust law immunity doctrines, as applied to the MSA and related statutes, which interpretation appears to conflict with interpretations by several other U.S. Courts of Appeals and other lower courts which have rejected challenges to the MSA and related statutes. Prior decisions rejecting such challenges have concluded that the MSA and related statutes are protected from an antitrust challenge based on the *Parker* or *NP* doctrines. A decision by the Second Circuit in *Grand River* or the Sixth Circuit in *VIBO* that the MSA, Qualifying Statute, the Complementary Legislation or any of them violates the federal antitrust laws, the U.S. Constitution, or any other provision of law would be binding on the State and from which no appeal as of right to the U.S. Supreme Court would exist. However, such determination could be considered to be in conflict with decisions rendered by other federal courts that have come to different conclusions on these issues. The existence of a conflict as to the rulings of different federal courts on these issues, especially between Circuit Courts of Appeals, is one factor that the U.S. Supreme Court may take into account when deciding whether to exercise its discretion in agreeing to hear an appeal. No assurance can be given that the U.S. Supreme Court would choose to hear and determine any appeal relating to the substantive merits of *Grand River* or *VIBO*. Any final decision by the U.S. Supreme Court on the substantive merits of *Grand River* or *VIBO* would be binding everywhere in the United States, including in the State.

Other Litigation Challenging the MSA, Qualifying Statutes and Related Legislation. In addition to *Freedom Holdings*, *Grand River* and *VIBO*, other cases have been filed in federal courts that challenge the MSA, the Qualifying Statute, the Complementary Legislation and/or the Allocable Share Release Amendment. The issues raised in *Freedom Holdings*, *Grand River* or *VIBO* were also raised in many of those cases. With the exception of the *S&M Brands* case as discussed below, all of those cases have resulted in final orders dismissing challenges to the MSA, the Qualifying Statute, the Complementary Legislation and/or the Allocable Share Release Amendment.

A case (*S&M Brands v. Caldwell*) was filed in Louisiana federal court to challenge the MSA, Qualifying Statutes, and related legislation. In *S&M Brands v. Caldwell*, filed in August 2005, certain NPMs and cigarette distributors brought an action in a federal district court in Louisiana, seeking, among other relief: (1) a declaration that the MSA and Louisiana's Qualifying Statute and Complementary Legislation are invalid as violations of the U.S. Constitution and the Federal Cigarette Labeling and Advertising Act; and (2) an injunction barring the enforcement of the MSA and Louisiana's Qualifying Statute and Complementary Legislation. On November 2, 2005, the state defendant filed a motion to dismiss the complaint for lack of jurisdiction. On November 9, 2006, the U.S. District Court for the Western District of Louisiana (the *"**Western District**"*) granted in part and denied in part the defendant's motion to dismiss. The court allowed the case to proceed on claims that the MSA and Louisiana's Complementary Legislation are violations of the federal antitrust laws and of the Compact Clause, Commerce Clause, Due Process Clause and First Amendment of the U.S. Constitution, and the Federal Cigarette Labeling and Advertising Act. The court dismissed the claims that alleged violation of the Tenth Amendment of the U.S. Constitution. On December 12, 2006, the state defendant filed its answer to the complaint. By stipulation filed April 23, 2008, two of the plaintiffs, A.D. Coker Co. and CLP, Inc., were dismissed from the action upon mutual consent of the parties. On September 24, 2009, the Western District granted defendant's motion for summary judgment and dismissed with prejudice all claims by the plaintiffs. On August 10, 2010, the Fifth Circuit affirmed the Western District's order granting summary judgment for the defendants. The Fifth Circuit held that the district court correctly concluded that the MSA did not violate the Compact Clause because the MSA only increases states' power *vis-à-vis* the PMs and does not result in an accompanying decrease of the power of the federal government. The Fifth Circuit also ruled that neither the Escrow Statute nor the MSA violate the federal antitrust laws for the reasons set forth in its prior decision in *Xcaliber Int'l Ltd. v. Caldwell*. In addition, the Fifth Circuit affirmed the dismissal of plaintiffs' Commerce Clause and Due Process Clause claims because plaintiffs had failed to show that the Louisiana Escrow Statute had the effect of increasing cigarette prices outside of Louisiana. With respect to plaintiffs' First Amendment challenge to the MSA and the Escrow Statute,

the Fifth Circuit found that the only statute applicable to plaintiffs as NPMs was the Escrow Statute, which the court determined did not compel or abridge plaintiffs' speech. Similarly, the Fifth Circuit found that the MSA and Escrow Statute did not violate the Federal Cigarette Labeling and Advertising Act because plaintiffs are not compelled to join the MSA and the Escrow Statute does not have any connection with cigarette packaging, advertising, or promotion. On November 8, 2010, plaintiffs filed a petition for writ of certiorari with the U.S. Supreme Court for review of the Fifth Circuit's decision, which petition is pending.

If there is an adverse ruling in one or more of the cases discussed above, it could have a material adverse effect on the amount and/or timing of Pledged Settlement Payments available to the Authority, and could lead to a decrease in the market value and/or the liquidity of the Bonds and, in certain circumstances, could lead to a complete loss of a Bondholder's investment. For a description of the opinions of Nixon Peabody LLP, Bond Counsel, addressing such matters, see "LEGAL CONSIDERATIONS — MSA Enforceability" and "LEGAL CONSIDERATIONS — Qualifying Statute Constitutionality".

Potential 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. Such adjustments, offsets and recalculations, could reduce the Pledged Settlement Payments available to the Authority below the respective amounts required to pay the Series 2010 Bonds and could lead to a decrease in the market value and/or the liquidity of the Series 2010 Bonds, which in certain circumstances could lead to a complete loss of a Bondholder's investment. Both the Settling States and one or more of the PMs are participating in proceedings that may result in downward adjustments to the amounts paid by the PMs to the states and territories that are parties to the MSA, including Illinois, for each of the years 2003 to 2009. No assurance can be given as to the magnitude of the adjustments that may result upon resolution of those disputes. Any such adjustments could trigger the Offset for Miscalculated or Disputed Payments. For additional information regarding the MSA and the payment adjustments, see "— Adjustments to Payments".

The assumptions used to project debt service coverage ratios are based on the premise that certain adjustments will occur as set forth under "DEBT SERVICE REQUIREMENTS AND COVERAGE UNDER CERTAIN CONSTANT ANNUAL RATES OF CONSUMPTION DECLINE". Actual adjustments could be materially different from what has been assumed and described herein.

Growth of NPM Market Share and Other Factors. The assumptions used to produce the tables herein contemplate four constant annual rates of declining consumption of cigarettes in the U.S. combined with a static relative market share of 6.39%* for the NPMs. See "DEBT SERVICE REQUIREMENTS AND COVERAGE UNDER CERTAIN CONSTANT ANNUAL RATES OF CONSUMPTION DECLINE". Should a decline within the range of decline in consumption occur, but be accompanied by a

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* Market share information for the OPMs based on domestic industry shipments may be materially different from Relative Market Share for purposes of the MSA and the respective obligations of OPMs to contribute to Annual Payments and Strategic Contribution Fund Payments. The aggregate market share information used in the Cash Flow Assumptions is based on information as reported by NAAG for 2009 and may differ materially from the market share information as reported by the OPMs for purposes of their filings with the SEC. See "DEBT SERVICE REQUIREMENTS AND COVERAGE UNDER CERTAIN CONSTANT ANNUAL RATES OF CONSUMPTION DECLINE AND "DOMESTIC TOBACCO INDUSTRY." The aggregate market share information used in the Cash Flow Assumptions may differ materially from the market share information used by MSA Auditor in calculating the adjustments to future Annual Payments and Strategic Contribution Fund Payments.

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 and Strategic Contribution Fund Payments by the PMs due to application of the Volume Adjustment, even for Settling States (including the State) that have adopted enforceable Qualifying Statutes and are diligently enforcing such statutes and are thus exempt from the NPM Adjustment. One SPM has introduced a cigarette with reportedly no nicotine. If consumers used this product to quit smoking, it could reduce the size of the cigarette market. The capital costs required to establish a profitable cigarette manufacturing facility are relatively low, and new cigarette manufacturers, whether SPMs or NPMs, are less likely than OPMs to be subject to frequent litigation.

The Model Statute in its original form had required each NPM to make escrow deposits approximately in the amount that the NPM would have had to pay had it been a PM, but entitled the NPM to a release, from each Settling State in which the NPM had made an escrow deposit, of the amount by which the escrow deposit exceeds that Settling State's allocable share of the total payments that the NPM would have been required to make had it been a PM. At least 44 Settling States, including the State, have enacted, and other states are considering enacting, legislation that amends this provision in their Model/Qualifying Statutes, by eliminating the reference to the allocable share and limiting the possible release an NPM may obtain to the excess above the total payment that the NPM would have paid had it been a PM (so called "**Allocable Share Release Legislation**"). 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 Allocable Share Release Legislation, 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. NPMs are currently challenging Allocable Share Release Legislation in the states of New York, California, Arkansas, Kansas, Kentucky, Louisiana, Oklahoma, and Tennessee. It is possible that NPMs will challenge such legislation in other states, including the State. See "– Litigation Challenging the MSA, the Qualifying Statutes and Related Legislation". To the extent that either: (1) other jurisdictions do not enact or enforce Allocable Share Release Legislation; or (2) a jurisdiction's Allocable Share Release Legislation is invalidated, NPMs could concentrate sales in such jurisdiction to take advantage of the absence of Allocable Share Release Legislation by limiting the amount of its escrow payment obligations to only a fraction of the payment it would have been required to make had it been a PM. Because the price of cigarettes affects consumption, NPM cost advantage is one of the factors that has resulted and could continue to result in increases in market share for the NPMs.

A significant loss of market share by PMs to NPMs could have a material adverse effect on the payments by PMs under the MSA, could lead to a decrease in the market value and/or the liquidity of the Series 2010 Bonds, and could have a material adverse effect on the amount and/or timing of Pledged Settlement Payments available to the Authority. See "– Adjustments to Payments".

NPM Adjustment

Description of the NPM Adjustment. The NPM Adjustment, measured by domestic sales of cigarettes by NPMs, operates in certain circumstances to reduce the payments of the PMs under the MSA in the event of losses in market share to NPMs during a calendar year as a result of 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 (as defined in the MSA) for the applicable year must exist, which means that 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 (a condition that has existed for every year since 2000); (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.[‡]

Application of the NPM Adjustment. The entire NPM Adjustment is ultimately applied to a subsequent year's Annual Payment and Strategic Contribution Fund Payment due to those Settling States: (1) that have been found to have not diligently enforced their Qualifying Statutes throughout the year; or (2) that have enacted the Model Statute or a Qualifying Statute that is declared invalid or unenforceable by a court of competent jurisdiction. 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 16 2/3% 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 PMs' market share loss is greater than 16 2/3%, then the NPM Adjustment will equal 50% plus an amount determined by formula as set forth in the footnote below.[§]

The MSA further provides that in no event shall the amount of an NPM Adjustment applied to any Settling State in any given year exceed the amount of Annual Payments and Strategic Contribution Fund Payments to be received by such Settling State in such year.

Regardless of how the NPM Adjustment is calculated, it is always subtracted from the total Annual Payments and Strategic Contribution Fund Payments due from the PMs and then ultimately allocated on a Pro Rata (as defined in the MSA) basis only among those Settling States: (1) that have been proven to have not diligently enforced their Qualifying Statute; or (2) that have enacted the Model Statute or a Qualifying Statute that is declared invalid or unenforceable by a court of competent jurisdiction.[*] However, 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 Disputed Payments Account, or withhold payment of such amount, would be to reduce the payments to all Settling States on a pro rata basis until, for any particular Settling State, a resolution is reached regarding the diligent enforcement dispute for such state for such year or until, for all Settling States, a global settlement is reached for all such disputes for such year. If the PMs make a claim for an NPM Adjustment for any particular year and the 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 the State in the year following such determination could be as great as the amount of Annual Payments and Strategic Contribution Fund Payments that could otherwise have been received by the State in such year, and could have a material adverse effect on the amount and/or timing of Pledged Settlement Payments available to the Authority.

[‡] 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.

[§] If the aggregate market share loss from the Base Aggregate Participating Manufacturer Share is greater than 16 2/3%, the NPM Adjustment will be calculated as follows:

NPM Adjustment = 50% +
[50% / (Base Aggregate Participating Manufacturer Market Share – 16 2/3%)]
x [market share loss – 16 2/3%]

[*] If a court of competent jurisdiction declares a Settling State's Qualifying Statute to be invalid or unenforceable, then the NPM Adjustment for such state is limited to no more, on a yearly basis, than 65% of the amount of such state's allocated payment.

Settlement of Calendar 1999 through 2002 NPM Adjustment Claims. In June 2003, the OPMs and the Settling States settled all NPM Adjustment claims for the years 1999 through 2002, subject, however, under limited circumstances, to the reinstatement of an OPM's right to an NPM Adjustment for the years 2001 and 2002. In connection therewith, the OPMs and the Settling States agreed prospectively that OPMs claiming an NPM Adjustment for any year will not make such a deposit into the Disputed Payments Account 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 OPMs have claimed an NPM Adjustment, such OPMs may, in fact, either make a deposit into the Disputed Payments Account or withhold payment reflecting the claimed NPM Adjustment. See "THE MASTER SETTLEMENT AGREEMENT — Adjustments to Payments".

Possible Adjustments in MSA Payments for 2003 to 2009. Pursuant to the provisions of the MSA, domestic tobacco product manufacturers are participating in proceedings that may result in downward NPM Adjustments to the amounts paid by the OPMs and the SPMs for each of the years 2003 to 2009 and these adjustments could lead to offsets against the Pledged Settlement Payments paid in future years.

If the selected economic consulting firms determine that the disadvantages of the MSA were such a "significant factor", each Settling State may avoid a downward adjustment to its share of the participating manufacturers' annual payments for that year by establishing that it diligently enforced its Qualifying Statute during the entirety of that year. Any potential downward adjustment would then be reallocated to any Settling States that do not establish such diligent enforcement.

It has been reported that the 2005 Annual Payments by the OPMs were made without a diversion of any portion thereof into the Disputed Payments Account for the Settling States. It has also been reported that 11 SPMs paid approximately $84 million of their 2005 Annual Payments into the Disputed Payments Account for the Settling States as a result of alleged disputes, including disputes related to NPM Adjustments. Unlike the OPMs, the SPMs had not agreed, as part of their settlement of calendar 1999 through 2002 NPM Adjustment Claims, to await the finding of a significant factor determination before taking such action. Of this $84 million, approximately $44 million represented payments by six SPMs relating to cigarettes sold in 2003. Following litigation brought by the State of New York challenging such actions, the six SPMs released such $44 million to the Settling States. Such release of money, however, does not represent final settlement of any alleged disputes. In addition, more than $18 million due from various SPMs was withheld on April 15, 2005.

In March 2006, an independent economic consulting firm determined that the disadvantages of the MSA were a significant factor contributing to the PMs' collective loss of market share for the year 2003. In February 2007, this same firm determined that the disadvantages of the MSA were a significant factor contributing to the PMs' collective loss of market share for the year 2004. In February 2008, the same economic consulting firm determined that the disadvantages of the MSA were a significant factor contributing to the PMs' collective loss of market share for the year 2005. A different economic consulting firm was selected to make the "significant factor" determination regarding the PMs' collective loss of market share for the year 2006. In March 2009, this firm determined that the disadvantages of the MSA were a significant factor contributing to the PMs' collective loss of market share for the year 2006. Following the firm's determination for 2006, the OPMs and the Settling States agreed that the Settling States would not contest that the disadvantages of the MSA were a significant factor contributing to the PMs' collective loss of market share for the years 2007, 2008 and 2009. Accordingly, the OPMs and the Settling States have agreed that no "significant factor" determination by the firm will be necessary with respect to the PMs' collective loss of market share for the years 2007, 2008 and 2009. This agreement

became effective for 2007 on February 1, 2010 and will become effective for 2008 and 2009 on February 1, 2011 and February 1, 2012, respectively. States that have been found to have diligently enforced their Qualifying Statutes during all of a particular year will ultimately be able to avoid any application of the NPM Adjustment to their payments for that year.

Once a significant factor determination in favor of the PMs for a particular year has been made by the economic consulting firm, or the Settling States' agreement not to contest the significant factor determination for a particular year has become effective, the PMs have the right under the MSA to pay the disputed amount of the NPM Adjustment for that year into a Disputed Payments Account or withhold it altogether. To date, Philip Morris has made its full MSA payment each year to the Settling States, even though it had the right to deduct the disputed amounts of the 2003 – 2007 NPM Adjustments, as described above, from its MSA payments due in the years 2006 – 2010, respectively, and certain of the other PMs have made payments into Disputed Payments Accounts or have withheld payments. The approximate maximum principal amounts of the PM's aggregate share of the disputed NPM Adjustment for the years 2003 through 2009, as reported by NAAG, are as follows:

Sale Year for which NPM Adjustment was calculated	2003	2004	2005	2006	2007	2008	2009	**Total**
MSA Payment Year by which deduction for NPM Adjustment may be asserted	2006	2007	2008	2009	2010*	2011*	2012*	–
Potential OPM NPM Adjustment	$1,061,158,548	$1,061,288,734	$702,715,077	$649,651,333	$744,550,816	$849,876,793	$774,583,679	**$5,843,824,980**
Potential SPM NPM Adjustment	$86,407,516	$76,107,191	$50,630,561	$54,068,874	$49,988,606	$69,027,802	$68,130,064	**$454,360,614**
Total	**$1,147,566,064**	**$1,137,395,925**	**$753,345,638**	**$703,720,207**	**$794,539,422**	**$918,904,595**	**$842,713,743**	**$6,298,185,594**

* Includes MSA Annual Payment and Strategic Contribution Fund Payment.

Unlike the other OPMs, to date Philip Morris USA, the largest of the OPMs, has made its full MSA payment each year to the Settling States rather than withholding disputed amounts outright or depositing them to the Disputed Payments Account, but has made the payments subject to its asserted right to recoup the disputed NPM Adjustment amount in the form of a credit against future MSA payments. According to Altria, the parent of Philip Morris USA, the approximate maximum principal amounts of Philip Morris USA's share of the disputed NPM Adjustment for the years 2003 through 2009, as currently calculated by the MSA Independent Auditor, aggregate to approximately $1.74 billion (not including interest, which Philip Morris USA has indicated it believes accrues at the prime rate from the payment date for the year for which the NPM Adjustment is calculated).

The foregoing amounts may be recalculated by the Independent Auditor if it receives information that is different from or in addition to the information on which it based these calculations, including, among other things, if it receives revised sales volumes from any PM. Disputes among the manufacturers could also reduce the foregoing amounts. The OPMs have reported that the availability and the precise amount of any NPM Adjustment for 2003, 2004, 2005, 2006, 2007, 2008 and 2009 will not be finally determined until 2011 or thereafter. There is no certainty that the OPMs and other PMs will ultimately receive any adjustment as a result of these proceedings, and the amount of any adjustment received for a year could be less than the amount for that year listed above. If the OPMs do receive such an adjustment through these proceedings, the adjustment would be allocated among the OPMs pursuant to the MSA's provisions, and each could receive its share of any adjustments, through a return of funds held in the Disputed Payments Account, or in the form of a credit against future MSA payments.

Any payment amounts released to the State from the Disputed Payments Accounts or withheld amounts for the years in the table above would not be considered Pledged Settlement Payments and will not be used to pay principal or interest on the Series 2010 Bonds. Any adjustments made in the form of a credit against future MSA payments could lead to material reductions in the Pledged Settlement Payments available to pay principal and interest on the Series 2010 Bonds.

Amounts Paid, Disputed and Withheld for 2009. As an example of where the aggregate payments made under the MSA are directed generally, in April 2010, a total of $6,314,700,048.39 was due from the PMs for the 2010 Annual Payment relating to 2009 sales. Of this amount, $5,675,161,533.83 was paid to the Settling States, $537,788,627.93 was paid into the Disputed Payments Account on account of the NPM Adjustment, $20,338,512.67 was withheld on account of the NPM Adjustment, $2,818,017.98 was withheld on account of the "Net vs. Gross" dispute, and $78,625,506.80 was defaulted upon (all by General Tobacco). General Tobacco has stated that it has ceased production of cigarettes and other tobacco products and plans to wind down operations. With regards to the "Net vs. Gross" dispute, in October 2004 the MSA Auditor notified the PMs that their payment obligations under the MSA, dating from the execution date of the MSA in late 1998, had been recalculated using "net" unit amounts, rather than "gross" unit amounts (which had been used since 1999). Certain PMs have objected to this change in methodology for calculating payments under the MSA.

Also in April 2010, a total of $753,572,936.62 was due from the PMs for the 2010 Strategic Contribution Fund payment relating to 2009 sales. Of this amount, $705,888,846.49 was paid, $38,323,422.51 was paid into the Disputed Payments Account on account of the NPM Adjustment, $745,215.09 was withheld on account of the NPM Adjustment, $298,061.80 was withheld on account of the "Net vs. Gross" dispute and $8,317,552.70 was defaulted upon (all by General Tobacco).

Taking the two payments together, $7,068,272,985.01 was due from the PMs for both the 2010 Annual Payment and the 2010 Strategic Contribution Fund payment relating to 2009 sales. Of this amount, $6,381,050,380.32 was paid, $576,112,050.44 was paid into the Disputed Payments Account on account of the NPM Adjustment, $21,083,727.76 was withheld on account of the NPM Adjustment,

$3,116,079.78 was withheld on account of the "Net vs. Gross" dispute, and $86,943,059.50 was defaulted upon by General Tobacco.

Resolution of Diligent Enforcement Disputes. As previously noted, any Settling State that adopts, maintains and diligently enforces its Qualifying Statute is exempt from the NPM Adjustment. The State has enacted a Qualifying Statute. No provision of the MSA, however, attempts to define what activities, if undertaken by a Settling State, would constitute diligent enforcement. The State's Attorney General's office maintains that the State has been and is diligently enforcing its Qualifying Statute. 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.

Altria has reported that, following the economic consulting firm's determination with respect to 2003, 38 states (including the State) filed declaratory judgment actions in state courts seeking a declaration that the state diligently enforced its Qualifying Statute during 2003. The PMs responded to these actions by filing motions to compel arbitration in accordance with the terms of the MSA, including filing motions to compel arbitration in eleven Settling States that did not file declaratory judgment actions. Courts in all but one of the 46 Settling States have ruled that the question of whether a state diligently enforced its escrow statute during 2003 is subject to arbitration. One state court (Montana) has ruled that the diligent enforcement claims of that state may be litigated in state court, rather than in arbitration. Several of these rulings may be subject to further review. In January, 2010, the OPMs filed a petition for a writ of certiorari in the United States Supreme Court seeking further review of the one decision holding that a state's diligent enforcement claims may be litigated in state court, rather than in arbitration. The petition was denied in June, 2010. Following the denial of this petition, Montana renewed an action in its state court seeking a declaratory judgment that it diligently enforced its escrow statute during 2003 and other relief. The OPMs have moved to stay that action. Argument on the motion occurred on October 22, 2010.

The OPMs and approximately 25 other PMs have entered into an agreement regarding arbitration with 45 Settling States (including the State) concerning the 2003 NPM Adjustment, including the states' claims of diligent enforcement for 2003. The agreement provides for a partial liability reduction for the 2003 NPM Adjustment for states that entered into the agreement by January 30, 2009 and are 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, including the State), the partial liability reduction for those states is 20%. In early July 2010, the three judge panel of arbitrators was seated to hear the 2003 NPM Adjustment arbitration between the Settling States and the PMs. On July 20, 2010, and October 5, 2010 the panel conducted administrative conferences with all parties. Reynolds American reports that additional proceedings are scheduled for December 6-7, 2010, and it is anticipated that it will be 12 to 18 months before a decision on the merits with respect to this claim is reached.

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. At the present time, there are hearings pending in many other states regarding whether arbitration is the appropriate forum for these disputes. The Attorneys General of the Settling States, including the State, continue to believe that the court in each Settling State that retains continuing jurisdiction over the MSA should make the determination as to diligent enforcement of such state's Qualifying Statute. Regardless of the forum in which a diligent enforcement dispute is heard, no assurance can be given as to how long it will take to resolve such a dispute with finality.

Effect of Complementary Legislation. At least 45 of the Settling States, including the State, have passed legislation (often termed **"Complementary Legislation"**) to further ensure that NPMs are making required escrow payments under the Qualifying Statutes. See "— MSA Provisions Relating to Model/Qualifying Statutes—State's Qualifying Statutes".

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 a 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 the 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, which could lead to an increase in the market share of NPMs, resulting in a reduction of Annual Payments and Strategic Contribution Fund 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 the federal antitrust laws. See "–Litigation Challenging the MSA, the Qualifying Statutes and Related Legislation". See "THE MASTER SETTLEMENT AGREEMENT — MSA Provisions Relating to Model/Qualifying Statutes".

Conclusion. Potential NPM Adjustments remain possible for calendar year 2003, and all future years. In addition, the "diligent enforcement" exemption afforded a Settling State is based on actual enforcement efforts for the calendar year preceding each Annual Payment, and could be disputed by a PM even after the final resolution of a diligent enforcement dispute related to a prior year. If the other preconditions to an NPM Adjustment exist for a given year, disputes regarding diligent enforcement for such year may be expected if the market share of the NPMs results in an NPM Adjustment that, absent the protection of the Qualifying Statutes, would apply.

The Cash Flow Assumptions used for preparing the coverage tables for the Series 2010 Bonds do not include any NPM Adjustments, nor do they include withholdings or Disputed Payments Account deposits relating to PM claims of entitlement to NPM Adjustments or any settlement of NPM Adjustment claims, based on the assumption that the State has and will diligently enforce its Qualifying Statute, which is not held to be unenforceable. If these 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, could lead to a decrease in the market value and/or the liquidity of the Series 2010 Bonds, and could have a material adverse effect on the amount and/or timing of Pledged Settlement Payments available to the Authority. See "DEBT SERVICE REQUIREMENTS AND COVERAGE UNDER CERTAIN CONSTANT ANNUAL RATES OF CONSUMPTION DECLINE".

Disputed or Recalculated Payments and Disputes under the Terms of the MSA. Disputes concerning payments and their calculations may be raised up to four years after the respective Payment Date (as defined in the MSA). The resolution of disputed payments may result in the application of an offset against subsequent Annual Payments or Strategic Contribution Fund Payments. Miscalculations or recalculations by the MSA Auditor or disputed calculations by any of the parties to the MSA, such as those described above under "–NPM Adjustment", 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. Certain cases are discussed below which are illustrative of certain disputes which have arisen under the MSA.

In October 2008, General Tobacco, filed a complaint in the U.S. District Court for the Western District of Kentucky against 19 tobacco manufacturers, and 52 state and territorial attorneys general that are parties to the MSA. General Tobacco sought, among other things, to enjoin enforcement of certain provisions of the MSA and an order relieving it of certain of its payment obligations under the MSA and, in the event such relief was not granted, rescission of General Tobacco's 2004 agreement to join the MSA. General Tobacco also moved for a preliminary injunction that, among other things, would have enjoined the states from enforcing certain of General Tobacco's payment obligations under the MSA. In December 2008, the court dismissed the complaint against all defendants. The court entered its final judgment dismissing the suit in January 2010. Thereafter, the plaintiff filed a notice of appeal to the federal Court of Appeals for the Sixth Circuit. As of October 20, 2010, no other filings have been made. General Tobacco has stated that it has ceased production of cigarettes and other tobacco products and plans to wind down operations. See "DOMESTIC TOBACCO INDUSTRY — Civil Litigation" for further discussion of General Tobacco's antitrust claims.

California, Kentucky and Iowa have had disputes and have filed suit against Bekenton USA, Inc. ("**Bekenton**"), to among other things, compel Bekenton to comply with its full payment obligations under the MSA. In June 2005, the State of California filed an application in San Diego County Superior Court seeking an enforcement order against Bekenton. Bekenton was allowed by the court to file a suit that argued, among other things, that the State of California breached the Most Favored Nation ("**MFN**") provisions of the MSA by allowing three other SPMs to join the MSA under more favorable terms, and that it was entitled to similar relief under another clause of the MSA (the "**Relief Clause**"), which requires that if any PM is relieved of a payment obligation, such relief becomes applicable to all of the PMs. In a November 2005 tentative ruling (which subsequently became a final order on March 15, 2006), the court denied Bekenton's MFN claim and its motion to file suit under the Relief Clause. In 2005, Bekenton also filed for bankruptcy relief. In the Kentucky case, Bekenton failed to make its full MSA payment of approximately $7.7 million in April 2005, and, instead, paid only $198,000, less than 3% of the total payment due. The Commonwealth of Kentucky commenced an action against Bekenton in which Bekenton claimed that under the Relief Clause it was entitled to reduce its payment. In April 2006, the court dismissed Bekenton's claim for a reduction, holding that the Relief Clause was not applicable since the agreement with another PM did not relieve the PM of any payment obligations. In the Iowa case, the State of Iowa sought to de-list Bekenton as a PM for failing to comply with the MSA payment provisions and to prohibit Bekenton from doing business in Iowa for failing to comply with the escrow payment provisions of the Iowa Qualifying Statute. In August 2005, an Iowa state court enjoined Iowa from "de-listing" Bekenton, permitting Bekenton to continue selling cigarettes in Iowa. The court found that the MSA itself provides procedures for the resolution of disputes regarding MSA payments and that such procedures should be followed in this case.

Disputes concerning 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 may result in the application of an offset against subsequent Annual Payments or Strategic Contribution Fund Payments. The diversion of disputed payments to the Disputed Payments Account, the withholding of all or a portion of any disputed amounts or the application of offsets against future payments could lead to a decrease in the market value and/or the liquidity of the Series 2010 Bonds, and could also have a material adverse effect on the amount and/or timing of Pledged Settlement Payments available to the Authority. Amounts held in the Disputed Payments Account could be released to those Settling States which, in the future, are found to have diligently enforced their Model Statutes, or pursuant to a settlement of the disputes among the Settling States and the PMs. The Cash Flow Assumptions used for preparing the coverage tables for the Series 2010 Bonds do not factor in an offset for miscalculated or disputed payments or any release of funds currently held in the Disputed Payments Account. See "THE MASTER SETTLEMENT AGREEMENT — Adjustments to Payments – *Offset for Miscalculated or Disputed Payments*".

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 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) 551-5450; fax: (202) 343-1028; 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. Prospective investors in the Series 2010 Bonds should conduct their own independent investigations of the domestic tobacco industry to determine if an investment in the Series 2010 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 "THE MASTER SETTLEMENT AGREEMENT — Overview of Payments by the Participating Manufacturers; MSA Escrow Agent", "– Annual Payments". Additionally, aggregate market share information, based upon shipments as reported by Lorillard, Inc., Reynolds American Inc. and the Altria Group, Inc. and reflected in the chart below entitled "Manufacturers' Domestic Market Share of Cigarettes" is different from that utilized in the bond structuring assumptions. See "DEBT SERVICE REQUIREMENTS AND COVERAGE UNDER CERTAIN CONSTANT ANNUAL RATES OF CONSUMPTION DECLINE".

Industry Overview

As reported by NAAG, based upon OPM shipments reported to MSAI, the OPMs accounted for approximately 82.85% of the U.S. domestic cigarette market in 2009 (and measuring roll-your-own cigarettes at 0.0325 ounces per cigarette conversion rate). However, according to publicly available documents of the OPMs, in 2009 the OPMs collectively accounted for approximately 89.5% of the domestic cigarette retail industry when measured by shipment volume. The market for cigarettes in the U.S. divides generally into premium and discount sales, approximately 70.5% and 29.5%, respectively, measured by volume of all domestic cigarette sales for calendar year 2009, as reported by Lorillard, Inc.

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-K filed with the SEC for calendar year 2009, Altria reported that Philip Morris's domestic cigarette market share for calendar year 2009 was 49.9% (based on retail sales), which represents a decrease of 1.0 share points from its reported domestic market

share (based on retail sales) of 50.9% for calendar year 2008. In its Form 10-Q filed with the SEC for the three-month period ended March 31, 2010, Altria reported that Philip Morris's domestic cigarette market share for the three months ended March 31, 2010 was 50.2% (based on retail sales), a decrease of 0.7 share points when compared to the first three months of 2009. In its Form 10-Q filed with the SEC for the six-month period ended June 30, 2010, Altria reported that Philip Morris's domestic market share for the six months ended June 30, 2010 was 50.2% (based on retail sales), no change in market share when compared to the first six months of 2009. In its Form 10-Q filed with the SEC for the nine-month period ending September 30, 2010, Philip Morris reported that its domestic cigarette market share for the nine-month period ending September 30, 2010 was 50.0% (based on retail sales), a decrease of 0.1 share points when compared to the corresponding period of 2009. Philip Morris's major premium brands are Marlboro, Virginia Slims and Parliament. Its principal discount brand is Basic. Marlboro is the largest selling cigarette brand in the U.S., with approximately 41.8% of the U.S. domestic retail share for calendar year 2009 and 42.7% for the first six months of 2010, down from 41.9% from the calendar year 2008 and up from 41.9% for the first six months of 2009, respectively, and has been the world's largest-selling cigarette brand since 1972. In 2009, Altria acquired UST LLC, whose subsidiary, U.S. Smokeless Tobacco LLC (**"UST"**), is the largest producer of smokeless tobacco in the U.S. Philip Morris's market share information is based on data from the IRI/Capstone Total Retail Panel ("**IRI/Capstone**"), which was designed to measure market share in retail stores selling cigarettes, but was not designed to capture Internet or direct mail sales.

Reynolds American Inc. ("**Reynolds American**") is the second largest tobacco company in the U.S. Reynolds American became the parent company of R.J. Reynolds Tobacco Company ("**Reynolds Tobacco**") on July 30, 2004, following a transaction that combined Reynolds Tobacco and the U.S. operations of B&W, previously the third largest tobacco company in the U.S., under the Reynolds Tobacco name. In connection with this merger, Reynolds American assumed all pre-merger liabilities, costs and expenses of B&W, including those related to the MSA and related agreements and with respect to pre-merger litigation of B&W. Reynolds American is also the parent company of American Snuff Co., owner of smokeless tobacco brands, Lane Limited, a manufacturer and marketer of specialty tobacco products, and Santa Fe Natural Tobacco Company, Inc., the latter two of which are SPMs.

In its Form 10-K filed with the SEC for calendar year 2009, Reynolds American reported that its domestic retail cigarette market share for calendar year 2009 was 28.3% (measured by sales volume), which represents a decrease of 0.1 share points from the 28.4% for calendar year 2008. In its Form 10-Q filed with the SEC for the three-month period ended March 31, 2010, Reynolds American reported that its domestic retail market share for the three months ended March 31, 2010 was 27.9% (measured by sales volume), an increase of 0.2 share points when compared to the first three months of 2009. In its Form 10-Q filed with the SEC for the six-month period ended June 30, 2010, Reynolds American reported that its domestic retail cigarette market share for the three-month period ended June 30, 2010 was 27.9% (measured by sales volume), a decrease of 0.8 share points when compared to the same three-month period of 2009. In its Form 10-Q filed with the SEC for the nine-month period ending September 30, 2010, Reynolds American reported that its domestic cigarette market share for the three-month period ending September 30, 2010 was 28.2% (measured by sales volume), excluding private label brands, unchanged when compared to the corresponding period of 2009. Reynolds American's major premium brands are Camel, Kool, Winston and Salem. Its discount brands include Doral and Pall Mall. Reynolds American's market share information is based on IRI/Capstone data.

Lorillard, Inc. ("**Lorillard**"), formerly a wholly-owned subsidiary of Loews Corporation prior to June 2008, is the third largest tobacco company in the U.S. In its Form 10-K filed with the SEC for calendar year 2009, Lorillard reported that its domestic cigarette market share for calendar year 2009 was 11.3% (measured by wholesale shipment volume), which represents an increase of 0.6 share points from its reported domestic market share of 10.7% (measured by wholesale shipment volume) for calendar year

2008. In its Form 10-Q filed with the SEC for the three-month period ended March 31, 2010, Lorillard reported that its domestic cigarette market share for the three months ended March 31, 2010 was 12.1% (measured by wholesale shipment volume), an increase of 1.6 share points when compared to the first three months of 2009. In its Form 10-Q filed with the SEC for the six-month period ending June 30, 2010, Lorillard reported that its domestic cigarette market share for the six-month period ending June 30, 2010 was 12.2%, an increase of 1.2 share points when compared to the corresponding period of 2009. In its Form 10-Q filed with the SEC for the nine-month period ending September 30, 2010, Lorillard reported that its domestic market share for the nine-month period ending September 30, 2010 was 12.2%, an increase of 1.0 share points when compared to the corresponding period of 2009. Lorillard's principal brands are Newport, Kent, True, Maverick, Old Gold and Max. Its largest selling brand is Newport, which accounted for approximately 91.5% of Lorillard's net sales for the calendar year 2009 and 90.1% for the nine-month period ended September 30, 2010. During 2010, Lorillard intends to enter certain test markets with a traditional moist snuff product to assess opportunities to broaden its product offering. On November 1, 2010, Lorillard began shipping its new non-menthol varieties of Newport, called Newport Non-Menthol Box and Newport Non-Menthol Box 100s. Market share data reported by Lorillard is based on data made available by MSAI.

Based on the domestic retail market shares discussed above, the remaining share of the U.S. retail cigarette market for calendar year 2009 was held by a number of other domestic and foreign cigarette manufacturers, including Liggett Group, Inc. ("**Liggett**"), a wholly-owned subsidiary of Vector Group Ltd. ("**Vector**"), and Commonwealth Brands, Inc. ("**CBI**"), an SPM, wholly-owned subsidiary of Imperial Tobacco Group PLC (**"Imperial Tobacco**"), which markets deep discount brands. Imperial Tobacco is listed on the London Stock Exchange and does not file reports with the SEC. However, Imperial Tobacco reported in its 2009 annual report that it held a 4.2% market share of the U.S. cigarette market, which they indicated was "stable". CBI's brands include USA Gold, Sonoma, Davidoff, Rave and Malibu. Liggett is the operating successor to the Liggett & Myers Tobacco Company. In its Form 10–K filed with the SEC for calendar year 2009, Vector reported that Liggett's domestic market share in 2009 was 2.7% (measured by shipment volume), which represents an increase of 0.2 share points from its 2008 domestic market share of 2.5%. All of Liggett's unit volume for the calendar years 2007, 2008 and 2009 and for the first six months of 2010 was in the discount segment. Its brands include Liggett Select, Grand Prix, Eve, Pyramid and USA. Vector announced that it has introduced three varieties of a low nicotine cigarette in eight states, one of which is reported to be virtually nicotine free, under the brand name QUEST. However, Vector has determined to postpone the national launch of QUEST indefinitely. Liggett and Vector Group Ltd. are SPMs under the MSA. In February 2008, Liggett announced that it will begin selling "snus", a smokeless tobacco product, under its Grand Prix brand but does not appear to have yet entered that market as there is no mention of it in Vector's recent SEC filings.

Shipment Trends

The following table sets forth the approximate comparative positions of the leading producers of cigarettes in the U.S. domestic tobacco industry, each of which is an OPM under the MSA. Individual and total domestic OPM market shares presented below are derived from the publicly available documents of the OPMs and, as a result of varying methodologies used by the OPMs to calculate market share, may not be comparable and may be inaccurate when combined as presented.

Manufacturers' Domestic Market Share of Cigarettes*

Manufacturer	2006	2007	2008	2009	2010***
Philip Morris	50.3%	50.6%	50.9%	49.9%	50.0%
Reynolds American	29.8	29.0	28.4	28.3	28.2
Lorillard	9.7	10.0	10.7	11.3	12.2
Other**	10.2	10.4	10.0	10.5	9.6

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* Aggregate market share as reported above is different from that utilized in the Cash Flow Assumptions.

** The market share, other than the OPMs, has been determined by subtracting the total market share percentages of the OPMs 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.

*** As of September 30, 2010.

Lorillard utilizes 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. Lorillard management has indicated that it believes that volume and market share information for the deep discount manufacturers are understated and, correspondingly, market share information for the larger manufacturers are overstated by MSAI.

The following table sets forth the industry's approximate cigarette shipments in the U.S. for the four years ended December 31, 2009. The MSA payments are calculated in part on shipments by the OPMs in or to the U.S. rather than consumption.

Years Ended December 31	Shipments (Billions of Cigarettes)*
2006	376.0
2007	357.2
2008	345.3
2009	315.7

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* As reported in SEC filings of Lorillard and the Loews Corporation, based on MSAI data.

According to Lorillard's SEC filings, based on MSAI data, domestic industry shipments continued to decrease during 2010, compared with the corresponding quarterly periods of 2009.

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.

Cigarette Shipment Trends

According to data from NAAG, overall shipments dropped approximately 9.3% to 324.9 billion cigarettes in 2009 from 358.3 billion cigarettes in 2008 (measuring roll your own tobacco sales at 0.0325 ounces per cigarette conversion rate) primarily due to the excise tax increases and the difficult macroeconomic environment for the domestic consumer. According to NAAG data, domestic U.S. cigarette consumption over the past 10 years was as follows:

Year	No. of Cigarettes (in billions)	% Change
1999	442	N/A
2000	436	(1.3)
2001	429	(1.51)
2002	418	(2.68)
2003	404	(3.3)
2004	404	0.09
2005	390	(3.51)
2006	391	0.25
2007	373	(4.77)
2008	358	(3.84)
2009	325	(9.3)

According to data from the Department of Treasury, Alcohol and Tobacco Tax and Trade Bureau, overall shipments dropped approximately 9.35% to 323.7 billion cigarettes in 2009 from 357.1 billion cigarettes in 2008 (measuring roll your own tobacco sales at 0.0325 ounces per cigarette conversion rate). According to this data, domestic U.S. cigarette consumption over the past 10 years was as follows:

Year	No. of Cigarettes (in billions)	% Change
1999	439	N/A
2000	442	0.69
2001	431	-2.29
2002	421	-2.31
2003	407	-3.54
2004	404	-0.56
2005	390	-3.60
2006	389	-0.13
2007	371	-4.69
2008	357	-3.71
2009	324	-9.35

Physical Plant, Distribution, Competition and Raw Materials

The production facilities of the PMs tend to be highly concentrated. For instance, all of the cigarette production of Lorillard comes from a single facility in North Carolina. The other OPMs also have limited production facilities and have announced plans to continue to consolidate their production facilities. Material damage to these facilities could materially impact overall cigarette production. A prolonged interruption in the manufacturing operations of each of the cigarette manufacturers could have a material adverse effect on the ability of the cigarette manufacturers to effectively operate their respective businesses.

Cigarette manufacturers sell tobacco products to wholesalers (including distributors), large retail organizations, including chain stores, and the armed services. They 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, consumer loyalty, 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. Generally, sales of cigarettes in the discount segment are not as profitable as those in the premium segment.

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.

Smokeless Tobacco Products

Smokeless tobacco products have been available for centuries. As cigarette consumption expanded in the last century, the use of smokeless products declined. Chewing tobacco and snuff are the most significant components. 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 is both smoke-free and potentially spit-free. Snuff is now being marketed to adult cigarette smokers as an alternative to cigarettes. UST, the largest producer of moist smokeless tobacco, is explicitly targeting adult smoker conversion in its growth strategy. The industry is responding to both the proliferation of indoor smoking bans and to a perception that smokeless use is a less harmful mode of tobacco and nicotine usage than cigarettes. In 2006, the three largest U.S. cigarette manufacturers entered the market. Philip Morris introduced a snuff product, Taboka. Reynolds American acquired Conwood Company, L.P., the nation's second largest smokeless-tobacco manufacturer, and introduced Camel Snus, a snuff product. Lorillard entered into an agreement with Swedish Match North America to develop smokeless products in the United States, which has since been discontinued. Product development has continued, however, with the introduction by Philip Morris of Marlboro snus (a smokeless, spitless tobacco product that originated in Sweden) and snuff products. In October 2007, Altria announced that it would accelerate the development of snuff and less-harmful cigarettes to counter a decline in smoking. In 2008, Liggett announced it would introduce Grand Prix snus, which has yet to be marketed based on a review of Lorillard's SEC filings. Lorillard announced in 2010 that it intends to enter certain test markets with a traditional moist snuff product to assess opportunities to broaden its product offerings.

Advocates of the use of snuff as part of a tobacco harm reduction strategy point to Sweden, where use of "snus", a moist snuff manufactured by Swedish Match, has increased sharply since 1970, and where cigarette smoking incidence among males has declined to levels well below that of other countries. A review of the literature on the Swedish experience concludes that snus, relative to cigarettes, delivers lower concentrations of some harmful chemicals, and does not appear to cause cancer or respiratory diseases. They conclude that snus use appears to have contributed to the unusually low rates of smoking among Swedish men. The Sweden experience is unique, even with respect to its Northern European neighbors. It is not clear whether it could be replicated elsewhere. A May 2008 study using data from the 2000 National Health Interview Survey reports that U.S. men who used smokeless tobacco as a smoking cessation method achieved significantly higher quit rates than those who used other cessation aids. Public health advocates in the U.S. emphasize that smokeless use results in both nicotine dependence and to increased risks of oral cancer among other health concerns. Snuff use is also often criticized as a gateway to cigarette use.

In 2008 a new firm, Fuisz Tobacco, was formed to commercialize a film-based smokeless tobacco product. The thin film strip would be spitless and would dissolve entirely in the cheek. Reynolds American has developed and is marketing Camel Sticks, a twisted, dissolvable stick made of tobacco, Camel Orbs, dissolvable tobacco tablets, and Camel Strips, dissolvable tobacco strips, each of which may be produced as flavored items. Numerous manufacturers have developed and are marketing "electronic cigarettes", battery powered devices that vaporize liquid nicotine, which is then inhaled by the consumer.

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.

Smoking Cessation Products

A variety of smoking cessation products and services have developed to assist individuals to quit smoking. Studies have shown that smoking cessation products and programs are effective, and that excise taxes, 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. Electronic cigarettes and snus are viewed by some as alternatives to smoking that may lead to cigarette smoking cessation. Alternative therapies, such as psychotherapy and hypnosis, are also in use and available to individuals. The smoking cessation industry is a competitive market and new products, including sublingual wafers and bottled water containing nicotine, have been introduced in the last few years.

Studies have shown that these products and programs are effective, and that excise taxes and smoking restrictions drive additional expenditures to the smoking cessation market. Additionally, 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. In 2004, it was estimated that over 50 percent of all smokers had quit smoking, and it is likely that many of those former smokers were aided by smoking cessation products.

Gray Market

A price differential exists between cigarettes manufactured for sale abroad and cigarettes manufactured for U.S. sale. Such differential increases as excises taxes are increased. Consequently, a domestic gray market has developed in cigarettes manufactured for sale abroad, but instead are diverted for domestic sales that compete with cigarettes manufactured for domestic sale. The U.S. federal government and all states have in essence enacted legislation prohibiting the sale and distribution of grey market cigarettes. In addition, Reynolds American has reported that it has taken legal action against certain distributors and retailers who engage in such 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, restrict the sale of tobacco products directly to consumers or other unlicensed recipients, including over the Internet, and charge state employees who smoke higher health insurance premiums than non-smoking state employees. Several states charge higher health insurance premiums to state employee smokers than non-smokers, and a number of states have implemented legislation that allows employers to provide incentives to employees who do not smoke. Several large corporations are now charging smokers higher premiums.

Federal Regulation. The FSPTCA, which became law in June 2009, grants the FDA authority to regulate tobacco products. Among other provisions, 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 within one year of such committee's establishment;
- grants the FDA the regulatory authority to consider and impose broad additional restrictions through a rule making process, including a ban on the use of menthol in cigarettes;
- requires larger and more severe health warnings on cigarette packs and cartons;
- bans the use of descriptors on tobacco products, such as "low tar" and "light";
- requires the disclosure of ingredients and additives to consumers;
- requires pre-market approval by the FDA for claims made with respect to reduced risk or reduced exposure products;
- allows the FDA to require the reduction of nicotine or any other compound in cigarettes;
- allows the FDA to mandate the use of reduced risk technologies in conventional cigarettes;
- allows the FDA to place more severe restrictions on the advertising, marketing and sales of cigarettes; and
- permits inconsistent state regulation of the advertising or promotion of cigarettes and eliminates the existing federal preemption of such regulation.
- Since the passage of the FSPTCA, the FDA has taken the following actions:
- 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 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; and
- required warning labels for smokeless tobacco products.

In July 2010, the TPSAC conducted hearings on the impact of dissolvable tobacco products and the use of menthol in cigarettes on the public health. A report on these hearings is expected in 2011.

Pursuant to requirements of the FSPTCA, the FDA issued a proposed rule on November 10, 2010 to modify the required warnings that appear on cigarette packages and in cigarette advertisements. The new required warnings would consist of nine new textual warning statements accompanied by color pictures depicting the negative health consequences of smoking. The warnings would appear on the upper portion of the front and rear panels of each cigarette package and comprise at least the top 50 percent of these panels, and would also appear in each cigarette advertisement and occupy at least 20 percent of the advertisement. The FDA will take public comments on the proposed rule through January 11, 2011. The FSPTCA requires the FDA to issue final regulations by June 22, 2011, and the new health warnings must appear on cigarette packages and advertisements 15 months after the issuance of the final rule.

The FTC proposed rescinding guidance it issued in 1966 that provides that tobacco manufacturers may make factual public statements concerning the tar, nicotine and carbon monoxide yields of their cigarettes without violating the Federal Trade Commission Act if they are 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. If the FTC withdraws 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. Upon such withdrawal, factual statements concerning cigarette yields would be 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. In November 2008, the FTC rescinded its guidance which had allowed tobacco companies to put tar and nicotine figures derived from the Cambridge Filter Method on cigarette packages. It is possible that these actions by the FTC could be cited as support for allegations by plaintiffs in pending or future litigation, or encourage additional litigation against cigarette manufacturers.

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 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.

During the past four decades, various laws affecting the cigarette industry have been enacted. In 1984, Congress enacted the Comprehensive Smoking Education Act. Among other things, the 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 Health and Human Services.

Since the 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. In 1992, the federal Alcohol, Drug Abuse and Mental Health Act was signed into law. This act required states to adopt a minimum age of 18 for purchases of tobacco products 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.

Tobacco Quota Payments. A federal law enacted in October 2004 repealed the federal supply management program for tobacco growers and compensated tobacco quota holders and growers with payments to be funded by an assessment on tobacco manufacturers and importers. Cigarette manufacturers and importers are responsible for paying 95.5% of a $10.14 billion payment to tobacco quota holders and growers over a ten-year period, The law provides that payments will be based on shipments for domestic consumption.

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 $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. It is likely that these federal excise tax increases have had, and will continue to have, a significant and adverse impact on cigarette sales volume. In addition, press reports have noted that many consumers who previously purchased roll-your-own tobacco are now 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.

All of the states, the District of Columbia, Puerto Rico, Guam and the Northern Mariana Islands currently impose cigarette taxes, which as of October 1, 2010, range from $0.17 per pack in Missouri to $4.35 per pack in New York. The average state cigarette tax stands at $1.45 per pack (up from approximately $0.41 per pack in 2000). Since January 1, 2002, 47 states, the District of Columbia and several U.S. territories have raised their cigarette taxes, many of them more than once. 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. Connecticut, Florida and Rhode Island each raised taxes by $1.00 per pack of cigarettes, while Arkansas, Hawaii, Delaware, Mississippi, New Hampshire and Wisconsin significantly raised their cigarette taxes by $0.45 to $0.75 per pack. From January 1, 2010 through

September 27, 2010, six states raised taxes on cigarettes, including Hawaii, New York, New Mexico, South Carolina, Utah and Washington. It is expected that states will continue to raise excise taxes on cigarettes in future years.

In 2004, Michigan imposed an equity assessment on NPMs selling cigarettes in the state. The purpose of the equity assessment is to fund enforcement and administration of Michigan's Qualifying Statute and the State's Complementary Legislation. The assessment is required to be prepaid by March 1 of each year for all cigarettes that are anticipated to be sold in Michigan in the current calendar year. For each NPM, the prepayment amount is equal to the greater of (i) $10,000 or (2) the number of cigarettes that the Department of Treasury reasonably determines that the NPM will sell in Michigan in the current calendar year multiplied by 17.5 mills. Utah also imposes an equity assessment on tobacco manufacturers not participating in the MSA. An extra $0.35 is added to each pack of NPM cigarettes, in addition to other applicable taxes on tobacco. At least one state, Minnesota (a Previously-Settled State), currently imposes a 75-cent "health impact fee" on tobacco manufacturers for each pack of cigarettes sold. The purpose of this fee is 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. On February 20, 2007, the U.S. Supreme Court declined to hear Philip Morris' appeal of that decision. See "RISK FACTORS — Other Potential Payment Decreases Under the Terms of the MSA – *NPM Adjustment*".

These tax increases and other legislative or regulatory measures could severely increase the cost of cigarettes, limit or prohibit the sale of cigarettes, make cigarettes less appealing to smokers or reduce the addictive qualities of cigarettes.

State and Local Regulation; Private Restrictions. 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 the American Lung Association's Tobacco Policy Project/State Legislated Actions on Tobacco Issues (SLATI), as of September 27, 2010, six states require product disclosure of tobacco products. Massachusetts and Texas require disclosure of any added substance of tobacco products other than water, tobacco and reconstituted tobacco sheet, while Minnesota and Utah require disclosure when any of the following substances are added: ammonia or any compound of ammonia, arsenic, cadmium, formaldehyde and lead. New Hampshire requires its state Department of Health and Human Services to obtain the list of additives for tobacco products from the Massachusetts Department of Public Health. In addition, Massachusetts, Texas and Utah require disclosure of nicotine yields for each brand of cigarette to their respective health authorities. In Connecticut, the Commissioner of Public Health is required to issue regulations concerning how the commissioner will obtain nicotine yield ratings for each brand of tobacco product.

In 2003, New York passed 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 the Coalition for Fire-Safe Cigarettes, similar laws have been enacted in 47 other states. By July 1, 2011, laws requiring cigarettes to be fire safe will be effective in all 50 states. All states use the "model" regulatory bill based on New York's fire-safe cigarettes law to maintain uniform manufacturing standards.

According to the American Nonsmokers' Rights Foundation ("**ANRF**"), as of October 1, 2010, 35 states, the District of Columbia, Puerto Rico and the Northern Mariana Islands have laws that require smoke-free workplaces, restaurants and/or bars. The states are: Arizona, California, Colorado, Connecticut, Delaware, Florida, Hawaii, Idaho, Illinois, Iowa, Kansas, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, Rhode Island, South Dakota, Utah, Vermont, Washington, and Wisconsin. Restrictions in Arizona, Hawaii, Illinois, New Mexico and Washington are stronger than those in other states as they include a ban on outdoor smoking within at least 15 feet of the entrances of restaurants and other public places. Even states without a statewide smoking ban have local municipalities that have enacted smoking regulations. It is expected that these restrictions will continue to proliferate.

ANRF tracks clean indoor air ordinances by local governments throughout the U.S. As of October 1, 2010, there were 3,173 municipalities with local laws that restrict where smoking is allowed, including 1,859 municipalities that restrict smoking in one or more outdoor areas. Of these, 704 local governments required workplaces to be 100% smoke free, and 100% smoke free conditions were required for restaurants by 715 municipalities, and for bars by 580. The number of such ordinances grew rapidly beginning in the 1980s, from less than 200 in 1985 to over 1,000 by 1993, and 1,500 by 2001. The ordinances completely restricting smoking in restaurants and bars have generally appeared in the past decade.

Smoking bans have also extended outdoors. According to ANRF, currently, only Hawaii, Iowa, Maine and Washington prohibit smoking in outdoor dining areas, but as many as 177 municipalities in other states have also banned smoking in those areas, including Los Angeles, Philadelphia and San Francisco. At least 470 municipalities prohibit smoking in parks, including San Diego County and Cook County, which includes Chicago. Along with the state of Maine, as many as 100 municipalities have banned smoking on beaches, including Chicago, Santa Monica and Seattle. Smoking at public transit stops have been banned in 192 municipalities and smoking in zoos is prohibited in 46 municipalities.

Smoking bans have been enacted for smaller governmental and private entities. According to the ANRF, there are at least 466 universities and colleges that prohibit smoking on campuses with no exemptions, including dormitory housing. Another 77 campuses prohibit smoking with exemptions for remote outdoor areas. Complete smoking bans, indoor and outdoor, have also been implemented on the campuses of at least four national and 2,473 local health providers. Federal correctional facilities are completely smoke free, as well as those in 15 states. Twenty-two other states allow smoking in correctional facilities but only in outdoors areas. Finally, many states mandate a certain minimum percentage of hotel rooms to be nonsmoking. For example, Ohio requires 80% of the rooms to be nonsmoking and California requires 35%. Many municipalities around the country have set their own minimums.

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. These reports are expected to strengthen arguments in favor of further smoking restrictions across the country. Further, the California Environmental Protection Agency Air Resources Board declared environmental tobacco smoke to be a toxic air contaminant in 2006.

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 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.

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**"), aimed at imposing greater legal liability on tobacco manufacturers, banning advertisements of tobacco products (especially to youths), raising taxes and requiring safety labeling and comprehensive listing of ingredients on packaging, among other things. The FCTC entered into force on February 27, 2005 for the first forty countries, including the U.S., that had ratified the treaty prior to November 30, 2004. As of April 27, 2005, 168 countries signed and 64 countries ratified the FCTC. On June 29, 2004 the FCTC was closed for signature, but there is no deadline for ratification. According to the World Health Organization, as of August 2010, at least 171 countries had ratified or otherwise approved the FCTC.

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 claims for 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 2010 Bonds payable from tobacco settlement payments made under the MSA. Lorillard reported that, as of October 20, 2010, 11,215 product liability cases are pending against cigarette manufacturers in the United States. A total of 7,586 of these lawsuits are *Engle* Progeny Cases, described below, which include approximately 4,400 *Engle* Progeny claims initially asserted in a small number of multi-plaintiff actions that were severed into separate lawsuits by one Florida federal court in 2009.

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 seek treble damages, statutory damages, disgorgement of profits, equitable and injunctive relief, and medical monitoring, among other damages.

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

Type of Case

Conventional Product Liability Cases
Engle Progeny Cases
West Virginia Individual Personal Injury Cases
Flight Attendant Cases
Class Action Cases
Reimbursement Cases
Tobacco-Related Antitrust Cases

Conventional Product Liability Cases. Conventional Product Liability Cases are brought by individuals who allege cancer or other health effects caused by smoking cigarettes, by using smokeless tobacco products, by addiction to tobacco, or by exposure to environmental tobacco smoke.

Engle Progeny Cases. 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. Some of the *Engle* Progeny cases have been filed on behalf of multiple class members. The time period for filing *Engle* Progeny Cases expired in January 2008 and no additional cases may be filed. It is possible that courts may sever remaining suits filed by multiple class members into separate individual cases.

West Virginia Individual Personal Injury Cases. In a 1999 administrative order, the West Virginia Supreme Court of Appeals transferred a group of cases brought by individuals who allege cancer or other health effects caused by smoking cigarettes, by smoking cigars, or by using smokeless tobacco products, to a single West Virginia court (the "**West Virginia Cases**"). The plaintiffs' claims alleging injury from smoking cigarettes have been consolidated for trial. The plaintiffs' claims alleging injury from the use of other tobacco products have been severed from the consolidated cigarette claims and have not been consolidated for trial. The time for filing a case that could be consolidated for trial with the West Virginia Cases expired in 2000.

Flight Attendant Cases. Flight Attendant Cases are brought by non-smoking flight attendants alleging injury from exposure to ETS 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.

Class Action Cases. Class Action Cases are brought on behalf of large numbers of individuals for damages allegedly caused by smoking, including "lights" Class Action Cases and Class Action Cases that are based primarily on medical monitoring.

Reimbursement Cases. Reimbursement 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.*, that sought to recover profits earned by the defendants and other equitable relief. In August 2006, the trial court issued its final judgment and remedial order and granted injunctive and other equitable relief. The final judgment did not award monetary damages. In May 2009, the final judgment was largely affirmed by an appellate court. In June 2010, the U.S. Supreme Court denied review of the case. See "Reimbursement Cases" below for further discussion.

Tobacco-Related Antitrust Cases. A number of cases have been brought against cigarette manufacturers alleging that defendants conspired to set the price of cigarettes in violation of federal and state antitrust and unfair business practices statutes. In these cases, plaintiffs seek class certification on behalf of persons who purchased cigarettes directly or indirectly from one or more of the defendant cigarette manufacturers.

Conventional Product Liability Cases

According to Lorillard, since January 1, 2008, verdicts have been returned in four Conventional Product Liability Cases against cigarette manufactures. Juries found in favor of the plaintiffs in each of these trials and in one of the trials, the jury awarded actual damages. Two other cases were re-trials ordered by appellate courts in which juries were permitted to consider only the amount of punitive damages to award. Both of these trials resulted in punitive damages verdicts that awarded the plaintiffs $1.5 million in one of the cases and $13.8 million in the other. Appeals are pending in these three matters. In a 2010 trial, a jury awarded actual damages and determined that the plaintiff was entitled to an award of punitive damages. The court will decide the amount of the punitive damages award, but it had not issued a verdict as of October 20, 2010. In rulings addressing cases tried in earlier years, some appellate courts have reversed verdicts returned in favor of the plaintiffs while other judgments that awarded damages to smokers have been affirmed on appeal. Manufacturers have exhausted their appeals and have been required to pay damages to plaintiffs in eleven individual cases since 2001. Punitive damages were paid to the smokers in five of these cases. As of October 20, 2010, trial was not underway in any Conventional Product Liability Case. One or more cases have been scheduled for trial in 2010, however, trial dates are subject to change.

Engle Progeny Cases

In 2006, the Florida Supreme Court issued a ruling in *Engle* that had been certified 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 a three-phase trial, a Florida jury awarded actual damages to three individuals and approximately $145 billion in punitive damages to the certified class. In its 2006 decision, 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 actual damages awards to two of the three individuals whose claims were heard during the first phase of the *Engle* trial. These two awards totaled $7 million, and both verdicts were paid in February 2008.

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.

Some of the *Engle* Progeny Cases were filed on behalf of multiple plaintiffs. Various courts have entered orders severing the cases filed by multiple plaintiffs into separate actions. In 2009, one Florida federal court entered orders that severed the claims of approximately 4,400 *Engle* Progeny plaintiffs, initially asserted in a small number of multi-plaintiff actions, into separate lawsuits. In some cases, spouses of alleged former class members have also brought derivative claims.

The *Engle* Progeny Cases are pending in various Florida state and federal courts. Some of these courts, including courts that have presided over *Engle* Progeny Cases that have been tried, have issued rulings that address whether 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. Some of these decisions have led to appeals, which are still pending. In one of these appeals, the U.S. Court of Appeals for the Eleventh Circuit returned to a federal trial court for further consideration the question of how courts should apply the jury's findings in favor of the plaintiffs in the first phase of the *Engle* trial. The Court of Appeals determined that, based on Florida law, plaintiffs in the *Engle* Progeny Cases are entitled to some use of those jury findings but that, on the basis of the appellate record, it was premature for the Court of Appeals to decide what use plaintiffs can make of these findings. The Court of Appeals did not address the question of the effect of federal due process limitations on the application of the jury findings on the basis that consideration of federal constitutional limitations was not necessary to its decision.

A number of *Engle* Progeny Cases have been placed on courts' 2010 and 2011 trial calendars or in which specific trial dates have been set. Trial schedules are subject to change and it is not possible to predict how many of the cases will be tried during 2010 or 2011. It also is not possible to predict whether some courts will implement procedures that consolidate multiple *Engle* Progeny Cases for trial. According to Lorillard, as of October 20, 2010, trial was underway in two of the *Engle* Progeny Cases, and as of such date, verdicts have been returned in 28 *Engle* Progeny Cases since the Florida Supreme Court issued its 2006 ruling that permitted members of the *Engle* class to bring individual lawsuits. Juries awarded actual damages and punitive damages in 13 of the trials. The 13 punitive damages awards have totaled $455 million (not including *Webb v. R.J. Reynolds Tobacco Co.*, described below) and have ranged from $270,000 to $244 million. In six of the trials, juries' awards were limited to actual damages. In the nine remaining trials, juries found in favor of the defendants that the plaintiffs were not members of the *Engle* class.

According to Lorillard, as of October 20, 2010, defendants were contesting, or were expected to contest, either by appeals or by post-trial motions, each of the 19 verdicts in which plaintiffs were awarded damages. None of the 19 *Engle* Progeny Case trials in which plaintiffs were awarded damages since the Florida Supreme Court's 2006 decision had reached a final resolution as of October 20, 2010. In some of the trials decided in defendants' favor, plaintiffs have filed motions challenging the verdicts. As of October 20, 2010, none of these motions had resulted in rulings in favor of the plaintiffs.

Altria reported that since the end of August 2010 until November 12, 2010, eight consecutive *Engle* Progeny Case verdicts were decided in favor of defendant tobacco companies. However, on November 15, 2010, a jury in the *Engle* Progeny Case of *Webb v. R.J. Reynolds Tobacco Co.*, tried in the

Florida Circuit Court (Levy County), awarded $8 million in compensatory damages and $72 million in punitive damages to the plaintiff. Reynolds America has stated that it will appeal the decision.

In a case tried prior to the Florida Supreme Court's 2006 decision permitting members of the *Engle* class to bring individual lawsuits, one Florida court allowed the plaintiff to rely at trial on certain of the *Engle* jury's findings. That trial resulted in a verdict for the plaintiffs in which they were awarded approximately $25 million in actual damages. In March 2010, a Florida appellate court affirmed the jury's verdict. The court denied defendants' petitions for rehearing in May 2010, and the defendants have satisfied the judgment by paying the damages award.

In June 2009, Florida amended the security requirements for a stay of execution of any judgment during the pendency of appeal in *Engle* Progeny Cases. The amended statute provides for the amount of security for individual *Engle* Progeny Cases to vary within prescribed limits based on the number of adverse judgments that are pending on appeal at a given time. The required security decreases as the number of appeals increases to ensure that the total security posted or deposited does not exceed $200 million in the aggregate. This amended statute applies to all judgments entered on or after June 16, 2009 and expires on December 31, 2012. The plaintiffs in three cases have challenged the constitutionality of the amended statute. As of October 20, 2010, the courts had not issued rulings in response to those motions.

West Virginia Cases

The West Virginia Cases pending brought by individuals who allege cancer or other health effects caused by smoking cigarettes, by smoking cigars, or by using smokeless tobacco products are in a single West Virginia court. According to Lorillard, a total of 648 West Virginia Cases are pending and most have been consolidated for trial. The order that consolidated the cases for trial, among other things, also limited the consolidation to those cases that were filed by September 2000. No additional West Virginia Cases may be consolidated for trial with this group.

In September 2000, there were approximately 1,250 West Virginia Cases. Plaintiffs in most of the cases alleged injuries from smoking cigarettes, and the claims alleging injury from smoking cigarettes have been consolidated for a multi-phase trial (the "**IPIC Cases**"). Approximately 600 IPIC Cases have been dismissed in their entirety, however, some or all of the dismissals could be contested in subsequent appeals.

The court has severed from the IPIC Cases those claims alleging injury from the use of tobacco products other than cigarettes, including smokeless tobacco and cigars (the "**Severed IPIC Claims**"). The Severed IPIC Claims involve 29 plaintiffs. Twenty-seven of these plaintiffs have asserted both claims alleging that their injuries were caused by smoking cigarettes as well as claims alleging that their injuries were caused by using other tobacco products. The former claims will be considered during the consolidated trial of the IPIC Cases, while the latter claims are among the Severed IPIC Claims. Two plaintiffs have asserted only claims alleging that injuries were caused by using tobacco products other than cigarettes, and no part of their cases will be considered in the consolidated trial of the IPIC Cases.

The court has entered a trial plan for the IPIC Cases that calls for a multi-phase trial. The first phase of that trial is tentatively scheduled to begin on March 21, 2011. During 2010, the court attempted to begin trial of the IPIC cases two separate times. In both instances, the court suspended trial due to complications that arose during jury selection. As of October 20, 2010, the Severed IPIC Claims were not subject to a trial plan and none of the Severed IPIC Claims were scheduled for trial as of October 20, 2010.

Flight Attendant Cases

Four cigarette manufacturers are the defendants in each of the pending Flight Attendant Cases. These suits 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 ETS. The settlement agreement, among other things, permitted the plaintiff class members to file these individual suits. These individuals may not seek punitive damages for injuries that arose prior to January 15, 1997. The period for filing Flight Attendant Cases expired in 2000 and no additional cases in this category may be filed.

The judges who have presided over the cases that have been tried have relied upon an order entered in October 2000 by the Circuit Court of Miami-Dade County, Florida. The October 2000 order has been construed by these judges as holding that the flight attendants are not required to prove the substantive liability elements of their claims for negligence, strict liability and breach of implied warranty in order to recover damages. The court further ruled that the trials of these suits are to address whether the plaintiffs' alleged injuries were caused by their exposure to environmental tobacco smoke and, if so, the amount of damages to be awarded.

Defendants have prevailed in seven of the eight trials. In one of the seven cases in which a defense verdict was returned, the court granted plaintiff's motion for a new trial and, following appeal, the case has been returned to the trial court for a second trial. The six remaining cases in which defense verdicts were returned are concluded. In the single trial decided for the plaintiff, *French v. Philip Morris Incorporated*, *et al.*, the jury awarded $5.5 million in damages. The court, however, reduced this award to $500,000. This verdict, as reduced by the trial court, was affirmed on appeal and the defendants have paid the award. According to Lorillard, as of October 20, 2010, none of the flight attendant cases are scheduled for trial, however, trial dates are subject to change.

Class Action Cases

In most of the pending 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 was filed. According to Lorillard, cigarette manufacturers have defeated motions for class certification in a total of 36 cases, 13 of which were in state court and 23 of which were in federal court. Motions for class certification have also been ruled upon in some of the "lights" cases or in other types of class actions. In some of these cases, courts have denied class certification to the plaintiffs, while classes have been certified in other matters.

The Scott Case. In one of the pending class actions, *Scott v. The American Tobacco Company*, *et al.* (District Court, Orleans Parish, Louisiana, filed May 24, 1996), the Louisiana Court of Appeal, Fourth Circuit, issued a decision in April 2010 (the "**April 2010 Decision**") that modified the trial court's 2008 amended final judgment. The April 2010 Decision reduced the judgment amount from approximately $264 million to approximately $242 million to fund a ten year, court-supervised smoking cessation program. The April 2010 Decision also changed the date on which the award of post-judgment interest will accrue from June 2004 to July 2008. Interest awarded by the amended final judgment will continue to accrue from July 2008 until the judgment either is paid or is reversed on appeal. As of October 20, 2010, judicial interest totaled approximately $29.7 million. In its April 2010 Decision, the Court of Appeal expressly preserved defendants' right to assert claims on unspent or surplus funds, should any such funds be present, at the conclusion of the ten-year smoking cessation program. The Louisiana Supreme Court opted not to review the case. On September 24, 2010, U.S. Supreme Court Justice Antonin Scalia, in his capacity as circuit justice for the U.S. Court of Appeals for the Fifth Circuit,

granted the defendants' motion for a stay of the April 2010 Decision until the U.S. Supreme Court can act on the defendants' intended petition for review of the case. The deadline for the defendants to file a petition for review is December 2, 2010. In his order, Justice Scalia said that the defendants' argument that the ruling violates their due process rights has merit, there is a "reasonable probability" that the U.S. Supreme Court will grant review, and a "significant possibility" that the judgment will be reversed.

In 1997, *Scott* was certified as a class action on behalf of certain cigarette smokers resident in the State of Louisiana who desire to participate in medical monitoring or smoking cessation programs and who began smoking prior to September 1, 1988, or who began smoking prior to May 24, 1996 and allege that defendants undermined compliance with the warnings on cigarette packages. Trial in *Scott* was heard in two phases and at the conclusion of the first phase in July 2003, the jury rejected medical monitoring, the primary relief requested by plaintiffs, and returned sufficient findings in favor of the class to proceed to a Phase II trial on plaintiffs' request for a statewide smoking cessation program. Phase II of the trial, which concluded in May 2004, resulted in an award of $591 million to fund cessation programs for Louisiana smokers. In February 2007, the Louisiana Court of Appeal reduced the amount of the award by approximately $312 million; struck an award of prejudgment interest, which totaled approximately $444 million as of December 31, 2006; and limited class membership to individuals who began smoking by September 1, 1988, and whose claims accrued by September 1, 1988. In January 2008, the Louisiana Supreme Court denied plaintiffs' and defendants' separate petitions for review. In May 2008, U.S. Supreme Court denied defendants' request that it review the case. The case was returned to the trial court, which subsequently entered an amended final judgment that ordered the defendants to pay approximately $264 million to fund the court-supervised smoking cessation program for the members of the certified class. The Court of Appeal's April 2010 Decision was an appeal from this judgment.

The parties filed a stipulation in the trial court agreeing that an article of Louisiana law required that the amount of the bond for the appeal be set at $50 million for all defendants collectively. The parties further agreed that the plaintiffs have full reservations of rights to contest in the trial court the sufficiency of the bond on any grounds. Defendants collectively posted a surety bond in the amount of $50 million. While the defendants believe the limitation on the appeal bond amount is valid as required by Louisiana law, in the event of a successful challenge the amount of the appeal bond could be set as high as 150% of the judgment and judicial interest combined.

Other Class Action Cases. In one pending Class Action Case, *Brown v. The American Tobacco Company, Inc.*, *et al.* (Superior Court, San Diego County, California, filed June 10, 1997), the California Supreme Court in 2009 vacated an order that had previously decertified a class and returned *Brown* to the trial court for further activity. The trial court has informed the parties that it believes the class previously certified in *Brown* has been reinstated as a result of the California Supreme Court's ruling. The class previously certified in *Brown* is composed of residents of California who smoked at least one of defendants' cigarettes between June 10, 1993 and April 23, 2001 and who were exposed to defendants' marketing and advertising activities in California. The trial court also has ruled that it will permit plaintiffs to assert claims regarding the allegedly fraudulent marketing of "light" or "ultra-light" cigarettes. Trial in *Brown* has been scheduled for May 2011, however, trial dates are subject to change.

In another pending Class Action Case, *Cleary v. Philip Morris Incorporated*, *et al.* (U.S. District Court, Northern District, Illinois, filed June 3, 1998), a court allowed plaintiffs to amend their complaint in an existing class action to assert claims on behalf of a subclass of individuals who purchased "light" cigarettes from the defendants. In June 2010, the court dismissed plaintiffs' remaining claims, and it entered final judgment in defendants' favor. Plaintiffs have noticed an appeal from the final judgment, including the prior ruling that dismissed plaintiffs' "lights" claims, to the U.S. Court of Appeals for the Seventh Circuit.

In one pending Class Action Case, *Calistro v. Altria Group, Inc.*, *et al.* (Superior Court of the Virgin Islands, filed July 7, 2010), plaintiffs seek medical monitoring, the funding of a smoking cessation program, compensatory and punitive damages and attorneys' fees on behalf of residents of the Virgin Islands who smoke cigarettes. Plaintiffs have filed a motion to stay and transfer the case to the "lights" multidistrict litigation discussed below.

Six actions have been filed against various defendants, including Philip Morris, Altria and Reynolds Tobacco, along with other cigarette manufacturers, in the Canadian provinces of Alberta, Manitoba, Nova Scotia, Saskatchewan and British Columbia. In Saskatchewan and British Columbia, plaintiff seeks class certification on behalf of individuals who suffer or have suffered from various diseases including chronic obstructive pulmonary disease, emphysema, heart disease or cancer after smoking defendants' cigarettes. In the actions filed in Alberta, Manitoba and Nova Scotia, plaintiffs seek certification of classes of all individuals who smoked defendants' cigarettes.

"Lights" Class Action Cases. According to Lorillard, there are approximately 35 Class Action Cases in which plaintiffs' claims are based on the allegedly fraudulent marketing of "light" or "ultra-light" cigarettes and classes have been certified in some of these cases. 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 FTC's regulation of cigarettes' tar and nicotine disclosures preempts (or bars) some of plaintiffs' claims. In 2009, the Judicial Panel on Multidistrict Litigation consolidated various federal court "lights" Class Action Cases pending against Philip Morris or Altria and transferred those cases to the U.S. District Court of Maine. Philip Morris reported that on November 24, 2010 the U.S. District Court of Maine, which is the coordinating court responsible for conducting pretrial proceedings in Multidistrict Litigation involving nearly 20 "lights" Class Action Cases pending around the country, denied the plaintiffs' class certification in four separate "lights" Class Action Cases pending in Illinois, California, Washington, D.C., and Maine. According to Philip Morris, these four cases had been selected by the parties to serve as "exemplar" cases for the court and the parties involved in the 15 remaining cases pending or awaiting transfer to the Multidistrict Litigation proceedings.

On November 22, 2010 a Merrimack County, New Hampshire judge issued an order certifying a "lights" class action case brought against Philip Morris, which has stated that it will appeal the ruling to the New Hampshire Supreme Court.

The Schwab Case. In *Schwab v. Philip Morris USA, Inc.*, *et al.* (U.S. District Court, Eastern District, New York, filed May 11, 2004), plaintiffs based their claims on defendants' alleged violations of the RICO statute in the manufacture, marketing and sale of "light" cigarettes. Plaintiffs estimated damages to the class in the hundreds of billions of dollars. Any damages awarded to the plaintiffs based on defendants' violation of the RICO statute would have been trebled. In September 2006, the court granted plaintiffs' motion for class certification and certified a nationwide class action on behalf of purchasers of "light" cigarettes. In March 2008, the Second Circuit reversed the class certification order and ruled that the case may not proceed as a class action. In July 2010, the parties submitted to the U.S. District Court for the Eastern District of New York a stipulation of dismissal with prejudice, which concluded activity in *Schwab*.

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 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 in *Good* demonstrated that the Illinois Supreme Court's decision was "inaccurate". In February 2009, the trial court granted Philip Morris' motion to dismiss plaintiffs' petition. In March 2009, the plaintiffs filed a notice of appeal with the Illinois Appellate Court, Fifth Judicial District. Oral argument was held in February 2010 and a decision is pending.

Reimbursement Cases

Four Reimbursement Cases are pending in the U.S. In one of the pending Reimbursement Cases, *City of St. Louis [Missouri] v. American Tobacco Co., Inc.*, *et al.* (Circuit Court, City of St. Louis, Missouri, filed November 25, 1998), trial has been scheduled to begin in January 2011, however, trial dates are subject to change. Plaintiffs in the case are approximately 40 Missouri hospitals or hospital districts.

In addition to the cases brought in the U.S., four Reimbursement Cases are pending against tobacco industry participants, including Philip Morris, Altria and Reynolds Tobacco, outside of the U.S., one in Israel and three in Canada. In the case in Israel, the defendants' appeal of the district court's denial of their motion to dismiss was heard by the Israel Supreme Court in March 2005, and the parties are awaiting the court's decision.

In the first of the three Reimbursement Cases filed in Canada, the Canadian Supreme Court ruled in September 2005 that legislation authorizing a cause of action to permit the government of British Columbia to recover the costs of certain healthcare expenditures from the defendants was constitutional, and, as a result, the case was permitted to proceed. The Supreme Court of Canada is scheduled to hear certain appeals in February 2011. During 2008, the Province of New Brunswick, Canada, proclaimed into law previously adopted legislation allowing reimbursement claims to be brought against cigarette manufacturers, and it filed suit shortly thereafter. In September 2009, the Province of Ontario, Canada, filed suit against a number of cigarette manufacturers based on previously adopted legislation nearly identical in substance to the New Brunswick legislation. On October 25, 2010, the Province of Alberta, Canada, announced that it would commence legal action against a number of cigarette manufacturers based on previously adopted legislation. Several other provinces and territories in Canada have enacted similar legislation or are in the process of enacting similar legislation.

The DOJ Case. In August 2006, the U.S. District Court for the District of Columbia issued its final judgment and remedial order in the federal government's reimbursement suit, *United States of America v. Philip Morris*, which final judgment and remedial order concluded a bench trial that began in September 2004. The court determined in its final judgment and remedial order 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 defendants 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 "inserts" concerning: the health effects of smoking; the addictiveness of smoking; that there are no significant health benefits to be gained by smoking "low tar", "light", "ultra-light", "mild" or "natural" cigarettes; that cigarette design has been

manipulated to ensure optimum nicotine delivery to smokers; and that there are adverse effects from exposure to secondhand smoke. The final judgment and remedial order also 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.

The final judgment and remedial order has not yet been implemented. Following trial, the final judgment and remedial order was stayed because the defendants, the government and several intervenors noticed appeals to the Circuit Court of Appeals for the District of Columbia. In May 2009, a three judge panel upheld substantially all of the District Court's final judgment and remedial order. In September 2009, the Court of Appeals denied defendants' rehearing petitions as well as their motion to vacate those statements in the appellate ruling that address defendants' marketing of "low tar" or "lights" cigarettes, to vacate those parts of the trial court's judgment on that issue, and to remand the case with instructions to deny as moot the government's allegations and requested relief regarding "lights" cigarettes. The Court of Appeals stayed its order that formally relinquishes jurisdiction of defendants' appeal pending the disposition of the petitions for writ of certiorari to the U.S. Supreme Court that were noticed by the defendants, the government and the intervenors. In June 2010, the U.S. Supreme Court denied all of the petitions for review of the case. The case has been returned to the trial court for implementation of the Court of Appeals' directions in its 2009 ruling and for entry of an amended final judgment.

Prior to trial, the government had claimed that it was entitled to approximately $280 billion from the defendants for its claim to recover profits earned by the defendants. The Court of Appeals ruled that the government may not seek to recover profits earned by the defendants. The U.S. Supreme Court declined to address the decisions dismissing recovery of profits when it denied review of the government's and the intervenors' petitions.

Settlement of State Reimbursement Litigation. The State Settlement Agreements require that the domestic tobacco industry make payments of billions of dollars each year, subject to adjustment for several factors, including inflation, market share and industry volume. In addition, the domestic tobacco industry is required to pay settling plaintiffs' attorneys' fees, subject to an annual cap of $500 million, as well as an additional amount of up to $125 million in each year through 2008. These payment obligations are the several and not joint obligations of each settling defendant. The State Settlement Agreements also include provisions relating to significant advertising and marketing restrictions, public disclosure of certain industry documents, limitations on challenges to tobacco control and underage use laws, and other provisions.

The PMs are participating in proceedings that may result in downward adjustments to the amounts paid by the PMs pursuant to the MSA to the Settling States for each of the years 2003 to 2009. A provision in the MSA permits such adjustment if the companies can prove that the MSA was a significant factor in their loss of market share to companies not participating in the MSA and that the Settling States failed to diligently enforce certain statutes passed in connection with the MSA. There have been several proceedings with respect to the payments made in 2003 and certain issues regarding this payment have been scheduled for arbitration. If the OPMs are ultimately successful, any adjustment would be reflected as a credit against future payments by the OPMs under the agreement. See "THE MASTER SETTLEMENT AGREEMENT — Adjustments to Payments – *Offset for Miscalculated or Disputed Payments*".

From time to time, lawsuits have been brought against the OPMs and the MSA, or against one or more of the states, challenging the validity of the MSA on certain grounds, including as a violation of the antitrust laws. See "MSA-Related Antitrust Suit" below.

Tobacco-Related Antitrust Cases

Indirect Purchaser Suits. Approximately 30 antitrust suits were filed in 2000 and 2001 on behalf of putative classes of consumers in various state courts against cigarette manufacturers. The suits all alleged that the defendants entered into agreements to fix the wholesale prices of cigarettes in violation of state antitrust laws which permit indirect purchasers, such as retailers and consumers, to sue under price fixing or consumer fraud statutes. More than 20 states permit such suits. Three indirect purchaser suits, in New York, Florida and Michigan, thereafter were dismissed by courts in those states, and the plaintiffs withdrew their appeals. The actions in all other states, except for New Mexico and Kansas, were voluntarily dismissed.

In *Smith v. Philip Morris Cos., Inc.,* the District Court of Seward County, Kansas certified a class of Kansas indirect purchasers in 2002. In July 2006, the Court issued an order confirming that fact discovery was closed, with the exception of privilege issues that the Court determined, based on a Special Master's report, justified further fact discovery. In October 2007, the Court denied all of the defendants' privilege claims, and the Kansas Supreme Court thereafter denied a petition seeking to overturn that ruling. Discovery currently is ongoing. As of October 20, 2010, the Court has not set dates for dispositive motions and trial.

MSA-Related Antitrust Suit. An action filed in the Western District of Kentucky, *VIBO Corporation, Inc. d/b/a/ General Tobacco v. Conway*, *et al.,* in October 2008 alleges that the named defendants, which include 52 state and territorial attorneys general and 19 tobacco manufacturers, violated the Sherman Act by entering into and participating in the MSA. The plaintiff alleges that MSA participants, such as itself, that were not in existence when the MSA was executed in 1998 but subsequently became participants, are unlawfully required to pay significantly more sums to the states than companies that joined the MSA within 90 days after its execution. In addition to the Sherman Act claim, plaintiff has raised a number of constitutional claims against the states. Plaintiff seeks a declaratory judgment in its favor on all claims, an injunction against the continued enforcement of the MSA, treble damages against the tobacco manufacturer defendants, and damages and injunctive relief against the states, including contract recession and restitution. In December 2008, the court dismissed the complaint against all defendants. The court entered its final judgment dismissing the suit in January 2010. Thereafter, the plaintiff filed a notice of appeal to the U.S. Court of Appeals for the Sixth Circuit. As of October 20, 2010, no other filings have been made.

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, (f) ERISA claims, and (g) employment litigation claims.

Defenses

The PMs 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 the PMs intend to defend 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 above, 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 *United States of America v. Philip Morris*, 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, including giving collateral estoppel effect to those adverse findings. In addition, the 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 foregoing discussion of civil litigation against the 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 OPMs and on other publicly available information published by the OPMs or others. Prospective purchasers of the Series 2010 Bonds are referred to the reports filed with the SEC by certain of the OPMs and applicable court records for additional descriptions thereof.

Litigation is subject to many uncertainties. In its SEC filing, one OPM states that it is not possible to predict the outcome of litigation pending against it, and that it is unable to make a meaningful estimate of the amount or range of loss that could result from an unfavorable outcome of pending litigation, and that it is possible that its business, volume, results of operations, cash flows, or financial position could be materially affected by an unfavorable outcome or settlement of certain pending litigation or by the enactment of federal or state tobacco legislation. 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 2010 Bonds payable from tobacco settlement payments made under the MSA.

THE AUTHORITY

The Authority is a special purpose corporation and a body corporate and politic of, but having a legal existence independent and separate from, the State, and was established under the Railsplitter Tobacco Settlement Authority Act. Pursuant to the provisions of the Act, the Authority is governed by a three-member board, consisting of the Director of the Governor's Office of Management and Budget, and two other members appointed by the Governor. The Authority has no staff and will rely on the services of staff from the Governor's Office of Management and Budget. The Chief Financial Officer appointed by the Authority is at present the Director of Capital Markets of the Governor's Office of Management and Budget. The Act provides that the Authority and its corporate existence are to continue until six months after all its liabilities (including the Series 2010 Bonds) have been met or otherwise discharged, at which time all of its rights and property shall pass to and be vested in the State.

THE RESIDUAL CERTIFICATE

The Residual Certificate will represent the entitlement of the State to receive all amounts required to be distributed pursuant to the Indenture in respect of the Residual Certificate, including the Residual Revenues upon deposit in the Residual Account, which are any Pledged Settlement Payments received in

any year in excess of the amounts required to pay, in accordance with the provisions of the Indenture, the Operating Expenses, debt service on Bonds, replenishment of the Debt Service Reserve Account and Junior Payments described in the Indenture.

CONTINUING DISCLOSURE UNDERTAKING

In order to assist the Underwriters 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 (the "**1934 Act**") for the benefit of the holders and beneficial owners of the Series 2010 Bonds, the Authority will provide an executed copy of its undertaking to provide continuing disclosure (the "**Undertaking**"). Pursuant to the Undertaking, the Authority will provide to the Electronic Municipal Market Access System ("**EMMA System**") implemented by the Municipal Securities Rulemaking Board (the "**MSRB**") established in accordance with the provisions of Section 15B(b)(1) of the 1934 Act, or any successor thereto or to the functions of the MSRB:

(1) no later than 180 days after the end of the Authority's Fiscal Year ("**Fiscal Year**" being defined as the twelve (12) month period commencing July 1 of each year and ending on June 30 of the succeeding year), beginning with the Fiscal Year ending June 30, 2011, and continuing with each Fiscal Year thereafter, the Annual Financial Information and Operating Data (each as defined below) relating to such Fiscal Year; provided, however, that if the State's Comprehensive Audited Financial Report ("**CAFR**") for such Fiscal Year has not yet been released by the State Comptroller, then the Annual Financial Information must be delivered to the EMMA System within thirty (30) days after release of the CAFR by the State Comptroller; and

(2) in a timely manner not in excess of ten Business Days after the occurrence of the event, notice of the occurrence of any of the following events ("**Notice Events**") with respect to the Series 2010 Bonds:

(a) principal and interest payment delinquencies;

(b) non-payment related defaults, if material;

(c) unscheduled draws on debt service reserves reflecting financial difficulties;

(d) unscheduled draws on credit enhancements reflecting financial difficulties;

(e) substitution of credit or liquidity providers, or their failure to perform;

(f) 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 the tax-exempt status of the Series 2010 Bonds, or other material events affecting the tax-exempt status of the Series 2010 Bonds;

(g) modifications to rights of Bondholders, if material;

(h) bond calls, if material, and tender offers;

(i) defeasances;

(j) release, substitution, or sale of property securing repayment of the Series 2010 Bonds, if material;

(k) rating changes;

(l) bankruptcy, insolvency, receivership or similar event of the Authority;

(m) the consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority, 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

(n) appointment of a successor or additional Trustee or the change of name of the Trustee, if material; and

(3) in a timely manner, notice of a failure to provide by the date set forth in paragraph (1) above any Annual Financial Information or Operating Data required as described below.

"**Annual Financial Information**" means a copy of the audited annual financial statements for the Authority. All such financial information must be prepared using generally accepted accounting principles, except as may be modified from time to time and described in such financial statements.

"**Operating Data**" means (A) an update of the actual operating data for the preceding Fiscal Year set forth in this Offering Circular under the columns titled "Pledged Settlement Payments", "Net Revenue", "Debt Service Reserve Earnings", "Net Debt Service", "Residual Revenues" and "Coverage" in a form generally consistent with the information contained in the tables captioned "Estimated Debt Service Coverage of Series 2010 Bonds" under the heading "DEBT SERVICE REQUIREMENTS AND COVERAGE UNDER CERTAIN CONSTANT ANNUAL RATES OF CONSUMPTION DECLINE" in this Offering Circular with such "Coverage" ratio for such preceding Fiscal Year determined in substantially the same manner as described herein, and (B) identification of the specific investments the Debt Service Reserve Account was invested in at the end of the preceding Fiscal Year and of any changes in such investments during such preceding Fiscal Year.

The Authority, pursuant to the Undertaking, will direct the Trustee as disclosure agent under the Undertaking (the "**Disclosure Agent**") on its behalf to make public the following:

(a) the Annual Financial Information and Operating Data;

(b) Notice Event occurrences;

(c) the notices of failure to provide information which the Authority has agreed to make public;

(d) such other information as the Authority shall determine to make public through the Disclosure Agent and shall provide to the Disclosure Agent.

If the Authority chooses to include any information in any Annual Financial Information report or in any notice of occurrence of a Notice Event, in addition to that which is specifically required by the Undertaking, the Authority will have no obligation under the Undertaking to update such information or include it in any future Annual Financial Information report or notice of occurrence of a Notice Event.

The Disclosure Agent will make public the Annual Financial Information, the Operating Data, the Notice Event occurrences and the failure to provide the Annual Financial Information and Operating Data

within the applicable "**Turn Around Period**" (defined to mean (i) five (5) Business Days, with respect to Annual Financial Information and Operating Data delivered by the Authority to the Disclosure Agent; (ii) five (5) Business Days with respect to Notice Event occurrences disclosed by the Authority to the Disclosure Agent; or (iii) five (5) Business Days with respect to the failure, on the part of the Authority, to deliver Annual Financial Information and Operating Data to the Disclosure Agent which period commences upon notification by the Authority of such failure, or upon the Disclosure Agent's actual knowledge of such failure). Notwithstanding the foregoing, Annual Financial Information, Operating Data and Notice Events must be made public on the same day as notice thereof is given to the Bondholders of outstanding Series 2010 Bonds, if required in the Indenture, and will not be made public before the date of such notice. If on any such date, information required to be provided by the Authority to the Disclosure Agent has not been provided on a timely basis, the Disclosure Agent will make such information public as soon thereafter as it is provided to the Disclosure Agent.

If the Authority fails to carry out or perform any of its obligations under the Undertaking, which failure continues beyond a period of 30 days following written notice of default, then any Bondholder or beneficial owner of Series 2010 Bonds may (and, at the request of any of the Underwriters or the holders of at least 25% aggregate principal amount of outstanding bonds, then such Bondholder or beneficial owner shall) enforce, for the equal benefit and protection of all Bondholders or beneficial owners similarly situated, the Undertaking against the Authority; provided that the sole remedy available in any proceeding to enforce the Undertaking will be an action in mandamus, for specific performance or similar remedy to compel performance. Failure to comply with any provision of the Undertaking will not constitute an Event of Default under the Indenture.

The Authority and the Disclosure Agent may amend the Undertaking (and the Disclosure Agent must agree to any reasonable amendment requested by the Authority) and any provision of the Undertaking may be waived, if such amendment or waiver is supported by an opinion of nationally recognized bond counsel or counsel expert in federal securities laws acceptable to both the Authority and the Disclosure Agent to the effect that such amendment or waiver would not, in and of itself, cause the undertakings contained in the Undertaking to violate the Rule if such amendment or waiver had been effective on the date of the Undertaking but taking into account any subsequent change in or official interpretation of the Rule as well as any change in circumstance.

The Undertaking will remain in full force and effect until all of the Series 2010 Bonds are or are deemed to be no longer outstanding by reason of redemption or legal defeasance or at maturity.

TAX MATTERS

Federal Income Taxes

The Internal Revenue Code of 1986, as amended (the "**Code**"), imposes certain requirements that must be met subsequent to the issuance and delivery of the Series 2010 Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2010 Bonds to be included in gross income for Federal income tax purpose retroactive to the date of issue of the Series 2010 Bonds. Pursuant to the Indenture, the Sale Agreement and the Tax Certificate, the Authority and the State have covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2010 Bonds from gross income for Federal income tax purposes pursuant to Section 103 of the Code. In addition, the Authority and the State have made certain representations and certifications in the Indenture, the Sale agreement and the Tax Certificate. Bond Counsel will not independently verify the accuracy of those representations and certifications.

In the opinion of Nixon Peabody LLP, Bond Counsel, under existing law and assuming compliance with the aforementioned covenants, and the accuracy of certain representations and certifications made by the Authority and the State described above, interest on the Series 2010 Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code. Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Series 2010 Bonds is excluded from the adjusted current earnings of corporations for purposes of computing the alternative minimum tax imposed on corporations.

State Taxes

Bond Counsel and Golden & Associates, P.C., Co-Bond Counsel, are also of the opinion that under existing statutes, interest on the Series 2010 Bonds is not exempt from State of Illinois taxes. Bond Counsel and Co-Bond Counsel express no opinion as to Illinois local tax consequences arising with respect to the Series 2010 Bonds or as to the taxability of the Series 2010 Bonds or the income therefrom under the laws of any state other than Illinois.

Original Issue Discount

Bond Counsel is further of the opinion that the difference between the principal amount of the Series 2010 Bonds maturing on June 1, 2016 and bearing interest at a rate of 4.125% per annum, and the Series 2010 Bonds maturing on June 1, 2019 through June 1, 2023, inclusive, and on June 1, 2028 (collectively the "**Discount Bonds**") and the initial offering price to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Bonds of the same maturity was sold constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the Series 2010 Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment. Owners of the Discount Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Discount Bonds.

Original Issue Premium

The Series 2010 Bonds maturing on June 1, 2012 and June 1, 2013, the Series 2010 Bonds maturing on June 1, 2014 and bearing interest at a rate of 5.00% per annum, the Series 2010 Bonds maturing on June 1, 2015, the Series 2010 Bonds maturing on June 1, 2016 and bearing interest at a rate of 5.00% per annum, the Series 2010 Bonds maturing on June 1, 2017 and the Series 2010 Bonds maturing on June 1, 2024 (collectively, the "**Premium Bonds**) are being offered at prices in excess of their principal amounts. An initial purchaser with an initial adjusted basis in a Premium Bond in excess of its principal amount will have amortizable bond premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Premium Bond based on the purchaser's yield to maturity (or, in the case of Premium Bond callable prior to their maturity, over the period to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser's adjusted basis in such Premium Bond annually by the amount of amortizable

bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Series 2010 Bonds. Owners of the Premium Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences or owning such Premium Bonds.

Ancillary Tax Matters

Ownership of the Series 2010 Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, individuals receiving Social Security or Railroad Retirement benefits, and individuals seeking to claim the earned income credit. Ownership of the Series 2010 Bonds may also result in other federal tax consequences to taxpayers who may be deemed to have incurred or continued indebtedness to purchase or to carry the Series 2010 Bonds; for certain bonds issued during 2009 and 2010, the American Recovery and Reinvestment Act of 2009 modifies the application of those rules as they apply to financial institutions. Prospective investors are advised to consult their own tax advisors regarding these rules.

Commencing with interest paid in 2006, interest paid on tax-exempt obligations such as the Series 2010 Bonds is subject to information reporting to the Internal Revenue Service (the "**IRS**") in a manner similar to interest paid on taxable obligations. In addition, interest on the Series 2010 Bonds may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner's taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Bond Counsel is not rendering any opinion as to any Federal tax matters other than those described in the opinion attached as Appendix B. Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Series 2010 Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Changes in Law and Post Issuance Events

Legislative or administrative actions and court decisions, at either the federal or state level, could have an adverse impact on the potential benefits of the exclusion from gross income of the interest on the Series 2010 Bonds for Federal or state income tax purposes, and this on the value or marketability of the Series 2010 Bonds. This could result from changes to Federal or state income taxes, changes in the structure of Federal or state income taxes (including replacement with another type of tax), repeal of the exclusion of the interest on the Series 2010 Bonds from gross income for Federal or state income tax purposes, or otherwise. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on the Federal or state income tax treatment of holders of the Series 2010 Bonds may occur. Prospective purchasers of the Series 2010 Bonds should consult their own tax advisers regarding such matters.

Bond Counsel has not undertaken to advise in the future whether any event after the date of issuance and delivery of the Series 2010 Bonds may affect the tax status of interest on the Series 2010 Bonds. Bond Counsel expresses no opinion as to any Federal, state or local tax law consequences with respect to the Series 2010 Bonds, or the interest thereon, if any action is taken with respect to the Series 2010 Bonds or the proceeds thereof upon the advice or approval of other counsel.

LITIGATION

There is no litigation pending in any court (either State or federal) to restrain or enjoin the issuance or delivery of the Series 2010 Bonds or questioning the creation, organization or existence of the Authority, the validity or enforceability of the Indenture, the sale of the Pledged Settlement Payments by the State to the Authority, the proceedings for the authorization, execution, authentication and delivery of the Series 2010 Bonds, or the validity of the Series 2010 Bonds.

RATINGS

It is a condition to the obligation of the Underwriters to purchase the Series 2010 Bonds that, at the date of delivery thereof to the Underwriters, the Series 2010 Bonds maturing on June 1, 2012 through June 1, 2021 be assigned a rating of "A" by S&P, the Series 2010 Bonds maturing on June 1 in the years 2023, 2024 and 2028 be assigned a rating of "A-" by S&P, and the Series 2010 Bonds be assigned a rating of "BBB+" by Fitch.

A credit rating is not a recommendation to buy, sell or hold securities, and such ratings may be subject to revision or withdrawal at any time. The ratings by S&P and Fitch of the Series 2010 Bonds reflect only the views of such organization and any desired explanation of the significance of such ratings and any outlooks or other statements given by such Rating Agency with respect thereto should be obtained from the Rating Agencies.

The Rating Agencies' respective views of the tobacco industry are a key factor in their ratings of tobacco settlement securitizations. See also "RISK FACTORS—Limited Nature of the Rating of the Series 2010 Bonds; Reduction, Suspension or Withdrawal of a Rating".

Except as may be required by the Undertaking as defined above under the heading "CONTINUING DISCLOSURE UNDERTAKING" the State undertakes no responsibility either to bring to the attention of the owners of the Bonds any proposed change in or withdrawal of such ratings or to oppose any such revision or withdrawal.

There is no assurance that the initial ratings assigned to the Series 2010 Bonds will continue for any given period of time or that any of such ratings will not be revised downward, suspended or withdrawn entirely by the Rating Agency. 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 2010 Bonds.

LEGAL INVESTMENT

The Act provides that the State and all counties, cities, villages, incorporated towns and other municipal corporations, political subdivisions and public bodies, and public officers of any thereof, all banks, bankers, trust companies, savings banks and institutions, building and loan associations, savings and loan associations, investment companies, and other persons carrying on a banking business, all insurance companies, insurance associations, and other persons carrying on an insurance business, and all executors, administrators, guardians, trustees, and other fiduciaries may legally invest any sinking funds, moneys, or other funds belonging to them or within their control in the Series 2010 Bonds issued pursuant to the Act, it being one of the purposes of the Act to authorize the investment in such bonds issued pursuant to the Act of all sinking, insurance, retirement, compensation, pension, and trust funds, whether owned or controlled by private or public persons or officers; provided, however, that nothing contained in the Act may be construed as relieving any person, firm, or corporation from any duty of exercising reasonable care in selecting securities for purchase or investment.

UNDERWRITING

The underwriters listed on the cover page hereof (the "**Underwriters**") have jointly and severally agreed, subject to certain conditions, to purchase all, but not less than all, of the Series 2010 Bonds from the Authority at an underwriters' discount of $7,957,257.62. The Underwriters will be obligated to purchase all of the Series 2010 Bonds if any are purchased. The initial public offering prices of the Series 2010 Bonds may be changed from time to time by the Underwriters.

Citigroup Global Markets Inc. and Barclays Capital Inc. are acting as representatives on behalf of the Underwriters.

Citigroup Inc. and Morgan Stanley, the respective parent companies of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated, each an underwriter of the Series 2010 Bonds, have entered into a retail brokerage joint venture. As part of the joint venture each of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC. for its selling efforts in connection with their respective allocations of Series 2010 Bonds.

J.P. Morgan Securities LLC ("**JPMS**"), one of the Underwriters of the Series 2010 Bonds, has entered into a negotiated dealer agreement ("**Dealer Agreement**") with UBS Financial Services Inc. ("**UBSFS**") for the retail distribution of certain securities offerings, including the Series 2010 Bonds, at the original issue prices. Pursuant to the Dealer Agreement (if applicable to this transaction), UBSFS will purchase Series 2010 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2010 Bonds that such firm sells.

The Series 2010 Bonds may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Series 2010 Bonds into investment trusts) at prices lower than such public offering prices.

LEGAL MATTERS

Nixon Peabody LLP, Chicago, Illinois, as Bond Counsel, and Golden & Associates, P.C., Chicago, Illinois, as Co-Bond Counsel, will render their opinions with respect to the validity of the Series 2010 Bonds in substantially the respective forms set forth in Appendix C hereto.

Certain legal matters with respect to the State will be passed upon by Lisa Madigan, as State Attorney General.

Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP and Chapman and Cutler LLP, as Underwriters' Counsel, and by Gonzalez, Saggio and Harlan, L.L.C., as Co-Underwriters' Counsel.

FINANCIAL ADVISOR

The PFM Group is employed as Financial Advisor to the Authority in connection with the issuance of the Series 2010 Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Series 2010 Bonds is not contingent upon the issuance and delivery of the Series 2010 Bonds. The PFM Group, in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the

federal income tax status of the Series 2010 Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the Authority has provided the following sentence for inclusion in this Offering Circular. The Financial Advisor has reviewed the information in this Offering Circular in accordance with, and as part of, its responsibilities to the Authority and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY

By: /s/ David Vaught
Chairman

Dated: December 1, 2010

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APPENDIX A

MASTER SETTLEMENT AGREEMENT

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A-1

MASTER SETTLEMENT AGREEMENT

(AS AMENDED BY THE ADDENDUM OF CLARIFICATIONS)

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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.

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 not 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)

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.
- x

CONSENT DECREE AND FINAL JUDGMENT

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 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]

[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.]

[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.

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APPENDIX B

PROPOSED FORM OF OPINION OF BOND COUNSEL

437 Madison Avenue
New York, New York 10022-7001
(212) 940-3000
Fax: (212) 940-3111

December __, 2010

Board of Directors
Railsplitter Tobacco Settlement Authority
c/o State Office of Management and Budget
Chicago, Illinois 60601

Ladies and Gentlemen:

We have acted as co-transaction counsel to Railsplitter Tobacco Settlement Authority (the "Authority"), a special purpose corporation and a body corporate and politic of, but having a legal existence independent and separate from, the State of Illinois (the "State"), created and organized pursuant to the Railsplitter Tobacco Settlement Authority Act, 30 ILCS §171/3-1 et seq. (the "Act"), in connection with the issuance by the Authority of $1,503,460,000 aggregate principal amount of its Tobacco Settlement Revenue Bonds, Series 2010 (the "Series 2010 Bonds").

The Series 2010 Bonds are issued under and pursuant to an Indenture, dated as of December 1, 2010 (the "Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A., as Trustee, and a series supplement relating to the Series 2010 Bonds (the Indenture as supplemented is referred to herein as the "Indentures"). Terms used herein and not otherwise defined have the meanings ascribed thereto in the Indentures.

The Series 2010 Bonds are issued under the Indentures and will constitute "Bonds," as that term is defined in the Indenture. The Authority is authorized to issue additional Bonds secured on a parity with the Series 2010 Bonds only on the terms and conditions set forth in the Indenture. Except as limited by a series supplement authorizing the issuance of any additional series of Bonds, all such Bonds shall be entitled to the equal benefit, protection and security of the provisions, covenants and agreements in the Indenture. Bonds may be issued without limitation as to amount, except as provided in the Indenture.

The Series 2010 Bonds are dated the date hereof and bear interest, mature, are subject to redemption and are secured as set forth in the Indentures.

The Series 2010 Bonds are issuable in the form of fully registered bonds in the denomination of $5,000 or integral multiples thereof. The Series 2010 Bonds are numbered one upward in order of issuance.

The Series 2010 Bonds are being issued to (i) provide funds for the lawful purposes of the Authority, (ii) to pay the costs associated with the issuance of the Series 2010 Bonds and (iii) to make a deposit into the Debt Service Reserve Account established pursuant to the Indenture. The Authority and the

State have entered into a Purchase and Sale Agreement, dated as of December 1, 2010 (the "Sale Agreement"), pursuant to which the State sold to the Authority all of its right, title and interest to future payments to be made to it under the Master Settlement Agreement (as defined in the Sale Agreement).

We have examined the law and such certified proceedings and other papers as we deem necessary to render the opinions expressed herein. In rendering such opinions we have assumed the genuineness of all signatures, the authenticity of all documents tendered to us as originals and the conformity to original documents of all documents submitted to us as certified or photostatic copies. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation. We have also assumed that each party to the Indenture and the Sale Agreement will perform their respective covenants, agreements and obligations thereunder in all material respects.

Based upon the foregoing and under existing law, we are of the opinion:

1. The Authority is duly organized and existing under the laws of the State with the right and lawful authority and power to enter into the Indentures and the Sale Agreement and to issue the Series 2010 Bonds.

2. The Indentures have been duly and lawfully authorized, executed and delivered by the Authority, are in full force and effect and are the legal, valid and binding agreements of the Authority enforceable against the Authority in accordance with their terms. The Indenture creates the valid pledge of and security interest in the revenues and other collateral (collectively, the "Collateral"), and such perfected pledge and security interest constitutes a first priority pledge and security interest. Pursuant to the Act, such pledge is valid and binding against all parties at the time the pledge is made and no action is necessary to perfect such pledge and security interest in the Collateral as it exists on the date hereof.

3. The Series 2010 Bonds have been duly and validly authorized and issued. The Series 2010 Bonds are valid and binding obligations of the Authority payable as provided in the Indentures and are entitled, together with all other Bonds which may be hereafter issued under the Indenture, to the benefits of the Indentures.

4. The claim of the Trustee, as assignee and pledgee of the Authority, upon the Pledged Settlement Payments required to be paid to the Authority pursuant to the Sale Agreement on and after the date hereof is valid and enforceable.

5. The Sale Agreement has been duly authorized, executed and delivered by the Authority and constitutes a valid and binding agreement of the Authority, enforceable in accordance with its terms.

6. The Internal Revenue Code of 1986 (the "Code") sets forth certain requirements which must be met subsequent to the issuance and delivery of the Series 2010 Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2010 Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the Series 2010 Bonds. Pursuant to the Indenture, the Sale Agreement and the Tax Certificate, the Authority and the State have covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2010 Bonds from gross income for Federal income tax purposes pursuant to Section 103 of the Code. In addition, the Authority and the State have made certain representations and certifications in the Indenture, the Sale Agreement and the Tax Certificate. We have not independently verified the accuracy of those certifications and representations.

Under existing law, assuming compliance with the tax covenants described herein and the accuracy of the aforementioned representations and certifications, interest on the Series 2010 Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Series 2010 Bonds is excluded from the adjusted current earnings of corporations for purposes of computing the alternative minimum tax imposed on corporations.

7. Co-transaction counsel is further of the opinion that the difference between the principal amount of the Series 2010 Bonds maturing on June 1, 2016 and bearing interest at a rate of 4.125% per annum, and the Series 2010 Bonds maturing on June 1, 2019 through June 1, 2023, inclusive, and on June 1, 2028 (the "Discount Bonds") and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Bonds of the same maturity was sold constitutes original issue discount which is excluded from gross income for Federal income tax purposes to the same extent as interest on the Series 2010 Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment.

8. Under existing statutes, interest on the Series 2010 Bonds is not exempt from State taxes.

9. Except as stated in the preceding paragraphs 6, 7, and 8, we express no opinion as to any other Federal or state tax consequences of the ownership or disposition of the Series 2010 Bonds. Furthermore, we express no opinion as to any Federal, state or local tax law consequences with respect to the Series 2010 Bonds, or the interest thereon, if any action is taken with respect to the Series 2010 Bonds or the proceeds thereof upon the advice or approval of other counsel.

We have examined an executed Series 2010 Bond, and, in our opinion, the form of said bond and its execution are regular and proper. However, we have not verified, and express no opinion as to the accuracy of, any "CUSIP" identification number which may be printed on any of the Series 2010 Bonds.

The above opinions are qualified to the extent that the enforceability of rights and remedies may be limited by bankruptcy, insolvency, or other laws affecting creditors' rights and the unavailability of equitable remedies.

The opinions set forth herein are not intended or provided by co-transaction counsel to be used and cannot be used by an owner of the Series 2010 Bonds for the purpose of avoiding penalties that may be imposed on the owner of the Series 2010 Bonds. The opinions set forth herein are provided to support the promotion or marketing of the Series 2010 Bonds. Each owner of the Series 2010 Bonds should seek advice based on its particular circumstances from an independent tax advisor.

Very truly yours,

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APPENDIX C

DEFINITIONS AND SUMMARY OF THE INDENTURE

The following summary describes certain terms of the Indenture. 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. Copies of the Indenture may be obtained upon written request to the Trustee at Two North LaSalle Street, Suite 1020, Chicago, Illinois 60602. See "SECURITY FOR THE SERIES 2010 BONDS" and "THE SERIES 2010 BONDS" for further descriptions of certain terms and provisions of the Series 2010 Bonds.

Definitions

In addition to terms defined elsewhere in the Indenture, the following terms have the following meanings in this summary, unless the context otherwise requires:

"*Accounts*" means the Tobacco Assets Account, the Pledged Revenues Account, the Operating Account, the Debt Service Account, the Debt Service Reserve Account, the Lump Sum Account, the Costs of Issuance Account, the Rebate Account, the Residual Account, any subaccounts within such accounts and any accounts established by Series Supplement, all of which shall be established and held by the Trustee.

"*Act*" means the State's Railsplitter Tobacco Settlement Authority Act, codified as 30 ILCS §171/3-1 et seq., as the same may be amended from time to time.

"*Authority Operating Subaccount*" means the subaccount within the Operating Account so designated and established pursuant to the Indenture.

"*Authorized Denomination*" shall have the meaning set forth therefor in the applicable Series Supplement.

"*Authorized Officer*" means: (i) in the case of the Authority, the Chairman and his successors in office or any other officer as may be designated as an "authorized officer" by the members of the Authority; (ii) in the case of the Trustee, any officer assigned to the Corporate Trust Office, including any managing director, director, vice president, assistant vice president, associate, assistant secretary, authorized signer or any other officer of the 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; (iii) in the case of the State, the Director of the State Office of Management and Budget, or his or her designee; and (iv) in the case of the State Attorney General, any person authorized by the State Attorney General to deliver the Officer's Certificate for enforcement expenses.

"*Beneficiaries*" means Bondholders, the owner of the Residual Certificate and, to the extent specified in the related Series Supplement or other Supplemental Indenture, the party or parties to Related Contracts.

"*Bondholders*" or "*Holders*" or similar terms mean the registered owners of the Bonds registered as to principal and interest or as to principal only, as shown on the books of the Trustee.

"*Bonds*" means all obligations issued pursuant to the Indenture.

"*Business Day*" means any day other than (i) a Saturday or a Sunday or a legal holiday or (ii) a day on which banking institutions in Chicago, Illinois or New York, New York, are required or authorized by law, regulation or executive order to be closed.

"*Closing Date*" means the date of issuance by the Authority of the Series 2010 Bonds.

"*Code*" or "*Tax Code*" means the Internal Revenue Code of 1986, as amended.

"*Collateral*" has the meaning set forth under the heading "Security and Pledge" below.

"*Complementary Legislation*" means 30 ILCS §167/1 et seq.

"*Consent Decree*" means the Consent Decree and Final Judgment of the Circuit Court of Cook County, Illinois, dated December 8, 1998, as the same has been and may be corrected, amended or modified, in the action entitled People of the State of Illinois v. Philip Morris Incorporated, et al.

"*Corporate Trust Office*" means the office of the Trustee at which the corporate trust business of the Trustee related hereto shall, at any particular time, be principally administered, which office is, at the date of the Indenture, located as follows: Two North LaSalle Street, Suite 1020, Chicago, Illinois 60602.

"*Costs of Issuance*" means those costs related to the authorization, sale or issuance of Bonds, including but not limited to all fees, costs, expenses and governmental charges for: underwriting and transaction structuring, auditors or accountants, printing, reproducing documents, filing and recording of documents, fiduciaries, legal services, financial advisory and professional consultants' services, credit ratings, credit and liquidity enhancements, execution, and transportation and safekeeping of Bonds; and also includes costs incurred by the State to the extent the same are to be paid by the Authority in accordance with the Sale Agreement.

"*Costs of Issuance Account*" means the Account so designated and established pursuant to the Indenture.

"*Debt Service*" means interest, redemption premium, principal and Sinking Fund Installments due on Outstanding Bonds.

"*Debt Service Account*" means the Account so designated and established pursuant to the Indenture.

"*Debt Service Reserve Account*" means the Account so designated and established pursuant to the Indenture.

"*Debt Service Reserve Requirement*" means for each Series of Bonds, the amount specified in the Series Supplement authorizing the issuance of such Series.

"*Default*" means an Event of Default without regard to any declaration, notice or lapse of time.

"*Defeasance Collateral*" means money and, to the extent permitted by the Public Funds Investment Act, (a) direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States of America and which are entitled to the full faith and credit thereof, and (b) obligations issued by United States of America government agencies or instrumentalities, as to which the full and timely payment of the principal of, premium, if any, and the interest on which is fully and unconditionally guaranteed as a full faith and credit obligation of the United States of America (including any securities described in (a) or (b) issued or held in book entry form on the books of the Department of the Treasury of the United States of America).

"*Defeased Beneficiaries*" means, when there is held by or for the account of the Trustee Defeasance Collateral in such principal amounts, bearing fixed interest at such rates and with such maturities as will provide sufficient funds to pay or redeem all or any portion of Outstanding Bonds in accordance with

their terms and all or any portion of obligations to Beneficiaries (including parties to Related Contracts), the holders of such Bonds and such Beneficiaries.

"*Defeased Bonds*" means Bonds that remain in the hands of their Holders, but are deemed no longer Outstanding as specified under the Indenture.

"*Distribution Date*" means (1) each June 1 and December 1, commencing June 1, 2011, or if such date is not a Business Day, the following Business Day, (2) each additional Distribution Date selected by the Authority or the Trustee following an Event of Default, and (3) each Distribution Date, to the extent so characterized in a Supplemental Indenture.

"*DTC*" means The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York, and includes any nominee of DTC in whose name any Bonds are then registered.

"*Eligible Investments*" means and includes any of the following securities, to the extent permitted under the Public Funds Investment Act:

(i) Direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States of America and which are entitled to the full faith and credit thereof;

(ii) Bonds, notes, debentures, or other obligations or securities issued by a federal government agency that is rated "AAA" (or equivalent) by Standard & Poor's and Fitch, respectively, or if not rated by both of them, so rated by one of them and in the equivalent category by another nationally recognized rating agency;

(iii) Prime commercial paper of a corporation incorporated under the laws of any state of the United States of America with assets exceeding $ 500,000,000 if (i) such obligations are rated at the time of purchase rated "A-1" and "F1" by Standard & Poor's and Fitch, respectively, or if not rated by both of them, so rated by one of them and in the equivalent category by another nationally recognized rating agency and which mature not later than 180 days from the date of purchase, (ii) such purchases do not exceed 10% of the corporation's outstanding obligations and (iii) no more than one-third of the public agency's funds may be invested in short term obligations of corporations;

(iv) Banker's acceptances issued by a domestic bank or a federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System, rated "A-1" and "F1" by Standard & Poor's and Fitch, respectively or, if not rated by either of them, rated in the equivalent category by another nationally recognized rating agency;

(v) Demand deposits, including interest bearing money market accounts, time deposits, trust funds, trust accounts, overnight bank deposits and interest-bearing deposits of depository institutions, including the Trustee or any of its affiliates, rated in the "AA" long-term rating category or higher by Standard & Poor's and Fitch or, if not rated by either of them, rated in the equivalent category by another nationally recognized rating agency or which are fully FDIC-insured;

(vi) Shares in diversified open end, no load investment funds, provided such funds are registered under the Investment Company Act of 1940, which is a money market mutual fund, which has been rated "AAAm" or "AAAm-G" or the equivalent by Standard & Poor's and Fitch or, if not rated by either of them, rated in the equivalent category by another nationally

recognized rating agency, and such fund is limited to obligations described in (i) or (ii) above and to agreements to repurchase such obligations, including those for which the Trustee or an affiliate performs services for a fee, whether as a custodian, transfer agent, investment advisor or otherwise;

(vii) Federally insured or collateralized certificates of deposit issued by banks (which may include the Trustee) which are state chartered banks, federally chartered banks or foreign banks with domestic offices. Collateralized certificates of deposit shall be collateralized by obligations described in clause (i) or (ii) above, which such obligations at all times have a market value (exclusive of accrued interest) at least equal to a minimum of one hundred and two percent (102%) of such bank deposits so secured, including interest;

(viii) Repurchase agreements relating to securities of the type specified in clauses (i) and (ii) above; provided that such securities in an amount at least equal to a market value at all times of at least one hundred and two percent (102%) of the amount of the agreements shall be delivered as security for such agreements to the account of the Trustee to be held therein during the term of the agreements; and

(ix) Any other obligations conforming to the requirements of the Public Funds Investment Act, so long as such obligations are rated at least in the two highest rating categories of each of Standard & Poor's and Fitch, or if not rated by both of them, so rated by one of them and in the equivalent category by another nationally recognized rating agency.

"*Event of Default*" means any one of the following:

(a) principal or Sinking Fund Installments of or interest on any Bond has not been paid, when due;

(b) the Authority fails to observe or perform any other provision of the Indenture, which failure is not remedied within 60 days after written notice thereof is given to the Authority by the Trustee or to the Authority and the Trustee by the Holders of at least 25% in principal amount of the Bonds then Outstanding. In the case of a Default under this subsection (b), if the Default cannot be corrected within the said 60-day period and is diligently pursued until the Default is corrected, it shall 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;

(c) the State fails to observe or perform its covenants which are included in Section 5.07 of the Indenture or in Article IV of the Sale Agreement, which failure is not remedied within 60 days after written notice thereof is given to the Authority and the State by the Trustee or to the Authority and the Trustee by the Holders of at least 25% in principal amount of the Bonds then Outstanding; or

(d) bankruptcy, reorganization, arrangement or insolvency proceedings, or other proceedings for relief under any bankruptcy or similar law or laws for the relief of debtors, are instituted by or against the Authority and, if instituted against the Authority, are not dismissed within 60 days after such institution.

"*Extraordinary Prepayment*" means the payment of Bonds as provided in the Indenture upon the occurrence of a Payment Default.

"*Federal Bankruptcy Code*" means the Bankruptcy Reform Act of 1978, as amended, codified as Title 11, United States Code, as it has been and will be amended from time to time and any successor federal statute.

"*Fiduciary*" means the Trustee, any representative of the Holders of Bonds appointed by Series Supplement, and each Paying Agent, if any.

"*Financing Costs*" means (1) Costs of Issuance, (2) the capitalization of initial Operating Expenses of the Authority, (3) the funding of the Debt Service Reserve Account and any other debt service reserves, (4) fees and costs for Related Contracts, and (5) any other fees, discounts, expenses and costs of any kind whatsoever related to issuing, securing and marketing the Bonds, including, without limitation, any net original issue discount.

"*Fiscal Year*" means the twelve (12) month period commencing July 1 of each year and ending on June 30 of the succeeding year.

"*Fitch*" means Fitch Ratings, Inc.; references to Fitch under the Indenture are effective so long as Fitch is a Rating Agency.

"*Funds*" means funds or accounts established under the Indenture and by Series Supplement.

"*Indenture*" means the Indenture, dated as of December 1, 2010, by and between Railsplitter Tobacco Settlement Authority and The Bank of New York Mellon Trust Company, N.A., as trustee, as may be amended or supplemented.

"*Junior Payments*" means (i) termination payments and loss amounts on Related Contracts, (ii) amounts due under Related Contracts and not payable as Debt Service, (iii) operating expenses, including litigation expenses, if any, incurred by the Authority, incurred in the previous Fiscal Year in excess of the applicable Operating Cap or reasonably expected to be incurred in the current or next succeeding Fiscal Years in excess of the applicable Operating Cap for such Fiscal Years and (iv) any other Junior Payments so identified in or by reference to the Indenture or any Supplemental Indenture.

"*Lump Sum Account*" means the Account so designated and established pursuant to the Indenture.

"*Lump Sum Payment*" means a lump sum payment received by the Trustee as a payment from a PM which results in, or is due to, a release of that PM from all of its obligations due on or after the Closing Date under the MSA.

"*Majority in Interest*" means as of any particular date of calculation the Holders of a majority of the Outstanding Bonds eligible to act on a matter, measured by Outstanding principal amount, payable at maturity.

"*Master Settlement Agreement*" or "*MSA*" means the MSA identified in the Consent Decree, including the related Escrow Agreement (as defined in the MSA).

"*Maturity Date*" means the stated maturity date of each Serial Bond and Term Bond.

"*MSA Escrow Agent*" means Citibank, N.A. or any other firm serving as escrow agent under the MSA.

"*Officer's Certificate*" means a certificate signed by an Authorized Officer of the Authority in accordance with the Act.

"*Operating Account*" means the Account so designated and established pursuant to the Indenture.

"*Operating Cap*" means $250,000.00 in the Fiscal Year ending June 30, 2011 inflated annually in each following Fiscal Year by the greater of (x) 3% and (y) the percentage increase in the Consumer Price Index for all Urban Consumers as published by the Bureau of Labor Statistics for December of the prior year.

"*Operating Expenses*" means (i) all operating and administrative expenses incurred by the Authority, and all operating and administrative expenses incurred by the State Office of Management and Budget and related (as set forth in a certificate of an Authorized Officer of the Authority) to such Office's activities on behalf of or in assistance to the Authority, including but not limited to, the cost of preparation of accounting and other reports, costs of maintenance of ratings on the Bonds, arbitrage rebate and penalties, salaries, administrative expenses, insurance premiums, auditing and legal expenses, fees and expenses incurred by or for the Trustee, any Paying Agents, professional consultants and fiduciaries, costs incurred to preserve the tax exempt status of any Tax Exempt Bonds, costs of the Authority and the State Office of Management and Budget related to the enforcement rights with respect to the Indenture, the Sale Agreement or the Bonds or other contracts or agreements in which the Authority has an interest or enforcement right and all other Operating Expenses of the Authority or the State Office of Management and Budget so identified in the Indenture; and (ii) any expenses incurred by the State Attorney General relating to the enforcement of the MSA, the Qualifying Statute and the Complementary Legislation (provided, however, that in no event will the amount of such enforcement expenses paid as an Operating Expense exceed $2,500,000 in any Fiscal Year.

"*OPM*" means an Original Participating Manufacturer, as defined in the MSA.

"*Other Series*" means a Series of Refunding Bonds.

"*Outstanding*" means, with respect to bonds, all Bonds issued under the Indenture, excluding: (i) Bonds that have been exchanged or replaced, or delivered to the Trustee for credit against a principal payment; (ii) Bonds that have been paid; (iii) Bonds that have become due and for the payment of which money has been duly provided; (iv) Bonds for which (A) there has been irrevocably set aside sufficient Defeasance Collateral timely maturing and bearing interest, to pay or redeem them and (B) any required notice of redemption shall have been duly given in accordance with the Indenture or irrevocable instructions to give notice shall have been given to the Trustee; (v) Bonds the payment of which shall have been provided for pursuant to the Indenture; and (vi) for purposes of any consent or other action to be taken by the Holders of a Majority in Interest or specified percentage of Bonds under the Indenture, Bonds held by or for the account of the Authority, the State or any person controlling, controlled by or under common control with either of them. 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 law or contract or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"*Partial Lump Sum Payment*" means a lump sum payment received by the Trustee as a payment from a PM which results in, or is due to, a release of that PM from a portion of its obligations due on or after the Closing Date under the MSA.

"*Paying Agent*" means each Paying Agent designated from time to time pursuant to the Indenture.

"*Payment Default*" means the occurrence of an Event Default where principal or Sinking Fund Installments of or interest on any Bond has not been paid, when due.

"*Pledged Accounts*" means the Tobacco Assets Account (except to the extent that State's Unsold Assets are deposited therein), the Pledged Revenues Account, the Debt Service Account, the Debt Service Reserve Account and the Lump Sum Account, all of which shall be established and held by the Trustee as segregated trust accounts, and any additional Accounts designated in a Supplemental Indenture as a Pledged Account.

"*Pledged Revenues*" means (i) the Pledged Settlement Payments, (ii) to the extent set forth in the applicable Series Supplement or other Supplemental Indenture, payments made to the Authority or Trustee under Related Contracts, and (iii) all fees, charges, payments, investment earnings and other income and receipts (including Bond proceeds, but only to the extent deposited in the Debt Service Reserve Account) paid or payable to the Authority or the Trustee for the account of the Authority or the Beneficiaries.

"*Pledged Revenues Account*" means the Account so designated and established pursuant to the Indenture.

"*Pledged Settlement Payments*" means the "pledged tobacco revenues", as defined in the Act, which for purposes of the Sale Agreement and the Indenture consist of the Tobacco Assets less the State's Unsold Assets.

"*PM*" means a Participating Manufacturer, as defined in the MSA.

"*Pro Rata*" means, for an allocation of available amounts to any payments of interest or principal to be made pursuant to the Indenture, the application of a fraction of such available amounts (a) the numerator of which is equal to the amount due to each respective Holder to whom such payment is owing and (b) the denominator of which is equal to the total amount due to all Holders to which such payment is owing.

"*Public Funds Investment Act*" means the State's Public Funds Investment Act, codified as 30 ILCS §235/0.01 et seq., as the same may be amended from time to time.

"*Qualifying Statute*" means 30 ILCS §168/1 et seq.

"*Rating Agency*" means each nationally recognized statistical rating organization that has, at the request of the Authority, a rating in effect for any of the Bonds.

"*Rebate Account*" means the Account so designated and established pursuant to the Indenture.

"*Record Date*" means the last Business Day of the calendar month preceding a Distribution Date; and the Authority or the Trustee may in its discretion establish special record dates for the determination of the Holders of Bonds for various purposes of the Indenture, including giving consent or direction to the Trustee.

"*Refunding Bonds*" means Bonds issued to renew or refund any Bonds, by exchange, purchase, redemption or payment.

"*Related Contracts*" means the "related bond facilities", as defined in the Act, which for purposes of the Indenture consists of contracts entered into by the Authority pursuant to the provisions of the related Series Supplement or other Supplemental Indenture, for its benefit or the benefit of any of the Beneficiaries, to facilitate the issuance, sale, resale, purchase, repurchase or payment of Bonds, interest rate savings or market diversification, including any bond insurance, letters of credit and liquidity facilities, investment agreements and forward delivery agreements with respect to Eligible Investments.

"*Residual Account*" means the account so designated and established pursuant to the Indenture.

"*Residual Certificate*" means an instrument in the form of an exhibit to the Indenture.

"*Residual Revenues*" means all Pledged Revenues that are in excess of the deposit requirements set forth in Section 4.04(a)(1) - (6) of the Indenture (as described under clauses (1) - (6) of the heading "Application of Pledged Settlement Payments and Residual Revenues—Deposit of Pledged Revenues".

"*Sale Agreement*" means the Purchase and Sale Agreement, dated as of December 1, 2010, by and between the Authority and the State, as amended, supplemented and in effect from time to time.

"*S&P*" means Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies, Inc.; references to S&P under the Indenture are effective so long as S&P is a Rating Agency.

"*Securities Depository*" means DTC or another securities depository specified by a Series Supplement, or if the incumbent Securities Depository resigns from its functions as depository of the Bonds or the Authority discontinues use of the incumbent Securities Depository, then any other securities depository designated in an Officer's Certificate of the Authority.

"*Serial Bonds*" means the Bonds so specified in a Series Supplement.

"*Series*" means all Bonds so identified in a Series Supplement, regardless of variations in class, maturity, interest rate or other provisions, and any Bonds thereafter delivered in exchange or replacement therefor.

"*Series Supplement*" means a Supplemental Indenture, or a supplement thereto, executed pursuant to the Indenture.

"*Series 2010 Bonds*" means the Authority's $1,503,460,000 Tobacco Settlement Revenue Bonds, Series 2010, initially dated their date of delivery, including any Bonds issued in exchange or replacement therefor.

"*Series 2010 Supplement*" means the Series Supplement, dated as of December 1, 2010, authorizing the Series 2010 Bonds.

"*Sinking Fund Installment*" means a scheduled amount set forth in the applicable Series Supplement for required amortization prior to maturity of a Term Bond.

"*Sinking Fund Installment Date*" means the date scheduled for the payment of a particular Sinking Fund Installment.

"*Special Conditions*" means, with respect to a consolidation or merger by the Authority with or into any other person, or a conveyance or transfer of all or substantially all of its properties or assets, the following conditions:

(i) an entity shall survive such event, and such entity shall be organized and existing under the laws of the United States, the State or any state and shall expressly assume the due and punctual payment of all obligations owing to Beneficiaries and the performance or observance of every agreement and covenant of the Authority in the Indenture;

(ii) immediately after giving effect to such transaction, no Default has occurred under the Indenture;

(iii) the Authority has received an opinion of Transaction Counsel to the effect that such transaction will not adversely affect the exclusion of interest on any Tax-Exempt Bond from gross income for federal income tax purposes;

(iv) any action as is necessary to maintain the lien and security interest created by the Indenture has been taken; and

(v) the Authority has delivered to the 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.

"*State*" means the State of Illinois.

"*State Attorney General Operating Subaccount*" means the subaccount within the Operating Account so designated and established pursuant to the Indenture.

"*State's Unsold Assets*" means (i) any payments made with respect to liability to make those payments under the MSA for calendar years completed prior to calendar year 2010, and (ii) those amounts otherwise to be received by the State which were deposited by PMs into the Disputed Payments Account (as defined in the MSA) or withheld by PMs in accordance with Section XI(f)(2) of the MSA prior to the Closing Date.

"*Supplemental Indenture*" means a Series Supplement or supplement to the Indenture adopted and becoming effective in accordance with the terms of the Indenture. Any provision that may be included in a Series Supplement or Supplemental Indenture is also eligible for inclusion in the other subject to the provisions of the Indenture.

"*Tax Certificate*" means the Tax Certificate executed by the Authority and the State at the time of issuance of each Series of Tax-Exempt Bonds, each as originally executed and as each may be amended or supplemented from time to time with the term thereof.

"*Tax-Exempt Bonds*" means all Bonds so identified in the Series Supplement relating to such Bonds.

"*Term Bonds*" means the Bonds so specified in a Series Supplement.

"*Tobacco Assets*" means all tobacco settlement payments paid or payable to the State on and after the Closing Date and required to be made, pursuant to the terms of the MSA, by PMs to the State, and the State's rights to receive such tobacco settlement payments, consisting of (i) the annual payments and strategic contribution fund payments (as such terms are defined in the MSA) payable to the State under the MSA (and all adjustments thereto) and (ii) any Partial Lump Sum Payments and Lump Sum Payments.

"*Tobacco Assets Account*" means the Account so designated and established pursuant to the Indenture.

"*Tobacco Settlement Bond Proceeds Account*" means the Account so designated and established within the Tobacco Settlement Recovery Fund.

"*Tobacco Settlement Recovery Fund*" means the Fund so designated and established in the State Treasury in accordance with 30 ILCS §105/57-43.

"*Tobacco Settlement Residual Account*" means the Account so designated and established within the Tobacco Settlement Recovery Fund.

"*Transaction Counsel*" means a nationally recognized bond counsel as may be selected by the Authority for a specific purpose under the Indenture.

"*Transaction Documents*" means, collectively, the Sale Agreement, the MSA, the Consent Decree and the escrow instructions to the MSA Escrow Agent.

"*Trustee*" means The Bank of New York Mellon Trust Company, N.A., until a successor shall become such pursuant to the applicable provisions of the Indenture and, thereafter, "Trustee" shall mean the successor Trustee.

"*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 and electronic mail transmission.

Directors and Officers Not Liable on Bonds

Neither the members, directors or officers of the Authority nor any person executing Bonds, the Residual Certificate, the Related Contracts or other obligations of the Authority nor any officer, member, employee or agent of the Authority will be liable personally thereon or be subject to any personal liability or accountability solely by reason of the issuance or execution and delivery thereof.

PURSUANT TO THE ACT, NEITHER ANY BOND NOR ANY RELATED CONTRACT OF THE AUTHORITY WILL CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE STATE OR ANY SUBDIVISION THEREOF WITHIN THE PURVIEW OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR PROVISION OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS, IF ANY, OF ANY OF THEM BUT WILL BE PAYABLE SOLELY FROM THE COLLATERAL. NO OWNER OF ANY BOND OR PROVIDER OF ANY RELATED CONTRACT WILL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE TO PAY ANY PRINCIPAL INSTALLMENT OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE BONDS OR TO MAKE ANY PAYMENT DUE UNDER ANY RELATED CONTRACT. (Section 1.03)

Separate Accounts and Records

The parties to the Indenture represent and covenant, each for itself, that: (a) the Authority and the Trustee each will maintain its respective books, financial records and accounts (including, without limitation, inter entity transaction accounts) in a manner so as to identify separately the assets and liabilities of each such entity; each has observed and will observe all applicable corporate or trust procedures and formalities, including, where applicable, the holding of regular periodic and special meetings of governing bodies, the recording and maintenance of minutes of such meetings and the recording and maintenance of resolutions, if any, adopted at such meetings; and all transactions and agreements between the Authority and the Trustee have reflected and will reflect the separate legal existence of each entity and have been and will be formally documented in writing; and (b) the Authority has paid and will pay its liabilities and losses from its separate assets. In furtherance of the foregoing, the Authority has compensated and will compensate all consultants, independent contractors and agents from its own funds for services provided to it by such consultants, independent contractors and agents. (Section 1.04)

Security and Pledge

Pursuant to the Indenture, the Authority will assign and pledge to the Trustee and, pursuant to the Act, will grant a first lien on and a first priority security interest in, in trust upon the terms of the Indenture, all of the Authority's right, title and interest, whether then owned or thereafter acquired, in, to and under all

of the following property constituting the "Collateral": (a) the Pledged Revenues (including all Pledged Settlement Payments), (b) all rights to receive the Pledged Revenues and the proceeds of such rights, (c) the Pledged Accounts (excluding any State's Unsold Assets deposited in the Tobacco Assets Account) and assets thereof (including Related Contracts), including money, contract rights, general intangibles or other personal property, held by the Trustee under the Indenture, (d) subject to the following sentence, all rights and interest of the Authority under the Sale Agreement, including the representations, warranties and covenants of the State in the Sale Agreement, and (e) any and all other property of every kind and nature from time to time hereafter, 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, this assignment and pledge does not include: (i) the Residual Revenues, (ii) the State's Unsold Assets, (iii) the rights of the Authority pursuant to provisions for consent or other 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 Beneficiaries, (iv) any right or power reserved to the Authority pursuant to the Act or other law, (v) any Defeasance Collateral held by the Trustee for the benefit of Defeased Beneficiaries in accordance with the Defeasance provisions of the Indenture, and (vi) as to any Series of Bonds, any other property or interest explicitly excluded from Collateral pursuant to the terms of the related Series Supplement, nor is precluded the Authority's enforcement of its rights under and pursuant to the Sale Agreement for the benefit of the Beneficiaries as provided in the Indenture. The Residual Revenues, the State's Unsold Assets and the proceeds of the Bonds, other than the amounts deposited in the Debt Service Reserve Account, do not constitute any portion of the Pledged Revenues, are not pledged to the holders of the Bonds and are not subject to the lien of the Indenture. In accordance with the Indenture, the Trustee will promptly, but not more than five Business Days after receipt of Tobacco Assets, transfer any portion thereof representing State's Unsold Assets to, or at the order of, the State and, after fully funding the deposits required by the Indenture as described in clauses (1) - (6) of the heading "Application of Pledged Settlement Payments and Residual Revenues — Deposit of Pledged Revenues", any portion thereof representing Residual Revenues to the Residual Account. The foregoing Collateral is to be pledged and a security interest is therein granted by the Authority to secure the payment of Bonds and Related Contracts, all with the respective priorities specified in the Indenture. 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 and all other Beneficiaries, all of which, regardless of the time or times of their issue or maturity, will be of equal rank without preference, priority or distinction of such Bonds and all other Beneficiaries over any other Bonds or Beneficiaries except as expressly provided in the Indenture or permitted thereby. The lien of such pledge and the obligation to perform the contractual provisions in the Indenture made will have priority over any or all other obligations and liabilities of the Authority secured by the Pledged Revenues. The Authority will not incur any obligations, except as authorized in the Indenture, secured by a lien on the Pledged Revenues, or the Pledged Accounts equal or prior to the lien in the Indenture. Notwithstanding anything to the contrary in the Indenture or the Residual Certificate, the Trustee will not make any transfers to the Residual Account unless and until the deposits required by the Indenture as described in clauses (1) - (6) of the heading "Application of Pledged Settlement Payments and Residual Revenues — Deposit of Pledged Revenues", have been made in full. The Authority will implement, protect and defend the assignment and pledge by all appropriate legal action, the cost thereof to be an Operating Expense. (Section 2.01).

Defeasance

When (a) there is held by or for the account of the Trustee Defeasance Collateral in such principal amounts, bearing fixed interest at such rates and with such maturities as will provide sufficient funds to pay or redeem all or any portion of Outstanding Bonds in accordance with their terms and all or any portion of obligations to Beneficiaries (including parties to Related Contracts) (the holders of said Bonds and such Beneficiaries called the "Defeased Beneficiaries") (to be verified by a nationally recognized

firm of independent certified public accountants or other professionals expert in verifying bond defeasance escrows), (b) any required notice of redemption shall have been duly given in accordance with the Indenture or irrevocable written instructions to give notice shall have been given to the Trustee, and (c) all the rights under the Indenture of the Fiduciaries have been provided for, then upon written notice from the Authority to the Trustee, such Defeased Beneficiaries 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 under the Indenture, the security interests created by the Indenture with respect to such Defeased Beneficiaries (except in such funds and investments) will terminate, and the Authority and the Trustee will execute and deliver such instruments as may be necessary to discharge the Trustee's lien and security interests created under the Indenture with respect to such Defeased Beneficiaries. Upon such defeasance, the funds and investments required to pay or redeem such Bonds and other obligations to such Defeased Beneficiaries will be irrevocably set aside for that purpose, subject to certain provisions of the Indenture, and money held for defeasance will be invested only in Defeasance Collateral and applied by the Trustee and other Paying Agents, if any, to the retirement of such Bonds and such other obligations. When provision for payment or redemption is made in accordance under the "Defeasance" provisions of the Indenture for less than all the Bonds of a Series and maturity, the Trustee will choose by lot the particular Bond or Bonds of such Series and maturity to be so paid or redeemed. Upon defeasance of all Outstanding Bonds and Beneficiaries, the lien of the Indenture shall be extinguished, the Indenture shall be deemed terminated and any funds or property held by the Trustee and not required for payment or redemption of such Bonds and such other obligations to Defeased Beneficiaries and Fiduciaries in full will be distributed to, or upon the order of, the owner of the Residual Certificate.

The Trustee will, if so directed by the Authority, apply any moneys or Defeasance Collateral that are held by an escrow agent pursuant to an escrow agreement to the open market purchase of Bonds that have previously been defeased but remain unpaid; provided, however, that if Bonds have been defeased to a date prior to their applicable Maturity Date, the open market purchase may only occur prior to the publication of a notice of redemption for such Bonds. It will be a condition to any such open market purchase that the Trustee receive (i) a certificate of a nationally recognized firm of independent certified public accountants or other professionals expert in verifying bond defeasance escrows showing that the moneys and Defeasance Collateral remaining on deposit in the applicable escrow account after the purchase of such Bonds will be sufficient to pay or redeem in accordance with their terms all of the remaining defeased Bonds and (ii) a Transaction Counsel's opinion to the effect that (x) any redemption or sale of Defeasance Collateral will not adversely affect the exclusion of the interest on the remaining defeased Bonds from the gross income of the holders thereof for federal income tax purposes and (y) that such redemption or sale otherwise complies with the terms of the Indenture. Upon completion of any open market purchase, the Trustee will immediately thereafter cancel all Bonds so purchased. (Section 2.02)

Bonds of the Authority

By Series Supplement complying procedurally and in substance with the Indenture, and including with any consent of the Authority Representative required by the terms of the related Series Supplement, the Authority may authorize, issue, sell and deliver (1) the Series 2010 Bonds and (2) other Series of Bonds, but solely as Refunding Bonds, from time to time in such principal amounts as the Authority may determine, and establish such escrows therefor as it may determine.

Subsequent to the issuance of the Series 2010 Bonds, only Refunding Bonds may be issued to refund Outstanding Bonds, by exchange, purchase, redemption or payment, and the Authority may establish such escrows therefor as the Authority may determine; provided that such Refunding Bonds mature on or prior to the final Maturity Date of the Series 2010 Bonds. (Section 3.01)

Accounts

There are established pursuant to the Indenture the following accounts and subaccounts, to be held and maintained by the Trustee: the Tobacco Assets Account, the Pledged Revenues Account, Operating Account, the Authority Operating Subaccount, the State Attorney General Operating Subaccount, the Debt Service Account, the Debt Service Reserve Account, the Costs of Issuance Account, the Lump Sum Account, the Residual Account and the Rebate Account. The Authority may also by Supplemental Indenture create additional Accounts and sub-accounts within any Account. Amounts in the foregoing Accounts may be invested by the Trustee in Eligible Investments pursuant to the Indenture. (Section 4.01)

Application of Tobacco Assets

Effective on the Closing Date, the Attorney General of the State will direct the MSA Escrow Agent to pay all Tobacco Assets to the Trustee on behalf of the Authority. All Tobacco Assets received by the Trustee will immediately be deposited in the Tobacco Assets Account and will be transferred, as set forth in paragraph (b) below, in accordance with the instructions set forth in an Officer's Certificate of the Authority. Such Officer's Certificate will be delivered within two Business Days of the receipt by the Authority of documentation from the State Attorney General as provided in Section 4.03 of the Sale Agreement and will identify (i) the total amount of the Tobacco Assets received, (ii) the amount thereof representing State's Unsold Assets, (iii) the amount thereof representing Pledged Settlement Payments (including Partial Lump Sum Payments and Lump Sum Payments) and (iv) the amount thereof that represents Residual Revenues; provided, however, that if by the earlier of (i) the Business Day prior to a Distribution Date and (ii) the tenth Business Day after receipt of any Tobacco Assets (1) the Authority has not received the documentation from the State Attorney General as provided in Section 4.03 of the Sale Agreement or (2) the Authority has not delivered the Officer's Certificate required by this paragraph, then on such Business Day, the Trustee will apply such amounts to fund the deposits described under clauses (1)-(5) under the heading "Application of Pledged Settlement Payments and Residual Revenues—Deposit of Pledged Revenues" below.

Within five Business Days after receipt of the Officer's Certificate of the Authority referenced in the previous paragraph, the Trustee will make the following transfers (but only the extent that funds were not previously applied in accordance with the provisions described under the heading "Application of Pledged Settlement Payments and Residual Revenues—Deposit of Pledged Revenues" in accordance with the proviso contained in the previous paragraph):

(1) Pledged Settlement Payments (other than Partial Lump Sum Payments and Lump Sum Payments) to Pledged Revenues Account for application in accordance with the provisions described under the heading "Application of Pledged Settlement Payments and Residual Revenues" below;

(2) Partial Lump Sum Payments and Lump Sum Payments to the Lump Sum Account for application in accordance with the provisions described under the heading "Lump Sum Account" below; and

(3) State's Unsold Assets to, or upon the order of, the State.

Any Tobacco Assets received by the Authority will be promptly (and no event later than two Business Days after receipt) transferred to the Trustee. (Section 4.03)

Application of Pledged Settlement Payments and Residual Revenues

Deposit of Pledged Revenues. Unless otherwise specified in the Indenture, the Trustee will deposit all Pledged Revenues received by it in the Pledged Revenues Account.

No later than five Business Days following each deposit of Pledged Revenues to the Pledged Revenues Account (but in no event later than the next Distribution Date), the Trustee will withdraw Pledged Revenues on deposit in the Pledged Revenues Account and transfer such amounts as follows and in the following order of priority; provided, however, that investment earnings on amounts in the Funds and Accounts (other than the Debt Service Reserve Account, investment earnings on which will be retained therein until the amounts on deposit therein are at least equal to the Debt Service Reserve Requirement, and on the fifth Business Day preceding each Distribution Date amounts on deposit in the Debt Service Reserve Account in excess of the Debt Service Reserve Requirement may, at the direction of the Authority, be deposited directly to the Debt Service Account) will be deposited directly to the Debt Service Account; and provided, further, that upon the occurrence of a Payment Default, Pledged Revenues will be transferred as set forth in clauses (1), (2) and (4) below and then all remaining Pledged Revenues will be applied to make Extraordinary Prepayments in accordance with the Indenture (as described under the heading "Extraordinary Prepayment" below):

(1) (a) to the Authority Operating Subaccount, the amount required to pay (i) Trustee fees and expenses (including reasonable attorney's fees, if applicable) reasonably expected to be due during the next Fiscal Year and (ii) an amount specified by an Officer's Certificate for Operating Expenses of the Authority for the next Fiscal Year (provided that such amounts paid pursuant to this clause (a) will not exceed the Operating Cap and Operating Expenses will not include any termination payments or loss amounts on Related Contracts) and (b) to the State Attorney General Operating Subaccount, the amount required to be deposited therein to fund such subaccount in an amount not to exceed $2,500,000 for the next Fiscal Year;

(2) to the Debt Service Account an amount sufficient to cause the amount therein (together with interest and earnings reasonably expected by the Authority to be received on investments in the Debt Service Account on or prior to the next Distribution Date) to equal interest (including interest at the stated rate on the principal of Outstanding Bonds and on overdue interest, if any) due on the next succeeding Distribution Date;

(3) to the Debt Service Account, exclusive of the amount on deposit therein under clause (2) above, an amount sufficient to cause the amount therein (together with any Partial Lump Sum Payment to be applied to the payment of principal or Sinking Fund Installments on the next succeeding June 1 and interest and earnings reasonably expected by the Authority to be received on investments in the Debt Service Account on or prior to the next succeeding June 1 to the extent not counted for purposes of clause (2) above), to equal the principal and Sinking Fund Installments due on the next succeeding June 1;

(4) to the Debt Service Account, exclusive of the amounts deposited therein pursuant to clauses (2) and (3) above, an amount sufficient to cause the amount on deposit therein (together with interest and earnings reasonably expected by the Authority to be received on investments in the Debt Service Account on or prior to the second succeeding Distribution Date to the extent not counted for purposes of clause (2) or (3) above) to equal interest (including interest at the stated rate on the principal of Outstanding Bonds and on overdue interest, if any) due on the second succeeding Distribution Date;

(5) to replenish the Debt Service Reserve Account until the amount on deposit therein equals the Debt Service Reserve Requirement;

(6) in the amounts and to the Funds and Accounts established by Series Supplement for Junior Payments; and

(7) to the Residual Account, the remaining Pledged Revenues.

On the first (1st) Business Day of the calendar month preceding a month in which a Distribution Date occurs, the Trustee will compare (i) the liquidation value of the aggregate amount on deposit in the Pledged Accounts (other than State's Unsold Assets in the Tobacco Assets Account and amounts set aside for the payment of Bonds) to (ii) the principal amount of and accrued interest (if any) on Bonds that will remain Outstanding after the application of amounts described below on such Distribution Date, and if the amount in clause (i) is greater than the amount described in clause (ii) as of such Distribution Date, then the Trustee will, at the direction of the Authority, liquidate the investments in the Pledged Accounts and will withdraw from the Pledged Accounts an amount sufficient to, and will, retire the Bonds in full on such Distribution Date.

Application of Pledged Revenues. Unless a Payment Default shall have occurred, on each Distribution Date (except with respect to clause (1) below), the Trustee will apply amounts in the various Accounts in the following order of priority:

(1) at any time, from (A) the Authority Operating Subaccount, to the parties entitled thereto, to pay the expenses of Authority described in clause (i) of the definition of Operating Expenses, in the amount specified in an Officer's Certificate of the Authority and (B) the State Attorney General Operating Subaccount, to pay the expenses of the State Attorney General described in clause (ii) of the definition of the Operating Expenses, in the amount specified in a certificate delivered by an Authorized Officer of the State Attorney General;

(2) from the Debt Service Account (and, to the extent that amounts in the Debt Service Account are insufficient therefor, from amounts that will be transferred on such Distribution Date to the Debt Service Account from the Debt Service Reserve Account), to pay interest on the Outstanding Bonds (including interest on overdue interest, if any) due on such Distribution Date, plus any unpaid interest due on prior Distribution Dates;

(3) from the Debt Service Account (and, to the extent that amounts in the Debt Service Account are insufficient therefor, from amounts that will be transferred on such Distribution Date to the Debt Service Account from the Debt Service Reserve Account), to pay in order of Maturity Dates and Sinking Fund Installment Dates, the principal and Sinking Fund Installments due on such Distribution Date; and

(4) from the Funds and Accounts therefor, to make Junior Payments.

If a Payment Default has occurred, the Trustee will apply the Pledged Revenues in accordance with the priorities and purposes set forth in clauses (1), (2) and (4) under the subheading "Deposit of Pledged Revenues" above and then to make Extraordinary Prepayments in accordance with the Indenture, as described under the heading "Extraordinary Prepayment" below.

Deposit and Application of Residual Revenues. In accordance with the Indenture, as described in clause (7) under the heading "Application of Pledged Settlement Payments and Residual Revenues—Deposit of Pledged Revenues", after making the required deposits described by clauses (1)-(6), the Trustee will deposit the balance of the Pledged Revenues, representing the Residual Revenues, in the Residual Account. Promptly, and in no event more than five Business Days after the deposit of such funds in the Residual Account, the Residual Revenues will be transferred to the registered owner of the Residual Certificate.

Whenever the moneys on deposit in the Debt Service Reserve Account exceed the applicable Debt Service Reserve Requirement, such excess may be, in the discretion of the Authority, transferred by the Trustee to the Debt Service Account or, if approved by an opinion of Transaction Counsel as not in violation of the terms of the Indenture or adversely affecting the federal tax exemption applicable to Tax-

Exempt Bonds, to any Fund or Account specified by the Authority in an Officer's Certificate. (Section 4.04)

Lump Sum Account

In accordance with the Indenture, the Trustee will transfer all Pledged Revenues that constitute Partial Lump Sum Payments and Lump Sum Payments to the Lump Sum Account. To the extent that amounts represent a Lump Sum Payment, the Trustee will invest such amount in Defeasance Collateral, pursuant to the Indenture, to pay or redeem a Pro Rata portion of each maturity of Outstanding Bonds in accordance with their terms. To the extent that the amounts represent a Partial Lump Sum Payment, such amounts will be held by the Trustee in the Lump Sum Account and transferred to the Debt Service Account at the times and in the amounts necessary to pay the principal or Sinking Fund Installments of the Bonds on the respective Distribution Dates covered by such Partial Lump Sum Payment. Upon the occurrence of a Payment Default, any Partial Lump Sum Payment will be applied to make Extraordinary Prepayments in accordance with the Indenture, as described under the heading "Extraordinary Prepayment" below. All amounts on deposit in the Lump Sum Account will be held in trust and invested in accordance with the provisions of the Indenture. (Section 4.06)

Related Contracts

The Authority may enter into, amend or terminate, as it determines to be necessary or appropriate, Related Contracts, and may by Series Supplement or other Supplemental Indenture provide for the receipt of payments thereunder as Pledged Revenues, and provide for the payment of amounts due from the Authority thereunder as Junior Payments. (Section 4.07)

Redemption of the Bonds

The Authority may redeem Bonds at its option in accordance with their terms and the terms of the applicable Series Supplement When Bonds are called for redemption, the accrued interest thereon will become due on the redemption date. To the extent not otherwise provided, the Authority will deposit with the Trustee on or prior to the redemption date a sufficient sum to pay principal or Sinking Fund Installments, redemption premium, if any, and accrued interest.

Unless otherwise specified by Series Supplement, there will, at the option of the Authority, be applied to or credited against any sinking fund requirement the principal amount of any Bonds subject to redemption therefrom that have been defeased, purchased or redeemed and not previously so applied or credited.

When a Bond is to be redeemed prior to its Maturity Date, the Trustee will give notice in the name of the Authority, which notice will identify the Bonds to be redeemed, state the date fixed for redemption and state that such Bonds will be redeemed at the Corporate Trust Office of the Trustee or a Paying Agent. The notice will further state that on such date there will become due and payable upon each 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 Trustee or Paying Agent on or prior to the redemption date, from and after such date, interest thereon will cease to accrue. The Trustee will give 20 days' notice (or such shorter period permitted by DTC so long as DTC remains the registered owner of the Bonds) by mail, or otherwise transmit the redemption notice in accordance with any appropriate provisions under the Indenture, to the registered owners of any Bonds which are to be redeemed, at their addresses shown on the registration books of the Authority. Such notice may be waived by any Holder of Bonds to be redeemed. Failure by a particular Holder to receive notice, or any defect in the notice to such Holder, will not affect the redemption of any other Bond. Any notice of redemption given pursuant to the Indenture may be rescinded by Written Notice by the Authority to the Trustee no later than five days prior to the date specified for redemption. The 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.

Unless otherwise in the Indenture or by a Series Supplement, if less than all the Outstanding Bonds of like Series and Maturity Date are to be redeemed, the particular Bonds to be redeemed will be selected by the Trustee by such method as it will deem fair and appropriate, and the Trustee may provide for the selection for redemption of portions (equal to any authorized denominations) of the principal of Bonds of a denomination larger than the minimum authorized denomination.

To the extent set forth in the applicable Series Supplement, the Bonds will be subject to redemption from Sinking Fund Installments. (Section 4.08)

Investments

Pending its application under the Indenture, money in the Funds and Accounts may be invested by the Trustee pursuant to written direction of the Authority in Eligible Investments maturing or redeemable at the option of the holder at or before the time when such money is expected to be needed; provided, however, that amounts on deposit in the Tobacco Assets Account and the Residual Account will be held in Eligible Investments which mature overnight until released from such accounts in accordance with the subheadings "Deposit of Pledged Revenues" and "Deposit and Application of Residual Revenues", respectively. Specifically, Eligible Investments will mature or be redeemable at the option of the Authority in an amount and at such times sufficient to make the payments under the Indenture described in clauses (1)-(6) under the heading "Application of Pledged Settlement Payments and Residual Revenues—Deposit of Pledged Revenues" and described under "Extraordinary Prepayment" on the applicable Distribution Dates. Investments will be held by the Trustee in the respective Funds and Accounts and will be sold or redeemed to the extent necessary to make payments or transfers from each Fund or Account. The Trustee will not be liable for any losses on investments made at the direction of the Authority. The Trustee may conclusively rely upon the Authority's written instructions as to both the suitability and legality of the directed investments. Ratings of Eligible Investments will be determined at the time of purchase of such Eligible Investments and without regard to ratings subcategories. The Trustee may make any and all such investments through its own investment department or that of its affiliates or subsidiaries, and may charge its ordinary and customary fees for such trades, including cash sweep account fees. In the absence of investment instructions from the Authority, the Trustee will not be responsible or liable for keeping the moneys held by it under the Indenture fully invested in Eligible Investments.

Although the Authority recognizes that it may obtain a broker confirmation or written statement containing comparable information at no additional cost, the Authority agrees under the Indenture that confirmations of Eligible Investments are not required to be issued by the Trustee for each month in which a monthly statement is rendered. No statement need be rendered for any fund or account if no activity occurred in such fund or account during such month.

On the tenth Business Day immediately preceding each Distribution Date, the Trustee will value the money and investments in the Debt Service Reserve Account according to the methods set forth under the Investments provisions of the Indenture. Any amounts in the Debt Service Reserve Account in excess of the Debt Service Reserve Requirement will be applied as provided under the Indenture.

In computing the amount in any Fund or Account, the value of Eligible Investments will be determined by the Trustee at least as frequently as the third Business Day preceding each Distribution Date and will be calculated as follows:

(i) As to investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal, the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination;

(ii) As to investments the bid and asked prices of which are not published on a regular basis in The Wall Street Journal, the average bid price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the 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;

(iii) As to certificates of deposit and bankers acceptances, the face amount thereof, plus accrued interest; and

(iv) As to any investment not specified above: the value thereof established by prior agreement between the Authority and the Trustee.

The Trustee may hold undivided interests in Eligible Investments for more than one Fund or Account (for which they are eligible) and may make interfund transfers in kind.

In respect of Defeasance Collateral held for Defeased Bonds, the provisions of the Indenture summarized under the caption "Investments" will be effective only to the extent it is consistent with other applicable provisions of the Indenture or any separate escrow agreement. (Section 4.09)

Rebate

(a) The Trustee will establish and maintain an account separate from any other account established and maintained under the Indenture designated as the Rebate Account. Subject to the transfer provisions provided in paragraph (e) below, all money at any time deposited in the Rebate Account will be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined, computed and provided to the Trustee in accordance with the Tax Certificate), for payment to the United States Treasury. Neither the Authority nor any Bondholder will have any rights in or claim to such money in the Rebate Account. All amounts deposited into or on deposit in the Rebate Account will be governed by the rebate provisions and the tax covenants contained in the Indenture and by the Tax Certificate. The Trustee will be deemed conclusively to have complied with such provisions if it follows such directions of the Authority, and will have no liability or responsibility to enforce compliance by the Authority with the terms of the Tax Certificate.

(b) Upon the Authority's written direction, an amount will be deposited to the Rebate Account by the Trustee from amounts on deposit in the Operating Account so that the balance in the Rebate Account will equal the Rebate Requirement. Computations of the Rebate Requirement will be furnished by or on behalf of the Authority in accordance with the Tax Certificate. The Trustee will supply to the Authority all information required to be provided in the Tax Certificate to the extent such information is reasonably available to the Trustee.

(c) The Trustee will have no obligation to rebate any amounts required to be rebated pursuant to the rebate provisions of the Indenture, other than from money held in the Operating Account or the Rebate Account created under the Indenture.

(d) At the written direction of the Authority, the Trustee will invest all amounts held in the Rebate Account in Eligible Investments, subject to the restrictions set forth in the Tax Certificate. Money will not be transferred from the Rebate Account except as provided in paragraph (e) below. The Trustee will not be liable for any consequences arising from such investment.

(e) Upon receipt of the Authority's written directions, the Trustee will remit part or all of the balances in the Rebate Account to the United States, as directed in writing by the Authority. In addition, if the Authority so directs, the Trustee will deposit money into or transfer money out of the Rebate Account from or into such Accounts or Funds as directed by the Authority's written directions; provided, however, that only money in excess of the Rebate Requirement may, at the written direction of the Authority, be transferred out of the Rebate Account to such other Accounts or Funds or to anyone other than the United States in satisfaction of the arbitrage rebate obligation. Any funds remaining in the Rebate Account after each five year remittance to the United States, redemption and payment of all of the bonds and payment and satisfaction of any Rebate Requirement, or after provision has been made therefor satisfactory to the Trustee, will be withdrawn and deposited in the Pledged Revenues Account.

(f) Notwithstanding any other provision of the Indenture, the obligation to remit the Rebate Requirement to the United States and to comply with all other requirements of the Tax Covenants provisions of the Indenture and the Tax Certificate will survive the defeasance or payment in full of the Tax Exempt Bonds. (Section 4.11)

Contract; Obligations to Beneficiaries

In consideration of the purchase and acceptance of any or all of the Bonds and Related Contracts by those who will hold the same from time to time, the provisions of the Indenture will be a part of the contract of the Authority with the Beneficiaries. The pledge made in the Indenture and the covenants set forth in the Indenture to be performed by the Authority will be for the equal benefit, protection and security of the Beneficiaries of the same priority. All of the Bonds or Related Contracts of the same priority, regardless of the time or times of their issuance, payment or maturity, will be of equal rank without preference, priority or distinction of any thereof over any other except as expressly provided in the Indenture.

Under the Indenture, the Authority covenants to pay when due all sums payable on the Bonds, but only from the Pledged Revenues and money designated in the Indenture, subject only to (i) the Indenture, and (ii) to the extent permitted by the Indenture, (x) agreements with Holders of Bonds pledging particular collateral for the payment thereof and (y) the rights of Beneficiaries under Related Contracts. The obligation of the Authority to pay principal or Sinking Fund Installments, interest and redemption premium, if any, to the Holders of Bonds 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 will pay its Operating Expenses.

In addition, the Authority represents under the Indenture that it is duly authorized pursuant to law, including the Act, to create and issue the Bonds, to enter into the Indenture and to pledge the Pledged Revenues and other collateral purported to be pledged in the manner and to the extent provided in the Indenture. The Pledged Revenues and other collateral so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Indenture, and all corporate 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 in accordance with their terms. (Section 5.01)

Enforcement

Subject to the provisions of the Indenture, the Trustee will enforce, by appropriate legal proceedings, each covenant, pledge or agreement made by the State in the Sale Agreement for the benefit of any of the Beneficiaries. (Section 5.02)

Tax Covenants

The Authority will covenant under the Indenture that:

(a) the Authority 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 Tax Exempt Bonds will be excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Code; and

(b) no funds of the Authority will at any time be used directly or indirectly to acquire securities, obligations or other investment property the acquisition or holding of which would cause any Tax Exempt Bond to be an arbitrage bond as defined in the Code.

If and to the extent required by the Code, the Authority will periodically, at such times as may be required to comply with the Code, pay as an Operating Expense the amount, if any, required by the Code to be rebated or paid as a related penalty. Without limiting the foregoing, the Authority agrees that it will comply with the provisions of the Tax Certificate which are incorporated in the Indenture. The Authority's tax covenants will, notwithstanding any other provisions of the Indenture, survive the defeasance or other payment of the Tax Exempt Bonds. (Section 5.03)

Accounts and Reports

The Authority will make the following covenants under the Indenture:

(a) 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 and at the expense of the Authority be subject to inspection by the Trustee and, at the written request of the Holders of an aggregate of not less than 25% in principal amount of Bonds then Outstanding, the Holders of the Outstanding Bonds or their representatives duly authorized in writing; and

(b) annually, within 30 days after release by the State Comptroller of the State's Comprehensive Audited Financial Report, deliver to the 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. (Section 5.04)

Ratings

Unless otherwise specified by Series Supplement, 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 Bonds from at least one Rating Agency. (Section 5.05)

Affirmative Covenants

The Authority will covenant and agree under the Indenture as follows:

Punctual Payment. The Authority will duly and punctually pay the principal or Sinking Fund Installments of and premium, if any, and interest on the Bonds in accordance with the terms of the Bonds and the Indenture.

Maintenance of Existence. Unless the Special Conditions described under "Limitations on Consolidation, Merger, Sale of Assets, etc." below are met, the Authority will keep in full effect its existence, rights and franchises as a special purpose corporation of the State 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: (i) maintain or preserve the lien and security interest (and the priority thereof) of the Indenture; (ii) perfect, publish notice of or protect the validity of any grant made or to be made by the Indenture; (iii) preserve and defend title to the Pledged Revenues and other collateral pledged under the Indenture and the rights of the Trustee and the Bondholders and Beneficiaries in such collateral against the claims of all persons and parties, including the challenge by any party to the validity or enforceability of the Consent Decree, the Indenture, the Sale Agreement or the Act or the performance by any party thereunder; (iv) cause the Trustee to enforce the Sale Agreement; (v) pay any and all taxes levied or assessed upon all or any part of the collateral; or (vi) carry out more effectively the purposes of the Indenture.

Performance of Obligations. The Authority (i) will diligently pursue any and all actions to enforce its rights under each instrument or agreement included in the collateral and (ii) 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 Consent Decree.

Notice of Events of Default. The Authority will give the Trustee and Rating Agencies prompt written notice of each Event of Default under the Indenture. (Section 5.06)

Agreement with the State

Pursuant to the Act, the State pledges and agrees with the Authority, and the owners of the Bonds by reason of the inclusion in the Indenture by the Authority, as agent of the State, of the following pledge and agreement, that the State will (i) irrevocably direct, through the Attorney General, the Independent Auditor and the Escrow Agent (as such terms are defined in the MSA) to transfer all Pledged Settlement Payments directly to the Trustee as the assignee of the Authority, (ii) enforce its right to collect all money due from the PMs under the MSA, (iii) diligently enforce the Qualifying Statute as contemplated in section IX(d)(2)(B) of the MSA against all nonparticipating manufacturers selling tobacco products in the State that are not in compliance with the Qualifying Statute, in each case in the manner and to the extent deemed necessary in the judgment of, and consistent with the discretion of, the Attorney General, provided, however, (a) that the remedies available to the Authority and the Beneficiaries for any breach of the pledges and agreements of the State set forth in this clause (iii) will be limited to injunctive relief, and (b) that the State will be deemed to have diligently enforced the Qualifying Statute so long as there has been no judicial determination by a court of competent jurisdiction in the State, in an action commenced by a PM under the MSA, that the State has failed to diligently enforce the Qualifying Statute for the purposes of section IX(d)(2)(B) of the MSA, (iv) neither amend the MSA nor the Consent Decree or take any other action in any way that would materially adversely (a) impair the Authority's right to receive Pledged Settlement Payments, or (b) limit or alter the rights vested in the Authority to fulfill the terms of its agreements with the Beneficiaries, or (c) impair the rights and remedies of the Beneficiaries or the security for the Bonds until the Bonds, together with the interest thereon and all costs and expenses in connection with any action or proceedings by or on behalf of the Beneficiaries, are fully paid and discharged (provided that nothing in the Act, the Sale Agreement or the Indenture will be construed to preclude the State's regulation of smoking, smoking cessation activities and laws, and taxation and regulation of the sale of cigarettes or the like or to restrict the right of the State to amend, modify, repeal or otherwise alter statutes imposing or relating to the taxes), and (v) not amend, supersede or repeal the MSA or the Qualifying Statute, in any way that would materially adversely affect the amount of any payment to, or the rights to such payments of, the Authority or the Beneficiaries. Notwithstanding these pledges and agreements by the State, nothing in the Indenture, in the Sale Agreement, in the Bonds or in the Act will be construed or interpreted to limit or impair the authority or discretion of the Attorney

General to administer and enforce provisions of the MSA or to direct, control and settle any litigation or arbitration proceeding arising from or relating to the MSA. (Section 5.07)

Negative Covenants

The Authority will covenant and agree as follows under the Indenture:

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 pledged under 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 due in respect of, the Bonds or payments due to other Beneficiaries or assert any claim against any present or former Bondholder or Beneficiary by reason of the payment of taxes levied or assessed upon any part of the collateral.

Liquidation. Unless the Special Conditions described under "Limitations on Consolidation, Merger, Sales of Assets, etc" below 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 (i) permit the validity or effectiveness of the Indenture or the Sale Agreement 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, (ii) permit any lien, charge, excise, claim, security interest, mortgage or other encumbrance (other than the lien of the Indenture and any lien securing Bonds) 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 or (iii) 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:

(a) an entity will survive such event, and such entity will be organized and existing under the laws of the United States, the State or any state and will expressly assume the due and punctual payment of all obligations owing to Beneficiaries and the performance or observance of every agreement and covenant of the Authority in the Indenture;

(b) immediately after giving effect to such transaction, no Default has occurred under the Indenture;

(c) the Authority has received an opinion of Transaction Counsel to the effect that such transaction will not adversely affect the exclusion of interest on any Tax Exempt Bond from gross income for federal income tax purposes;

(d) any action as is necessary to maintain the lien and security interest created by the Indenture has been taken; and

(e) the Authority has delivered to the 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.

No Other Business. The Authority will not engage in any business other than financing, purchasing, owning and managing the Pledged Settlement Payments sold by the State to the Authority in the manner contemplated by the Indenture, the Sale Agreement and any other sale agreement with the State, and activities incidental thereto.

No Borrowing. The Authority will not issue, incur, assume, guarantee or otherwise become liable, directly or indirectly, for any indebtedness secured by the Pledged Settlement Payments except the Bonds. The Residual Certificate and Related Contracts are not indebtedness within the meaning of this covenant.

Guarantees, Loans, Advances and Other Liabilities. Except as otherwise contemplated by the Indenture and the Sale Agreement and any other sale agreement with the State, the Authority will not make any loan or advance of credit to, or guarantee (directly or indirectly or by an instrument having the effect or assuring another's payment or performance on any obligation or capability of so doing or otherwise), endorse or otherwise become contingently liable, directly or indirectly, in connection with the obligations, stock or dividends of, or own, purchase, repurchase or acquire (or agree contingently to do so) any stock, obligations, assets or securities of, or any other interest in, or make any capital contribution to, any other person.

Restricted Payments. The Authority will not, directly or indirectly, make payments to or distributions from the Pledged Accounts except in accordance with the Indenture.

Restriction of Bankruptcy. In accordance with the Act, the Authority will have no authority to file a voluntary petition under or become a debtor or bankrupt under the Federal Bankruptcy Code or any other federal or State bankruptcy, insolvency, or moratorium law or statute as may, from time to time, be in effect and neither any public officer nor any organization, entity, or other person shall authorize the Authority to become a debtor or bankrupt under the Federal Bankruptcy Code or any other federal or State bankruptcy, insolvency or moratorium law or statute as may, from time to time, be in effect. The State acknowledges that clause (iv)(c) under the heading "Agreement with the State" applies to the foregoing provision. (Section 5.08)

Prior Notice

The Authority will give each Rating Agency thirty days' prior written notice of each issue of Bonds other than the Series 2010 Bonds, with a copy of the proposed Series Supplement, and of each Supplemental Indenture, amendment to the Sale Agreement, Related Contract or defeasance or redemption of Bonds. (Section 5.09)

Pledged Settlement Payments

The State has provided through the MSA, the Consent Decree and the Sale Agreement for (i) the Authority's ownership and receipt of the Pledged Settlement Payments, (ii) the receipt or other application of the net proceeds of the Bonds (not including Refunding Bonds) and (iii) the resulting benefits to the people of the State. Under the Indenture, 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 will 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 under the Indenture that, in the event of any failure or refusal by the State to comply with its agreements included in the MSA, the Consent Decree or the Sale Agreement, the Holders of the Bonds may have suffered damage, the extent of the

remedy for which is set forth in the Indenture and the Act, and will be determined in the course of any action taken pursuant to the Indenture; and the Authority will waive any right to assert any claim to the contrary and agrees that it will 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 damage has been suffered. (Section 6.01)

Resignation or Removal of the Trustee

Under the Indenture, the Trustee may resign at any time on not less than 30 days' written notice to the Authority, the Holders and each of the Rating Agencies. The Trustee will promptly certify to the Authority that it has sent written notice to all Holders and such certificate will be conclusive evidence that such notice was mailed as required hereby. Upon receiving such notice of resignation, the Authority will promptly appoint a successor and, upon the acceptance by the successor of such appointment, release the resigning Trustee from its obligations under the Indenture by written instrument, a copy of which instrument will be delivered to each of the Holders, the resigning Trustee and the successor Trustee. The Trustee may be removed by the Authority or by a Majority in Interest of Outstanding Bonds, upon written notice to the Trustee, if rated below investment grade by S&P and each successor Trustee will have an investment grade rating from S&P. The Trustee may also be removed by written notice from the Authority if no Default has occurred or from a Majority in Interest of the Holders of the Outstanding Bonds to the Trustee and the Authority. No such resignation or removal will take effect until a successor has been appointed and has accepted the duties of the Trustee. (Section 7.04)

Successor Fiduciaries

Any corporation or association which succeeds to the municipal corporate trust business of a Fiduciary as a whole or substantially as a whole, whether by sale, merger, consolidation or otherwise, will become vested under the Indenture, with all the property, rights, powers and duties under the Indenture, without any further act or conveyance and without the execution or filing of any paper with any party hereto except where an instrument of transfer or assignment is required by law to effect such succession, anything in the Indenture to the contrary notwithstanding.

In case a Fiduciary resigns or is removed or becomes incapable of acting, 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 Trustee will, be appointed by the Authority. The Authority will notify the Holders and the Rating Agencies of the appointment of a successor Trustee in writing within 20 days from the appointment. The Authority will promptly certify to the successor Trustee that it has given such notice to all Holders and such certificate will be conclusive evidence that such notice was given as required by the Indenture. If no appointment of a successor Trustee is made within 45 days after the giving of written notice in accordance with the provisions of the Indenture summarized above under the caption "Resignation or Removal of the Trustee" or after the occurrence of any other event requiring or authorizing such appointment, the outgoing Trustee or any Holder 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 Trustee appointed in accordance with the provisions of the Indenture will be a trust company or a bank having the powers of a trust company, having a capital and surplus of not less than $50,000,000 and an investment grade rating from S&P or otherwise as approved by the Rating Agencies. Any such successor Trustee will notify the Authority of its acceptance of the appointment and, upon giving such notice, will become Trustee, vested with all the property, rights, powers and duties of the Trustee under the Indenture, without any further act or conveyance. Such successor Trustee will execute, deliver, record and file such instruments as are required to confirm or perfect its succession under the Indenture and any predecessor Trustee will from

time to time execute, deliver, record and file such instruments as the incumbent Trustee may reasonably require to confirm or perfect any succession under the Indenture. (Section 7.05)

Nonpetition Covenant

Notwithstanding any prior termination of the Indenture, no Fiduciary will, prior to the date that is one year and one day after the termination of the Indenture, acquiesce, petition or otherwise invoke or cause the Authority to invoke the process of any court of government authority for the purpose of commencing or sustaining a case against the Authority under any federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Authority or any substantial part of its property, or ordering the winding up or liquidation of the affairs of the Authority. (Section 7.06)

Action by Holders

Any request, authorization, direction, notice, consent, waiver or other action provided by the Indenture to be given or taken by Holders of Bonds may be contained in and evidenced by one or more writings of substantially the same tenor signed by the requisite number of Holders 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 in the Indenture) if made in the following manner, but the Authority or the 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 his attorney of such instrument may be proved by the certificate or signature guarantee, which need not be acknowledged or verified, of an officer of a bank, trust company or securities dealer satisfactory to the Authority or to the Trustee; or of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state in which he purports to act, that the person signing such request or other instrument acknowledged to him 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 Holder may be established without further proof if such instrument is signed by a person purporting to be the president or a vice president of such Authority 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 by the owner of any Bond will be irrevocable and bind all future record and beneficial owners thereof. (Section 8.01)

Registered Owners

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 in the Indenture, any payment to the registered owner of a Bond will satisfy the Authority's obligations thereon to the extent of such payment. (Section 8.02)

Remedies

If an Event of Default occurs the Trustee may, and upon written request of the Holders of 25% in principal amount of the Bonds Outstanding will, in its own name by action or proceeding in accordance with the law:

(i) enforce all rights of the Holders and require the Authority or, to the extent permitted by law, the State to carry out its agreements with the Holders and to perform its duties under the Sale Agreement;

(ii) sue upon such Bonds;

(iii) require the Authority to account as if it were the trustee of an express trust for the Holders of such Bonds; and

(iv) enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of such Bonds.

In no event will the principal of any Bond be accelerated and declared due and payable in advance of its stated maturity.

The Trustee will, in addition to the other provisions of the "Remedies" section of the Indenture, have and possess all of the powers necessary or appropriate for the exercise of any functions incident to the general representation of Holders in the enforcement and protection of their rights.

Upon the occurrence of a Payment Default or a failure actually known to an Authorized Officer of the Trustee to make any other payment required by the Indenture within seven days after the same becomes due and payable, the Trustee will give written notice thereof to the Authority. The 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 Trustee will proceed for the benefit of the Holders in accordance with the written direction of a Majority in Interest of the Outstanding Bonds. The Trustee will not be required to take any remedial action (other than the giving of notice) unless indemnity satisfactory to the Trustee 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 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 Holders, and will act for the protection of the Holders with the same promptness and prudence as would be expected of a prudent person in the conduct of such person's own affairs. The foregoing provisions of the "Remedies" section of the Indenture to the contrary notwithstanding, the remedies available to the Trustee for any breach of the pledges and agreements of the State relating to the diligent enforcement of the Qualifying Statute as contemplated in section IX(d)(2)(B) of the MSA will be limited to injunctive relief. (Section 9.02)

Extraordinary Prepayment

Upon the occurrence of a Payment Default, on each Distribution Date thereafter, any amounts remaining on deposit in the Pledged Revenues Account after making the deposits required by the Indenture as described in clauses (1), (2) and (4) under the heading "Application of Pledged Settlement Payments and Residual Revenues—Deposit of Pledged Revenues", shall be applied, together with any amounts on deposit in the Debt Service Reserve Account and any Partial Lump Sum Payments on deposit in the Lump Sum Account, to the mandatory redemption of the Outstanding Bonds, Pro Rata as to principal, among maturities and within a maturity, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the redemption date. (Section 9.03)

Waiver

If the 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 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. (Section 9.04)

Individual Remedies

No one or more Holders will by his 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 Holders of the same class; but nothing in the Indenture will affect or impair the right of any Holder of any Bond to enforce payment of the principal of, premium, if any, or interest thereon at and after the same comes due pursuant to the Indenture, or the obligation of the Authority to pay such 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. (Section 9.07)

Venue and Governing Law

The venue of every action, suit or special proceeding against the Authority will be laid in the State and will be heard and determined in any court of the State of competent jurisdiction in accordance with the Act. (Section 9.08)

The Indenture will be construed in accordance with the laws of the State, without reference to its conflict of law provisions, and the obligations, rights and remedies of the parties hereunder will be determined in accordance with such laws (Section 10.04)

Supplements and Amendments to the Indenture

The Indenture may be:

(i) supplemented by delivery to the Trustee of an instrument certified by an Authorized Officer of the Authority to (1) provide for earlier or greater deposits into the Funds and Accounts, (2) subject any property to the lien of the Indenture, (3) add to the covenants and agreements of the Authority or surrender or limit any right or power of the Authority, (4) identify particular Bonds for purposes not inconsistent with the provisions of the Indenture, including credit or liquidity support, serialization and defeasance, (5) cure any ambiguity or defect, (6) 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, or (7) authorize Bonds of a Series and in connection therewith determine the matters referred to in the Indenture, or (8) any other things relative to such Bonds that are not materially adverse to the Holders of Outstanding Bonds, or to modify or rescind any such authorization or determination at any time prior to the first authentication and delivery of such Series of Bonds; or

(ii) amended in any other respect by the Authority and the Trustee, (1) to add provisions that are not materially adverse to the Holders, or (2) 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 the Holders of such Bonds in accordance with the provisions of subparagraph (iii) below; or

(iii) otherwise amended only with written notice to the Rating Agencies and the written consent of a Majority in Interest of the Bonds to be Outstanding and affected thereby. However, that the Indenture may not be amended so as to (1) extend the maturity of any Bond, (2) reduce the principal or Sinking Fund Installment amount, applicable premium or interest rate of any Bond, (3) make any Bond redeemable other than in accordance with its terms, (4) create a preference or priority of any Bond over any other Bond of the same class, or (5) reduce the percentage of the Bonds required to be represented by

the Holders giving their consent to any amendment, unless the Holders of the Bonds affected by such amendment have consented to it in writing.

Any amendment of the Indenture will be accompanied by a Transaction Counsel's opinion addressed to the Trustee to the effect that the amendment is authorized and permitted by law and by the Indenture and does not adversely affect the exclusion of interest on the Tax Exempt Bonds from 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 which requires consents, it will file a certificate to that effect in its records and give written notice to the Trustee and the Holders. The Trustee will promptly certify to the Authority that it has given such notice to all Holders and such certificate will be conclusive evidence that such notice was given in the manner required by the Indenture. (Section 10.01)

Supplements and Amendments to the Sale Agreement

The Sale Agreement may be amended in accordance with the provisions of Section 6.01 thereof, with the consent of the Trustee but without the consent of the Holders of the Bonds (i) to cure any ambiguity, (ii) to correct or supplement any provisions in the Sale Agreement, (iii) to correct or amplify the description of the tobacco settlement payments sold thereunder, (iv) to add additional covenants for the benefit of the Authority, or (v) for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions in the Sale Agreement that will not, adversely affect in any material respect the interest of the Holders of Outstanding Bonds; provided that the Trustee receives a Transaction Counsel's opinion addressed to the Trustee to the effect that the amendment is authorized and permitted by law and by the Indenture and does not adversely affect the exclusion of interest on the Tax-Exempt Bonds from gross income for federal income tax purposes. The Sale Agreement may also be amended from time to time by the Authority and the State, with the consent of a Majority in Interest 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 will 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. In the event that the Trustee receives a request for a consent or other action under the Sale Agreement, the Trustee may, and if consent or other action by Holders is required will, transmit a notice of such request to each Holder and request directions with respect thereto; and the Trustee (and the Authority, if applicable) will proceed in accordance with such directions (if any), pursuant to the Indenture and the Sale Agreement. (Section 10.02)

APPENDIX D

DEFINITIONS AND SUMMARY OF PURCHASE AND 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 Trustee at Two North LaSalle Street, Suite 1020, Chicago, Illinois 60602.

Definitions

Capitalized terms used but not defined in this Appendix D have the meanings given to such terms in Appendix C – "Definitions and Summary of the Indenture". The following terms have the following meanings in this summary, unless the context otherwise requires:

"*Board*" means the members of the Authority pursuant to the Act.

"*Bond Purchase Agreement*" means the Contract of Purchase, by and between the Authority, the State and Citigroup Global Markets Inc. and Barclays Capital Inc., as representatives of the Underwriters, in such form as the parties thereto shall agree.

"*Independent Auditor*" means PricewaterhouseCoopers LLP or any other firm serving as independent auditor under the MSA.

"*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 Pledged Settlement Payments.

"*Opinion of Counsel*" means one or more written opinions of counsel who may be an employee of or counsel to the State, which counsel shall be acceptable to the Trustee.

"*Transaction Documents*" means the Sale Agreement, the Indenture and the Bond Purchase Agreement.

Conveyance of Pledged Settlement Payments

The State will irrevocably sell and convey to the Authority, as of the Closing Date, 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 right, title and interest of the State on the Closing Date in and to the Pledged Settlement Payments. As consideration for such sale and conveyance of the Pledged Settlement Payments by the State to the Authority, the Authority promises under the Sale Agreement to pay and otherwise convey to the State, without recourse, on the Closing Date, the proceeds (net of the Financing Costs) of the Series 2010 Bonds and the Residual Certificate in accordance with and subject to the terms of the Indenture and the Act.

In accordance with the Act, upon execution and delivery of the Sale Agreement, the sale and conveyance and other transfer of the right to receive the Pledged Settlement Payments will for all purposes be a true sale and absolute conveyance of all right, title, and interest therein and not as a pledge or other security interest for any borrowing, valid, binding and enforceable in accordance with the terms of the Sale Agreement and the Indenture will not be subject to disavowal, disaffirmance, cancellation, or avoidance by reason of insolvency of any party, lack of consideration, or any other fact, occurrence or rule of law.

The right of the Authority to receive the Pledged Settlement Payments, on and after the Closing Date, is valid and enforceable, and during the period that Pledged Settlement Payments are payable to the Authority and pledged under the Indenture, the right of the Authority to receive the Pledged Settlement Payments is superior and prior to, the right and claim of the owner of the Residual Certificate to receive the Residual Revenues. Notwithstanding anything to the contrary in the Indenture or the Residual Certificate, the Trustee will not make any deposits to the Residual Account unless and until the deposits required to be made by Section 4.04(a)(1) through (6) of the Indenture have been paid in full.

From and after the Closing Date all Tobacco Assets required by the MSA to be made to the State will be made to the Trustee in accordance with the provisions of the Indenture. In the event the State receives any payments or other funds constituting Tobacco Assets after the Closing Date the State will promptly disburse the same to the Authority or the Trustee, as directed. The State agrees to execute and deliver to the MSA Escrow Agent (and also addressed to the Independent Auditor) irrevocable instructions to make the payments constituting Tobacco Assets directly to the Authority or the Trustee as required by the Transaction Documents, and further authorizes the Authority to make or amend such instructions on its behalf. The Trustee will immediately deposit such Tobacco Assets in the Tobacco Assets Account and, to the extent that a portion of the Tobacco Assets received by the Trustee consist of State's Unsold Assets, the Trustee will promptly, but not later than five Business Days after receipt, transfer such State's Unsold Assets to, or at the order of, the State. Nothing in the Sale Agreement is intended to limit the rights of the State to enforce the provisions of the Sale Agreement requiring the delivery of the Residual Certificate to the State Treasurer for deposit in the Tobacco Settlement Residual Account. (Section 2.01)

Representations of State

The State, as seller, makes the following representations on which the Authority is deemed to have relied in acquiring the Pledged Settlement Payments. The representations speak as of the Closing Date, and survive the sale of the Pledged Settlement Payments to the Authority and the pledge thereof to the Trustee pursuant to the Indenture.

Power and Authority. The Governor is duly authorized by the Act to assign and sell the Pledged Settlement Payments on behalf of the State to the Authority. The State has full power and authority to execute and deliver the Sale Agreement and to carry out its terms; and the State has duly authorized such sale and assignment to the Authority by all necessary action; and the execution, delivery and performance of the Sale Agreement has been duly authorized by the State by all necessary action.

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 sale of the Pledged Settlement Payments and the consummation of the transactions contemplated by the Act and the Transaction Documents and the fulfillment of the terms thereof and of the Sale Agreement do not, to the State's knowledge, in any material way conflict with, result in any material breach by the State of any of the material terms and provisions of, nor constitute (with or without notice or lapse of time) a material default by the State 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.

No Proceedings. To the State's knowledge, except as disclosed in the offering circular for the Series 2010 Bonds or in a schedule delivered to the Authority, there are no proceedings or investigations pending against the State, before any court, regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the State: (1) asserting the invalidity of any of the Transaction Documents or the Bonds, (2) seeking to prevent the issuance of the Bonds or the consummation of any of the transactions contemplated by any of the Transaction Documents, or (3) seeking any determination or ruling that would affect the validity or enforceability of any of the Transaction Documents, the Act, the Consent Decree, the MSA, the Qualifying Statute, the Complementary Legislation or the Bonds.

Title to Pledged Settlement Payments. The State is the sole owner of the Tobacco Assets. On and after the Closing Date (i) the State will have no right, title or interest in or to the Pledged Settlement Payments and (ii) the Pledged Settlement Payments will be the property of the Authority, and not of the State, and will be owned, received, held and disbursed by the Authority, without appropriation, and not the State. Pursuant to the Sale Agreement, the Tobacco Assets will be paid directly to the Trustee and the Trustee will deposit the Tobacco Assets in the Tobacco Assets Account and will promptly, and in no event later than five Business Days after receipt thereof, the Trustee will transfer the Pledged Settlement Payments in accordance with an Officer's Certificate delivered pursuant to the Indenture. State's Unsold Assets received by the Authority will promptly, but not later than five Business Days after receipt, be transferred to, or at the order of, the State.

Absence of Liens on Pledged Settlement Payments. The State has not sold, transferred, assigned, set over or otherwise conveyed any right, title or interest of any kind whatsoever in all or any portion of the Pledged Settlement Payments, nor has the State created, or to its knowledge permitted the creation of, any Lien thereon. The State warrants that the Pledged Settlement Payments are free and clear of Liens.

Assignment to Trustee. The State acknowledges that the Authority will assign to the Trustee for the benefit of the Bondholders all of its rights and remedies with respect to the breach of any representations and warranties of the State under the Sale Agreement. Upon discovery by the State, or the Authority of a breach of any of the foregoing representations, warranties or covenants that materially and adversely affects the value of the Pledged Settlement Payments or the sale thereof to the Authority under the Sale Agreement, the party discovering such breach must give prompt written notice to the other party and to the Trustee.

The State will not be liable to the Trustee or the Bondholders for any loss, cost or expense resulting solely from the failure of the Trustee to promptly notify the State upon the discovery by a Responsible Officer of the Trustee of a breach of any representation, warranty or covenant contained in the Sale Agreement. (Section 3.01)

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 hereunder. The State will not be under any obligation to appear in, prosecute or defend any legal action that shall not be related to its obligations under the Sale Agreement, and that in its opinion may involve it in any expense or liability.

None of the State, the Authority, or any officer, member, employee, or agent of the Authority, while acting within the scope of their authority, will be subject to any personal liability resulting from

exercising or carrying out of any of the Authority's purposes or powers or any of their respective rights or obligations under the Transaction Documents. (Section 3.02)

Protection of Title; Non Impairment Covenant

Pursuant to the Act, the State pledges and agrees with the Authority, and the Authority is authorized to include such pledge and agreement in the Indenture for the benefit of the owners of the Bonds and all Beneficiaries, that the State will (i) irrevocably direct, through the Attorney General, the Independent Auditor and the MSA Escrow Agent to transfer all Tobacco Assets directly to the Trustee as the assignee of the Authority, (ii) enforce its right to collect all moneys due from the PMs under the MSA, (iii) diligently enforce the Qualifying Statute as contemplated in section IX(d)(2)(B) of the MSA against all nonparticipating manufacturers selling tobacco products in the State that are not in compliance with the Qualifying Statute, in each case in the manner and to the extent deemed necessary in the judgment of, and consistent with the discretion of, the Attorney General, provided, however, (a) that the remedies available to the Authority and the Beneficiaries for any breach of the pledges and agreements of the State set forth in this clause (iii) will be limited to injunctive relief, and (b) that the State will be deemed to have diligently enforced the Qualifying Statute so long as there has been no judicial determination by a court of competent jurisdiction in the State, in an action commenced by a PM under the MSA, that the State has failed to diligently enforce the Qualifying Statute for the purposes of section IX(d)(2)(B) of the MSA, (iv) neither amend the MSA nor the Consent Decree or take any other action in any way that would materially adversely (a) impair the Authority's right to receive Pledged Settlement Payments, or (b) limit or alter the rights vested in the Authority to fulfill the terms of its agreements with the Beneficiaries, or (c) impair the rights and remedies of the Beneficiaries or the security for the Bonds, until the Bonds, together with the interest thereon and all costs and expenses in connection with any action or proceedings by or on behalf of the Beneficiaries, are fully paid and discharged (provided, that nothing in the Act, the Sale Agreement or the Indenture will be construed to preclude the State's regulation of smoking, smoking cessation activities and laws, and taxation and regulation of the sale of cigarettes or the like or to restrict the right of the State to amend, modify, repeal or otherwise alter statutes imposing or relating to the taxes), and (v) not amend, supersede or repeal the MSA or the Qualifying Statute, in any way that would materially adversely affect the amount of any payment to, or the rights to such payments of, the Authority or the Beneficiaries. Notwithstanding these pledges and agreements by the State, nothing in the Sale Agreement, in the Indenture, in the Bonds or in the Act will be construed or interpreted to limit or impair the authority or discretion of the Attorney General to administer and enforce provisions of the MSA or to direct, control and settle any litigation or arbitration proceeding arising from or relating to the MSA.

Upon request of the Authority or the 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. (Section 4.01)

Tax Covenant

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 Tax-Exempt Bonds will be excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Code; and no funds of the State will at any time be used directly or indirectly to acquire securities, obligations or investment property the acquisition or holding of which would cause any Tax-Exempt Bond to be an arbitrage bond as defined in the Code and any applicable regulations issued thereunder and in furtherance of such covenant will execute and comply with the tax certificate provided by Transaction Counsel. (Section 4.02)

MSA Escrow Agent

Simultaneously with the delivery of the Bonds and the purchase of the Pledged Settlement Payments, the State, acting through the Attorney General, will notify the MSA Escrow Agent and the Independent Auditor that the Pledged Settlement Payments have been sold to the Authority and will irrevocably instruct the MSA Escrow Agent that the Tobacco Assets are to be paid directly to the Trustee on behalf of the Authority. Should the State receive any such payments from the MSA Escrow Agent, it will immediately remit such payments to the Trustee. Additionally, the State Attorney General agrees to promptly (but in no event later than five Business Days after receipt of conclusive documentation from the Independent Auditor or the MSA Escrow Agent relating to the payment of Tobacco Assets) provide to the Authority and the Trustee a certificate which establishes what portion, if any, of Tobacco Assets received, or to be received, by the Trustee constitute State's Unsold Assets, Partial Lump Sum Payments or Lump Sum Payments and the related calculation of each such amount. (Section 4.03)

Residual Revenues

As part of the consideration for the sale to the Authority by the State of the Pledged Settlement Payments, the Authority agrees under the Sale Agreement to issue the Residual Certificate. In accordance with the provisions of the Indenture, upon payment in full of the deposits required by Section 4.04(a)(1)-(6) thereof (as described under clauses (1)-(6) under the heading "Application of Pledged Settlement Payments and Residual Revenues—Deposit of Pledged Revenues" in Appendix C—Definitions and Summary of the Indenture), the remaining balance of the Pledged Revenues will be deposited by the Trustee as Residual Revenues in the Residual Account. In accordance with the Indenture, Residual Revenues on deposit in the Residual Account will be transferred promptly, (but in no event later than five Business Days after such deposit to the Residual Account) to the owner of the Residual Certificate. To the extent that the Trustee receives State's Unsold Assets, the Trustee will remit such State's Unsold Assets to or upon the order of the State in accordance with the Indenture. (Section 5.02)

Bonds Not Debt of State

Pursuant to the Act, neither any Bond nor any Related Contract of the Authority will constitute an indebtedness or an obligation of the State or any subdivision thereof within the purview of any constitutional or statutory limitation or provision or a charge against the general credit or taxing powers, if any, of any of them but will be payable solely from the Collateral. No owner of any Bond or provider of any Related Contract will have the right to compel the exercise of the taxing power of the State to pay any principal installment of, redemption premium, if any, or interest on the Bonds or to make any payment due under any Related Contract. (Section 5.03)

Restriction on Bankruptcy

In accordance with the Act, the Authority will have no authority to file a voluntary petition under, or become a debtor or bankrupt under, the Federal Bankruptcy Code or any other federal or State bankruptcy, insolvency, or moratorium law or statute as may, from time to time, be in effect and neither any public officer nor any organization, entity, or other person shall authorize the Authority to become a debtor or bankrupt under the Federal Bankruptcy Code or any other federal or State bankruptcy, insolvency or moratorium law or statute as may, from time to time, be in effect. The State acknowledges that clause (iv)(c) of the first paragraph under the heading "Protection of Title; Non Impairment Covenant" applies to the foregoing provision. (Section 5.04)

Amendment

Except as otherwise provided in the third paragraph under the caption "Protection of Title; Non Impairment Covenant" above, after issuance of the Series 2010 Bonds, the Sale Agreement may be amended by the State and the Authority, with the consent of the 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 or the Pledged Settlement Payments; (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 adversely affect in any material respect the 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 a Majority in Interest 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 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 the Holders of all the Outstanding Bonds.

Prior to the execution of any amendment to the Sale Agreement, the holder of the Residual Certificate and the Trustee will be entitled to receive and conclusively rely upon an Opinion of Counsel stating that the execution of such amendment is authorized or permitted by the Sale Agreement. Without the prior written consent of the holder of the Residual Certificate and the Trustee, which consent may be granted or withheld in such Person's sole discretion, no amendment, supplement or other modification of the Sale Agreement may be entered into or be effective if such amendment, supplement or modification affects the holder of the Residual Certificate or the Trustee's, as applicable, own rights, duties or immunities under the Sale Agreement or otherwise. (Section 6.01)

Use of Purchase Price

In accordance with the Act, the purchase price of the Pledged Settlement Payments payable to the State pursuant to the Sale Agreement corresponding directly or indirectly to the proceeds of the Series 2010 Bonds (net of Financing Costs) will be deposited, on the Closing Date, into the Tobacco Settlement Bond Proceeds Account of the Tobacco Settlement Recovery Fund. (Section 6.02)

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("**DTC**"), New York, New York, will act as securities depository for the Series 2010 Bonds (the "**Series 2010 Bonds**"). The Series 2010 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 Series 2010 Bond certificate will be issued for each CUSIP of each maturity of the Series 2010 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC 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 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, thereby eliminating 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**" and, together with Direct Participants, "**Participants**"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of the Series 2010 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2010 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2010 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 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 2010 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 Series 2010 Bonds, except in the event that use of the book-entry system for the Series 2010 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2010 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 2010 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2010 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2010 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.

Redemption notices shall be sent to DTC. If less than all of the Series 2010 Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2010 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 2010 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2010 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 Trustee, on the 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 Underwriters, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest on the Series 2010 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Authority or the 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.

Beneficial Owner shall give notice to elect to have its Series 2010 Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Series 2010 Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2010 Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Series 2010 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2010 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2010 Bonds to the Trustee's DTC account.

DTC may discontinue providing its services as securities depository with respect to the Series 2010 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2010 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2010 Bond certificates will be printed and delivered to DTC.

The information herein concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and the Underwriters believe to be reliable, but the Authority and the Underwriters take no responsibility for the accuracy thereof.

Each person for whom a Participant acquires an interest in the Series 2010 Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all notices of redemption or other communications to DTC, which may affect such persons, to be forwarded in writing by such Participant and to have notification made of all interest payments. NEITHER THE AUTHORITY, THE UNDERWRITERS, NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE SERIES 2010 BONDS.

So long as Cede & Co. is the registered owner of the Series 2010 Bonds, as nominee for DTC, references herein to Bondholders or registered owners of the Series 2010 Bonds (other than under the heading "TAX MATTERS" herein) shall mean Cede & Co., as aforesaid, and shall not mean the beneficial owners of the Series 2010 Bonds.

When reference is made to any action which is required or permitted to be taken by the beneficial owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such beneficial owners for such purposes. When notices are given, they shall be sent by the Trustee to DTC only.

For every transfer and exchange of Series 2010 Bonds, the beneficial owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

The Authority, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Series 2010 Bonds if the Authority determines that (i) DTC is unable to discharge its responsibilities with respect to the Series 2010 Bonds, or (ii) a continuation of the requirement that all of the Outstanding Series 2010 Bonds be registered in the registration books kept by the Trustee in the name of Cede & Co., as nominee of DTC, is not in the best interests of the beneficial owners. In the event that no substitute securities depository is found by the Authority or restricted registration is no longer in effect, the applicable Series 2010 Bond certificates will be delivered as described in the Indenture.

NONE OF THE AUTHORITY, THE UNDERWRITERS NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2010 BONDS UNDER THE INDENTURE; (III) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2010 BONDS; (IV) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE SERIES 2010 BONDS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE SERIES 2010 BONDS; OR (VI) ANY OTHER MATTER.

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APPENDIX F

CONSTANT ANNUAL RATE OF DECLINE TABLES

Projection of Annual Payments to be Received by the Trustee (3% Consumption Decline)

Year	3% Decline Consumption Forecast*	OPM-Adjusted Consumption	Base Annual Payments	Inflation Adjustment	Volume Adjustment	Previously Settled States Reduction	Total Adjusted Annual Payments by OPMs	State's Allocation of Annual Payments	Total OPM Annual Payments to Trustee	Total SPM Annual Payments to Trustee	Total Annual Payments to Trustee
2010	305,450,980,572	253,066,137,404									
2011	296,287,451,155	245,474,153,282	$8,139,000,000	$3,707,943,417	$(5,433,063,637)	$(784,890,559)	$5,628,989,221	4.65424720%	$261,987,073	$23,340,208	$285,327,282
2012	287,398,827,620	238,109,928,683	8,139,000,000	4,063,351,718	(5,786,923,019)	(785,080,106)	5,630,348,592	4.65424720%	262,050,342	23,345,845	285,396,187
2013	278,776,862,791	230,966,630,823	8,139,000,000	4,429,422,272	(6,151,226,405)	(785,296,361)	5,631,899,506	4.65424720%	262,122,525	23,352,276	285,474,801
2014	270,413,556,908	224,037,631,898	8,139,000,000	4,806,474,941	(6,526,287,265)	(785,540,106)	5,633,647,570	4.65424720%	262,203,884	23,359,524	285,563,408
2015	262,301,150,200	217,316,502,941	8,139,000,000	5,194,839,185	(6,912,428,476)	(785,812,147)	5,635,598,562	4.65424720%	262,294,688	23,367,614	285,662,302
2016	254,432,115,694	210,797,007,853	8,139,000,000	5,594,854,366	(7,309,982,612)	(786,113,315)	5,637,758,440	4.65424720%	262,395,214	23,376,569	285,771,784
2017	246,799,152,223	204,473,097,617	8,139,000,000	6,006,869,999	(7,719,292,206)	(786,444,463)	5,640,133,330	4.65424720%	262,505,748	23,386,417	285,892,164
2018	239,395,177,657	198,338,904,689	9,000,000,000	7,111,588,014	(9,001,890,979)	(786,806,474)	6,322,890,561	4.65424720%	294,282,957	25,872,298	320,155,255
2019	232,213,322,327	192,388,737,548	9,000,000,000	7,594,935,660	(9,481,680,389)	(787,200,252)	6,326,055,019	4.65424720%	294,430,239	25,885,247	320,315,485
2020	225,246,922,657	186,617,075,422	9,000,000,000	8,092,783,728	(9,975,674,717)	(787,626,733)	6,329,482,278	4.65424720%	294,589,752	25,899,271	320,489,022
2021	218,489,514,978	181,018,563,159	9,000,000,000	8,605,567,233	(10,484,300,283)	(788,086,878)	6,333,180,072	4.65424720%	294,761,856	25,914,401	320,676,258
2022	211,934,829,528	175,588,006,264	9,000,000,000	9,133,734,258	(11,007,996,204)	(788,581,680)	6,337,156,373	4.65424720%	294,946,923	25,930,672	320,877,595
2023	205,576,784,642	170,320,366,076	9,000,000,000	9,677,746,278	(11,547,214,744)	(789,112,159)	6,341,419,376	4.65424720%	295,145,334	25,948,115	321,093,449
2024	199,409,481,103	165,210,755,094	9,000,000,000	10,238,078,673	(12,102,421,767)	(789,679,367)	6,345,977,539	4.65424720%	295,357,482	25,966,767	321,324,249
2025	193,427,196,670	160,254,432,441	9,000,000,000	10,815,221,034	(12,674,097,087)	(790,284,386)	6,350,839,561	4.65424720%	295,583,772	25,986,661	321,570,434
2026	187,624,380,770	155,446,799,468	9,000,000,000	11,409,677,658	(13,262,734,918)	(790,928,332)	6,356,014,408	4.65424720%	295,824,623	26,007,836	321,832,459
2027	181,995,649,347	150,783,395,484	9,000,000,000	12,021,967,989	(13,868,844,316)	(791,612,355)	6,361,511,317	4.65424720%	296,080,462	26,030,328	322,110,791
2028	176,535,779,866	146,259,893,619	9,000,000,000	12,652,627,032	(14,492,949,593)	(792,337,639)	6,367,339,800	4.65424720%	296,351,734	26,054,178	322,405,912
2029	171,239,706,470	141,872,096,811	9,000,000,000	13,302,205,839	(15,135,590,788)	(793,105,401)	6,373,509,650	4.65424720%	296,638,894	26,079,424	322,718,318

* Assumes 6% decline in 2010, as further described in "SUMMARY OF CASH FLOW ASSUMPTIONS USED IN PREPARING CONSTANT ANNUAL RATE OF CIGARETTE CONSUMPTION DECLINE TABLES", and the stated consumption decline thereafter.

Projection of Strategic Contribution Payments and Total Payments to be Received by the Trustee (3% Consumption Decline)

			Strategic Contribution Payments							Total Payments		
Year	3% Decline Consumption Forecast*	OPM-Adjusted Consumption	Base Strategic Contribution Payments	Inflation Adjustment	Volume Adjustment	Total Adjusted Strategic Contribution Payments by OPMs	State's Allocation of Strategic Contribution Payments	OPM Strategic Contribution Payments to Trustee	SPM Strategic Contribution Payments to Trustee	Total Annual Payments to Trustee	Total Strategic Contribution Payments to Trustee	Total Payments to Trustee
2010	305,450,980,572	253,066,137,404										
2011	296,287,451,155	245,474,153,282	$861,000,000	$392,252,031	$(574,747,241)	$678,504,791	2.71692430%	$18,434,462	$1,441,335	$285,327,282	$19,875,797	$305,203,078
2012	287,398,827,620	238,109,928,683	861,000,000	429,849,592	(612,180,946)	678,668,646	2.71692430%	18,438,913	1,441,683	285,396,187	19,880,596	305,276,783
2013	278,776,862,791	230,966,630,823	861,000,000	468,575,080	(650,719,491)	678,855,589	2.71692430%	18,443,992	1,442,080	285,474,801	19,886,073	305,360,873
2014	270,413,556,908	224,037,631,898	861,000,000	508,462,333	(690,396,036)	679,066,297	2.71692430%	18,449,717	1,442,528	285,563,408	19,892,245	305,455,653
2015	262,301,150,200	217,316,502,941	861,000,000	549,546,202	(731,244,737)	679,301,465	2.71692430%	18,456,107	1,443,027	285,662,302	19,899,134	305,561,436
2016	254,432,115,694	210,797,007,853	861,000,000	591,862,589	(773,300,778)	679,561,811	2.71692430%	18,463,180	1,443,580	285,771,784	19,906,760	305,678,544
2017	246,799,152,223	204,473,097,617	861,000,000	635,448,466	(816,600,392)	679,848,075	2.71692430%	18,470,958	1,444,188	285,892,164	19,915,146	305,807,310
2018	239,395,177,657	198,338,904,689	0	0	0	0		0	0	320,155,255	0	320,155,255
2019	232,213,322,327	192,388,737,548	0	0	0	0		0	0	320,315,485	0	320,315,485
2020	225,246,922,657	186,617,075,422	0	0	0	0		0	0	320,489,022	0	320,489,022
2021	218,489,514,978	181,018,563,159	0	0	0	0		0	0	320,676,258	0	320,676,258
2022	211,934,829,528	175,588,006,264	0	0	0	0		0	0	320,877,595	0	320,877,595
2023	205,576,784,642	170,320,366,076	0	0	0	0		0	0	321,093,449	0	321,093,449
2024	199,409,481,103	165,210,755,094	0	0	0	0		0	0	321,324,249	0	321,324,249
2025	193,427,196,670	160,254,432,441	0	0	0	0		0	0	321,570,434	0	321,570,434
2026	187,624,380,770	155,446,799,468	0	0	0	0		0	0	321,832,459	0	321,832,459
2027	181,995,649,347	150,783,395,484	0	0	0	0		0	0	322,110,791	0	322,110,791
2028	176,535,779,866	146,259,893,619	0	0	0	0		0	0	322,405,912	0	322,405,912
2029	171,239,706,470	141,872,096,811	0	0	0	0		0	0	322,718,318	0	322,718,318

* Assumes 6% decline in 2010, as further described in "SUMMARY OF CASH FLOW ASSUMPTIONS USED IN PREPARING CONSTANT ANNUAL RATE OF CIGARETTE CONSUMPTION DECLINE TABLES", and the stated consumption decline thereafter.

Projection of Annual Payments to be Received by the Trustee (4% Consumption Decline)

Year	4% Decline Consumption Forecast*	OPM-Adjusted Consumption	Base Annual Payments	Inflation Adjustment	Volume Adjustment	Previously Settled States Reduction	Total Adjusted Annual Payments by OPMs	State's Allocation of Annual Payments	Total OPM Annual Payments to Trustee	Total SPM Annual Payments to Trustee	Total Annual Payments to Trustee
2010	305,450,980,572	253,066,137,404									
2011	293,232,941,349	242,943,491,907	$8,139,000,000	$3,707,943,417	$(5,433,063,637)	$(784,890,559)	$5,628,989,221	4.65424720%	$261,987,073	$23,340,208	$285,327,282
2012	281,503,623,695	233,225,752,231	8,139,000,000	4,063,351,718	(5,850,545,511)	(777,294,383)	5,574,511,824	4.65424720%	259,451,560	23,114,322	282,565,882
2013	270,243,478,747	223,896,722,142	8,139,000,000	4,429,422,272	(6,277,701,555)	(769,819,122)	5,520,901,595	4.65424720%	256,956,408	22,892,031	279,848,439
2014	259,433,739,597	214,940,853,256	8,139,000,000	4,806,474,941	(6,714,853,916)	(762,464,497)	5,468,156,528	4.65424720%	254,501,522	22,673,327	277,174,849
2015	249,056,390,013	206,343,219,126	8,139,000,000	5,194,839,185	(7,162,334,046)	(755,230,264)	5,416,274,875	4.65424720%	252,086,822	22,458,203	274,545,025
2016	239,094,134,413	198,089,490,361	8,139,000,000	5,594,854,366	(7,620,482,999)	(748,116,216)	5,365,255,151	4.65424720%	249,712,238	22,246,654	271,958,891
2017	229,530,369,036	190,165,910,747	8,139,000,000	6,006,869,999	(8,089,651,694)	(741,122,181)	5,315,096,124	4.65424720%	247,377,713	22,038,673	269,416,385
2018	220,349,154,275	182,559,274,317	9,000,000,000	7,111,588,014	(9,476,816,704)	(734,248,027)	5,900,523,283	4.65424720%	274,624,940	24,144,036	298,768,976
2019	211,535,188,104	175,256,903,344	9,000,000,000	7,594,935,660	(10,021,197,838)	(727,493,655)	5,846,244,168	4.65424720%	272,098,655	23,921,934	296,020,590
2020	203,073,780,580	168,246,627,210	9,000,000,000	8,092,783,728	(10,578,997,543)	(720,859,007)	5,792,927,178	4.65424720%	269,617,151	23,703,769	293,320,920
2021	194,950,829,356	161,516,762,122	9,000,000,000	8,605,567,233	(11,150,651,002)	(714,344,065)	5,740,572,166	4.65424720%	267,180,419	23,489,541	290,669,960
2022	187,152,796,182	155,056,091,637	9,000,000,000	9,133,734,258	(11,736,606,099)	(707,948,852)	5,689,179,308	4.65424720%	264,788,469	23,279,249	288,067,718
2023	179,666,684,335	148,853,847,971	9,000,000,000	9,677,746,278	(12,337,323,760)	(701,673,427)	5,638,749,091	4.65424720%	262,441,322	23,072,896	285,514,218
2024	172,480,016,962	142,899,694,053	9,000,000,000	10,238,078,673	(12,953,278,422)	(695,517,897)	5,589,282,355	4.65424720%	260,139,017	22,870,486	283,009,504
2025	165,580,816,283	137,183,706,291	9,000,000,000	10,815,221,034	(13,584,958,369)	(689,482,404)	5,540,780,262	4.65424720%	257,881,610	22,672,023	280,553,633
2026	158,957,583,632	131,696,358,039	9,000,000,000	11,409,677,658	(14,232,866,194)	(683,567,137)	5,493,244,326	4.65424720%	255,669,170	22,477,513	278,146,683
2027	152,599,280,286	126,428,503,717	9,000,000,000	12,021,967,989	(14,897,519,239)	(677,772,330)	5,446,676,420	4.65424720%	253,501,785	22,286,964	275,788,749
2028	146,495,309,075	121,371,363,569	9,000,000,000	12,652,627,032	(15,579,450,005)	(672,098,260)	5,401,078,767	4.65424720%	251,379,557	22,100,386	273,479,943
2029	140,635,496,712	116,516,509,026	9,000,000,000	13,302,205,839	(16,279,206,632)	(666,545,248)	5,356,453,960	4.65424720%	249,302,608	21,917,788	271,220,396

* Assumes 6% decline in 2010, as further described in "SUMMARY OF CASH FLOW ASSUMPTIONS USED IN PREPARING CONSTANT ANNUAL RATE OF CIGARETTE CONSUMPTION DECLINE TABLES", and the stated consumption decline thereafter.

Projection of Strategic Contribution Payments and Total Payments to be Received by the Trustee (4% Consumption Decline)

			Strategic Contribution Payments							Total Payments		
Year	4% Decline Consumption Forecast*	OPM-Adjusted Consumption	Base Strategic Contribution Payments	Inflation Adjustment	Volume Adjustment	Total Adjusted Strategic Contribution Payments by OPMs	State's Allocation of Strategic Contribution Payments	OPM Strategic Contribution Payments to Trustee	SPM Strategic Contribution Payments to Trustee	Total Annual Payments to Trustee	Total Strategic Contribution Payments to Trustee	Total Payments to Trustee
2010	305,450,980,572	253,066,137,404										
2011	293,232,941,349	242,943,491,907	$861,000,000	$392,252,031	$(574,747,241)	$678,504,791	2.71692430%	$18,434,462	$1,441,335	$285,327,282	$19,875,797	$305,203,078
2012	281,503,623,695	233,225,752,231	861,000,000	429,849,592	(618,911,375)	671,938,217	2.71692430%	18,256,053	1,427,386	282,565,882	19,683,438	302,249,321
2013	270,243,478,747	223,896,722,142	861,000,000	468,575,080	(664,098,911)	665,476,169	2.71692430%	18,080,484	1,413,659	279,848,439	19,494,142	299,342,581
2014	259,433,739,597	214,940,853,256	861,000,000	508,462,333	(710,343,927)	659,118,406	2.71692430%	17,907,748	1,400,153	277,174,849	19,307,901	296,482,750
2015	249,056,390,013	206,343,219,126	861,000,000	549,546,202	(757,681,486)	652,864,716	2.71692430%	17,737,840	1,386,868	274,545,025	19,124,708	293,669,733
2016	239,094,134,413	198,089,490,361	861,000,000	591,862,589	(806,147,667)	646,714,922	2.71692430%	17,570,755	1,373,804	271,958,891	18,944,559	290,903,451
2017	229,530,369,036	190,165,910,747	861,000,000	635,448,466	(855,779,593)	640,668,873	2.71692430%	17,406,488	1,360,961	269,416,385	18,767,449	288,183,834
2018	220,349,154,275	182,559,274,317	0	0	0	0		0	0	298,768,976	0	298,768,976
2019	211,535,188,104	175,256,903,344	0	0	0	0		0	0	296,020,590	0	296,020,590
2020	203,073,780,580	168,246,627,210	0	0	0	0		0	0	293,320,920	0	293,320,920
2021	194,950,829,356	161,516,762,122	0	0	0	0		0	0	290,669,960	0	290,669,960
2022	187,152,796,182	155,056,091,637	0	0	0	0		0	0	288,067,718	0	288,067,718
2023	179,666,684,335	148,853,847,971	0	0	0	0		0	0	285,514,218	0	285,514,218
2024	172,480,016,962	142,899,694,053	0	0	0	0		0	0	283,009,504	0	283,009,504
2025	165,580,816,283	137,183,706,291	0	0	0	0		0	0	280,553,633	0	280,553,633
2026	158,957,583,632	131,696,358,039	0	0	0	0		0	0	278,146,683	0	278,146,683
2027	152,599,280,286	126,428,503,717	0	0	0	0		0	0	275,788,749	0	275,788,749
2028	146,495,309,075	121,371,363,569	0	0	0	0		0	0	273,479,943	0	273,479,943
2029	140,635,496,712	116,516,509,026	0	0	0	0		0	0	271,220,396	0	271,220,396

* Assumes 6% decline in 2010, as further described in "SUMMARY OF CASH FLOW ASSUMPTIONS USED IN PREPARING CONSTANT ANNUAL RATE OF CIGARETTE CONSUMPTION DECLINE TABLES", and the stated consumption decline thereafter.

Projection of Annual Payments to be Received by the Trustee (5% Consumption Decline)

Year	5% Decline Consumption Forecast*	OPM-Adjusted Consumption	Base Annual Payments	Inflation Adjustment	Volume Adjustment	Previously Settled States Reduction	Total Adjusted Annual Payments by OPMs	State's Allocation of Annual Payments	Total OPM Annual Payments to Trustee	Total SPM Annual Payments to Trustee	Total Annual Payments to Trustee
2010	305,450,980,572	253,066,137,404									
2011	290,178,431,543	240,412,830,533	$8,139,000,000	$3,707,943,417	$(5,433,063,637)	$(784,890,559)	$5,628,989,221	4.65424720%	$261,987,073	$23,340,208	$285,327,282
2012	275,669,509,966	228,392,189,007	8,139,000,000	4,063,351,718	(5,914,168,002)	(769,508,660)	5,518,675,056	4.65424720%	256,852,779	22,882,799	279,735,578
2013	261,886,034,468	216,972,579,556	8,139,000,000	4,429,422,272	(6,402,866,083)	(754,502,269)	5,411,053,921	4.65424720%	251,843,826	22,436,555	274,280,381
2014	248,791,732,744	206,123,950,579	8,139,000,000	4,806,474,941	(6,899,532,735)	(739,864,656)	5,306,077,550	4.65424720%	246,957,966	22,001,278	268,959,244
2015	236,352,146,107	195,817,753,050	8,139,000,000	5,194,839,185	(7,404,550,898)	(725,589,278)	5,203,699,009	4.65424720%	242,193,015	21,576,772	263,769,788
2016	224,534,538,802	186,026,865,397	8,139,000,000	5,594,854,366	(7,918,311,921)	(711,669,772)	5,103,872,673	4.65424720%	237,546,851	21,162,850	258,709,701
2017	213,307,811,862	176,725,522,127	8,139,000,000	6,006,869,999	(8,441,215,845)	(698,099,955)	5,006,554,198	4.65424720%	233,017,409	20,759,325	253,776,734
2018	202,642,421,269	167,889,246,021	9,000,000,000	7,111,588,014	(9,922,969,142)	(684,873,824)	5,503,745,048	4.65424720%	256,157,900	22,520,480	278,678,380
2019	192,510,300,205	159,494,783,720	9,000,000,000	7,594,935,660	(10,522,777,156)	(671,985,543)	5,400,172,961	4.65424720%	251,337,399	22,096,679	273,434,078
2020	182,884,785,195	151,520,044,534	9,000,000,000	8,092,783,728	(11,134,083,849)	(659,429,455)	5,299,270,424	4.65424720%	246,641,145	21,683,802	268,324,947
2021	173,740,545,935	143,944,042,307	9,000,000,000	8,605,567,233	(11,757,373,836)	(647,200,071)	5,200,993,326	4.65424720%	242,067,086	21,281,667	263,348,753
2022	165,053,518,638	136,746,840,192	9,000,000,000	9,133,734,258	(12,393,143,283)	(635,292,070)	5,105,298,906	4.65424720%	237,613,231	20,890,100	258,503,331
2023	156,800,842,706	129,909,498,182	9,000,000,000	9,677,746,278	(13,041,900,265)	(623,700,294)	5,012,145,719	4.65424720%	233,277,652	20,508,931	253,786,583
2024	148,960,800,571	123,414,023,273	9,000,000,000	10,238,078,673	(13,704,165,268)	(612,419,752)	4,921,493,653	4.65424720%	229,058,481	20,137,997	249,196,478
2025	141,512,760,543	117,243,322,110	9,000,000,000	10,815,221,034	(14,380,471,546)	(601,445,612)	4,833,303,876	4.65424720%	224,953,910	19,777,138	244,731,048
2026	134,437,122,515	111,381,156,004	9,000,000,000	11,409,677,658	(15,071,365,608)	(590,773,202)	4,747,538,848	4.65424720%	220,962,194	19,426,201	240,388,395
2027	127,715,266,390	105,812,098,204	9,000,000,000	12,021,967,989	(15,777,407,680)	(580,398,009)	4,664,162,300	4.65424720%	217,081,643	19,085,037	236,166,680
2028	121,329,503,070	100,521,493,294	9,000,000,000	12,652,627,032	(16,499,172,142)	(570,315,676)	4,583,139,214	4.65424720%	213,310,629	18,753,503	232,064,131
2029	115,263,027,917	95,495,418,629	9,000,000,000	13,302,205,839	(17,237,248,024)	(560,522,000)	4,504,435,815	4.65424720%	209,647,578	18,431,460	228,079,038

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Projection of Strategic Contribution Payments and Total Payments to be Received by the Trustee (5% Consumption Decline)

			Strategic Contribution Payments							Total Payments		
Year	5% Decline Consumption Forecast*	OPM-Adjusted Consumption	Base Strategic Contribution Payments	Inflation Adjustment	Volume Adjustment	Total Adjusted Strategic Contribution Payments by OPMs	State's Allocation of Strategic Contribution Payments	OPM Strategic Contribution Payments to Trustee	SPM Strategic Contribution Payments to Trustee	Total Annual Payments to Trustee	Total Strategic Contribution Payments to Trustee	Total Payments to Trustee
2010	305,450,980,572	253,066,137,404										
2011	290,178,431,543	240,412,830,533	$861,000,000	$392,252,031	$(574,747,241)	$678,504,791	2.71692430%	$18,434,462	$1,441,335	$285,327,282	$19,875,797	$305,203,078
2012	275,669,509,966	228,392,189,007	861,000,000	429,849,592	(625,641,805)	665,207,787	2.71692430%	18,073,192	1,413,088	279,735,578	19,486,280	299,221,858
2013	261,886,034,468	216,972,579,556	861,000,000	468,575,080	(677,339,685)	652,235,395	2.71692430%	17,720,742	1,385,531	274,280,381	19,106,273	293,386,654
2014	248,791,732,744	206,123,950,579	861,000,000	508,462,333	(729,880,536)	639,581,796	2.71692430%	17,376,953	1,358,652	268,959,244	18,735,605	287,694,849
2015	236,352,146,107	195,817,753,050	861,000,000	549,546,202	(783,304,868)	627,241,334	2.71692430%	17,041,672	1,332,437	263,769,788	18,374,109	282,143,897
2016	224,534,538,802	186,026,865,397	861,000,000	591,862,589	(837,654,081)	615,208,508	2.71692430%	16,714,749	1,306,876	258,709,701	18,021,625	276,731,326
2017	213,307,811,862	176,725,522,127	861,000,000	635,448,466	(892,970,493)	603,477,973	2.71692430%	16,396,040	1,281,957	253,776,734	17,677,997	271,454,731
2018	202,642,421,269	167,889,246,021	0	0	0	0		0	0	278,678,380	0	278,678,380
2019	192,510,300,205	159,494,783,720	0	0	0	0		0	0	273,434,078	0	273,434,078
2020	182,884,785,195	151,520,044,534	0	0	0	0		0	0	268,324,947	0	268,324,947
2021	173,740,545,935	143,944,042,307	0	0	0	0		0	0	263,348,753	0	263,348,753
2022	165,053,518,638	136,746,840,192	0	0	0	0		0	0	258,503,331	0	258,503,331
2023	156,800,842,706	129,909,498,182	0	0	0	0		0	0	253,786,583	0	253,786,583
2024	148,960,800,571	123,414,023,273	0	0	0	0		0	0	249,196,478	0	249,196,478
2025	141,512,760,543	117,243,322,110	0	0	0	0		0	0	244,731,048	0	244,731,048
2026	134,437,122,515	111,381,156,004	0	0	0	0		0	0	240,388,395	0	240,388,395
2027	127,715,266,390	105,812,098,204	0	0	0	0		0	0	236,166,680	0	236,166,680
2028	121,329,503,070	100,521,493,294	0	0	0	0		0	0	232,064,131	0	232,064,131
2029	115,263,027,917	95,495,418,629	0	0	0	0		0	0	228,079,038	0	228,079,038

* Assumes 6% decline in 2010, as further described in "SUMMARY OF CASH FLOW ASSUMPTIONS USED IN PREPARING CONSTANT ANNUAL RATE OF CIGARETTE CONSUMPTION DECLINE TABLES", and the stated consumption decline thereafter.

Projection of Annual Payments to be Received by the Trustee (7% Consumption Decline)

Year	7% Decline Consumption Forecast*	OPM-Adjusted Consumption	Base Annual Payments	Inflation Adjustment	Volume Adjustment	Previously Settled States Reduction	Total Adjusted Annual Payments by OPMs	State's Allocation of Annual Payments	Total OPM Annual Payments to Trustee	Total SPM Annual Payments to Trustee	Total Annual Payments to Trustee
2010	305,450,980,572	253,066,137,404									
2011	284,069,411,932	235,351,507,785	$8,139,000,000	$3,707,943,417	$(5,433,063,637)	$(784,890,559)	$5,628,989,221	4.65424720%	$261,987,073	$23,340,208	$285,327,282
2012	264,184,553,096	218,876,902,240	8,139,000,000	4,063,351,718	(6,041,412,985)	(753,937,213)	5,407,001,520	4.65424720%	251,655,217	22,419,752	274,074,969
2013	245,691,634,380	203,555,519,084	8,139,000,000	4,429,422,272	(6,649,263,267)	(724,349,720)	5,194,809,285	4.65424720%	241,779,266	21,539,912	263,319,178
2014	228,493,219,973	189,306,632,748	8,139,000,000	4,806,474,941	(7,257,388,865)	(696,072,458)	4,992,013,619	4.65424720%	232,340,654	20,699,034	253,039,688
2015	212,498,694,575	176,055,168,455	8,139,000,000	5,194,839,185	(7,866,554,160)	(669,052,204)	4,798,232,822	4.65424720%	223,321,617	19,895,535	243,217,152
2016	197,623,785,955	163,731,306,664	8,139,000,000	5,594,854,366	(8,477,514,642)	(643,238,035)	4,613,101,689	4.65424720%	214,705,156	19,127,902	233,833,058
2017	183,790,120,938	152,270,115,197	8,139,000,000	6,006,869,999	(9,091,017,958)	(618,581,230)	4,436,270,810	4.65424720%	206,475,010	18,394,685	224,869,695
2018	170,924,812,472	141,611,207,133	9,000,000,000	7,111,588,014	(10,734,764,079)	(595,035,184)	4,781,788,751	4.65424720%	222,556,269	19,566,346	242,122,615
2019	158,960,075,599	131,698,422,634	9,000,000,000	7,594,935,660	(11,421,243,101)	(572,555,312)	4,601,137,248	4.65424720%	214,148,302	18,827,148	232,975,449
2020	147,832,870,307	122,479,533,050	9,000,000,000	8,092,783,728	(12,112,973,729)	(551,098,975)	4,428,711,024	4.65424720%	206,123,159	18,121,606	224,244,765
2021	137,484,569,386	113,905,965,736	9,000,000,000	8,605,567,233	(12,810,759,442)	(530,625,397)	4,264,182,394	4.65424720%	198,465,590	17,448,380	215,913,970
2022	127,860,649,529	105,932,548,135	9,000,000,000	9,133,734,258	(13,515,400,645)	(511,095,588)	4,107,238,025	4.65424720%	191,161,011	16,806,188	207,967,199
2023	118,910,404,062	98,517,269,765	9,000,000,000	9,677,746,278	(14,227,695,668)	(492,472,269)	3,957,578,341	4.65424720%	184,195,479	16,193,803	200,389,283
2024	110,586,675,777	91,621,060,882	9,000,000,000	10,238,078,673	(14,948,441,882)	(474,719,806)	3,814,916,985	4.65424720%	177,555,667	15,610,055	193,165,722
2025	102,845,608,473	85,207,586,620	9,000,000,000	10,815,221,034	(15,678,436,642)	(457,804,141)	3,678,980,251	4.65424720%	171,228,835	15,053,823	186,282,658
2026	95,646,415,880	79,243,055,556	9,000,000,000	11,409,677,658	(16,418,478,341)	(441,692,726)	3,549,506,591	4.65424720%	165,202,811	14,524,036	179,726,848
2027	88,951,166,768	73,696,041,668	9,000,000,000	12,021,967,989	(17,169,367,408)	(426,354,466)	3,426,246,115	4.65424720%	159,465,964	14,019,674	173,485,637
2028	82,724,585,095	68,537,318,751	9,000,000,000	12,652,627,032	(17,931,907,257)	(411,759,656)	3,308,960,118	4.65424720%	154,007,184	13,539,757	167,546,941
2029	76,933,864,138	63,739,706,438	9,000,000,000	13,302,205,839	(18,706,905,279)	(397,879,930)	3,197,420,630	4.65424720%	148,815,860	13,083,355	161,899,215

* Assumes 6% decline in 2010, as further described in "SUMMARY OF CASH FLOW ASSUMPTIONS USED IN PREPARING CONSTANT ANNUAL RATE OF CIGARETTE CONSUMPTION DECLINE TABLES", and the stated consumption decline thereafter.

Projection of Strategic Contribution Payments and Total Payments to be Received by the Trustee (7% Consumption Decline)

			Strategic Contribution Payments							Total Payments		
Year	7% Decline Consumption Forecast*	OPM-Adjusted Consumption	Base Strategic Contribution Payments	Inflation Adjustment	Volume Adjustment	Total Adjusted Strategic Contribution Payments by OPMs	State's Allocation of Strategic Contribution Payments	OPM Strategic Contribution Payments to Trustee	SPM Strategic Contribution Payments to Trustee	Total Annual Payments to Trustee	Total Strategic Contribution Payments to Trustee	Total Payments to Trustee
2010	305,450,980,572	253,066,137,404										
2011	284,069,411,932	235,351,507,785	$861,000,000	$392,252,031	$(574,747,241)	$678,504,791	2.71692430%	$18,434,462	$1,441,335	$285,327,282	$19,875,797	$305,203,078
2012	264,184,553,096	218,876,902,240	861,000,000	429,849,592	(639,102,664)	651,746,928	2.71692430%	17,707,471	1,384,494	274,074,969	19,091,964	293,166,933
2013	245,691,634,380	203,555,519,084	861,000,000	468,575,080	(703,405,292)	626,169,788	2.71692430%	17,012,559	1,330,161	263,319,178	18,342,720	281,661,897
2014	228,493,219,973	189,306,632,748	861,000,000	508,462,333	(767,737,045)	601,725,287	2.71692430%	16,348,421	1,278,234	253,039,688	17,626,654	270,666,342
2015	212,498,694,575	176,055,168,455	861,000,000	549,546,202	(832,178,785)	578,367,417	2.71692430%	15,713,805	1,228,615	243,217,152	16,942,420	260,159,572
2016	197,623,785,955	163,731,306,664	861,000,000	591,862,589	(896,810,432)	556,052,157	2.71692430%	15,107,516	1,181,211	233,833,058	16,288,727	250,121,786
2017	183,790,120,938	152,270,115,197	861,000,000	635,448,466	(961,711,078)	534,737,389	2.71692430%	14,528,410	1,135,933	224,869,695	15,664,343	240,534,038
2018	170,924,812,472	141,611,207,133	0	0	0	0		0	0	242,122,615	0	242,122,615
2019	158,960,075,599	131,698,422,634	0	0	0	0		0	0	232,975,449	0	232,975,449
2020	147,832,870,307	122,479,533,050	0	0	0	0		0	0	224,244,765	0	224,244,765
2021	137,484,569,386	113,905,965,736	0	0	0	0		0	0	215,913,970	0	215,913,970
2022	127,860,649,529	105,932,548,135	0	0	0	0		0	0	207,967,199	0	207,967,199
2023	118,910,404,062	98,517,269,765	0	0	0	0		0	0	200,389,283	0	200,389,283
2024	110,586,675,777	91,621,060,882	0	0	0	0		0	0	193,165,722	0	193,165,722
2025	102,845,608,473	85,207,586,620	0	0	0	0		0	0	186,282,658	0	186,282,658
2026	95,646,415,880	79,243,055,556	0	0	0	0		0	0	179,726,848	0	179,726,848
2027	88,951,166,768	73,696,041,668	0	0	0	0		0	0	173,485,637	0	173,485,637
2028	82,724,585,095	68,537,318,751	0	0	0	0		0	0	167,546,941	0	167,546,941
2029	76,933,864,138	63,739,706,438	0	0	0	0		0	0	161,899,215	0	161,899,215

* Assumes 6% decline in 2010, as further described in "SUMMARY OF CASH FLOW ASSUMPTIONS USED IN PREPARING CONSTANT ANNUAL RATE OF CIGARETTE CONSUMPTION DECLINE TABLES", and the stated consumption decline thereafter.

Projection of Annual Payments to be Received by the Trustee (10.03% Breakeven Consumption Decline)

Year	10.03% Decline Consumption Forecast*	OPM-Adjusted Consumption	Base Annual Payments	Inflation Adjustment	Volume Adjustment	Previously Settled States Reduction	Total Adjusted Annual Payments by OPMs	State's Allocation of Annual Payments	Total OPM Annual Payments to Trustee	Total SPM Annual Payments to Trustee	Total Annual Payments to Trustee
2010	305,450,980,572	253,066,137,404									
2011	274,812,443,889	227,682,109,762	$8,139,000,000	$3,707,943,417	$(5,433,063,637)	$(784,890,559)	$5,628,989,221	4.65424720%	$261,987,073	$23,340,208	$285,327,282
2012	247,247,133,321	204,844,249,956	8,139,000,000	4,063,351,718	(6,234,226,695)	(730,341,875)	5,237,783,147	4.65424720%	243,779,375	21,718,100	265,497,475
2013	222,446,786,143	184,297,162,320	8,139,000,000	4,429,422,272	(7,012,637,078)	(679,882,302)	4,875,902,892	4.65424720%	226,936,574	20,217,589	247,154,163
2014	200,134,060,205	165,811,068,880	8,139,000,000	4,806,474,941	(7,771,042,437)	(633,214,741)	4,541,217,764	4.65424720%	211,359,501	18,829,840	230,189,341
2015	180,059,432,408	149,179,239,750	8,139,000,000	5,194,839,185	(8,512,021,365)	(590,063,957)	4,231,753,863	4.65424720%	196,956,286	17,546,670	214,502,956
2016	161,998,408,297	134,215,681,274	8,139,000,000	5,594,854,366	(9,237,996,774)	(550,174,980)	3,945,682,612	4.65424720%	183,641,822	16,360,496	200,002,318
2017	145,749,011,534	120,753,056,056	8,139,000,000	6,006,869,999	(9,951,248,284)	(513,311,614)	3,681,310,100	4.65424720%	171,337,272	15,264,294	186,601,566
2018	131,129,525,199	108,640,811,628	9,000,000,000	7,111,588,014	(11,780,969,897)	(479,255,073)	3,851,363,044	4.65424720%	179,251,957	15,759,187	195,011,143
2019	117,976,459,655	97,743,496,824	9,000,000,000	7,594,935,660	(12,548,525,759)	(447,802,697)	3,598,607,204	4.65424720%	167,488,075	14,724,949	182,213,024
2020	106,142,724,239	87,939,247,032	9,000,000,000	8,092,783,728	(13,308,746,555)	(418,766,782)	3,365,270,392	4.65424720%	156,628,003	13,770,170	170,398,173
2021	95,495,982,349	79,118,421,376	9,000,000,000	8,605,567,233	(14,063,638,206)	(391,973,480)	3,149,955,547	4.65424720%	146,606,718	12,889,135	159,495,853
2022	85,917,171,527	71,182,376,610	9,000,000,000	9,133,734,258	(14,815,103,631)	(367,261,791)	2,951,368,837	4.65424720%	137,364,001	12,076,549	149,440,550
2023	77,299,171,982	64,042,363,987	9,000,000,000	9,677,746,278	(15,564,951,561)	(344,482,616)	2,768,312,101	4.65424720%	128,844,088	11,327,508	140,171,597
2024	69,545,608,671	57,618,536,784	9,000,000,000	10,238,078,673	(16,314,904,894)	(323,497,899)	2,599,675,880	4.65424720%	120,995,342	10,637,475	131,632,817
2025	62,569,773,536	51,839,057,374	9,000,000,000	10,815,221,034	(17,066,608,304)	(304,179,810)	2,444,432,920	4.65424720%	113,769,951	10,002,245	123,772,195
2026	56,293,655,849	46,639,293,871	9,000,000,000	11,409,677,658	(17,821,635,470)	(286,410,003)	2,301,632,185	4.65424720%	107,123,652	9,417,926	116,541,577
2027	50,647,069,819	41,961,097,345	9,000,000,000	12,021,967,989	(18,581,495,774)	(270,078,926)	2,170,393,289	4.65424720%	101,015,469	8,880,916	109,896,385
2028	45,566,869,704	37,752,151,550	9,000,000,000	12,652,627,032	(19,347,640,508)	(255,085,176)	2,049,901,348	4.65424720%	95,407,476	8,387,882	103,795,358
2029	40,996,243,654	33,965,387,867	9,000,000,000	13,302,205,839	(20,121,468,731)	(241,334,907)	1,939,402,201	4.65424720%	90,264,573	7,935,736	98,200,309

* Assumes 6% decline in 2010, as further described in "SUMMARY OF CASH FLOW ASSUMPTIONS USED IN PREPARING CONSTANT ANNUAL RATE OF CIGARETTE CONSUMPTION DECLINE TABLES", and the stated consumption decline thereafter.

Projection of Strategic Contribution Payments and Total Payments to be Received by the Trustee (10.03% Breakeven Consumption Decline)

			Strategic Contribution Payments							Total Payments		
Year	10.03% Decline Consumption Forecast*	OPM-Adjusted Consumption	Base Strategic Contribution Payments	Inflation Adjustment	Volume Adjustment	Total Adjusted Strategic Contribution Payments by OPMs	State's Allocation of Strategic Contribution Payments	OPM Strategic Contribution Payments to Trustee	SPM Strategic Contribution Payments to Trustee	Total Annual Payments to Trustee	Total Strategic Contribution Payments to Trustee	Total Payments to Trustee
2010	305,450,980,572	253,066,137,404										
2011	274,812,443,889	227,682,109,762	$861,000,000	$392,252,031	$(574,747,241)	$678,504,791	2.71692430%	$18,434,462	$1,441,335	$285,327,282	$19,875,797	$305,203,078
2012	247,247,133,321	204,844,249,956	861,000,000	429,849,592	(659,499,838)	631,349,754	2.71692430%	17,153,295	1,341,164	265,497,475	18,494,459	283,991,935
2013	222,446,786,143	184,297,162,320	861,000,000	468,575,080	(741,845,500)	587,729,580	2.71692430%	15,968,168	1,248,503	247,154,163	17,216,671	264,370,833
2014	200,134,060,205	165,811,068,880	861,000,000	508,462,333	(822,074,891)	547,387,441	2.71692430%	14,872,102	1,162,805	230,189,341	16,034,907	246,224,248
2015	180,059,432,408	149,179,239,750	861,000,000	549,546,202	(900,460,793)	510,085,409	2.71692430%	13,858,634	1,083,565	214,502,956	14,942,199	229,445,155
2016	161,998,408,297	134,215,681,274	861,000,000	591,862,589	(977,259,519)	475,603,070	2.71692430%	12,921,775	1,010,315	200,002,318	13,932,090	213,934,408
2017	145,749,011,534	120,753,056,056	861,000,000	635,448,466	(1,052,712,222)	443,736,245	2.71692430%	12,055,978	942,621	186,601,566	12,998,598	199,600,164
2018	131,129,525,199	108,640,811,628	0	0	0	0		0	0	195,011,143	0	195,011,143
2019	117,976,459,655	97,743,496,824	0	0	0	0		0	0	182,213,024	0	182,213,024
2020	106,142,724,239	87,939,247,032	0	0	0	0		0	0	170,398,173	0	170,398,173
2021	95,495,982,349	79,118,421,376	0	0	0	0		0	0	159,495,853	0	159,495,853
2022	85,917,171,527	71,182,376,610	0	0	0	0		0	0	149,440,550	0	149,440,550
2023	77,299,171,982	64,042,363,987	0	0	0	0		0	0	140,171,597	0	140,171,597
2024	69,545,608,671	57,618,536,784	0	0	0	0		0	0	131,632,817	0	131,632,817
2025	62,569,773,536	51,839,057,374	0	0	0	0		0	0	123,772,195	0	123,772,195
2026	56,293,655,849	46,639,293,871	0	0	0	0		0	0	116,541,577	0	116,541,577
2027	50,647,069,819	41,961,097,345	0	0	0	0		0	0	109,896,385	0	109,896,385
2028	45,566,869,704	37,752,151,550	0	0	0	0		0	0	103,795,358	0	103,795,358
2029	40,996,243,654	33,965,387,867	0	0	0	0		0	0	98,200,309	0	98,200,309

* Assumes 6% decline in 2010, as further described in "SUMMARY OF CASH FLOW ASSUMPTIONS USED IN PREPARING CONSTANT ANNUAL RATE OF CIGARETTE CONSUMPTION DECLINE TABLES", and the stated consumption decline thereafter.

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APPENDIX G

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