New Issue – Book-Entry Only **Ratings: See "RATINGS" herein.**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Transaction Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). In the further opinion of Orrick, Herrington & Sutcliffe LLP, interest on the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Orrick, Herrington & Sutcliffe LLP and Squire Patton Boggs (US) LLP, Co-Transaction Counsel to the Authority, are of the opinion that, under existing law, interest on, and any profit made on the sale, exchange or other disposition of, the Series 2020 Senior Bonds are exempt from all State of Ohio state and local taxation, except the estate tax, the domestic insurance company tax, the dealers in intangibles tax, the tax levied on the basis of the total equity capital of financial institutions, and the net worth base of the corporate franchise tax. Orrick, Herrington & Sutcliffe LLP observes that interest on the Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Neither Orrick, Herrington & Sutcliffe LLP nor Squire Patton Boggs (US) LLP expresses any opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2020 Senior Bonds. See "TAX MATTERS."

$5,352,196,396.50
BUCKEYE TOBACCO SETTLEMENT FINANCING AUTHORITY
Tobacco Settlement Asset-Backed Refunding Bonds, Series 2020 Senior Bonds

$328,400,000 Series 2020A-1 Class 1 Senior Current Interest Bonds (Federally Taxable)	$1,139,510,000 Series 2020A-2 Class 1 Senior Current Interest Bonds	$100,000,000 Series 2020B-1 Class 2 Senior Current Interest Bonds (Federally Taxable)	$3,380,000,000 Series 2020B-2 Class 2 Senior Current Interest Bonds	$404,286,396.50 Series 2020B-3 Class 2 Senior Capital Appreciation Bonds

Dated: Date of Delivery **Due: June 1, as set forth on inside cover page**

Buckeye Tobacco Settlement Financing Authority (the "**Authority**") is a body, both corporate and politic, constituting a public body, agency and instrumentality of the State of Ohio (the "**State**"), separate and distinct from the State, performing essential functions of the State and created and governed by Sections 183.51 and 183.52 of the Ohio Revised Code (the "**Act**").

The Authority is issuing its Tobacco Settlement Asset-Backed Refunding Bonds, Series 2020 Senior Bonds, consisting of $328,400,000 Series 2020A-1 Class 1 Senior Current Interest Bonds (Federally Taxable) (the "**Series 2020A-1 Senior Bonds**") as Class 1 Senior Bonds, $1,139,510,000 Series 2020A-2 Class 1 Senior Current Interest Bonds (the "**Series 2020A-2 Senior Bonds**" and, together with the Series 2020A-1 Senior Bonds, the "**Series 2020A Senior Bonds**") as Class 1 Senior Bonds, $100,000,000 Series 2020B-1 Class 2 Senior Current Interest Bonds (Federally Taxable) (the "**Series 2020B-1 Senior Bonds**") as Class 2 Senior Bonds, $3,380,000,000 Series 2020B-2 Class 2 Senior Current Interest Bonds (the "Series 2020B-2 Senior Bonds") as Class 2 Senior Bonds, and $404,286,396.50 Series 2020B-3 Class 2 Senior Capital Appreciation Bonds (the "**Series 2020B-3 Senior Bonds**" and, together with the Series 2020B-1 Senior Bonds and the Series 2020B-2 Senior Bonds, the "**Series 2020B Senior Bonds**"; and the Series 2020B Senior Bonds, collectively with the Series 2020A Senior Bonds, the "Series 2020 Senior Bonds") as Class 2 Senior Bonds, pursuant to an Amended and Restated Trust Indenture and a Series 2020 Supplement (together, the "**Trust Indenture**"), each dated as of March 1, 2020, by and between the Authority and U.S. Bank National Association, as trustee (the "**Trustee**"). The Authority will use the proceeds from the issuance of the Series 2020 Senior Bonds, together with other available funds, to (i) refund through redemption and defeasance all of the Authority's Tobacco Settlement Asset-Backed Bonds, Series 2007, (ii) fund the Senior Liquidity Reserve Account described below and (iii) pay costs of issuance incurred in connection with the issuance of the Series 2020 Senior Bonds. The Series 2020 Senior Bonds, collectively with any Refunding Bonds, Additional Bonds and Fully Subordinate Bonds (each as defined herein) that may be issued by the Authority pursuant to the Trust Indenture, are referred to herein as the "**Bonds**."

In 2007, pursuant to the Act and a Purchase and Sale Agreement, dated as of October 1, 2007, between the State and the Authority (the "**Purchase and Sale Agreement**"), the State sold to the Authority all right, title and interest of the State in and to the "**2007 Sold Tobacco Receipts**," which, except as excluded as described further herein, consist of 100% of the tobacco settlement payments made on and after October 29, 2007 by the tobacco manufacturers to or for the account of the State under the terms of the Master Settlement Agreement entered into on November 23, 1998 (the "**MSA**") by participating cigarette manufacturers (the "**PMs**"), 46 states (including the State) and six other U.S. jurisdictions in settlement of certain cigarette smoking-related litigation. The 2007 Sold Tobacco Receipts specifically exclude any right to or interest in amounts withheld or deposited in the Disputed Payments Account under the MSA before October 29, 2007, including all earnings thereon.

The Series 2020 Senior Bonds are special revenue obligations of the Authority and are payable solely from the "**Pledged Tobacco Receipts**," which are the right, title and interest of the Authority to 100% of the 2007 Sold Tobacco Receipts, and from the other Collateral pledged under the Trust Indenture. The Authority has no assets available for payment of the Series 2020 Senior Bonds other than the Pledged Tobacco Receipts and the other Collateral. The Series 2020 Senior Bonds are not secured by the proceeds thereof, with the exception of the proceeds deposited in the Senior Liquidity Reserve Account, with the Class 1 Senior Liquidity Reserve Subaccount securing only the Series 2020A Senior Bonds (and any other Class 1 Senior Bonds that may be issued) and the Class 2 Senior Liquidity Reserve Subaccount securing only the Series 2020B-1 Senior Bonds and the Series 2020B-2 Senior Bonds (and any other Class 2 Senior Bonds designated to be secured by such Subaccount that may be issued). The Senior Liquidity Reserve Account does not secure the Series 2020B-3 Senior Bonds. See "SECURITY FOR THE BONDS" herein.

The amount of Pledged Tobacco Receipts received depends on many factors, including future domestic cigarette consumption, the financial capability of the PMs and the domestic tobacco industry, litigation generally, including litigation challenging the MSA and related state statutes, and federal, state and local regulations affecting the domestic tobacco industry. Payments by the PMs under the MSA are subject to certain adjustments, including the NPM Adjustment (as defined herein), which may be material. As discussed further herein, the State is in pending arbitration regarding the 2004 NPM Adjustment. See "RISK FACTORS" and "LEGAL CONSIDERATIONS" herein.

Prospective investors should carefully consider the discussion of certain risks and other considerations contained in "RISK FACTORS" and "LEGAL CONSIDERATIONS," as well as the other information contained in this Offering Circular, regarding an investment in the Series 2020 Senior Bonds. The Series 2020B-2 Senior Bonds and the Series 2020B-3 Senior Bonds are not rated and involve additional risks that may not be appropriate for certain investors. See "RISK FACTORS—Market for Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds; No Credit Rating on Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds." One or a combination of the risk factors discussed herein, and other risks, may materially adversely affect the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full, and could have a material adverse effect on the liquidity and/or market value of the Series 2020 Senior Bonds.

The Series 2020A Senior Bonds and the Series 2020B-1 Senior Bonds will be sold in denominations of $5,000 or any integral multiple thereof, the Series 2020B-2 Senior Bonds will be sold in denominations of $100,000 or any integral multiple of $5,000 in excess thereof, and the Series 2020B-3 Senior Bonds will be sold such that the Accreted Value thereof at the Maturity Date is in the denomination of $100,000 or any integral multiple of $5,000 in excess thereof. Interest on the Series 2020A Senior Bonds, the Series 2020B-1 Senior Bonds and the Series 2020B-2 Senior Bonds will be payable semi-annually on June 1 and December 1 of each year (each, a "**Distribution Date**"), commencing June 1, 2020. Interest on the Series 2020B-3 Senior Bonds will not be paid currently but will be compounded on each Distribution Date commencing June 1, 2020 at the Accretion Rate (as defined herein) thereof (to become part of Accreted Value as more fully described herein), until such Bonds are redeemed or mature.

The Series 2020 Senior Bonds are paid in accordance with the Senior Bonds Payment Priorities, whereby the Senior Bonds are paid in accordance with the following order of priority: (1) first, the Class 1 Senior Bonds are Fully Paid in chronological order of Serial Maturities, Fixed Sinking Fund Installments and Maturity Dates therefor, and (2) second, the Class 2 Senior Bonds are Fully Paid in chronological order by Maturity Date and within a maturity, by lot in accordance with the Trust Indenture, as described further herein. The Series 2020A Senior Bonds are on parity with any Additional Bonds that are Class 1 Senior Bonds, and are senior in payment priority to the Series 2020B Senior Bonds, any Fully Subordinate Bonds and any Additional Bonds that are Class 2 Senior Bonds, First Subordinate Bonds or Second Subordinate Bonds. The Series 2020B Senior Bonds are subordinated in payment priority to the Series 2020A Senior Bonds and any Additional Bonds that are Class 1 Senior Bonds, are on parity with any Additional Bonds that are Class 2 Senior Bonds, and are senior in payment priority to any Fully Subordinate Bonds and any Additional Bonds that are First Subordinate Bonds or Second Subordinate Bonds.

The Series 2020A Senior Bonds are subject to optional redemption and optional clean-up call, and the Series 2020B Senior Bonds are subject to optional redemption and mandatory clean-up call, each as described herein. The Series 2020A-2 Senior Bonds that are Term Bonds are subject to mandatory redemption by Fixed Sinking Fund Installments. The Series 2020B Senior Bonds are Turbo Term Bonds subject to Turbo Redemption in accordance with the Payment Priorities, as described herein. It is expected that payment of principal or Accreted Value of the Series 2020B Senior Bonds will be substantially earlier than the Turbo Term Bond Maturities therefor. Failure to pay any Turbo Redemptions on the Series 2020B Senior Bonds will not constitute an Event of Default or a Class 2 Payment Default under the Trust Indenture if such failure is due to the insufficiency of available Collections (as defined herein). The ratings for the Series 2020A Senior Bonds and the Series 2020B-1 Senior Bonds address only (i) the payment of interest on such Bonds, when due, and (ii) the payment of principal of such Bonds by their Maturity Dates (and, with respect to the Series 2020A-2 Senior Bonds that are Term Bonds, Fixed Sinking Fund Installment dates). The ratings do not address the payment of Turbo Redemptions on the Series 2020B-1 Senior Bonds. The Series 2020B-2 Senior Bonds and the Series 2020B-3 Senior Bonds are not rated. See "THE SERIES 2020 SENIOR BONDS" and "RATINGS" herein.

See Inside Front Cover Page for Maturity Schedule,
Principal Amounts, Interest Rates, Prices or Yields, Projected Turbo Redemption Dates and Weighted Average Lives

Pursuant to the Act, (i) the Series 2020 Senior Bonds are not general obligations of the State and the full faith and credit, revenue, and taxing power of the State are not pledged to the payment of debt service on the Series 2020 Senior Bonds or to any guarantee of the payment of that debt service, (ii) the Holders of Series 2020 Senior Bonds shall have no right to have any moneys obligated or pledged for the payment of debt service except the Collateral, and (iii) the rights of the Holders of Series 2020 Senior Bonds to payment of debt service are limited to all or that portion of the Pledged Tobacco Receipts, and the Pledged Accounts, pledged to the payment of debt service pursuant to the Trust Indenture in accordance with the Act. The Authority has no taxing power.

The cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the entire Offering Circular to obtain information essential to making an informed investment decision.

Jefferies[(1)]
(Joint Senior Manager)

Citigroup
(Joint Senior Manager)

BofA Securities **Fifth Third Securities, Inc.** **Huntington Capital Markets**
J.P. Morgan **KeyBanc Capital Markets Inc.** **Loop Capital Markets**

Barclays **Estrada Hinojosa & Company, Inc.** **Goldman Sachs & Co. LLC**
Morgan Stanley **PNC Capital Markets LLC** **Raymond James**
RBC Capital Markets **Siebert Williams Shank & Co., LLC** **Stifel**

UBS

The Series 2020 Senior Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP, as Transaction Counsel to the Authority, and Squire Patton Boggs (US) LLP, as Co-Transaction Counsel to the Authority. Certain legal matters with respect to the State and the Authority will be passed upon by the State's Attorney General. Certain legal matters with respect to the Authority will be passed upon by Orrick, Herrington & Sutcliffe LLP and Squire Patton Boggs (US) LLP. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, as Underwriters' Counsel. Dinsmore & Shohl LLP is acting as Co-Underwriters' Counsel. It is expected that the Series 2020 Senior Bonds will be available for delivery in book-entry form only through DTC in New York, New York on or about March 4, 2020.

Date: February 25, 2020

[(1)] Billing and delivery agent for the Series 2020 Senior Bonds.

MATURITY SCHEDULE

$5,352,196,396.50
BUCKEYE TOBACCO SETTLEMENT FINANCING AUTHORITY
Tobacco Settlement Asset-Backed Refunding Bonds, Series 2020 Senior Bonds

$328,400,000 Series 2020A-1 Class 1 Senior Current Interest Bonds (Federally Taxable)

Series 2020A-1 Serial Bonds

Maturity Date (June 1)	Principal Amount	Interest Rate	Price	CUSIP† No. (Base CUSIP 118217)	Maturity Date (June 1)	Principal Amount	Interest Rate	Price	CUSIP† No. (Base CUSIP 118217)
2020	$52,945,000	1.540%	100%	BZ0	2024	$42,065,000	1.709%	100%	CD8
2021	40,045,000	1.580	100	CA4	2025	42,810,000	1.809	100	CE6
2022	40,690,000	1.630	100	CB2	2026	43,625,000	1.950	100	CF3
2023	41,365,000	1.650	100	CC0	2027	24,855,000	2.000	100	CG1

$1,139,510,000 Series 2020A-2 Class 1 Senior Current Interest Bonds

Series 2020A-2 Serial Bonds

Maturity Date (June 1)	Principal Amount	Interest Rate	Yield	CUSIP† No. (Base CUSIP 118217)	Maturity Date (June 1)	Principal Amount	Interest Rate	Yield	CUSIP† No. (Base CUSIP 118217)
2027	$19,940,000	5.000%	1.160%	CH9	2034	$42,910,000	5.000%	1.780%††	CQ9
2028	46,705,000	5.000	1.260	CJ5	2035	45,110,000	5.000	1.820††	CR7
2029	49,100,000	5.000	1.370	CK2	2036	47,420,000	5.000	1.860††	CS5
2030	35,130,000	5.000	1.480	CL0	2037	49,600,000	4.000	2.070††	CT3
2031	36,930,000	5.000	1.580††	CM8	2038	51,625,000	4.000	2.110††	CU0
2032	38,825,000	5.000	1.670††	CN6	2039	53,730,000	4.000	2.150††	CV8
2033	40,815,000	5.000	1.730††	CP1					

$250,000,000 3.000% Series 2020A-2 Term Bonds due June 1, 2048, Yield 2.900%††, CUSIP† No. 118217CW6

$331,670,000 4.000% Series 2020A-2 Term Bonds due June 1, 2048, Yield 2.600%††, CUSIP† No. 118217CX4

$100,000,000 Series 2020B-1 Class 2 Senior Current Interest Bonds (Federally Taxable)

$100,000,000 1.850% Series 2020B-1 Turbo Term Bonds due June 1, 2029 (Expected Average Life(1): 0.24 years)
Price 100%, CUSIP† No. 118217CY2

$3,380,000,000 Series 2020B-2 Class 2 Senior Current Interest Bonds(2)

$3,380,000,000 5.000% Series 2020B-2 Turbo Term Bonds due June 1, 2055 (Expected Average Life(1): 15.24 years)
Yield 3.875%††, CUSIP† No. 118217CZ9

$404,286,396.50 Series 2020B-3 Class 2 Senior Capital Appreciation Bonds(2)

$404,286,396.50 Series 2020B-3 Turbo Term Bonds

Maturity Date (June 1)	Initial Principal Amount	Accretion Rate	Accreted Value at Maturity(3)	Initial Principal Amount per $5,000 Accreted Value at Maturity	Expected Average Life(1)	CUSIP† No. (Base CUSIP 118217)
2057	$404,286,396.50	5.625%	$3,190,895,000	$633.50	27.22 years	DA3

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(1) Assumes Turbo Redemption payments are made in accordance with the Pledged Tobacco Receipts Projection Methodology and Assumptions described herein under "PLEDGED TOBACCO RECEIPTS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS." See the table entitled "Projected Series 2020 Senior Bonds Debt Service Schedule Incorporating Turbo Redemptions of the Series 2020B Senior Bonds" in "TABLES OF PROJECTED BOND DEBT SERVICE AND COVERAGE" herein. No assurance can be given that these structuring assumptions will be realized.

(2) Such Bonds are not rated and involve additional risks that may not be appropriate for certain investors. See "RISK FACTORS—Market for Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds; No Credit Rating on Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds."

(3) Represents Accreted Value at the Maturity Date. However, Turbo Redemptions will be made in accordance with the Payment Priorities (as defined herein) to the extent of available Collections at the Accreted Value calculated as of the redemption date.

† Copyright American Bankers Association. CUSIP data herein are provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by S&P Global Market Intelligence, a division of S&P Global Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Series 2020 Senior Bonds, and the Authority 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. A CUSIP number is subject to being changed after the issuance of the Series 2020 Senior 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 the Series 2020 Senior Bonds.

†† Priced to first optional call on June 1, 2030.

Certain persons participating in this offering may engage in transactions that stabilize or maintain the prices of the securities at levels above those which might otherwise prevail in the open market, or otherwise affect the prices of the securities offered hereby, including over-allotment and stabilizing transactions. Such stabilizing, if commenced, may be discontinued at any time.

No dealer, broker, salesperson or other person is authorized in connection with any offering made hereby to give any information or make any representation other than as contained herein, and, if given or made, such information or representation must not be relied upon as having been authorized by the Authority, the State, or the 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 is currently a limited secondary market for securities such as the Series 2020 Senior Bonds. There can be no assurance that a secondary market for the Series 2020 Senior Bonds will develop, or if one develops, that it will provide bondholders with liquidity or that it will continue for the life of the Series 2020 Senior Bonds.

This Offering Circular contains information furnished by the Authority, IHS Global Inc. ("**IHS Global**") and other sources, all of which are believed to be reliable. Information concerning the domestic tobacco industry and participants therein has been obtained from certain publicly available information provided by certain participants and certain other sources (see "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY"). The participants in such industry have not provided any information to the Authority for use in connection with this offering. In certain cases, domestic tobacco industry information provided herein (such as market share data) may be derived from sources which are inconsistent or in conflict with each other. The Authority does not have any knowledge of any facts indicating that the information under the caption "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY" herein is inaccurate in any material respect, but the Authority has not verified this information and cannot and does not warrant the accuracy or completeness of this information. The information contained under the caption "SUMMARY OF THE TOBACCO CONSUMPTION REPORT" and in the Tobacco Consumption Report attached as APPENDIX A hereto has been included in reliance upon IHS Global as an expert in econometric forecasting and has not been verified for accuracy or appropriateness of assumptions, although the Authority does not have any knowledge that the information is not materially accurate and complete.

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 the matters covered by the report of IHS Global included as APPENDIX A hereto, or under the caption "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY" herein, since the date hereof or that the information contained herein is correct as of any date subsequent to the date hereof. Such information and expressions of opinion are 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 party. With respect to certain matters relating to the Series 2020 Senior Bonds, the Authority has undertaken to provide updates to investors through a national information repository. See "CONTINUING DISCLOSURE UNDERTAKING" and APPENDIX G – "FORM OF CONTINUING DISCLOSURE UNDERTAKING" herein.

This Offering Circular contains forecasts, projections and estimates that are based on current expectations or assumptions. In light of the important factors that may materially affect the amount of Pledged Tobacco Receipts (see "RISK FACTORS," "LEGAL CONSIDERATIONS," "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT" and "SUMMARY OF THE TOBACCO CONSUMPTION REPORT" herein), the inclusion in this Offering Circular of such forecasts, projections and estimates should not be regarded as a representation by the Authority, the State, IHS Global or the Underwriters that the results of such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results.

References in this Offering Circular to the Act, the Trust Indenture, the Purchase and Sale Agreement and the Continuing Disclosure Undertaking do not purport to be complete. Refer to the Act, the Trust Indenture, the Purchase and Sale Agreement and the Continuing Disclosure Undertaking for full and complete details of their provisions. Copies of the Act, the Trust Indenture, the Purchase and Sale Agreement and the Continuing Disclosure Undertaking are on file with the Authority and the Trustee.

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

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.

THE SERIES 2020 SENIOR BONDS ARE EXEMPT SECURITIES UNDER SECTION 3(a)(2) OF THE U.S. SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**") AND HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES. THE SERIES 2020 SENIOR BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION OR ANY OTHER REGULATORY AGENCY, NOR HAS ANY OF THE FOREGOING PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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.

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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 2020 Senior Bonds to potential investors is made only by means of the entire Offering Circular. 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 between or among any of the Authority, the State, the Underwriters and the holders of the Series 2020 Senior Bonds. Capitalized terms used in this Summary Statement and not otherwise defined shall have the meanings given such terms in the Trust Indenture or the Purchase and Sale Agreement, as applicable. See APPENDIX D – "SUMMARY OF TRUST INDENTURE – Certain Definitions" and APPENDIX I – "INDEX OF DEFINED TERMS" attached hereto.

Overview

Buckeye Tobacco Settlement Financing Authority (the "**Authority**") is issuing its Tobacco Settlement Asset-Backed Refunding Bonds, Series 2020 Senior Bonds, consisting of $328,400,000 Series 2020A-1 Class 1 Senior Current Interest Bonds (Federally Taxable) (the "**Series 2020A-1 Senior Bonds**") as Class 1 Senior Bonds, $1,139,510,000 Series 2020A-2 Class 1 Senior Current Interest Bonds (the "**Series 2020A-2 Senior Bonds**" and, together with the Series 2020A-1 Senior Bonds, the "**Series 2020A Senior Bonds**") as Class 1 Senior Bonds, $100,000,000 Series 2020B-1 Class 2 Senior Current Interest Bonds (Federally Taxable) (the "**Series 2020B-1 Senior Bonds**") as Class 2 Senior Bonds, $3,380,000,000 Series 2020B-2 Class 2 Senior Current Interest Bonds (the "**Series 2020B-2 Senior Bonds**") as Class 2 Senior Bonds, and $404,286,396.50 Series 2020B-3 Class 2 Senior Capital Appreciation Bonds (the "**Series 2020B-3 Senior Bonds**" and, together with the Series 2020B-1 Senior Bonds and the Series 2020B-2 Senior Bonds, the "**Series 2020B Senior Bonds**"; and the Series 2020B Senior Bonds, collectively with the Series 2020A Senior Bonds, the "**Series 2020 Senior Bonds**") as Class 2 Senior Bonds, pursuant to an Amended and Restated Trust Indenture and a Series 2020 Supplement (together, the "**Trust Indenture**"), each dated as of March 1, 2020, by and between the Authority and U.S. Bank National Association, as trustee (the "**Trustee**"). The Authority will use the proceeds from the issuance of the Series 2020 Senior Bonds, together with other available funds, to (i) refund through redemption and defeasance all of the Authority's Tobacco Settlement Asset-Backed Bonds, Series 2007 (the "**Series 2007 Bonds**"), (ii) fund the Senior Liquidity Reserve Account described below and (iii) pay costs of issuance incurred in connection with the issuance of the Series 2020 Senior Bonds.

The Series 2020 Senior Bonds, collectively with any Refunding Bonds, Additional Bonds and Fully Subordinate Bonds (each as defined herein) that may be issued by the Authority pursuant to the Trust Indenture, are referred to herein as the "**Bonds**."

In 2007, pursuant to Sections 183.51 and 183.52 of the Ohio Revised Code (the "**Act**") and a Purchase and Sale Agreement, dated as of October 1, 2007, between the State of Ohio (the "**State**") and the Authority (the "**Purchase and Sale Agreement**"), the State sold to the Authority all right, title and interest of the State in and to the "**2007 Sold Tobacco Receipts**," which, except as excluded as described further herein, consist of 100% of the tobacco settlement payments made on and after October 29, 2007 by the tobacco manufacturers to or for the account of the State under the terms of the Master Settlement Agreement entered into on November 23, 1998 (the "**MSA**") by participating cigarette manufacturers, 46 states (including the State) and six other U.S. jurisdictions in settlement of certain cigarette smoking-related litigation. The 2007 Sold Tobacco Receipts specifically include 100% of any amounts due to the State and withheld or deposited in the Disputed Payments Account (as defined herein) under the MSA on or after October 29, 2007 by the tobacco manufacturers as a result of a dispute as to the amount of a payment required to be made by them under the MSA and that

	are subsequently paid by the tobacco manufacturers or released from the Disputed Payments Account, including all earnings thereon, but specifically exclude any right to or interest in amounts withheld or deposited in the Disputed Payments Account before October 29, 2007, including all earnings thereon. The Series 2020 Senior Bonds are special revenue obligations of the Authority and are payable solely from the "**Pledged Tobacco Receipts**," which are the right, title and interest of the Authority to 100% of the 2007 Sold Tobacco Receipts, and from the other Collateral pledged under the Trust Indenture. The Authority has no assets available for payment of the Series 2020 Senior Bonds other than the Pledged Tobacco Receipts and the other Collateral. See "SECURITY FOR THE BONDS" herein.
The Authority	The Authority is a body, both corporate and politic, constituting a public body, agency and instrumentality of the State, separate and distinct from the State, performing essential functions of the State and created and governed by the Act. See "THE AUTHORITY."
Securities Offered	The Series 2020 Senior Bonds are Senior Bonds under the Trust Indenture; the Series 2020A Senior Bonds are Class 1 Senior Bonds, and the Series 2020B Senior Bonds are Class 2 Senior Bonds, as described further herein. The Series 2020A Senior Bonds are on parity with any Additional Bonds that are Class 1 Senior Bonds, and are senior in payment priority to the Series 2020B Senior Bonds, any Fully Subordinate Bonds and any Additional Bonds that are Class 2 Senior Bonds, First Subordinate Bonds or Second Subordinate Bonds. The Series 2020B Senior Bonds are subordinated in payment priority to the Series 2020A Senior Bonds and any Additional Bonds that are Class 1 Senior Bonds, are on parity with any Additional Bonds that are Class 2 Senior Bonds, and are senior in payment priority to any Fully Subordinate Bonds and any Additional Bonds that are First Subordinate Bonds or Second Subordinate Bonds. The Series 2020B Senior Bonds are Turbo Term Bonds. The Series 2020A Senior Bonds, the Series 2020B-1 Senior Bonds and the Series 2020B-2 Senior Bonds are Current Interest Bonds, and the Series 2020B-3 Senior Bonds are Capital Appreciation Bonds. The Series 2020A-1 Senior Bonds and the Series 2020B-1 Senior Bonds are Taxable Bonds, and the Series 2020A-2 Senior Bonds, the Series 2020B-2 Senior Bonds and the Series 2020B-3 Senior Bonds are Tax-Exempt Bonds. See "THE SERIES 2020 SENIOR BONDS" herein. The Series 2020A Senior Bonds and the Series 2020B-1 Senior Bonds will be sold in denominations of $5,000 or any integral multiple thereof, the Series 2020B-2 Senior Bonds will be sold in denominations of $100,000 or any integral multiple of $5,000 in excess thereof, and the Series 2020B-3 Senior Bonds will be sold such that the Accreted Value thereof at the Maturity Date is in the denomination of $100,000 or any integral multiple of $5,000 in excess thereof. The Series 2020B-2 Senior Bonds and the Series 2020B-3 Senior Bonds are <u>not</u> rated and involve additional risks that may not be appropriate for certain investors. See "RISK FACTORS—Market for Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds; No Credit Rating on Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds." It is expected that the Series 2020 Senior Bonds will be delivered in book-entry form through the facilities of The Depository Trust Company, New York, New York ("**DTC**"), on or about March 4, 2020 (the "**Closing Date**"). Beneficial owners of the Series 2020 Senior Bonds will not receive physical delivery of the Series 2020 Senior Bonds. See APPENDIX F – "BOOK-ENTRY ONLY SYSTEM" attached hereto.

Collateral	The Series 2020 Senior Bonds will be secured by a perfected lien and security interest in (i) the Pledged Tobacco Receipts and investment earnings on amounts on deposit in or credited to the Pledged Accounts (the "**Collections**"), (ii) all rights to receive the Collections and the proceeds of such rights, (iii) the Pledged Accounts and money and investments on deposit in or credited to the Pledged Accounts, (iv) except as described below and subject to the terms and provisions of the Purchase and Sale Agreement, all rights and remedies with respect to any breach by the State of any of its covenants, obligations, representations, and warranties under the Purchase and Sale Agreement or under the Act, (v) all interests in the Pledged Tobacco Receipts of the Authority under the Purchase and Sale Agreement, to which the State has consented to an assignment pursuant to the Purchase and Sale Agreement, subject to the terms and limitations thereof, and (vi) 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 Trust Indenture (the "**Collateral**"). Except as specifically provided in the Trust Indenture, the assignment and pledge of Collateral does not include: (i) 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 Bondholders, or (ii) any other right or power reserved to the Authority pursuant to the Act or other law; nor does the pledge preclude the Authority's enforcement of its rights under and pursuant to the Purchase and Sale Agreement for the benefit of the Bondholders. Unless otherwise specified in the Series Supplement applicable thereto, the proceeds of any Bonds, other than those deposited in the Senior Liquidity Reserve Account, do not constitute Collections, are not pledged to the holders of such Bonds and are not subject to the lien of the Trust Indenture.
Limited Obligations	The Series 2020 Senior Bonds are special revenue obligations of the Authority and are payable solely from the Pledged Tobacco Receipts and the other Collateral pledged under the Trust Indenture. The Authority has no assets available for payment of the Series 2020 Senior Bonds other than the Pledged Tobacco Receipts and the other Collateral. Pursuant to the Act, (i) the Series 2020 Senior Bonds are not general obligations of the State and the full faith and credit, revenue, and taxing power of the State are not pledged to the payment of debt service on the Series 2020 Senior Bonds or to any guarantee of the payment of that debt service, (ii) the Holders of Series 2020 Senior Bonds shall have no right to have any moneys obligated or pledged for the payment of debt service except the Collateral, and (iii) the rights of the Holders of Series 2020 Senior Bonds to payment of debt service are limited to all or that portion of the Pledged Tobacco Receipts, and the Pledged Accounts, pledged to the payment of debt service pursuant to the Trust Indenture in accordance with the Act. The Authority has no taxing power. The Series 2020 Senior Bonds are not secured by the proceeds thereof, with the exception of the proceeds deposited in the Senior Liquidity Reserve Account, with the Class 1 Senior Liquidity Reserve Subaccount securing only the Series 2020A Senior Bonds (and any other Class 1 Senior Bonds that may be issued) and the Class 2 Senior Liquidity Reserve Subaccount securing only the Series 2020B-1 Senior Bonds and the Series 2020B-2 Senior Bonds (and any other Class 2 Senior Bonds designated to be secured by such Subaccount that may be issued). The Senior Liquidity Reserve Account does <u>not</u> secure the Series 2020B-3 Senior Bonds.

Master Settlement Agreement	On November 23, 1998, the MSA was entered into by 46 states (including the State), the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Commonwealth of the Northern Mariana Islands (collectively, the "**Settling States**") and what were then the four largest United States tobacco manufacturers: Philip Morris Incorporated (now Philip Morris USA Inc., "**Philip Morris**"), R.J. Reynolds Tobacco Company ("**Reynolds Tobacco**"), Brown & Williamson Tobacco Corporation ("**B&W**") and Lorillard Tobacco Company ("**Lorillard**"). In January 2004, Reynolds American Inc. ("**Reynolds American**") was incorporated as a holding company to facilitate the combination of the U.S. assets, liabilities and operations of B&W with those of Reynolds Tobacco. On June 12, 2015, Reynolds American acquired Lorillard, Inc., of which Lorillard was a wholly-owned subsidiary, and Lorillard was merged into Reynolds Tobacco, with Reynolds Tobacco as the surviving entity. Contemporaneous with Reynolds American's acquisition of Lorillard, Inc., Imperial Tobacco Group PLC, currently named Imperial Brands PLC ("**Imperial Tobacco**"), purchased certain of Reynolds Tobacco's and certain of Lorillard's cigarette brands, among other assets. The payment obligations under the MSA follow tobacco product brands if they are transferred; thus, Imperial Tobacco is required to make payments under the MSA as a result of its acquisition of those cigarette brands. On July 25, 2017, Reynolds American became a wholly-owned subsidiary of British American Tobacco p.l.c. ("**BAT**") following BAT's acquisition of the approximately 58% of Reynolds American stock not then owned by BAT. As a result of such acquisition, BAT is responsible for Reynolds Tobacco's payment obligations under the MSA. References herein to the "**Original Participating Manufacturers**" or "**OPMs**" means (i) prior to July 30, 2004, collectively, Philip Morris, Reynolds Tobacco, B&W and Lorillard, (ii) after July 30, 2004 and prior to June 12, 2015, collectively Philip Morris, Reynolds Tobacco and Lorillard, and (iii) on and after June 12, 2015, Philip Morris and Reynolds Tobacco, along with Imperial Tobacco with respect to those cigarette brands that Imperial Tobacco acquired from Reynolds Tobacco and Lorillard. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Industry Overview." The MSA provides for tobacco companies, other than the OPMs, to become parties to the MSA ("**Subsequent Participating Manufacturers**" or "**SPMs**"). The MSA is an industry-wide settlement of litigation between the OPMs and SPMs (collectively, the "**Participating Manufacturers**" or "**PMs**") and the Settling States, and resolved cigarette smoking-related litigation among the Settling States and the OPMs, released the PMs from past and present smoking-related claims by the Settling States and provides for a continuing release of future smoking-related claims by the Settling States in exchange for certain payments to be made to the Settling States. The MSA also provides for the imposition of certain tobacco advertising and marketing restrictions, among other things. The Authority is not a party to the MSA. "See "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT."
MSA Payments	Under the MSA, the OPMs are required to pay to the Settling States: (i) five initial payments (the "**Initial Payments**") (all of which have been previously made by the OPMs), (ii) annual payments (the "**Annual Payments**"), which are required to be made annually on each April 15, having commenced April 15, 2000, and continuing in perpetuity (subject to adjustment as described herein), and (iii) ten annual payments of $861 million (subject to adjustment as described herein) that were required to be made on each April 15 in the years 2008 through 2017 (the "**Strategic Contribution Payments**"). SPMs are also required to make Annual Payments (and were also required to make Strategic Contribution Payments) in certain circumstances. See "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Subsequent

Participating Manufacturers." Most of the PMs have made the Annual Payments due in 2000 through, and including, 2019, and Strategic Contribution Payments due in 2008 through, and including, 2017, which was the last year in which such Strategic Contribution Payments were due (subject, in each case, to certain withholdings and payments into the Disputed Payments Account), as described under "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT — Overview of Payments by the Participating Manufacturers; MSA Escrow Agent."

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

Other adjustments to payments due under the MSA include reductions for decreased domestic cigarette shipments, reductions for amounts paid by OPMs to four states which had previously settled their claims against the PMs independently of the MSA, and increases related to inflation of not less than 3% each year, and offsets for disputed and/or miscalculated payments, as described herein.

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

Payments by the PMs are required to be made to Citibank, N.A., as the MSA Escrow Agent appointed pursuant to the MSA (the "**MSA Escrow Agent**"), which is required, in turn, to remit an allocable share of such payments to the parties entitled thereto. The MSA Escrow Agent has distributed the payments due under the MSA through April 15, 2019 to the Settling States.

Under the MSA, the State is entitled to 5.0375098% of the Annual Payments made by PMs under the MSA and distributed through the National Escrow Agreement, entered into on December 23, 1998 (the "**National Escrow Agreement**"), among the Settling States, the OPMs and the MSA Escrow Agent.

Industry Overview

Philip Morris and Reynolds Tobacco (both OPMs) are the largest manufacturers of cigarettes in the United States (based on 2019 market share). The market for cigarettes is highly competitive and is characterized by brand recognition. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY."

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 82.91%* of the U.S. domestic cigarette market in payment year 2019 (sales year 2018), based upon shipments and measuring roll-your-own cigarettes at 0.0325 ounces per cigarette conversion rate. Also as reported by NAAG, based upon shipments reported to MSAI, the SPMs accounted for approximately 9.61%* of the U.S. domestic cigarette market in payment year 2019 (sales year 2018), based upon shipments and measuring roll-your-own cigarettes at 0.09 ounces per cigarette conversion rate.

Altria Group, Inc., the parent company of Philip Morris, filed its Form 10-K for the calendar year 2019 with the SEC on February 25, 2020, and certain information from such Form 10-K is included in this Offering Circular.

Cigarette Consumption

As described in the Tobacco Consumption Report referred to below, domestic cigarette consumption grew dramatically in the 20th century, reaching a peak of 640 billion cigarettes in 1981. Consumption declined in the 1980s, 1990s and 2000s, falling to less than 400 billion cigarettes in 2003 and 264 billion cigarettes in 2014, before increasing slightly to 269 billion cigarettes in 2015 and then decreasing to 259 billion cigarettes in 2016, 248 billion cigarettes in 2017 and 237 billion cigarettes in 2018. The Tobacco Consumption Report projects that consumption declines will continue in subsequent years. See "SUMMARY OF THE TOBACCO CONSUMPTION REPORT" herein and APPENDIX A – "TOBACCO CONSUMPTION REPORT" attached hereto.

Tobacco Consumption Report

IHS Global Inc. ("**IHS Global**") has prepared a report dated February 25, 2020 on the consumption of cigarettes in the United States from 2019 through 2057 entitled, "*A Forecast of U.S. Cigarette Consumption (2019-2057) for The Buckeye Tobacco Settlement Financing Authority*" (the "**Tobacco Consumption Report**").

IHS Global's cigarette consumption model is based on historical United States data between 1965 and 2018. In the Tobacco Consumption Report, IHS Global has projected the average annual rate of decline in U.S. cigarette consumption from 2019 through 2057 to be approximately 3.3%, resulting in a forecast of total U.S. cigarette consumption in 2057 to be 63.9 billion cigarettes, including a roll-your-own equivalent of 0.0325 ounces per cigarette (a 73% decline from the 2018 level). The projections and forecasts regarding future cigarette consumption included in the Tobacco Consumption Report are estimates which have been prepared on the basis of certain assumptions and hypotheses. No representation or warranty of any kind is or can be made with respect to the accuracy or completeness of, and no representation or warranty should be inferred from, these projections and forecasts. See "SUMMARY OF THE TOBACCO CONSUMPTION REPORT" and APPENDIX A — "TOBACCO CONSUMPTION REPORT." See also "PLEDGED TOBACCO RECEIPTS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS."

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

Interest and Principal or Accreted Value	The Series 2020 Senior Bonds will bear or accrete interest at the respective rates per annum as described on the inside cover page of this Offering Circular and as further described herein. Interest on the Series 2020A Senior Bonds, the Series 2020B-1 Senior Bonds and the Series 2020B-2 Senior Bonds will be payable semi-annually on June 1 and December 1 of each year (each, a "**Distribution Date**," as such term is more fully described in APPENDIX D – "SUMMARY OF TRUST INDENTURE"), commencing June 1, 2020. Interest on the Series 2020B-3 Senior Bonds will not be paid currently but will accrete from the dated date thereof and will be compounded on each Distribution Date commencing June 1, 2020 at the Accretion Rate (as defined herein) thereof, specified in APPENDIX H — "TABLE OF ACCRETED VALUES OF SERIES 2020B-3 SENIOR BONDS" (to become part of Accreted Value as more fully described herein), until such Bonds are redeemed or mature. From and after their maturity date, the Series 2020B-3 Senior Bonds will accrue interest payable on each Distribution Date at a rate per annum equal to the Accretion Rate. Interest on the Series 2020 Senior Bonds will be calculated on the basis of a year of 360 days and twelve 30-day months. Principal or Accreted Value is payable on the Series 2020 Senior Bonds on their respective scheduled Maturity Dates as set forth on the inside cover page hereof (and, with respect to the Series 2020A-2 Senior Bonds that are Term Bonds, on the Fixed Sinking Fund Installment dates, as described herein). Principal or Accreted Value is also payable on the Series 2020B Senior Bonds by Turbo Redemptions in accordance with the Payment Priorities, as described below.
Payment Priorities	"**Payment Priorities**" means payment of Bonds in the following order of priority: (1) first, the Senior Bonds are Fully Paid pursuant to the "**Senior Bonds Payment Priorities**," which means the payment of Senior Bonds in the following order of priority: (I) first, the Class 1 Senior Bonds are Fully Paid in chronological order of Serial Maturities, Fixed Sinking Fund Installments and Maturity Dates therefor; and (II) second, the Class 2 Senior Bonds are Fully Paid in chronological order by Maturity Date and within a maturity, by lot in accordance with the Trust Indenture; (2) second, the First Subordinate Bonds are Fully Paid; (3) third, the Second Subordinate Bonds are Fully Paid; and (4) fourth, any Fully Subordinate Bonds are Fully Paid in accordance with the provisions of the applicable Series Supplement.
Turbo Redemption of Series 2020B Senior Bonds	Under the Trust Indenture, 100% of all Collections in excess of the requirements for, among other things, the periodic funding of Operating Expenses and Enforcement Expenses, interest payments, Fixed Sinking Fund Installments, Serial Bond Maturities, Term Bond Maturities and replenishment of the Senior Liquidity Reserve Account are applied to the mandatory redemption of the Series 2020B Senior Bonds at the principal amount or Accreted Value thereof on each Distribution Date (or special redemption date under the Trust Indenture) in accordance with the Payment Priorities ("**Turbo Redemptions**"). Turbo Redemptions may also be made in accordance with the Payment Priorities from amounts on deposit in the Lump Sum Payment Account with Rating Confirmation. Amounts in the Senior Liquidity Reserve Account are <u>not</u> available to make Turbo Redemptions. The Trustee may specify a special redemption date for purposes of redeeming Turbo Term Bonds if amounts are available therefor pursuant to the Trust Indenture and if the Trustee is instructed to do so by the Authority. Failure by the Authority to make any Turbo Redemptions will <u>not</u> constitute an Event

	of Default, a Class 2 Payment Default or a Subordinate Payment Default under the Trust Indenture if such failure is due to the insufficiency of available Collections to make such Turbo Redemptions. The ratings on the Series 2020B-1 Senior Bonds do not address the payment of Turbo Redemptions on such Bonds. The Series 2020B-2 Senior Bonds and the Series 2020B-3 Senior Bonds are not rated. See "THE SERIES 2020 SENIOR BONDS – Turbo Redemption of Series 2020B Senior Bonds" and "TABLES OF PROJECTED BOND DEBT SERVICE AND COVERAGE" herein.
Mandatory Redemption of Series 2020A-2 Senior Term Bonds by Fixed Sinking Fund Installments	The Series 2020A-2 Senior Bonds of each interest rate maturing on June 1, 2048 are Term Bonds that are subject to mandatory redemption in part by Fixed Sinking Fund Installments as described herein under "THE SERIES 2020 SENIOR BONDS — Mandatory Redemption of Series 2020A-2 Senior Term Bonds by Fixed Sinking Fund Installments."
Optional Redemption	*Make-Whole Optional Redemption of Series 2020A-1 Senior Bonds*. The Series 2020A-1 Senior Bonds are subject to redemption at the option of the Authority, on any date, in whole or in part, from any maturity selected by the Authority in its discretion and, within a maturity, on a Pro Rata basis and not by lot, at a redemption price equal to the greater of: (A) the principal amount of such Series 2020A-1 Senior Bonds to be redeemed, or (B) the sum of the present values of the remaining scheduled payments of principal and interest on such Series 2020A-1 Senior Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date such Series 2020A-1 Senior Bonds are to be redeemed, discounted to the date of redemption of such Series 2020A-1 Senior Bonds to be redeemed on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined herein) plus the Applicable Spread, plus interest accrued to the redemption date. The "**Applicable Spread**" means (x) for the Series 2020A-1 Senior Bonds maturing June 1, 2020 through and including June 1, 2024, 5 basis points; and (y) for the Series 2020A-1 Senior Bonds maturing June 1, 2025 through and including June 1, 2027, 10 basis points. *Optional Redemption of Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds*. The Series 2020A-2 Senior Bonds, the Series 2020B-2 Senior Bonds and the Series 2020B-3 Senior Bonds are subject to redemption at the option of the Authority, in whole or in part on any date on or after June 1, 2030, and if in part, from any Maturity Date selected by the Authority in its discretion, in either case at a redemption price equal to, in the case of the Series 2020A-2 Senior Bonds and the Series 2020B-2 Senior Bonds, 100% of the principal amount being redeemed, plus interest accrued to the redemption date, and in the case of the Series 2020B-3 Senior Bonds, 100% of the Accreted Value on the redemption date. *Catch-Up Optional Redemption of Series 2020B Senior Bonds*. The Series 2020B Senior Bonds are subject to redemption at the option of the Authority in whole or in part at any time, but only in an amount that may not exceed the amount of the Projected Turbo Redemptions that were projected to be paid but, as of the date of such redemption, have not been paid with respect to such Turbo Term Bonds.
Clean-Up Call Redemption	*Optional Clean-Up Call of Class 1 Senior Bonds*. The Class 1 Senior Bonds (including the Series 2020A Senior Bonds) and any Refunding Bonds and/or Additional Bonds secured on parity with the Class 1 Senior Bonds are subject to redemption at the option of the Authority in whole at a redemption price equal to 100% of the Bond Obligation (as defined herein) of the Class 1 Senior Bonds being redeemed plus interest accrued to the redemption date at any time that the available amounts on deposit in the Pledged

Accounts allocable to the Class 1 Senior Bonds exceed the aggregate principal amount of, and accrued interest on, all Outstanding Class 1 Senior Bonds.

Mandatory Clean-Up Call of Class 2 Senior Bonds Secured by the Class 2 Senior Liquidity Reserve Subaccount. The Class 2 Senior Bonds secured by the Class 2 Senior Liquidity Reserve Subaccount (including the Series 2020B-1 Senior Bonds and the Series 2020B-2 Senior Bonds) and any Refunding Bonds and/or Additional Bonds secured on parity with the Class 2 Senior Bonds and which are secured by the Class 2 Senior Liquidity Reserve Subaccount are subject to mandatory redemption in whole at a redemption price equal to 100% of the Bond Obligation of such Class 2 Senior Bonds being redeemed plus interest accrued to the redemption date at any time that the available amounts on deposit in the Pledged Accounts allocable to such Class 2 Senior Bonds exceed the aggregate principal amount of, and accrued interest on, all such Outstanding Class 2 Senior Bonds.

Mandatory Redemption of Defeased Series 2020B Senior Bonds

The Series 2020B Senior Bonds that are defeased in accordance with the Trust Indenture are subject to mandatory redemption, at a redemption price equal to 100% of the Bond Obligation being redeemed, on such date or dates in accordance with the Defeasance Redemption Schedule described in "SECURITY FOR THE BONDS — Defeasance."

Prepayment from Lump Sum Payments and Total Lump Sum Payments

Upon the receipt of a sum that has been identified by an Officer's Certificate as a Lump Sum Payment or a Total Lump Sum Payment, the Trustee shall, after making provision for the amounts required to be deposited to the Operating Account in accordance with the Trust Indenture, use all such amounts on deposit in the Lump Sum Payments Account to make payments on the Bonds as described herein under "SECURITY FOR THE BONDS — Flow of Funds — *Prepayment from Lump Sum Payments*" and "— *Prepayment from Total Lump Sum Payments*", as applicable.

Prohibition on Open Market Purchases

In accordance with the Trust Indenture, moneys in any Pledged Account shall not be used to make open market purchases of Bonds.

Bond Structuring Assumptions and Methodology

The Series 2020 Senior Bonds were structured on the basis of forecasts, which themselves are based on assumptions, as described herein. Among these are a forecast of United States cigarette consumption contained in the Tobacco Consumption Report, a forecast of the application of certain adjustments and offsets to payments to be made by the PMs pursuant to the MSA (including an assumption that there will not be an NPM Adjustment), and a forecast of the Accounts established under the Trust Indenture and all earnings on amounts on deposit therein. In addition, such forecasts were used to project amounts expected to be available for redemption of the Series 2020B Senior Bonds from Turbo Redemptions and the resulting expected average life of such Bonds.

No assurance can be given, however, that events will occur in accordance with such assumptions and forecasts. Any deviations from such assumptions and forecasts could materially and adversely affect the payment of the Series 2020 Senior Bonds. See "PLEDGED TOBACCO RECEIPTS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" herein.

Senior Liquidity Reserve Account	The Senior Liquidity Reserve Account has been established and is maintained by the Trustee, and within such Account, the Class 1 Senior Liquidity Reserve Subaccount secures only the Series 2020A Senior Bonds (and any other Class 1 Senior Bonds that may be issued) and the Class 2 Senior Liquidity Reserve Subaccount secures only the Series 2020B-1 Senior Bonds and the Series 2020B-2 Senior Bonds (and any other Class 2 Senior Bonds designated to be secured by such Subaccount that may be issued). The Class 2 Senior Liquidity Reserve Subaccount does not secure the Series 2020B-3 Senior Bonds. The Class 1 Senior Liquidity Reserve Subaccount will be funded on the Closing Date in the amount of the "**Class 1 Senior Liquidity Reserve Requirement**", which is an amount equal to (i) from the date of issuance of the Series 2020A Senior Bonds until June 1, 2029, $91,657,486.26 for so long as any Series 2020A Senior Bonds are Outstanding, (ii) on and after June 1, 2029, $75,575,000.00 for so long as any Series 2020A Senior Bonds are Outstanding and (iii) $0 when no Class 1 Senior Bonds are Outstanding, which amount may (but is not required to) be amended upon the issuance of Refunding Bonds and/or Additional Bonds that constitute Class 1 Senior Bonds in accordance with the applicable Series Supplement. The Class 2 Senior Liquidity Reserve Subaccount will be funded on the Closing Date in the amount of the "**Class 2 Senior Liquidity Reserve Requirement**", which is an amount equal to $170,850,000.00 for so long as any Series 2020B-1 Senior Bonds or Series 2020B-2 Senior Bonds are Outstanding and an amount equal to $0 when no Series 2020B-1 Senior Bonds or Series 2020B-2 Senior Bonds are Outstanding, which amount may (but is not required to) be amended upon the issuance of Refunding Bonds and/or Additional Bonds that constitute Class 2 Senior Bonds in accordance with the applicable Series Supplement. Amounts in the applicable subaccount of the Senior Liquidity Reserve Account will be available to pay principal (including Fixed Sinking Fund Installments) and interest on the Series 2020A Senior Bonds, Series 2020B-1 Senior Bonds and Series 2020B-2 Senior Bonds, as applicable, but will not be available for Turbo Redemptions. The Senior Liquidity Reserve Account does not secure the Series 2020B-3 Senior Bonds. Unless an Event of Default has occurred, Collections (to the extent available) will be used to replenish the applicable subaccount in the Senior Liquidity Reserve Account to the Class 1 Senior Liquidity Reserve Requirement or Class 2 Senior Liquidity Reserve Requirement, as applicable. See "SECURITY FOR THE BONDS."
Flow of Funds	All Pledged Tobacco Receipts received by the Trustee shall be promptly deposited by the Trustee into the Collection Account. As soon as is practicable, but in any event no later than the earlier of (x) the fifth Business Day following each date of actual receipt by the Trustee of any Collections ("**Deposit Date**"), or (y) two Business Days prior to each Distribution Date, the Trustee shall withdraw the funds on deposit in the Collection Account and transfer such amounts as described herein under "SECURITY FOR THE BONDS – Flow of Funds."
Enforcement Expenses	The State has covenanted in the Purchase and Sale Agreement to enforce the MSA, the Qualifying Statute, the Consent Decree (as defined herein) and related legislation. Pursuant to the Act, the Trust Indenture establishes a mechanism for the ongoing funding of the costs incurred or to be incurred (including reserves for the same) by the office of the Attorney General of the State with respect to enforcement of the MSA, the Qualifying Statute, the Consent Decree and related legislation ("**Enforcement Expenses**"). The Authority's funding of Enforcement Expenses is subject to an annual Enforcement Expense Transfer Cap of $2,000,000. The Enforcement Expenses are payable from the Enforcement Expense Reserve Account, up to the Enforcement Expense Transfer Cap after funding the Senior Debt Service Account and replenishment of the Senior Liquidity Reserve Account but before Surplus Collections are deposited into the Senior Turbo Redemption Account, First Subordinate Turbo

Redemption Account and Second Subordinate Turbo Redemption Account. See "SECURITY FOR THE BONDS – Flow of Funds." The Authority is not the only source of funding for enforcement activities.

Events of Default

An "Event of Default" under the Trust Indenture means any one of the following:

(a) Principal of, premium or interest on any Class 1 Senior Bond has not been paid, when due, including when due by Fixed Sinking Fund Installments;

(b) failure to pay Turbo Redemptions with respect to Class 1 Senior Bonds when due in accordance with the Trust Indenture, but only if, and to the extent moneys are available therefor;

(c) the Authority fails to observe or perform any other provision of the Trust Indenture related to the Senior Bonds, 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% of the Aggregate Bond Obligation of the Senior Bonds Outstanding; except as specified in the Trust Indenture, failure to make any Turbo Redemption because of insufficiency of Surplus Collections pursuant to the Trust Indenture shall not constitute a Default or an Event of Default. In the case of a default specified in this clause, if the default cannot be corrected within the said 60-day period, 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;

(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 (including without limitation the appointment of a receiver or trustee or the making of a general or specific assignment for the benefit of creditors) are instituted by or against the Authority and, if instituted against the Authority, are not dismissed within 60 days after such institution;

(e) without limiting clause (d) above, a material breach by the Authority of its covenants not to file a voluntary bankruptcy petition (as described herein), which breach 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% of the Aggregate Bond Obligation of the Senior Bonds Outstanding. In the case of a default specified in this clause, if the default cannot be corrected within the said 60-day period, it shall not constitute an Event of Default if corrective action is instituted by the State or the Authority within said 60-day period and diligently pursued until the default is corrected;

(f) the State fails to pay to the Authority or the Trustee any Pledged Tobacco Receipts received by it promptly in accordance with the Purchase and Sale Agreement; or

(g) (i) the State fails to comply with its non-impairment covenants contained in the Trust Indenture (described in "SECURITY FOR THE BONDS—Non-Impairment Covenants"), if, in any and each such case, the effect thereof would be materially adverse to the Authority's ability to receive the Pledged Tobacco Receipts (any such action by the State shall be conclusively deemed not material or adverse upon delivery to the Trustee of a Rating Confirmation); or (ii) except as may be authorized and provided for in the Trust Indenture, the Purchase and Sale Agreement is amended, superseded, suspended, revoked or otherwise altered by the Authority in a manner that would materially impair the rights of the Bondholders; and (iii) the action constituting an "event of default" under subclauses (i) or (ii) is not remedied within 60 days after

Written Notice, specifying such default and requiring the same to be remedied, shall have been given to the Authority and the State by the Trustee or by the Holders of at least 25% of the Aggregate Bond Obligation of the Senior Bonds Outstanding. In the case of a default specified in this clause, if the default cannot be corrected within the said 60-day period, it shall not constitute an Event of Default if corrective action is instituted by the State or the Authority within said 60-day period and diligently pursued until the default is corrected.

Notwithstanding anything in the Trust Indenture to the contrary, neither a Class 2 Payment Default nor a Subordinate Payment Default is an Event of Default under the Trust Indenture, provided that in the event of a Class 2 Payment Default or a Subordinate Payment Default, so long as no Class 1 Senior Bonds are Outstanding, Owners of Class 2 Senior Bonds (in the event of a Class 2 Payment Default) and Holders of First Subordinate Bonds, Second Subordinate Bonds, and Fully Subordinate Bonds (in the event of a Subordinate Payment Default) shall have the respective specified remedies set forth in the Trust Indenture. In addition, notwithstanding anything in the Trust Indenture to the contrary, the failure to pay a Turbo Redemption shall not constitute an Event of Default or a Class 2 Payment Default under the Trust Indenture, if such failure is due to the insufficiency of funds available therefor.

See "SECURITY FOR THE BONDS – Events of Default; Remedies" herein for a discussion of Events of Default, Class 2 Payment Defaults, Subordinate Payment Defaults and the related remedies available to the Trustee.

Refunding Bonds, Additional Bonds and Fully Subordinate Bonds

Refunding Bonds (as defined herein) may be issued to refund all Bonds in whole (including the funding of defeasance escrows and deposits to Accounts in connection with such issuance).

Refunding Bonds may be issued to refund Bonds in part (including the funding of defeasance escrows and deposits to Accounts in connection with such issuance) and Additional Bonds (as defined herein) may be issued at the discretion of the Authority, but only if upon the issuance of such Refunding Bonds and/or Additional Bonds: (A) the amount on deposit in the applicable subaccounts in the Senior Liquidity Reserve Account immediately following the issuance of such Refunding Bonds and/or Additional Bonds will be at least equal to the Class 1 Senior Liquidity Reserve Requirement and the Class 2 Senior Liquidity Reserve Requirement, as applicable; (B) no Event of Default shall have occurred and be continuing after the date of issuance of such Bonds; (C) the expected weighted average life of each Turbo Term Bond that will remain Outstanding after the date of issuance of the Refunding Bonds and/or Additional Bonds as computed on the basis of new projections on the date of sale of the Refunding Bonds and/or Additional Bonds will not exceed (x) the remaining expected weighted average life of each such Turbo Term Bond as computed by the Authority on the basis of new projections assuming that no such Refunding Bonds and/or Additional Bonds are issued, plus (y) one year; and (D) a Rating Confirmation is received for any Bonds that will remain Outstanding after the date of issuance of the Refunding Bonds and/or Additional Bonds which are then rated by a Rating Agency.

Fully Subordinate Bonds (as defined herein) may be issued for any lawful purpose if there is no payment permitted for such bonds until all previously issued Bonds are Fully Paid. Fully Subordinate Bonds may be issued without satisfying the requirements described above.

	See "SECURITY FOR THE BONDS – Refunding Bonds, Additional Bonds and Fully Subordinate Bonds" herein.
Covenants	The Authority and the State have each made certain covenants for the benefit of the Bondholders. See APPENDIX D – "SUMMARY OF TRUST INDENTURE" attached hereto for a summary of the covenants made by the Authority in the Trust Indenture. See APPENDIX E – "SUMMARY OF PURCHASE AND SALE AGREEMENT" attached hereto for a summary of the covenants made by the State in the Purchase and Sale Agreement and APPENDIX D – "SUMMARY OF TRUST INDENTURE" attached hereto for the State's covenants that the Authority is authorized to include in the Trust Indenture.
Continuing Disclosure	In order to assist the Underwriters in complying with Rule 15c2-12(b)(5) (the "**Rule**") of the U.S. Securities and Exchange Commission, pursuant to a Continuing Disclosure Undertaking (the "**Continuing Disclosure Undertaking**"), the Authority will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board, on its Electronic Municipal Market Access ("**EMMA**") system, certain annual financial information and operating data and, in a timely manner, notice of certain listed events. See "CONTINUING DISCLOSURE UNDERTAKING" and APPENDIX G — "FORM OF CONTINUING DISCLOSURE UNDERTAKING."
Ratings	The ratings by S&P Global Ratings ("**S&P**") for the Series 2020A Senior Bonds and the Series 2020B-1 Senior Bonds address only (i) the payment of interest on such Bonds, when due, and (ii) the payment of principal of such Bonds by their Maturity Dates (and, with respect to the Series 2020A-2 Senior Bonds that are Term Bonds, Fixed Sinking Fund Installment dates). The payment of Turbo Redemptions on the Series 2020B-1 Senior Bonds has <u>not</u> been rated by S&P. The Series 2020B-2 Senior Bonds and the Series 2020B-3 Senior Bonds are <u>not</u> rated and involve additional risks that may not be appropriate for certain investors. See "RISK FACTORS—Market for Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds; No Credit Rating on Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds." A rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time. See "RATINGS" herein.
Risk Factors and Legal Considerations	Reference is made to "RISK FACTORS" and "LEGAL CONSIDERATIONS" herein for a description of certain risks and considerations relevant to an investment in the Series 2020 Senior Bonds.
Tax Matters	In the opinion of Orrick, Herrington & Sutcliffe LLP, Transaction Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "**Code**"). In the further opinion of Orrick, Herrington & Sutcliffe LLP, interest on the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Orrick, Herrington & Sutcliffe LLP and Squire Patton Boggs (US) LLP, Co-Transaction Counsel to the Authority, are of the opinion that, under existing law, interest on, and any profit made on the sale, exchange or other disposition of, the Series 2020 Senior Bonds are exempt from all State of Ohio state and local taxation, except the estate tax, the domestic insurance company tax, the dealers in intangibles tax, the tax levied on the basis of the total equity capital of financial institutions, and the net worth base of the corporate franchise tax. Orrick, Herrington & Sutcliffe LLP observes that interest on the Series 2020A-1 Senior Bonds

	and Series 2020B-1 Senior Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Neither Orrick, Herrington & Sutcliffe LLP nor Squire Patton Boggs (US) LLP expresses any opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2020 Senior Bonds. See "TAX MATTERS."
Availability of Documents	Included herein are brief summaries of certain documents and reports, 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 Trust Indenture and the Purchase and Sale Agreement may be obtained upon request from the Trustee at: U.S. Bank National Association, 10 West Broad Street, 12th Floor, Columbus, Ohio 43215, Attention: Global Corporate Trust.

INTRODUCTORY STATEMENT

This Offering Circular sets forth information concerning the issuance by Buckeye Tobacco Settlement Financing Authority (the "**Authority**") of its Tobacco Settlement Asset-Backed Refunding Bonds, Series 2020 Senior Bonds, consisting of $328,400,000 Series 2020A-1 Class 1 Senior Current Interest Bonds (Federally Taxable) (the "**Series 2020A-1 Senior Bonds**") as Class 1 Senior Bonds, $1,139,510,000 Series 2020A-2 Class 1 Senior Current Interest Bonds (the "**Series 2020A-2 Senior Bonds**" and, together with the Series 2020A-1 Senior Bonds, the "**Series 2020A Senior Bonds**") as Class 1 Senior Bonds, $100,000,000 Series 2020B-1 Class 2 Senior Current Interest Bonds (Federally Taxable) (the "**Series 2020B-1 Senior Bonds**") as Class 2 Senior Bonds, $3,380,000,000 Series 2020B-2 Class 2 Senior Current Interest Bonds (the "**Series 2020B-2 Senior Bonds**") as Class 2 Senior Bonds, and $404,286,396.50 Series 2020B-3 Class 2 Senior Capital Appreciation Bonds (the "**Series 2020B-3 Senior Bonds**" and, together with the Series 2020B-1 Senior Bonds and the Series 2020B-2 Senior Bonds, the "**Series 2020B Senior Bonds**"; and the Series 2020B Senior Bonds, collectively with the Series 2020A Senior Bonds, the "**Series 2020 Senior Bonds**") as Class 2 Senior Bonds, pursuant to an Amended and Restated Trust Indenture and a Series 2020 Supplement (together, the "**Trust Indenture**"), each dated as of March 1, 2020, by and between the Authority and U.S. Bank National Association, as trustee (the "**Trustee**"). The Authority will use the proceeds from the issuance of the Series 2020 Senior Bonds, together with other available funds, to (i) refund through redemption and defeasance all of the Authority's Tobacco Settlement Asset-Backed Bonds, Series 2007 (the "**Series 2007 Bonds**"), (ii) fund the Senior Liquidity Reserve Account described herein and (iii) pay costs of issuance incurred in connection with the issuance of the Series 2020 Senior Bonds. The Series 2020 Senior Bonds, collectively with any Refunding Bonds, Additional Bonds and Fully Subordinate Bonds that may be issued by the Authority pursuant to the Trust Indenture, are referred to herein as the "**Bonds**." See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS."

The Authority is a body, both corporate and politic, constituting a public body, agency and instrumentality of the State of Ohio (the "**State**"), separate and distinct from the State, performing essential functions of the State and created and governed by Sections 183.51 and 183.52 of the Ohio Revised Code (the "**Act**").

In 2007, pursuant to the Act and a Purchase and Sale Agreement, dated as of October 1, 2007, between the State and the Authority (the "**Purchase and Sale Agreement**"), the State sold to the Authority all right, title and interest of the State in and to the "**2007 Sold Tobacco Receipts**," which, except as excluded as described further herein, consist of 100% of the tobacco settlement payments made on and after October 29, 2007 by the tobacco manufacturers to or for the account of the State under the terms of the MSA (as defined below). The 2007 Sold Tobacco Receipts specifically exclude any right to or interest in amounts withheld or deposited in the Disputed Payments Account (as defined herein) under the MSA before October 29, 2007, including all earnings thereon. The Series 2020 Senior Bonds are special revenue obligations of the Authority and are payable solely from the "**Pledged Tobacco Receipts**," which are the right, title and interest of the Authority to 100% of the 2007 Sold Tobacco Receipts, and from the other Collateral pledged under the Trust Indenture. The Authority has no assets available for payment of the Series 2020 Senior Bonds other than the Pledged Tobacco Receipts and the other Collateral.

The Master Settlement Agreement (the "**MSA**"), which was entered into on November 23, 1998, among the attorneys general of 46 states (including the State), the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Commonwealth of the Northern Mariana Islands (collectively, the "**Settling States**") and the then four largest United States tobacco manufacturers (namely, Philip Morris Incorporated (now Philip Morris USA Inc., "**Philip Morris**"), R.J. Reynolds Tobacco Company ("**Reynolds Tobacco**"), Brown & Williamson Tobacco Corporation ("**B&W**") and Lorillard Tobacco Company ("**Lorillard**") (collectively, the "**Original Participating Manufacturers**" or "**OPMs**," which term also includes Imperial Brands PLC (formerly named Imperial Tobacco Group PLC) with respect to those cigarette brands that it acquired from Reynolds Tobacco and Lorillard)), resolved all cigarette smoking-related litigation between the Settling States and the OPMs, released the OPMs and the tobacco companies that become parties to the MSA after the OPMs (the "**Subsequent Participating Manufacturers**" or "SPMs," and together with the OPMs, the "**Participating Manufacturers**" or "**PMs**") from past and present cigarette smoking-related claims by the Settling States, and provides for a continuing release of future cigarette smoking-related claims by the Settling States in exchange for payments to be made to the Settling States, as well as, among other things, certain tobacco advertising and marketing

restrictions. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY" for a discussion of certain information relating to the PMs and the domestic tobacco industry.

Under the MSA, the base amounts of Annual Payments (as defined herein) payable by the PMs thereunder are subject to various adjustments, offsets and recalculations, including the "**NPM Adjustment**," which operates in the event of losses in Market Share (as defined herein) by PMs to tobacco companies that are not parties to the MSA ("**Non-Participating Manufacturers**" or "**NPMs**"), as a result of such PMs' participation in the MSA. As discussed further herein, the State is in pending arbitration regarding the 2004 NPM Adjustment. See "RISK FACTORS—Payment Decreases Under the Terms of the MSA" and "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Adjustments to Payments" and "— NPM Adjustment Claims."

Pursuant to the Act, (i) the Series 2020 Senior Bonds are not general obligations of the State and the full faith and credit, revenue, and taxing power of the State are not pledged to the payment of debt service on the Series 2020 Senior Bonds or to any guarantee of the payment of that debt service, (ii) the Holders of Series 2020 Senior Bonds shall have no right to have any moneys obligated or pledged for the payment of debt service except the Collateral, and (iii) the rights of the Holders of Series 2020 Senior Bonds to payment of debt service are limited to all or that portion of the Pledged Tobacco Receipts, and the Pledged Accounts, pledged to the payment of debt service pursuant to the Trust Indenture in accordance with the Act. The Authority has no taxing power.

The Series 2020 Senior Bonds are not secured by the proceeds thereof, with the exception of the proceeds deposited in the Senior Liquidity Reserve Account, with the Class 1 Senior Liquidity Reserve Subaccount securing only the Series 2020A Senior Bonds (and any other Class 1 Senior Bonds that may be issued) and the Class 2 Senior Liquidity Reserve Subaccount securing only the Series 2020B-1 Senior Bonds and the Series 2020B-2 Senior Bonds (and any other Class 2 Senior Bonds designated to be secured by such Subaccount that may be issued). The Senior Liquidity Reserve Account does <u>not</u> secure the Series 2020B-3 Senior Bonds.

The Series 2020 Senior Bonds are paid in accordance with the Senior Bonds Payment Priorities, whereby the Senior Bonds are paid in accordance with the following order of priority: (1) first, the Class 1 Senior Bonds are Fully Paid in chronological order of Serial Maturities, Fixed Sinking Fund Installments and Maturity Dates therefor, and (2) second, the Class 2 Senior Bonds are Fully Paid in chronological order by Maturity Date and within a maturity, by lot in accordance with the Trust Indenture, as described further herein. The Series 2020A Senior Bonds are on parity with any Additional Bonds that are Class 1 Senior Bonds, and are senior in payment priority to the Series 2020B Senior Bonds, any Fully Subordinate Bonds and any Additional Bonds that are Class 2 Senior Bonds, First Subordinate Bonds or Second Subordinate Bonds. The Series 2020B Senior Bonds are subordinated in payment priority to the Series 2020A Senior Bonds and any Additional Bonds that are Class 1 Senior Bonds, are on parity with any Additional Bonds that are Class 2 Senior Bonds, and are senior in payment priority to any Fully Subordinate Bonds and any Additional Bonds that are First Subordinate Bonds or Second Subordinate Bonds.

Interest on the Series 2020A Senior Bonds, the Series 2020B-1 Senior Bonds and the Series 2020B-2 Senior Bonds will be payable semi-annually on June 1 and December 1 of each year (each, a "**Distribution Date**," as such term is more fully described in APPENDIX D – "SUMMARY OF TRUST INDENTURE"), commencing June 1, 2020. Interest on the Series 2020B-3 Senior Bonds will not be paid currently but will be compounded on each Distribution Date commencing June 1, 2020 at the Accretion Rate (as defined herein) thereof, specified in APPENDIX H — "TABLE OF ACCRETED VALUES OF SERIES 2020B-3 SENIOR BONDS" (to become part of Accreted Value as more fully described herein), until such Bonds are redeemed or mature. Principal or Accreted Value is payable on the Series 2020 Senior Bonds on their respective scheduled Maturity Dates as set forth on the inside cover page hereof (and, with respect to the Series 2020A-2 Senior Bonds that are Term Bonds, on the Fixed Sinking Fund Installment dates). Principal or Accreted Value is also payable on the Series 2020B Senior Bonds by Turbo Redemptions in accordance with the Payment Priorities, as described herein. Failure to pay any Turbo Redemptions on the Series 2020B Senior Bonds will <u>not</u> constitute an Event of Default or a Class 2 Payment Default under the Trust Indenture if such failure is due to the insufficiency of available Collections (as defined herein). The Series 2020A Senior Bonds are subject to optional redemption and optional clean-up call, and the Series 2020B Senior Bonds are subject to optional redemption and mandatory clean-up call, each as described herein. See "SECURITY FOR THE BONDS" and "THE SERIES 2020 SENIOR BONDS".

Certain methodologies and assumptions were used to establish the amounts and scheduled Maturity Dates of the Series 2020 Senior Bonds and the projected Turbo Redemptions of the Series 2020B Senior Bonds. See "TABLES OF PROJECTED BOND DEBT SERVICE AND COVERAGE" and "PLEDGED TOBACCO RECEIPTS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS." In addition, the amount and timing of payments on the Series 2020 Senior Bonds may be affected by various factors. See "RISK FACTORS" and "LEGAL CONSIDERATIONS."

SECURITY FOR THE BONDS

Purchase and Sale Agreement

Pursuant to the Purchase and Sale Agreement, the Authority purchased from the State all right, title and interest of the State in and to the "**2007 Sold Tobacco Receipts**", which consist of 100% of the State's right, title and interest in the following: (i) except per the exclusion described below, all tobacco settlement payments that are required to be made by the tobacco manufacturers to or for the account of the State under the terms of the MSA on and after October 29, 2007; (ii) all lump sum or partial lump sum payments received on and after October 29, 2007 that are allocable to, or in substitution for, payments required under the terms of the MSA by tobacco manufacturers to or for the account of the State; and (iii) the State's right under the MSA to receive the tobacco settlement payments referred to in clauses (i) and (ii) of this definition. The 2007 Sold Tobacco Receipts (x) specifically include 100% of any amounts due to the State and withheld or deposited in the Disputed Payments Account under the MSA on or after October 29, 2007 by the tobacco manufacturers as a result of a dispute as to the amount of a payment required to be made by them under the MSA and that are subsequently paid by the tobacco manufacturers or released from the Disputed Payments Account, including all earnings thereon, but (y) specifically exclude any right to or interest in amounts withheld or deposited in the Disputed Payments Account before October 29, 2007, including all earnings thereon. Pursuant to the Purchase and Sale Agreement, the State caused the Attorney General of the State to irrevocably instruct the MSA Escrow Agent to transfer all 2007 Sold Tobacco Receipts directly to the Trustee as assignee of the Authority.

In connection with the execution of the Purchase and Sale Agreement, the Authority issued a Residual Certificate (the "**Residual Certificate**") to the State, as owner of the Residual Certificate, evidencing residual interests in the 2007 Sold Tobacco Receipts, payable to the owner of the Residual Certificate on and after the date on which all Bonds have been Fully Paid and all incurred Operating Expenses have been satisfied pursuant to the Trust Indenture. See APPENDIX E – "SUMMARY OF PURCHASE AND SALE AGREEMENT" attached hereto.

Collateral under the Trust Indenture

The Bonds (including the Series 2020 Senior Bonds) are secured by a perfected lien and security interest in (i) the "**Pledged Tobacco Receipts**" (which are the right, title and interest to 100% of the 2007 Sold Tobacco Receipts, which are payable to the Authority or the Trustee pursuant to the Purchase and Sale Agreement and are subject to the lien of the Trust Indenture) and investment earnings on amounts on deposit in or credited to the Pledged Accounts (the "**Collections**"), (ii) all rights to receive the Collections and the proceeds of such rights, (iii) the Pledged Accounts and money and investments on deposit in or credited to the Pledged Accounts, (iv) except as described below and subject to the terms and provisions of the Purchase and Sale Agreement, all rights and remedies with respect to any breach by the State of any of its covenants, obligations, representations, and warranties under the Purchase and Sale Agreement or under the Act, (v) all interests in the Pledged Tobacco Receipts of the Authority under the Purchase and Sale Agreement, to which the State has consented to an assignment pursuant to the Purchase and Sale Agreement, subject to the terms and limitations thereof, and (vi) 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 Trust Indenture (the "**Collateral**"). Except as specifically provided in the Trust Indenture, the assignment and pledge of Collateral does not include: (i) 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 Bondholders, or (ii) any other right or power reserved to the Authority pursuant to the Act or other law; nor does the pledge preclude the Authority's enforcement of its rights under and pursuant to the Purchase and Sale Agreement for the benefit of the Bondholders. Unless otherwise specified in the Series Supplement applicable thereto, the proceeds of any Bonds, other than those deposited in the Senior Liquidity

Reserve Account, do not constitute Collections, are not pledged to the holders of such Bonds and are not subject to the lien of the Trust Indenture. See APPENDIX D – "SUMMARY OF TRUST INDENTURE" attached hereto.

The "**Pledged Accounts**" are the Collection Account and all accounts and subaccounts of the Bond Service Fund (which includes the Senior Debt Service Account, Lump Sum Payment Account, Senior Liquidity Reserve Account, Senior Turbo Redemption Account, First Subordinate Turbo Redemption Account, Second Subordinate Turbo Redemption Account, and Fully Subordinate Turbo Redemption Account, and all subaccounts contained therein).

Payment Priorities

Under the Trust Indenture, "**Payment Priorities**" means payment of Bonds in the following order of priority:

(1) first, the Senior Bonds are Fully Paid pursuant to the "**Senior Bonds Payment Priorities**," which means the payment of Senior Bonds in the following order of priority: (I) first, the Class 1 Senior Bonds are Fully Paid in chronological order of Serial Maturities, Fixed Sinking Fund Installments and Maturity Dates therefor; and (II) second, the Class 2 Senior Bonds are Fully Paid in chronological order by Maturity Date and within a maturity, by lot in accordance with the Trust Indenture;

(2) second, the First Subordinate Bonds are Fully Paid;

(3) third, the Second Subordinate Bonds are Fully Paid; and

(4) fourth, any Fully Subordinate Bonds are Fully Paid in accordance with the provisions of the applicable Series Supplement.

"**Class 1 Senior Bonds**" means the Series 2020A Senior Bonds and any Refunding Bonds and/or Additional Bonds identified as Class 1 Senior Bonds in a Series Supplement.

"**Class 2 Senior Bonds**" means the Series 2020B Senior Bonds and any Refunding Bonds and/or Additional Bonds identified as Class 2 Senior Bonds in a Series Supplement.

"**First Subordinate Bonds**" means any Bonds identified as First Subordinate Bonds in the applicable Series Supplement.

"**Fixed Sinking Fund Installment**" means each respective payment of principal to be made on Term Bonds that are Class 1 Senior Bonds scheduled to be made as set forth in a Series Supplement.

"**Fully Paid**" means that a Bond has been canceled by the Trustee or delivered to the Trustee for cancellation, including but not limited to under the circumstances described in the Trust Indenture; or (ii) such Bond shall have matured or been called for redemption and, on such Maturity Date or redemption date, money for the payment of the principal or Accreted Value of, redemption premium, if any, and interest on such Bond is held by the Trustee in trust for the benefit of the person entitled thereto; or (iii) such Bond is alleged to have been lost, stolen, destroyed, partially destroyed, or defaced and has been replaced as provided in the Trust Indenture; or (iv) such Bond has been defeased as provided in the Trust Indenture (whether as part of a defeasance of all or less than all of the Bonds).

"**Maturity Date**" means, with respect to any Bond, the final date on which all remaining Principal or Accreted Value is due and payable.

"**Second Subordinate Bonds**" means any Bonds identified as Second Subordinate Bonds in the applicable Series Supplement.

"**Senior Bonds**" means the Series 2020 Senior Bonds and any other Bonds designated as Senior Bonds in a Series Supplement.

"**Serial Maturity**" means the principal amount or Accreted Value of Serial Bonds due in any year as set forth in a Series Supplement.

Senior Liquidity Reserve Account

The "**Senior Liquidity Reserve Account**" has been established and is maintained by the Trustee, and within such Account, the "**Class 1 Senior Liquidity Reserve Subaccount**" secures only the Series 2020A Senior Bonds (and any other Class 1 Senior Bonds that may be issued) and the "**Class 2 Senior Liquidity Reserve Subaccount**" secures only the Series 2020B-1 Senior Bonds and the Series 2020B-2 Senior Bonds (and any other Class 2 Senior Bonds designated to be secured by such Subaccount that may be issued). The Class 2 Senior Liquidity Reserve Subaccount does not secure the Series 2020B-3 Senior Bonds. The Class 1 Senior Liquidity Reserve Subaccount will be funded on the Closing Date in the amount of the "**Class 1 Senior Liquidity Reserve Requirement**", which is an amount equal to (i) from the date of issuance of the Series 2020A Senior Bonds until June 1, 2029, $91,657,486.26 for so long as any Series 2020A Senior Bonds are Outstanding, (ii) on and after June 1, 2029, $75,575,000.00 for so long as any Series 2020A Senior Bonds are Outstanding and (iii) $0 when no Class 1 Senior Bonds are Outstanding, which amount may (but is not required to) be amended upon the issuance of Refunding Bonds and/or Additional Bonds that constitute Class 1 Senior Bonds in accordance with the applicable Series Supplement. The Class 2 Senior Liquidity Reserve Subaccount will be funded on the Closing Date in the amount of the "**Class 2 Senior Liquidity Reserve Requirement**", which is an amount equal to $170,850,000.00 for so long as any Series 2020B-1 Senior Bonds or Series 2020B-2 Senior Bonds are Outstanding and an amount equal to $0 when no Series 2020B-1 Senior Bonds or Series 2020B-2 Senior Bonds are Outstanding, which amount may (but is not required to) be amended upon the issuance of Refunding Bonds and/or Additional Bonds that constitute Class 2 Senior Bonds in accordance with the applicable Series Supplement. "**Senior Liquidity Reserve Requirement**" means an amount equal to the sum of the Class 1 Senior Liquidity Reserve Requirement and the Class 2 Senior Liquidity Reserve Requirement.

Amounts in the applicable subaccount of the Senior Liquidity Reserve Account will be available to pay principal (including Fixed Sinking Fund Installments) and interest on the Series 2020A Senior Bonds, the Series 2020B-1 Senior Bonds and the Series 2020B-2 Senior Bonds, as applicable, but will not be available for Turbo Redemptions. The Senior Liquidity Reserve Account does not secure the Series 2020B-3 Senior Bonds. Unless an Event of Default has occurred, Collections (to the extent available) will be used to replenish the applicable subaccount in the Senior Liquidity Reserve Account to the Class 1 Senior Liquidity Reserve Requirement or Class 2 Senior Liquidity Reserve Requirement, as applicable. On any Distribution Date on which the amount on deposit in the applicable subaccount of the Senior Liquidity Reserve Account equals or exceeds the principal or Accreted Value of and interest on all Outstanding Bonds secured by such subaccount, amounts on deposit in the applicable subaccount will be applied as described in "—Flow of Funds—*Transfers to Accounts*" below.

Notwithstanding anything in the Trust Indenture to the contrary, moneys in the applicable subaccount in the Senior Liquidity Reserve Account shall (i) prior to a Payment Default, be available at the times, in the amounts, and in the manner as described in "—Flow of Funds" below, to pay principal of and interest on Class 1 Senior Bonds or Class 2 Senior Bonds, as applicable, which are Current Interest Bonds and (ii) after a Payment Default, be available at the times, in the amounts and in the manner described in "—Flow of Funds" below, to pay and prepay the Bond Obligation and interest on all Class 1 Senior Bonds or Class 2 Senior Bonds, as applicable, including Capital Appreciation Bonds.

Defeasance

Total Defeasance. When, among other conditions set forth in the Trust Indenture (including required notices) there is held by or for the account of the Trustee Defeasance Collateral in such principal amounts, bearing interest at such fixed rates and with such maturities, including any applicable redemption premiums, as will provide sufficient funds to pay, or to redeem in accordance with the Trust Indenture, all obligations to Holders in whole (to be verified by a nationally recognized firm of independent verification agents), then such Holders shall cease to be entitled to any benefit or security under the Trust Indenture except the right to receive payment of the funds held in such defeasance escrow and other rights which by their nature cannot be satisfied prior to or simultaneously with termination of the lien of the Trust Indenture, the Trust Indenture and the lien and rights created by the Trust Indenture (except in such funds and investments) shall terminate and become null and void, and the Authority and the Trustee shall execute and deliver such instruments as may be necessary to discharge the Trustee's lien and rights (except in such funds and

investments) created by the Trust Indenture. Upon such defeasance, the funds and investments required to pay or redeem the Bonds shall be irrevocably set aside for that purpose, subject, however, to the terms of the Trust Indenture, and money held for defeasance shall be invested only as provided in the Trust Indenture and applied by the Trustee and other Paying Agents, if any, to the retirement of the Bonds. Any funds or other property held by the Trustee and not required for payment or redemption of the Bonds shall be distributed in accordance with the order of the Authority.

Partial Defeasance. The Authority may create a defeasance escrow for the retirement and defeasance of any Bonds (or portions of Bonds) (the "**Bonds to be Defeased**") by so directing the Trustee in an Officer's Certificate. When, among other conditions set forth in the Trust Indenture (including required notices) there is held by or for the account of the Trustee Defeasance Collateral in such principal amounts, bearing interest at such fixed rates and with such maturities, including any applicable redemption premiums, as will provide sufficient funds to pay, or to redeem in accordance with the Trust Indenture, the Bonds to be Defeased (to be verified by a nationally recognized firm of independent verification agents), then the Holders of such Bonds to be Defeased shall cease to be entitled to any benefit or security under the Trust Indenture to the extent of such defeasance except the right to receive payment of the funds held in such defeasance escrow and other rights which by their nature cannot be satisfied prior to or simultaneously with the termination of the lien and rights created by the Trust Indenture (except in such funds and investments) shall terminate with respect to such Bonds to be Defeased. Upon such defeasance, the funds and investments required to pay or redeem the Bonds to be Defeased shall be irrevocably set aside for that purpose, subject, however, to the terms of the Trust Indenture, and money held for defeasance shall be invested only as provided in the Trust Indenture and applied by the Trustee and other Paying Agents, if any, to the retirement of such Bonds, and such Bonds or portions of Bonds shall no longer be Outstanding under the Trust Indenture.

Defeasance of Turbo Term Bonds. For each Defeased Turbo Term Bond of the same Maturity Date and Series, the Authority must determine a "**Defeasance Redemption Schedule**" as described below. In establishing the defeasance escrow, the Defeased Turbo Term Bonds may not be redeemed more slowly than the Defeasance Redemption Schedule.

For a given Turbo Term Bond Maturity of a given Series, the Trustee shall determine the pro rata portion of each Projected Turbo Redemption (shown, with respect to each Series of Bonds, in an exhibit to the related Series Supplement) that is allocable to the Defeased Turbo Term Bonds and notify the Authority of such determination. The pro rata portion of each Projected Turbo Redemption shall be calculated as of the date of the defeasance by: (a) deducting the Turbo Redemptions which have already occurred from the earliest Projected Turbo Redemptions to arrive at a schedule of "Projected Turbo Redemptions Adjusted for Prior Payments"; (b) calculating a ratio of the Bond Obligation to be defeased of each Turbo Term Bond Maturity divided by the then Outstanding Bond Obligation of the Turbo Term Bond Maturity; and (c) applying that ratio to the Projected Turbo Redemptions Adjusted for Prior Payments, resulting in a schedule for each Turbo Term Bond Maturity defined as the "Defeasance Redemption Schedule," and each such payment referred to as a "Defeasance Redemption."

For each Defeased Turbo Term Bond of the same Maturity Date and Series upon Written Notice from the Authority, and written direction to invest in Defeasance Collateral, the Trustee shall establish a defeasance escrow which: (a) redeems on the earliest possible date the Defeasance Redemptions which were originally projected to occur prior to the date of the defeasance, if any; and (b) thereafter, redeems the Defeasance Redemptions according to their Defeasance Redemption Schedule.

In order to establish the Projected Turbo Redemption Schedule in effect for each Turbo Term Bond Maturity of a given Series after each partial defeasance, the Trustee shall determine the schedule of Projected Turbo Redemptions Adjusted for Prior Payments then applicable, notify the Authority of such determination and permanently subtract the Defeasance Redemption Schedule from such schedule of Projected Turbo Redemptions Adjusted for Prior Payments.

Such provisions relating to the defeasance of Turbo Term Bonds shall not be construed to limit the optional redemption of Bonds of a Series by the Authority pursuant to the applicable Series Supplement.

Limited Obligations

The Bonds are special revenue obligations of the Authority and are payable solely from the Pledged Tobacco Receipts and the other Collateral pledged under the Trust Indenture. The Authority has no assets available for payment of the Bonds other than the Pledged Tobacco Receipts and the other Collateral. Pursuant to the Act, (i) the Bonds are not general obligations of the State and the full faith and credit, revenue, and taxing power of the State are not pledged to the payment of debt service on the Bonds or to any guarantee of the payment of that debt service, (ii) the Holders of Bonds shall have no right to have any moneys obligated or pledged for the payment of debt service except the Collateral, and (iii) the rights of the Holders of Bonds to payment of debt service are limited to all or that portion of the Pledged Tobacco Receipts, and the Pledged Accounts, pledged to the payment of debt service pursuant to the Trust Indenture in accordance with the Act. The Authority has no taxing power.

The Bonds are not secured by the proceeds thereof, with the exception of the proceeds deposited in the Senior Liquidity Reserve Account, with the Class 1 Senior Liquidity Reserve Subaccount securing only the Class 1 Senior Bonds (including the Series 2020A Senior Bonds) and the Class 2 Senior Liquidity Reserve Subaccount securing only the Class 2 Senior Bonds designated to be secured by such Subaccount (including the Series 2020B-1 Senior Bonds and the Series 2020B-2 Senior Bonds). The Senior Liquidity Reserve Account does <u>not</u> secure the Series 2020B-3 Senior Bonds.

No Indebtedness or Funds of the State

The Trust Indenture does not create indebtedness of the State for any purpose, including constitutional or statutory limitations. The Authority's revenues are not funds of the State.

Flow of Funds

Pursuant to the Trust Indenture, all Pledged Tobacco Receipts received by the Trustee shall be promptly deposited by the Trustee into the Collection Account. All Collections that have been identified by an Officer's Certificate as consisting of "**Lump Sum Payments**" (a payment from a PM that results in, or is due to, a release of that PM from all or a portion of its future payment obligations under the MSA) received by the Trustee shall be promptly (and in any event, no later than the Business Day immediately preceding the next Distribution Date) transferred to the Lump Sum Payment Account and applied as described in "*—Prepayment from Lump Sum Payments*" below in accordance with the instructions received by the Trustee pursuant to an Officer's Certificate. Not later than on each Distribution Date, the Trustee shall deposit in the Collection Account and apply as described in "*—Transfers to Accounts*" below, all Collections consisting of investment earnings on amounts on deposit with the Trustee in the Pledged Accounts (excluding amounts in the Lump Sum Payment Account), except that unless otherwise specified in a Series Supplement relating to a Series of Bonds, all amounts in the applicable subaccount in the Senior Liquidity Reserve Account in excess of the Class 1 Senior Liquidity Reserve Requirement or the Class 2 Senior Liquidity Reserve Requirement, as applicable, determined to exist pursuant to the valuation procedure set forth in the Trust Indenture shall be transferred to the Senior Debt Service Account (except as otherwise provided in the Trust Indenture).

Transfers to Accounts

As soon as is practicable, but in any event no later than the earlier of (x) the fifth Business Day following each Deposit Date, or (y) two Business Days prior to each Distribution Date, the Trustee shall withdraw the funds on deposit in the Collection Account and transfer such amounts as follows in the following order of priority:

(i) to the Operating Account, an amount sufficient to cause the amount therein to equal the amount specified by the Officer's Certificate most recently delivered or deemed delivered pursuant to the Trust Indenture in order to pay, for the twelve-month period applicable to such Officer's Certificate, (x) the Operating Expenses to the extent that the amount thereof does not exceed clause (i) of the definition of Operating Cap (provided, that any such Operating Expenses consisting of Enforcement Expenses must be identified in such Officer's Certificate as to be paid in accordance with this clause) and (y) the Tax Obligations; "**Operating Cap**" means (i) $250,000 in the Fiscal Year ending June 30, 2020, inflated in each following Fiscal Year by the greater of 3% or 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, plus (ii) in each Fiscal Year, Tax Obligations, if any, specified in an Officer's Certificate;

(ii) to the Senior Debt Service Account, an amount sufficient to cause the amount therein (taking into account any amounts already on deposit in the Senior Debt Service Account) to equal the sum of (x) interest at the stated rate on Outstanding Current Interest Bonds which are Class 1 Senior Bonds that will come due (i) in the next succeeding Bond Year, if the Deposit Date is on or after December 1 and on or before May 31 of any Bond Year, or (ii) in the then current Bond Year, if the Deposit Date is on or after June 1 and on or before November 30 of any Bond Year, plus (y) any such unpaid interest on the Outstanding Current Interest Bonds which are Class 1 Senior Bonds from prior Distribution Dates (including interest at the stated rate on such unpaid interest, to the extent legally permissible); and the amounts to be deposited pursuant to this clause shall be calculated assuming that the Bond Obligation on the Outstanding Current Interest Bonds which are Class 1 Senior Bonds will have been paid as described in clauses (i) and (ii) under "*—Distribution Date Transfers*" below;

(iii) to the Senior Debt Service Account, an amount sufficient to cause the amount therein to equal the amount specified in clause (ii) above plus the sum of (a) if the Deposit Date is on or after December 1 and on or before May 31 of any Bond Year, the Serial Bond maturities, Fixed Sinking Fund Installment or Term Bond maturities due for Class 1 Senior Bonds in or scheduled for the next succeeding Bond Year, plus (b) any such Serial Bond maturities, Fixed Sinking Fund Installment or Term Bond maturities unpaid from prior Distribution Dates, but the amount of each Term Bond maturity shall first be adjusted as described in "THE SERIES 2020 SENIOR BONDS—Application of Redemptions to Fixed Sinking Fund Installments and Turbo Term Bond Maturities";

(iv) to the Class 1 Senior Liquidity Reserve Subaccount an amount sufficient to cause the amount on deposit therein to equal the Class 1 Senior Liquidity Reserve Requirement; provided that on any Distribution Date on which the amount in the Class 1 Senior Liquidity Reserve Subaccount (less any amount necessary to be paid in connection with the liquidation of the investment of amounts in the Class 1 Senior Liquidity Reserve Subaccount) equals or exceeds the Bond Obligation and interest on all Outstanding Class 1 Senior Bonds, the amount on deposit in the Class 1 Senior Liquidity Reserve Subaccount (less any amounts necessary to be paid in connection with liquidating investments in the Class 1 Senior Liquidity Reserve Subaccount) may at the option of the Authority first be applied to the optional clean-up call for the Class 1 Senior Bonds and, second, will be transferred to the Collection Account;

(v) to the Senior Debt Service Account, an amount sufficient to cause the amount therein to equal the sum of (x) interest on the Outstanding Class 2 Senior Bonds that will come due (i) in the next succeeding Bond Year, if the Deposit Date is on or after December 1 and on or before May 31 of any Bond Year, or (ii) in the then-current Bond Year, if the Deposit Date is on or after June 1 and on or before November 30 of any Bond Year, plus (y) any such unpaid interest on the Class 2 Senior Bonds from prior Distribution Dates (including interest at the stated rate on such unpaid interest, to the extent legally permissible); provided that the amount to be deposited pursuant to this clause shall be calculated assuming that principal on the Class 2 Senior Bonds will have been paid as described in clauses (iv), (v) and (vi) under "*—Distribution Date Transfers*" below;

(vi) to the Senior Debt Service Account, an amount sufficient to cause the amount therein to equal the amount specified in clause (v) above plus the sum of (a) if the Deposit Date is on or after December 1 and on or before May 31 of any Bond Year, the Serial Maturity or Term Bond maturity (including Turbo Term Bond Maturities) due for Class 2 Senior Bonds in or scheduled for the next succeeding Bond Year, plus (b) any such Serial Maturities or Term Bond maturities (including Turbo Term Bond Maturities) unpaid from prior Distribution Dates, provided that the amount of Turbo Term Bond Maturity shall first be adjusted as described in "THE SERIES 2020 SENIOR BONDS—Application of Redemptions to Fixed Sinking Fund Installments and Turbo Term Bond Maturities";

(vii) to the Class 2 Senior Liquidity Reserve Subaccount, an amount sufficient to cause the amount on deposit therein to equal the Class 2 Senior Liquidity Reserve Requirement, provided that on any Distribution Date on which the amount on deposit in the Class 2 Senior Liquidity Reserve Subaccount (less any amount necessary to be paid in connection with the liquidation of the investment of amounts in the Class 2 Senior Liquidity Reserve Subaccount) equals or exceeds the principal or Accreted Value of and interest on all Outstanding Class 2 Senior Bonds secured by the Class 2 Senior Liquidity Reserve Subaccount, the amount on deposit in the Class 2 Senior Liquidity

Reserve Subaccount first shall be applied to the mandatory clean-up call for the Class 2 Senior Bonds secured by the Class 2 Senior Liquidity Reserve Subaccount, and second shall be transferred to the Collection Account;

(viii) to the Operating Account, the amount, if any, necessary to make the amount therein equal to the amount specified by the Officer's Certificate most recently delivered or deemed delivered pursuant to the Trust Indenture in order to pay, for the twelve-month period applicable to such Officer's Certificate, the Operating Expenses (other than Enforcement Expenses), if any, in excess of the Operating Cap;

(ix) to the Enforcement Expense Reserve Account for payment or reimbursement of Enforcement Expenses, the amount as specified in an Officer's Certificate (provided, that any such Enforcement Expenses must be identified in such Officer's Certificate as to be paid in accordance with this clause), provided that such amount and all prior such transfers for Enforcement Expenses for the current Fiscal Year shall not exceed the Enforcement Expense Transfer Cap;

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

(xi) to the Senior Turbo Redemption Account, all amounts remaining in the Collection Account until no Class 2 Senior Bonds are Outstanding;

(xii) to the First Subordinate Turbo Redemption Account, all amounts remaining in the Collection Account until no First Subordinate Bonds are Outstanding;

(xiii) to the Second Subordinate Turbo Redemption Account, all amounts remaining in the Collection Account, until no Second Subordinate Bonds are Outstanding; and

(xiv) to the Fully Subordinate Turbo Redemption Account, all amounts remaining in the Collection Account until no Fully Subordinate Bonds are Outstanding.

"**Bond Obligation**" means, as of any given date, (i) with respect to any Outstanding Current Interest Bond, its principal amount, (ii) with respect to any Outstanding Capital Appreciation Bond prior to its Maturity Date, the Accreted Value thereof as of such date, and (iii) with respect to any Outstanding Capital Appreciation Bond on and after its Maturity Date, its Accreted Value on its Maturity Date.

"**Enforcement Expenses**" means, as certified to the Trustee by an Officer's Certificate, any amount designated in such Officer's Certificate as being requisitioned for payment or reimbursement to the Enforcement Expense Reserve Account in connection with the costs incurred or to be incurred (including reserves for the same) by the office of the Attorney General of the State with respect to enforcement of the MSA, the Qualifying Statute, the Consent Decree and related legislation.

"**Enforcement Expense Transfer Cap**" means the aggregate limitation, applicable to each Fiscal Year, on the transfer of amounts from the Collection Account pursuant to clause (ix) above for payment or reimbursement of Enforcement Expenses, equal to $2,000,000 for each Fiscal Year less the amount disbursed in such Fiscal Year for such purpose from the Operating Account pursuant to clause (i) above. At the discretion of the Authority, the maximum amount determined in the preceding sentence may be decreased by any other amounts provided from any other sources for payment of Enforcement Expenses, and such adjustment shall be reflected in the Officer's Certificate provided to the Trustee.

"**Junior Payments**" means Junior Payments so identified in or by reference to the Trust Indenture or any Supplemental Indenture.

Distribution Date Transfers

On each Distribution Date the Trustee shall apply amounts in the various Accounts in the following order of priority:

(i) from the Senior Debt Service Account and the Class 1 Senior Liquidity Reserve Subaccount, in that order, to pay interest on Outstanding Class 1 Senior Bonds due on such Distribution Date or unpaid from prior Distribution Dates;

(ii) from the Senior Debt Service Account and the Class 1 Senior Liquidity Reserve Subaccount, in that order, to pay principal of Outstanding Class 1 Senior Bonds due on such Distribution Date or unpaid from prior Distribution Dates in chronological order of the date on which such principal is due, including by reason of Fixed Sinking Fund Installment, and Pro Rata within such a principal due date;

(iii) if a Class 2 Payment Default has occurred, first, from the Senior Debt Service Account, to pay interest, Pro Rata, on Outstanding Class 2 Senior Bonds due on such Distribution Date or unpaid from prior Distribution Dates, and, second, from the Senior Debt Service Account, to pay the Bond Obligation on Outstanding Class 2 Senior Bonds, Pro Rata. For purposes of the clause "first" in this paragraph, from and after its Maturity Date, a Class 2 Senior Bond that is a Capital Appreciation Bond (including the Series 2020B-3 Senior Bonds) will accrue interest payable at a rate per annum equal to the Default Rate therefor set forth in the applicable Series Supplement (which for the Series 2020B-3 Senior Bonds is their Accretion Rate);

(iv) from the Senior Debt Service Account and the Class 2 Senior Liquidity Reserve Subaccount, in that order, to pay interest on Outstanding Class 2 Senior Bonds due on such Distribution Date or unpaid from prior Distribution Dates;

(v) from the Senior Debt Service Account and the Class 2 Senior Liquidity Reserve Subaccount, in that order, to pay principal of Outstanding Class 2 Senior Bonds due on such Distribution Date or unpaid from prior Distribution Dates in chronological order of the date on which such principal is due, and Pro Rata within such a principal due date;

(vi) from the Senior Turbo Redemption Account, to redeem Senior Bonds which are Turbo Term Bonds on such Distribution Date (or a special redemption date established pursuant to the Trust Indenture) in accordance with clause (a) of the Payment Priorities;

(vii) from the Lump Sum Payment Account, but only as directed in an Officer's Certificate delivered by the Authority and accompanied by Rating Confirmation, to redeem Turbo Term Bonds on such Distribution Date or a special redemption date established pursuant to the Trust Indenture, in accordance with the Trust Indenture, provided that any redemptions shall redeem Bonds in accordance with the Payment Priorities;

(viii) from the First Subordinate Turbo Redemption Account, to redeem First Subordinate Bonds on such Distribution Date (or a special redemption date established pursuant to the Trust Indenture) in accordance with the Trust Indenture;

(ix) from the Second Subordinate Turbo Redemption Account, to redeem Second Subordinate Bonds on such Distribution Date (or a special redemption date established pursuant to the Trust Indenture) in accordance with the Trust Indenture; and

(x) from the Fully Subordinate Turbo Redemption Account, to redeem Fully Subordinate Bonds as provided in the applicable Series Supplement.

Notwithstanding anything to the contrary in the Trust Indenture, the value of any Class 2 Senior Bonds that are Capital Appreciation Bonds (including the Series 2020B-3 Senior Bonds) shall accrue interest payable at the Default Rate (including interest on any unpaid interest), to the extent legally permissible, after the Maturity Date for such Bonds if not Fully Paid on the Maturity Date.

"**Default Rate**" means that rate of interest that accrues on a Capital Appreciation Bond from and after its Maturity Date as set forth in the Series Supplement authorizing the issuance of such Bonds. The Default Rate with respect to the Series 2020B-3 Senior Bonds is 5.625%.

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

Prepayment from Lump Sum Payments

Upon the receipt of a sum that has been identified by an Officer's Certificate as a Lump Sum Payment, the Trustee shall, after making provision for the amounts required to be deposited pursuant to clause (i) under "—*Transfers to Accounts*" above, use all such amounts on deposit in the Lump Sum Payments Account to make the following payments on the next Distribution Date following such receipt, in the following order of priority:

(i) to pay any past due interest on the Class 1 Senior Bonds (including interest at the stated rate on any unpaid interest, to the extent legally permissible), Pro Rata;

(ii) to pay the accrued and unpaid interest on the Class 1 Senior Bonds, Pro Rata;

(iii) to pay principal on all Class 1 Senior Bonds then Outstanding in chronological order of the date on which such principal is due and Pro Rata within such a principal due date;

(iv) to pay any past due interest on the Class 2 Senior Bonds (including interest at the stated rate on any unpaid interest, to the extent legally permissible), Pro Rata;

(v) to pay the accrued and unpaid interest on the Class 2 Senior Bonds, Pro Rata;

(vi) to pay principal or Accreted Value on all Class 2 Senior Bonds then Outstanding in chronological order of the date on which such principal is due and Pro Rata within such a principal due date;

(vii) to pay principal and interest or Accreted Value on all First Subordinate Bonds then Outstanding, Pro Rata;

(viii) to pay principal and interest or Accreted Value on all Second Subordinate Bonds then Outstanding, Pro Rata; and

(ix) to pay Fully Subordinate Bonds in accordance with the provisions of the applicable Series Supplement.

Prepayment from Total Lump Sum Payments

Upon the receipt of a sum that has been identified by an Officer's Certificate as a "**Total Lump Sum Payment**" (a final payment under the MSA from all of the PMs that results in, or is due to, a release of all PMs from all of their future payment obligations under the MSA), the Trustee shall, after making provision for the amounts required to be deposited pursuant to clause (i) under "—*Transfers to Accounts*" above, use all such remaining amounts on deposit in the Lump Sum Payments Account to make the following payments in the following order of priority:

(i) to pay any past due interest on the Class 1 Senior Bonds (including interest at the stated rate on any unpaid interest, to the extent legally permissible), Pro Rata;

(ii) to pay the accrued and unpaid interest on the Class 1 Senior Bonds, Pro Rata;

(iii) to pay principal on all Class 1 Senior Bonds then Outstanding in chronological order of the date on which such principal is due and Pro Rata within such a principal due date, Pro Rata;

(iv) to pay any past due interest on the Class 2 Senior Bonds (including interest at the stated rate on any unpaid interest, to the extent legally permissible), Pro Rata;

(v) to pay the accrued and unpaid interest on the Class 2 Senior Bonds, Pro Rata;

(vi) to pay principal or Accreted Value on all Class 2 Senior Bonds then Outstanding, Pro Rata, irrespective of any principal due date;

(vii) to pay principal and interest or Accreted Value on all First Subordinate Bonds then Outstanding, Pro Rata;

(viii) to pay principal and interest or Accreted Value on all Second Subordinate Bonds then Outstanding, Pro Rata; and

(ix) to pay Fully Subordinate Bonds in accordance with the provisions of the applicable Series Supplement.

Other Applications

Funds in the Operating Account shall be applied by the Authority or by the Trustee at the request of the Authority at any time, in accordance with directions in an Officer's Certificate pursuant to the Trust Indenture, to pay Operating Expenses and Tax Obligations.

After making all deposits and payments set forth above in "—Flow of Funds", and provided that there are no Outstanding Bonds or incurred but unpaid Operating Expenses, the Trustee shall deliver any amounts remaining in any Pledged Account to the registered owner of the Residual Certificate upon presentation of the Residual Certificate to the Trustee.

Events of Default; Remedies

Events of Default Under the Trust Indenture

"**Event of Default**" in the Trust Indenture means any one of the following:

(a) Principal of, premium or interest on any Class 1 Senior Bond has not been paid, when due, including when due by Fixed Sinking Fund Installments;

(b) failure to pay Turbo Redemptions with respect to Class 1 Senior Bonds when due in accordance with the Trust Indenture, but only if, and to the extent moneys are available therefor;

(c) the Authority fails to observe or perform any other provision of the Trust Indenture related to the Senior Bonds, 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% of the Aggregate Bond Obligation of the Senior Bonds Outstanding; except as specified in the Trust Indenture, failure to make any Turbo Redemption because of insufficiency of Surplus Collections pursuant to the Trust Indenture shall not constitute a Default or an Event of Default. In the case of a default specified in this clause, if the default cannot be corrected within the said 60-day period, 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;

(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 (including without limitation the appointment of a receiver or trustee or the making of a general or specific assignment for the benefit of creditors) are instituted by or against the Authority and, if instituted against the Authority, are not dismissed within 60 days after such institution;

(e) without limiting clause (d) above, a material breach by the Authority of its covenants not to file a voluntary bankruptcy petition (as described herein), which breach 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% of the Aggregate Bond Obligation of the Senior Bonds Outstanding. In the case of a default specified in this clause, if the default cannot be corrected within the said 60-day period, it shall not constitute an Event of Default if corrective action is instituted by the State or the Authority within said 60-day period and diligently pursued until the default is corrected;

(f) the State fails to pay to the Authority or the Trustee any Pledged Tobacco Receipts received by it promptly in accordance with the Purchase and Sale Agreement; or

(g) (i) the State fails to comply with its non-impairment covenants contained in the Trust Indenture (described below under "—Non-Impairment Covenants"), if, in any and each such case, the effect thereof would be materially adverse to the Authority's ability to receive the Pledged Tobacco Receipts (any such action by the State shall be conclusively deemed not material or adverse upon delivery to the Trustee of a Rating Confirmation); or (ii) except as may be authorized and provided for in the Trust Indenture, the Purchase and Sale Agreement is amended, superseded, suspended, revoked or otherwise altered by the Authority in a manner that would materially impair the rights of the Bondholders; and (iii) the action constituting an "event of default" under subclauses (i) or (ii) is not remedied within 60 days after Written Notice, specifying such default and requiring the same to be remedied, shall have been given to the Authority and the State by the Trustee or by the Holders of at least 25% of the Aggregate Bond Obligation of the Senior Bonds Outstanding. In the case of a default specified in this clause, if the default cannot be corrected within the said 60-day period, it shall not constitute an Event of Default if corrective action is instituted by the State or the Authority within said 60-day period and diligently pursued until the default is corrected.

Notwithstanding anything in the Trust Indenture to the contrary, neither a Class 2 Payment Default nor a Subordinate Payment Default is an Event of Default under the Trust Indenture, provided that in the event of a Class 2 Payment Default or a Subordinate Payment Default, so long as no Class 1 Senior Bonds are Outstanding, Owners of Class 2 Senior Bonds (in the event of a Class 2 Payment Default) and Holders of First Subordinate Bonds, Second Subordinate Bonds, and Fully Subordinate Bonds (in the event of a Subordinate Payment Default) shall have the respective specified remedies set forth in the Trust Indenture. In addition, notwithstanding anything in the Trust Indenture to the contrary, the failure to pay a Turbo Redemption shall not constitute an Event of Default or a Class 2 Payment Default under the Trust Indenture, if such failure is due to the insufficiency of funds available therefor.

"**Class 2 Payment Default**" means a failure to pay when due interest or principal or Accreted Value at maturity on any Class 2 Senior Bonds.

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

"**Payment Default**" means an Event of Default described in clause (a) or (b) of the definition of Event of Default.

"**Subordinate Payment Default**" means that Principal of, premium or interest on any First Subordinate Bond or Second Subordinate Bond has not been paid when due.

"**Surplus Collections**" means all Collections that are in excess of the requirements of the Trust Indenture for the funding of Operating Expenses (including Enforcement Expenses), interest, Principal, Tax Obligations, Junior Payments and maintenance of the Senior Liquidity Reserve Account.

Remedies Available to the Trustee

If an Event of Default occurs, the Trustee may, and upon written request of the Holders of at least 25% of the Aggregate Bond Obligation of Senior Bonds Outstanding shall, in its own name by action or proceeding in accordance with law: (A) enforce all rights of the Holders and require the Authority to carry out its agreements with Holders or, to the extent permitted by law and subject to the terms, provisions and limitations in the Purchase and Sale Agreement, require the State to perform its duties under the Purchase and Sale Agreement; (B) sue upon such Bonds;

(C) require the Authority to account as if it were the trustee on an express trust of such Holders; and (D) enjoin any acts or things which may be unlawful or in violation of the rights of such Holders. If an Event of Default occurs, the Trustee shall, in addition to the other remedies described herein, have and possess all 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 under the Trust Indenture.

Upon a Payment Default, or a failure to make any other payment required under the Trust Indenture within 7 days after the same becomes due and payable, the Trustee shall give Written Notice thereof to the Authority. The Trustee shall give notice under clauses (c) through (g) of the definition of Event of Default when instructed to do so by the written direction of the Holders of at least 25% of the Aggregate Bond Obligation of Senior Bonds Outstanding. Upon the occurrence of an Event of Default, the Trustee shall proceed under the Trust Indenture for the benefit of the Holders in accordance with the written direction of a Majority in Interest of the Outstanding Senior Bonds. The Trustee shall not be required to take any remedial action (other than the giving of notice) unless reasonable indemnity is furnished for any expense or liability to be incurred therein. Upon receipt of Written Notice, direction, and indemnity, and after making such investigation, if any, as it deems appropriate to verify the occurrence of any Event of Default of which it is notified as aforesaid, the Trustee shall promptly pursue the remedies provided by the Trust Indenture or any such remedies (not contrary to any such direction) as it deems appropriate for the protection of the Holders, and shall act for the protection of the Holders of the Senior Bonds with the same promptness and prudence as would be expected of a prudent person in the conduct of such person's own affairs.

Upon the occurrence of a Payment Default, the Bonds shall be paid as described in "SECURITY FOR THE BONDS—Flow of Funds—*Distribution Date Transfers*."

Only if the Class 1 Senior Bonds are no longer Outstanding, the Owners of the Class 2 Senior Bonds may enforce the provisions of the Trust Indenture for their benefit by appropriate legal proceedings in accordance with clause (a) of the definition of the Payment Priorities. Only if the Senior Bonds are no longer Outstanding, in the event of a Subordinate Payment Default the Holders of First Subordinate Bonds, Second Subordinate Bonds, and Fully Subordinate Bonds may enforce the provisions of the Trust Indenture for their benefit by appropriate legal proceedings in accordance with clauses (b), (c) and (d) of the definition of the Payment Priorities and shall be paid on a Pro Rata basis as described in "SECURITY FOR THE BONDS—Flow of Funds—*Distribution Date Transfers*."

Subordinate Remedies. *First Subordinate Bonds*. The Principal, premium, if any, and interest on First Subordinate Bonds will be subordinated in right of payment to Accreted Value, Principal, premium, if any, and interest payments on the Senior Bonds. If any Event of Default shall have occurred and be continuing, Holders of Senior Bonds will be entitled to receive payment thereof in full before the Holders of the First Subordinate Bonds are entitled to receive payment thereof; and any payment or distribution of assets otherwise payable to Holders of the First Subordinate Bonds will be paid to Holders of Senior Bonds until all Senior Bonds have been Fully Paid, and the Holders of the First Subordinate Bonds will be subrogated to the rights of such Holders of Senior Bonds to receive payments or distributions of assets with respect thereto.

Second Subordinate Bonds. The Principal, premium, if any, and interest on Second Subordinate Bonds will be subordinated in right of payment to Accreted Value, Principal, premium, if any, and interest payments on the Senior Bonds and First Subordinate Bonds. If any Subordinate Payment Default shall have occurred and be continuing, Holders of Senior Bonds and First Subordinate Bonds will be entitled to receive payment thereof in full before the Holders of the Second Subordinate Bonds are entitled to receive payment thereof; and any payment or distribution of assets otherwise payable to Holders of the Second Subordinate Bonds will be paid to Holders of Senior Bonds and First Subordinate Bonds until all Senior Bonds and First Subordinate Bonds have been Fully Paid, and the Holders of the Second Subordinate Bonds will be subrogated to the rights of such Holders of Senior Bonds and First Subordinate Bonds to receive payments or distributions of assets with respect thereto.

Fully Subordinate Bonds. The Principal, premium, if any, and interest on Fully Subordinate Bonds will be subordinated in right of payment to Accreted Value, Principal, premium, if any, and interest payments on the Senior Bonds, First Subordinate Bonds, and Second Subordinate Bonds. If any Subordinate Payment Default shall have occurred and be continuing, Holders of Senior Bonds, First Subordinate Bonds, and Second Subordinate Bonds will be entitled to receive payment thereof in full before the Holders of the Fully Subordinate Bonds are entitled to receive payment thereof; and any payment or distribution of assets otherwise payable to Holders of the Fully Subordinate Bonds will be paid to Holders of Senior Bonds, First Subordinate Bonds, and Second Subordinate Bonds until all

Senior Bonds, First Subordinate Bonds, and Second Subordinate Bonds have been Fully Paid, and the Holders of the Fully Subordinate Bonds will be subrogated to the rights of such Holders of Senior Bonds, First Subordinate Bonds, and Second Subordinate Bonds to receive payments or distributions of assets with respect thereto.

No Sale of Rights or Foreclosure. Neither the Trustee nor the Bondholders shall have the right to sell or foreclose on the Collateral.

Refunding Bonds, Additional Bonds and Fully Subordinate Bonds

"**Refunding Bonds**" (any Bond issued pursuant to the Trust Indenture to pay or provide for the payment of all or a portion of any Outstanding Bond) may be issued to refund all Bonds in whole (including the funding of defeasance escrows and deposits to Accounts in connection with such issuance).

Refunding Bonds may be issued to refund Bonds in part (including the funding of defeasance escrows and deposits to Accounts in connection with such issuance) and "**Additional Bonds**" (any Bond issued pursuant to the Trust Indenture that is not a Fully Subordinate Bond or a Refunding Bond) may be issued at the discretion of the Authority, but only if upon the issuance of such Refunding Bonds and/or Additional Bonds: (A) the amount on deposit in the applicable subaccounts in the Senior Liquidity Reserve Account immediately following the issuance of such Refunding Bonds and/or Additional Bonds will be at least equal to the Class 1 Senior Liquidity Reserve Requirement and the Class 2 Senior Liquidity Reserve Requirement, as applicable; (B) no Event of Default shall have occurred and be continuing after the date of issuance of such Bonds; (C) the expected weighted average life of each Turbo Term Bond that will remain Outstanding after the date of issuance of the Refunding Bonds and/or Additional Bonds as computed on the basis of new projections on the date of sale of the Refunding Bonds and/or Additional Bonds will not exceed (x) the remaining expected weighted average life of each such Turbo Term Bond as computed by the Authority on the basis of new projections assuming that no such Refunding Bonds and/or Additional Bonds are issued, plus (y) one year; and (D) a Rating Confirmation is received for any Bonds that will remain Outstanding after the date of issuance of the Refunding Bonds and/or Additional Bonds which are then rated by a Rating Agency.

One or more Series of Bonds (the "**Fully Subordinate Bonds**") may be issued for any lawful purpose if there is no payment permitted for such bonds until all previously issued Bonds are Fully Paid. Fully Subordinate Bonds may be issued without satisfying the requirements described above for Additional Bonds and Refunding Bonds.

Non-Impairment Covenants

In accordance with the Trust Indenture, the Authority shall 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 pledge and assignment (and the priority thereof) of the Trust Indenture; (ii) perfect, publish notice of or protect the validity of any pledge and assignment made or to be made by the Trust Indenture; (iii) preserve and defend title to the Collateral pledged under the Trust Indenture and the rights of the Trustee and the Bondholders in such Collateral against the claims of all persons and parties, including the challenge by any party to the validity or enforceability of the Trust Indenture or the Act; (iv) enforce the Purchase and Sale Agreement; (v) pay any and all taxes lawfully levied or assessed upon all or any part of the Collateral pledged under the Trust Indenture; or (vi) carry out more effectively the purposes of the Trust Indenture.

In accordance with the Trust Indenture, the Authority (i) shall diligently pursue any and all actions to enforce its rights under each instrument or agreement included in the Collateral pledged under the Trust Indenture and (ii) shall not take any action and will use its best efforts not to permit any action to be taken by others that would release the State from any of its covenants or obligations under the Purchase and Sale Agreement, or the Authority from any of its obligations under the Trust Indenture or the Purchase and Sale Agreement, or that would result in the amendment, hypothecation, subordination, termination or discharge of, or impair the validity or effectiveness of, the Trust Indenture or the Purchase and Sale Agreement, except, in each case, as expressly provided in the Act, the Trust Indenture or the Purchase and Sale Agreement.

In accordance with the Purchase and Sale Agreement, the State shall maintain statutory authority for, and cause to be collected and paid directly to the Authority or its assignee, the 2007 Sold Tobacco Receipts; (ii) enforce the rights of the Authority to receive the 2007 Sold Tobacco Receipts; (iii) not materially impair the rights of the

Authority to fulfill the terms of its agreements with the holders of outstanding Bonds under the Trust Indenture; (iv) not materially impair the rights and remedies of the holders of outstanding Bonds or materially impair the security for those outstanding Bonds; (v) (1) diligently enforce the Qualifying Statute, and (2) enforce the MSA and the Consent Decree and Final Judgment entered November 25, 1998 in the Court of Common Pleas of Franklin County, Ohio (as the same may be corrected, amended or modified, the "**Consent Decree**"), to effectuate the collection of the 2007 Sold Tobacco Receipts; and (vi) not amend the MSA, or amend or repeal the Qualifying Statute, in any manner that would materially impair the rights of the Bondholders, until the Bonds, together with the interest thereon, and all costs and expenses in connection with any action or proceeding by or on behalf of Bondholders, are fully paid and discharged pursuant to the terms of the Trust Indenture. As provided in the Act, (i) nothing in the Purchase and Sale Agreement, the Trust Indenture or the bond proceedings (as defined in the Act) shall preclude or limit, or be construed to preclude or limit, the State from taxing or regulating the sale of cigarettes or other tobacco products, or from defending or prosecuting cases or other actions relating to the sale or use of cigarettes or other tobacco products, and (ii) except as otherwise may be agreed in writing by the Attorney General, nothing in the Purchase and Sale Agreement, the Trust Indenture or the bond proceedings (as defined in the Act) shall modify or limit, or be construed to modify or limit, the responsibility, power, judgment, and discretion of the Attorney General to protect and discharge the duties, rights and obligations of the State under the MSA, the Consent Decree, or the Qualifying Statute.

Enforcement Expenses

The State has covenanted in the Purchase and Sale Agreement to enforce the MSA, the Qualifying Statute, the Consent Decree and related legislation. Pursuant to the Act, the Trust Indenture establishes a mechanism for the ongoing funding of Enforcement Expenses relating to the enforcement of the MSA, the Qualifying Statute, the Consent Decree and related legislation. The Authority's funding of Enforcement Expenses is subject to the annual Enforcement Expense Transfer Cap of $2,000,000. The Enforcement Expenses are payable from the Enforcement Expense Reserve Account, up to the Enforcement Expense Transfer Cap after funding the Senior Debt Service Account and replenishment of the Senior Liquidity Reserve Account but before Surplus Collections are deposited into the Senior Turbo Redemption Account, First Subordinate Turbo Redemption Account and Second Subordinate Turbo Redemption Account. See "—Flow of Funds" above. The Authority is not the only source of funding for enforcement activities.

THE SERIES 2020 SENIOR BONDS

The following summary describes certain terms of the Series 2020 Senior 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 Trust Indenture and the Series 2020 Senior Bonds. Terms used herein and not previously defined have the meanings given to them in APPENDIX D – "SUMMARY OF TRUST INDENTURE" attached hereto. Copies of the Trust Indenture and the Purchase and Sale Agreement may be obtained upon written request to the Trustee.

General

The Series 2020 Senior Bonds will be dated their date of delivery, will be issued in the initial principal amounts, and will accrue or accrete interest, as applicable, at the rates and mature on the dates set forth on the inside cover of this Offering Circular. The Series 2020 Senior Bonds are Senior Bonds under the Trust Indenture; the Series 2020A Senior Bonds are Class 1 Senior Bonds, and the Series 2020B Senior Bonds are Class 2 Senior Bonds. The Series 2020B Senior Bonds are Turbo Term Bonds. The Series 2020A Senior Bonds, the Series 2020B-1 Senior Bonds and the Series 2020B-2 Senior Bonds are Current Interest Bonds, and the Series 2020B-3 Senior Bonds are Capital Appreciation Bonds. The Series 2020A-1 Senior Bonds and the Series 2020B-1 Senior Bonds are Taxable Bonds, and the Series 2020A-2 Senior Bonds, the Series 2020B-2 Senior Bonds and the Series 2020B-3 Senior Bonds are Tax-Exempt Bonds. The Series 2020 Senior Bonds are payable in accordance with the Payment Priorities described under "SECURITY FOR THE BONDS — Payment Priorities."

The Series 2020 Senior Bonds will initially be represented by one certificate for each maturity and interest rate of each Series of the Series 2020 Senior Bonds, registered in the name of DTC, New York, New York, or its nominee. DTC will act as securities depository for the Series 2020 Senior Bonds. Beneficial Owners of the Series 2020 Senior Bonds will not receive physical delivery of the Series 2020 Senior Bonds. See APPENDIX F – "BOOK-

ENTRY ONLY SYSTEM" attached hereto. The Series 2020A Senior Bonds and the Series 2020B-1 Senior Bonds will be sold in denominations of $5,000 or any integral multiple thereof, the Series 2020B-2 Senior Bonds will be sold in denominations of $100,000 or any integral multiple of $5,000 in excess thereof, and the Series 2020B-3 Senior Bonds will be sold such that the Accreted Value thereof at the Maturity Date is in the denomination of $100,000 or any integral multiple of $5,000 in excess thereof (each, as applicable, an "**Authorized Denomination**").

"**Current Interest Bond**" means a Bond the interest on which is payable currently on each Distribution Date. "**Capital Appreciation Bond**" means a Bond the interest on which shall be compounded periodically, shall be payable only at maturity or redemption or prepayment prior to maturity, and shall be determined by subtracting from the Accreted Value thereof the original principal amount thereof.

Payments on the Series 2020 Senior Bonds

Interest

Interest will be calculated on the basis of a year of 360 days and twelve 30-day months. Interest on the Series 2020A Senior Bonds, the Series 2020B-1 Senior Bonds and the Series 2020B-2 Senior Bonds will accrue from their dated date and shall be payable currently on each Distribution Date, commencing June 1, 2020, through and including their respective Maturity Dates or earlier redemption dates of such Bonds. Interest on the Series 2020B-3 Senior Bonds will not be paid currently but will accrete from the dated date thereof and be compounded on each Distribution Date, commencing June 1, 2020, at the accretion rate thereof specified in APPENDIX H — "TABLE OF ACCRETED VALUES OF SERIES 2020B-3 SENIOR BONDS" ("**Accretion Rate**"), through and including the Maturity Date or earlier redemption date of such Bonds (to become part of Accreted Value). From and after their Maturity Date, the Series 2020B-3 Senior Bonds will, to the extent legally permissible, accrue interest payable on each Distribution Date (including interest on any unpaid interest) at a rate per annum equal to their Default Rate (which is their Accretion Rate).

For each Distribution Date, payments will be made to registered owners of the Series 2020 Senior Bonds (the "**Owners**") as of the last Business Day of the calendar month preceding a Distribution Date, or such other date as may be specified by the Trust Indenture or an Officer's Certificate (the "**Record 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 Trust Indenture, including giving consent or direction to the Trustee.

Principal or Accreted Value

The principal or Accreted Value of the Series 2020 Senior Bonds shall be paid by their respective Maturity Dates as set forth on the inside front cover of this Offering Circular. "**Accreted Value**" means, with respect to any Capital Appreciation Bond, an amount equal to the initial principal amount of such Bond, plus interest accrued thereon from its date, compounded on each Distribution Date, commencing on the first Distribution Date after its issuance (through and including the Maturity Date or earlier redemption date of such Bond) at the "accretion rate" for such Bond, as set forth in the related Series Supplement or in an exhibit thereto; provided, however, that the Authority shall calculate or cause to be calculated the Accreted Value on any date other than a Distribution Date set forth in the related Series Supplement or in an exhibit thereto as (i) the Accreted Value of such Bond on its Maturity Date times (ii) the result of dividing (a) the dollar price of such Bond calculated as of such date pursuant to standard industry convention using the accretion rate as the discount rate by (b) 100. In performing such calculation, the Authority shall be entitled to engage and rely upon a firm of accountants, consultants or financial advisors with appropriate knowledge and experience. The Trustee may conclusively rely upon such calculations. The term "accretion rate" means, with respect to any particular Bond, the interest rate which when accreted and compounded on each Distribution Date from its issuance date, causes the initial principal amount to equal the Accreted Value on the Maturity Date of such Bond. See APPENDIX H – "TABLE OF ACCRETED VALUES OF SERIES 2020B-3 SENIOR BONDS."

Redemption Price

In accordance with the Trust Indenture, when Series 2020 Senior Bonds are called for redemption (as described below), the accrued interest thereon shall be due on the date fixed for redemption. If notice of redemption

has been duly given as provided in the Trust Indenture and money for the payment of the redemption price of the Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice, Bonds so called for redemption shall become due and payable, and from and after the date so designated, interest on such Bonds shall cease to accrue or such Bond shall cease to accrete in value, as applicable, and the Holder of such Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

Mandatory Redemption of Series 2020A-2 Senior Term Bonds by Fixed Sinking Fund Installments

The Series 2020A-2 Senior Bonds of each interest rate maturing on June 1, 2048 are Term Bonds that are subject to mandatory redemption in part by Fixed Sinking Fund Installments on June 1 of the years and in the principal amounts as set forth in the table below.

$250,000,000 Series 2020A-2 Senior Bonds due June 1, 2048 and bearing interest at 3.00%

June 1	Fixed Sinking Fund Installment	June 1	Fixed Sinking Fund Installment
2040	$24,565,000	2045	$28,535,000
2041	25,310,000	2046	29,410,000
2042	26,080,000	2047	30,305,000
2043	26,875,000	2048†	31,225,000
2044	27,695,000		

$331,670,000 Series 2020A-2 Senior Bonds due June 1, 2048 and bearing interest at 4.00%

June 1	Fixed Sinking Fund Installment	June 1	Fixed Sinking Fund Installment
2040	$31,235,000	2045	$38,155,000
2041	32,510,000	2046	39,705,000
2042	33,840,000	2047	41,330,000
2043	35,220,000	2048†	43,020,000
2044	36,655,000		

† Stated Maturity

Turbo Redemption of Series 2020B Senior Bonds

Under the Trust Indenture, 100% of all Collections in excess of the requirements for, among other things, the periodic funding of Operating Expenses and Enforcement Expenses, interest payments due on Outstanding Bonds, Fixed Sinking Fund Installments, Serial Bond Maturities, Term Bond Maturities and replenishment of the Senior Liquidity Reserve Account are applied to the mandatory redemption of Turbo Term Bonds at the principal amount or Accreted Value thereof on each Distribution Date (or a special redemption date pursuant to the Trust Indenture) in accordance with the Payment Priorities ("**Turbo Redemptions**"). Accordingly, the Series 2020B Senior Bonds shall be redeemed in whole or in part prior to their Maturity Dates from amounts on deposit in the Senior Turbo Redemption Account on any Distribution Date (or on a special redemption date as set forth in the Trust Indenture), following notice of such redemption in accordance with the Trust Indenture, at the principal amount, together with accrued interest, or Accreted Value thereof, without premium, in accordance with the Senior Bonds Payment Priorities. See "SECURITY FOR THE BONDS — Flow of Funds." Within a Payment Priority, the amount of any Turbo Redemptions shall be credited against Turbo Term Bond Maturities for the Turbo Term Bonds in the order of priority and within a priority in the chronological order set forth in the Series Supplement. The Trustee may specify a special redemption date for purposes of redeeming Turbo Term Bonds if amounts are available therefor pursuant to the Trust Indenture and if the Trustee is instructed to do so by the Authority.

Turbo Redemptions may also be made in accordance with the Payment Priorities from amounts on deposit in the Lump Sum Payment Account with a Rating Confirmation with respect to any Senior Bonds which are then rated by a Rating Agency. Amounts in the Senior Liquidity Reserve Account are not available to make Turbo Redemptions.

Failure to make any Turbo Redemptions will not constitute an Event of Default or a Class 2 Payment Default under the Trust Indenture if such failure is due to the insufficiency of available Collateral to make such payment therefor.

For a schedule of projected Turbo Redemptions, see the table entitled "Projected Series 2020 Senior Bonds Debt Service Schedule Incorporating Turbo Redemptions of the Series 2020B Senior Bonds" and the column heading "Series 2020B Bonds — Total Projected Principal Payments" in "TABLES OF PROJECTED BOND DEBT SERVICE AND COVERAGE" herein ("**Projected Turbo Redemption**").

When Series 2020B Senior Bonds are to be defeased, they are to be defeased pursuant to the Defeasance Redemption Schedule described in "SECURITY FOR THE BONDS—Defeasance." The provisions of the Trust Indenture with respect to defeasance of Turbo Term Bonds shall not be construed to limit the optional redemption of Bonds pursuant to the applicable Series Supplement.

Mandatory Redemption of Defeased Series 2020B Senior Bonds

The Series 2020B Senior Bonds that are defeased in accordance with the Trust Indenture are subject to mandatory redemption, at a redemption price equal to 100% of the Bond Obligation being redeemed, on such date or dates in accordance with the Defeasance Redemption Schedule described in "SECURITY FOR THE BONDS — Defeasance."

Optional Redemption

Make-Whole Optional Redemption of Series 2020A-1 Senior Bonds

The Series 2020A-1 Senior Bonds are subject to redemption at the option of the Authority, on any date, in whole or in part, from any maturity selected by the Authority in its discretion and, within a maturity, on a Pro Rata basis and not by lot, at a redemption price equal to the greater of: (A) the principal amount of such Series 2020A-1 Senior Bonds to be redeemed, or (B) the sum of the present values of the remaining scheduled payments of principal and interest on such Series 2020A-1 Senior Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date such Series 2020A-1 Senior Bonds are to be redeemed, discounted to the date of redemption of such Series 2020A-1 Senior Bonds to be redeemed on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus the Applicable Spread (each as defined below), plus interest accrued to the redemption date. The "**Applicable Spread**" means (x) for the Series 2020A-1 Senior Bonds maturing June 1, 2020 through and including June 1, 2024, 5 basis points; and (y) for the Series 2020A-1 Senior Bonds maturing June 1, 2025 through and including June 1, 2027, 10 basis points.

The make-whole optional redemption price of any Series 2020A-1 Senior Bond to be redeemed will be calculated by an independent accounting firm, investment banking firm or financial advisor (the "**Calculation Agent**") retained by the Authority at the Authority's expense. The Trustee and the Authority may rely on the Calculation Agent's determination of the make-whole optional redemption price and will not be liable for such reliance. The Authority shall confirm and transmit the redemption price as so calculated on such dates and to such parties as shall be necessary to effectuate such redemption.

The "**Treasury Rate**" is, as of any make-whole optional redemption date for a Series 2020A-1 Senior Bond, the time-weighted interpolated average yield for a term equal to the Make-Whole Period (defined below) of the yields of the two U.S. Treasury nominal securities at "constant maturity" (as compiled and published in the Federal Reserve Statistical Release H.15 (519) that is publicly available not less than two (2) Business Days nor more than 30 calendar days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) maturing immediately preceding and succeeding the Make-Whole Period. The Treasury Rate will be determined by the Calculation Agent or an independent accounting firm, investment banking firm, or financial advisor retained and compensated by the Authority as an Operating Expense.

"**Make-Whole Period**" means the number of years, including any fractional portion thereof, calculated on the basis of a 360-day year consisting of twelve 30-day months, between the redemption date and the remaining weighted average life of each Series 2020A-1 Senior Bond to be redeemed.

Optional Redemption of Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds

The Series 2020A-2 Senior Bonds, the Series 2020B-2 Senior Bonds and the Series 2020B-3 Senior Bonds are subject to redemption at the option of the Authority, in whole or in part on any date on or after June 1, 2030, and if in part, from any Maturity Date selected by the Authority in its discretion, in either case at a redemption price equal to, in the case of the Series 2020A-2 Senior Bonds and the Series 2020B-2 Senior Bonds, 100% of the principal amount being redeemed, plus interest accrued to the redemption date, and in the case of the Series 2020B-3 Senior Bonds, 100% of the Accreted Value on the redemption date.

Catch-Up Optional Redemption of Series 2020B Senior Bonds

The Series 2020B Senior Bonds are subject to redemption at the option of the Authority in whole or in part at any time, but only in an amount that may not exceed the amount of the Projected Turbo Redemptions that were projected to be paid but, as of the date of such redemption, have not been paid with respect to such Turbo Term Bonds.

Deposit of Optional Redemption Price

With respect to any optional redemptions described under this heading "—Optional Redemption," the Authority shall deposit with the Trustee on or prior to the date fixed for redemption a sufficient sum to pay the Bond Obligation, redemption premium, if any, and accrued interest on, the Series 2020 Senior Bonds to be redeemed on the date fixed for redemption.

Notice of Redemption

When a Series 2020 Senior Bond is to be redeemed prior to its stated maturity date, the Trustee shall give notice to the Holder thereof and each Rating Agency as required by the Trust Indenture in the name of the Authority, which notice shall identify the Bond to be redeemed, state the date fixed for redemption, state any conditions for the redemption of such Bond, and state that such Bond will be redeemed at the Corporate Trust Office of the Trustee or a Paying Agent. The notice shall further state that on such date, if any conditions to such redemption shall have been satisfied, there shall become due and payable upon each Bond to be redeemed the redemption price thereof, together with interest accrued or accreted to the redemption date, and upon money therefor having been deposited with the Trustee or Paying Agent, from and after such date, interest thereon shall cease to accrue on Current Interest Bonds or accrete on Capital Appreciation Bonds, in each case that are the subject of such notice. The Trustee shall give at least 20 days notice by mail, or otherwise transmit the redemption notice in accordance with any appropriate provisions of the Trust 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 Holders holding Bonds to be redeemed. Failure by a particular Holder to receive notice, or any defect in the notice to such Holder, shall not affect the proceedings for the redemption of any Bond. Any notice of redemption given pursuant to the Trust Indenture may be rescinded by Written Notice to the Trustee by the Authority no later than 5 days prior to the date specified for redemption if any conditions to redemption stated in the redemption notice shall not have been satisfied. The Trustee shall 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. In making the determination as to how much money will be available in a Turbo Redemption Account on any Distribution Date for the purpose of giving notice of redemption as described above, the Trustee shall take into account investment earnings and amounts to be transferred from the respective subaccount of the Senior Liquidity Reserve Account which it reasonably expects to be available for application pursuant to the Trust Indenture.

Selection of Bonds for Redemption

If less than all of the Series 2020A-1 Senior Bonds or Series 2020B-1 Senior Bonds of any specific maturity are to be redeemed, the Holders of the Series 2020A-1 Senior Bonds or Series 2020B-1 Senior Bonds of that maturity shall be paid on a Pro Rata basis. Such Pro Rata basis shall be a pro-rata pass-through distribution of principal basis in accordance with DTC procedures, provided that the selection for redemption or prepayment of such Series 2020A-1 Senior Bonds or Series 2020B-1 Senior Bonds will be made in accordance with the operational arrangements of DTC then in effect. It is the Authority's intent that redemption or prepayment allocations made by DTC be made on a pro-rata pass-through distribution of principal basis as described above. However, none of the Authority, the Underwriters or the Trustee can provide any assurance that DTC, DTC's Participants or any other intermediary will allocate the redemption of Series 2020A-1 Senior Bonds or Series 2020B-1 Senior Bonds on such basis. If the DTC operational arrangements do not allow for the redemption of the Series 2020A-1 Senior Bonds or Series 2020B-1 Senior Bonds on a pro-rata pass-through distribution of principal basis as discussed above, then the Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds will be selected for redemption in accordance with DTC procedures, by lot.

If less than all of the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds or Series 2020B-3 Senior Bonds of a specific Series, interest rate (or "original issue yield" for Capital Appreciation Bonds) and Maturity Date are to be redeemed, the Holders of such Bonds of such Maturity Date to be redeemed shall be selected in accordance with DTC's standard procedures, or if such Bonds are not then held by DTC or another Securities Depository, on such basis as the Trustee shall deem fair and appropriate, including by lot, 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.

Application of Redemptions to Fixed Sinking Fund Installments and Turbo Term Bond Maturities

For all purposes of the Trust Indenture, including without limitation calculating the deposits required as described in "SECURITY FOR THE BONDS—Flow of Funds—*Transfers to Accounts*", calculating the payments required as described in "SECURITY FOR THE BONDS—Flow of Funds—*Distribution Date Transfers*", and determining whether an Event of Default has occurred pursuant to the Trust Indenture, all redemptions made under the Trust Indenture from Collections shall be paid and credited as follows:

(i) the amount of any Turbo Redemptions shall be paid, and credited against Turbo Term Bond Maturities, in the order of priority and within a priority in chronological order, as set forth in the applicable Series Supplement;

(ii) the amount of any Fixed Sinking Fund Installments made under the Trust Indenture shall be credited against Term Bond Maturities for the Term Bonds in the order of priority and within a priority in the chronological order set forth in the applicable Series Supplement; provided, however, that Fixed Sinking Fund Installments scheduled for the same date shall be credited Pro Rata regardless of the maturity date of the related Term Bond Maturity; and

(iii) the amount of any optional redemption of Term Bonds in part shall be credited against any Fixed Sinking Fund Installment as directed by the Authority.

Clean-Up Call Redemption

Optional Clean-Up Call of Class 1 Senior Bonds. The Class 1 Senior Bonds (including the Series 2020A Senior Bonds) and any Refunding Bonds and/or Additional Bonds secured on parity with the Class 1 Senior Bonds are subject to redemption at the option of the Authority in whole at a redemption price equal to 100% of the Bond Obligation of the Class 1 Senior Bonds being redeemed plus interest accrued to the redemption date at any time that the available amounts on deposit in the Pledged Accounts allocable to the Class 1 Senior Bonds exceed the aggregate principal amount of, and accrued interest on, all Outstanding Class 1 Senior Bonds.

Mandatory Clean-Up Call of Class 2 Senior Bonds Secured by the Class 2 Senior Liquidity Reserve Subaccount. The Class 2 Senior Bonds secured by the Class 2 Senior Liquidity Reserve Subaccount (including the Series 2020B-1 Senior Bonds and the Series 2020B-2 Senior Bonds) and any Refunding Bonds and/or Additional Bonds secured on parity with the Class 2 Senior Bonds and which are secured by the Class 2 Senior Liquidity Reserve Subaccount are subject to mandatory redemption in whole at a redemption price equal to 100% of the Bond Obligation of such Class 2 Senior Bonds being redeemed plus interest accrued to the redemption date at any time that the available amounts on deposit in the Pledged Accounts allocable to such Class 2 Senior Bonds exceed the aggregate principal amount of, and accrued interest on, all such Outstanding Class 2 Senior Bonds.

Prepayment from Lump Sum Payments and Total Lump Sum Payments

Upon the receipt of a sum that has been identified by an Officer's Certificate as a Lump Sum Payment or a Total Lump Sum Payment, the Trustee shall, after making provision for the amounts required to be deposited to the Operating Account in accordance with the Trust Indenture, use all such amounts on deposit in the Lump Sum Payments Account to make payments on the Bonds (including the Series 2020 Senior Bonds) as described herein under "SECURITY FOR THE BONDS — Flow of Funds — *Prepayment from Lump Sum Payments*" and "— *Prepayment from Total Lump Sum Payments*", as applicable.

Prohibition on Open Market Purchases

In accordance with the Trust Indenture, moneys in any Pledged Account shall not be used to make open market purchases of Bonds.

THE AUTHORITY

The Authority is a body, both corporate and politic, constituting a public body, agency and instrumentality of the State, separate and distinct from the State, performing essential functions of the State and created and governed by the Act. The Authority is governed by a three member board of directors consisting of the Governor, the Treasurer and the Director of the Office of Budget and Management of the State, or their designees.

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PLAN OF FINANCE

A portion of the proceeds of the Series 2020 Senior Bonds, together with other available funds, will be used to refund through redemption and defeasance all of the Series 2007 Bonds, as described below. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

Refunded Bonds

The Authority expects to use a portion of the proceeds from the sale of the Series 2020 Senior Bonds, together with other available funds, to refund, through defeasance and redemption, all of the Authority's Series 2007 Bonds, as described below.

Maturity Date (June 1)	Series Designation	Bond Classification	Principal Amount or Accreted Value at Maturity Outstanding	Principal Amount or Accreted Value at Maturity to be Redeemed	Interest Rate or Accretion Rate	Redemption Date	Type of Redemption
2024	2007A-2	Senior Current Interest Turbo Term Bonds	$167,505,000	$167,505,000	5.375%	March 12, 2020	Optional Redemption
2024	2007A-2	Senior Current Interest Turbo Term Bonds	795,140,000	795,140,000	5.125	March 12, 2020	Optional Redemption
2030	2007A-2	Senior Current Interest Turbo Term Bonds	687,600,000	687,600,000	5.875	March 12, 2020	Optional Redemption
2034	2007A-2	Senior Current Interest Turbo Term Bonds	505,200,000	505,200,000	5.750	March 12, 2020	Optional Redemption
2042	2007A-2	Senior Current Interest Turbo Term Bonds	250,000,000	250,000,000	6.000	March 12, 2020	Optional Redemption
2047	2007A-2	Senior Current Interest Turbo Term Bonds	750,000,000	750,000,000	6.500	March 12, 2020	Optional Redemption
2047	2007A-2	Senior Current Interest Turbo Term Bonds	1,383,715,000	1,383,715,000	5.875	March 12, 2020	Optional Redemption
2037	2007A-3	Senior Current Interest Turbo Term Bonds[(1)]	375,800,000	375,800,000	6.250	June 1, 2022	Optional Redemption
2047	2007B	First Subordinate Capital Appreciation Turbo Term Bonds	3,207,000,000	3,207,000,000	7.250	March 12, 2020	Optional Redemption
2052	2007C	Second Subordinate Capital Appreciation Turbo Term Bonds	3,417,300,000	3,417,300,000	7.500	March 12, 2020	Optional Redemption

(1) Converted on December 1, 2012 from a Capital Appreciation Turbo Term Bond to a Current Interest Turbo Term Bond.

On the date of delivery of the Series 2020 Senior Bonds, the Authority will enter into an Escrow Agreement, dated as of March 1, 2020 (the "**Escrow Agreement**"), by and between the Authority and the Trustee, as escrow agent, to provide for the refunding of the Series 2007 Bonds. The Escrow Agreement will create an irrevocable trust fund, which is to be held by the Trustee, the moneys to the credit of which will be applied to the payment of, and pledged solely for the benefit of, the Series 2007 Bonds. The Authority will deposit a portion of the proceeds from the sale of the Series 2020 Senior Bonds, together with other available funds, into the trust fund in amounts that will be retained as cash or invested, at the direction of the Authority, in Defeasance Collateral, in accordance with the Trust

Indenture as then in effect, that matures or is subject to redemption at the option of the holder in amounts and bearing interest at rates sufficient without reinvestment (i) to redeem the Series 2007 Bonds on their redemption date at their redemption price and (ii) to pay the interest on the Series 2007 Bonds to the redemption date.

Upon issuance of the Series 2020 Senior Bonds, the Series 2007 Bonds will be irrevocably designated for redemption as described above, provision will be made in the Escrow Agreement for the giving of notice of such redemption, and the Series 2007 Bonds shall not be redeemed other than as described above.

By virtue of the provision for payment of the Series 2007 Bonds upon redemption, together with the irrevocable deposit and application of monies and securities in the trust fund and certain other provisions of the Escrow Agreement, the Series 2007 Bonds will be deemed to be no longer Outstanding under the Trust Indenture and, except for purposes of any payment from such moneys and securities, shall no longer be secured by or entitled to the benefits of the Trust Indenture.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are expected to be as follows:

Sources of Funds:	
Initial Principal Amount of Series 2020 Senior Bonds	$5,352,196,396.50
Net Original Issue Premium	511,874,964.75
Funds Held Under the Trust Indenture for the Series 2007 Bonds	244,230,212.71
Total Sources	$6,108,301,573.96
Uses of Funds:	
Defeasance of Series 2007 Bonds	$5,817,155,014.09
Deposit to Class 1 Senior Liquidity Reserve Subaccount	91,657,486.26
Deposit to Class 2 Senior Liquidity Reserve Subaccount	170,850,000.00
Costs of Issuance [(1)]	28,639,073.61
Total Uses	$6,108,301,573.96

(1) Includes underwriters' discount, legal fees, rating agency fees, verification agent fees, printing costs and certain other expenses related to the issuance of the Series 2020 Senior Bonds.

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TABLES OF PROJECTED BOND DEBT SERVICE AND COVERAGE

The following tables set forth the projected debt service coverage for the Series 2020A Senior Bonds and projected debt service requirements for the Series 2020 Senior Bonds based on the application of the Pledged Tobacco Receipts Projection Methodology and Assumptions and the Bond Structuring Methodology and Assumptions described herein under "PLEDGED TOBACCO RECEIPTS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS".

No assurance can be given that actual cigarette consumption in the U.S. will be as assumed, or that the other assumptions underlying the Pledged Tobacco Receipts Projection Methodology and Assumptions, including the market shares of the OPMs and the SPMs and the assumption that there will not be an NPM Adjustment, will be consistent with future events. If actual events deviate from one or more of the assumptions underlying the Pledged Tobacco Receipts Projection Methodology and Assumptions and the Bond Structuring Methodology and Assumptions, the amount of funds available to the Authority to pay the principal or Accreted Value of and interest on the Series 2020 Senior Bonds and to make Turbo Redemptions on the Series 2020B Senior Bonds could be adversely affected. See "RISK FACTORS" herein.

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Series 2020A Senior Bonds Debt Service and Projected Debt Service Coverage

				Series 2020A Bonds					
Year	Projected Pledged TSRs[1]	Operating and Enforcement Expenses[1]	Net Revenues Available for Debt Service	Principal / Fixed Sinking Fund Installments[2]	Interest	Debt Service	Pledged Account Earnings[1]	Net Debt Service	Debt Service Coverage[3]
2020	$334,096,654	($2,250,000)	$331,846,654	$52,945,000	$38,710,935	$91,655,935	($1,988,631)	$89,667,304	3.70x
2021	327,716,729	(2,257,500)	325,459,229	40,045,000	51,612,486	91,657,486	(2,389,077)	89,268,409	3.65x
2022	324,044,612	(2,265,225)	321,779,387	40,690,000	50,964,507	91,654,507	(2,379,761)	89,274,747	3.60x
2023	322,070,167	(2,273,182)	319,796,985	41,365,000	50,291,623	91,656,623	(2,373,331)	89,283,291	3.58x
2024	319,878,450	(2,281,377)	317,597,073	42,065,000	49,590,916	91,655,916	(2,366,364)	89,289,552	3.56x
2025	318,116,197	(2,289,819)	315,826,379	42,810,000	48,844,254	91,654,254	(2,359,906)	89,294,348	3.54x
2026	317,112,012	(2,298,513)	314,813,499	43,625,000	48,031,694	91,656,694	(2,354,444)	89,302,250	3.53x
2027	316,761,639	(2,307,468)	314,454,170	44,795,000	46,859,300	91,654,300	(2,347,335)	89,306,965	3.52x
2028	316,951,180	(2,316,693)	314,634,488	46,705,000	44,944,625	91,649,625	(2,337,523)	89,312,102	3.52x
2029	317,587,476	(2,326,193)	315,261,283	49,100,000	42,549,500	91,649,500	(2,188,471)	89,461,029	3.52x
2030	318,250,654	(2,335,979)	315,914,675	35,130,000	40,443,750	75,573,750	(2,041,275)	73,532,475	4.30x
2031	318,889,932	(2,346,058)	316,543,873	36,930,000	38,642,250	75,572,250	(2,034,367)	73,537,883	4.30x
2032	319,530,117	(2,356,440)	317,173,677	38,825,000	36,748,375	75,573,375	(2,027,050)	73,546,325	4.31x
2033	320,197,915	(2,367,133)	317,830,782	40,815,000	34,757,375	75,572,375	(2,019,349)	73,553,026	4.32x
2034	320,891,827	(2,378,147)	318,513,680	42,910,000	32,664,250	75,574,250	(2,011,239)	73,563,011	4.33x
2035	321,396,153	(2,389,492)	319,006,661	45,110,000	30,463,750	75,573,750	(2,002,320)	73,571,430	4.34x
2036	321,862,780	(2,401,177)	319,461,603	47,420,000	28,150,500	75,570,500	(1,992,833)	73,577,667	4.34x
2037	322,330,846	(2,413,212)	319,917,634	49,600,000	25,973,000	75,573,000	(1,985,026)	73,587,974	4.35x
2038	322,745,515	(2,425,608)	320,319,907	51,625,000	23,948,500	75,573,500	(1,976,774)	73,596,726	4.35x
2039	323,133,639	(2,438,377)	320,695,263	53,730,000	21,841,400	75,571,400	(1,968,110)	73,603,290	4.36x
2040	323,497,989	(2,451,528)	321,046,461	55,800,000	19,773,625	75,573,625	(1,960,110)	73,613,515	4.36x
2041	323,717,895	(2,465,074)	321,252,821	57,820,000	17,750,600	75,570,600	(1,951,538)	73,619,062	4.36x
2042	323,894,846	(2,479,026)	321,415,820	59,920,000	15,652,750	75,572,750	(1,942,559)	73,630,191	4.37x
2043	324,317,107	(2,493,397)	321,823,711	62,095,000	13,477,225	75,572,225	(1,933,666)	73,638,559	4.37x
2044	324,651,884	(2,508,199)	322,143,686	64,350,000	11,221,175	75,571,175	(1,924,264)	73,646,911	4.37x
2045	324,930,413	(2,523,444)	322,406,968	66,690,000	8,881,525	75,571,525	(1,914,392)	73,657,133	4.38x
2046	325,177,266	(2,539,148)	322,638,118	69,115,000	6,455,150	75,570,150	(1,904,082)	73,666,068	4.38x
2047	325,397,234	(2,555,322)	322,841,912	71,635,000	3,938,725	75,573,725	(1,893,326)	73,680,399	4.38x
2048	325,636,245	(2,571,982)	323,064,264	74,245,000	1,328,775	75,573,775	(1,226,644)	74,347,131	4.35x
Total	$9,344,785,374	($69,304,713)	$9,275,480,662	$1,467,910,000	$884,512,539	$2,352,422,539	($59,793,767)	$2,292,628,772	

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

(2) Excludes application of the Clean-Up Call.

(3) Series 2020A Bonds Debt Service Coverage equals Net Revenues Available for Debt Service divided by Series 2020A Bonds Net Debt Service.

Projected Series 2020 Senior Bonds Debt Service Schedule Incorporating Turbo Redemptions of the Series 2020B Senior Bonds

		Series 2020A Bonds				Series 2020B Bonds								
Year	Projected Net Revenues Available for Debt Service[1]	Principal / Fixed Sinking Fund Installments	Interest	Pledged Accounts Earnings / Class 1 Senior Liquidity Reserve Account Release(2)	Series 2020A Senior Bonds Net Debt Service	Series 2020B-1 2029 Term	Series 2020B-2 2055 Term	Series 2020B-3 2057 Term	Total Projected Principal Payments[3]	Interest	Pledged Accounts Earnings / Class 2 Senior Liquidity Reserve Account Release(2)	Series 2020B Bonds Net Debt Service	Total Net Debt Service[4]	Amounts to the Residual Certificate Holder
2020	$331,846,654	$52,945,000	$38,710,935	($1,988,631)	$89,667,304	$100,000,000	$19,815,000	-	$119,815,000	$125,293,375	($2,933,224)	$242,175,151	$331,842,454	-
2021	325,459,229	40,045,000	51,612,486	(2,389,077)	89,268,409	-	73,715,000	-	73,715,000	166,166,375	(3,689,652)	236,191,723	325,460,132	-
2022	321,779,387	40,690,000	50,964,507	(2,379,761)	89,274,747	-	73,700,000	-	73,700,000	162,481,000	(3,673,639)	232,507,361	321,782,108	-
2023	319,796,985	41,365,000	50,291,623	(2,373,331)	89,283,291	-	75,415,000	-	75,415,000	158,753,125	(3,657,286)	230,510,839	319,794,130	-
2024	317,597,073	42,065,000	49,590,916	(2,366,364)	89,289,552	-	77,005,000	-	77,005,000	154,942,625	(3,640,617)	228,307,008	317,596,561	-
2025	315,826,379	42,810,000	48,844,254	(2,359,906)	89,294,348	-	79,115,000	-	79,115,000	151,039,625	(3,623,472)	226,531,153	315,825,500	-
2026	314,813,499	43,625,000	48,031,694	(2,354,444)	89,302,250	-	82,110,000	-	82,110,000	147,009,000	(3,605,656)	225,513,344	314,815,593	-
2027	314,454,170	44,795,000	46,859,300	(2,347,335)	89,306,965	-	85,925,000	-	85,925,000	142,808,125	(3,587,014)	225,146,111	314,453,075	-
2028	314,634,488	46,705,000	44,944,625	(2,337,523)	89,312,102	-	90,495,000	-	90,495,000	138,397,625	(3,567,375)	225,325,250	314,637,352	-
2029	315,261,283	49,100,000	42,549,500	(18,270,957)	73,378,543	-	112,090,000	-	112,090,000	133,333,000	(3,543,067)	241,879,933	315,258,475	-
2030	315,914,675	35,130,000	40,443,750	(2,041,275)	73,532,475	-	118,330,000	-	118,330,000	127,572,500	(3,517,407)	242,385,093	315,917,569	-
2031	316,543,873	36,930,000	38,642,250	(2,034,367)	73,537,883	-	125,005,000	-	125,005,000	121,489,125	(3,490,292)	243,003,833	316,541,715	-
2032	317,173,677	38,825,000	36,748,375	(2,027,050)	73,546,325	-	132,025,000	-	132,025,000	115,063,375	(3,461,687)	243,626,688	317,173,013	-
2033	317,830,782	40,815,000	34,757,375	(2,019,349)	73,553,026	-	139,435,000	-	139,435,000	108,276,875	(3,431,433)	244,280,442	317,833,468	-
2034	318,513,680	42,910,000	32,664,250	(2,011,239)	73,563,011	-	147,240,000	-	147,240,000	101,110,000	(3,399,481)	244,950,519	318,513,529	-
2035	319,006,661	45,110,000	30,463,750	(2,002,320)	73,571,430	-	155,250,000	-	155,250,000	93,547,750	(3,365,845)	245,431,905	319,003,335	-
2036	319,461,603	47,420,000	28,150,500	(1,992,833)	73,577,667	-	163,640,000	-	163,640,000	85,575,500	(3,330,378)	245,885,122	319,462,789	-
2037	319,917,634	49,600,000	25,973,000	(1,985,026)	73,587,974	-	172,450,000	-	172,450,000	77,173,250	(3,292,966)	246,330,284	319,918,258	-
2038	320,319,907	51,625,000	23,948,500	(1,976,774)	73,596,726	-	181,655,000	-	181,655,000	68,320,625	(3,253,578)	246,722,047	320,318,773	-
2039	320,695,263	53,730,000	21,841,400	(1,968,110)	73,603,290	-	191,310,000	-	191,310,000	58,996,500	(3,212,081)	247,094,419	320,697,709	-
2040	321,046,461	55,800,000	19,773,625	(1,960,110)	73,613,515	-	201,420,000	-	201,420,000	49,178,250	(3,168,408)	247,429,842	321,043,358	-
2041	321,252,821	57,820,000	17,750,600	(1,951,538)	73,619,062	-	211,915,000	-	211,915,000	38,844,875	(3,122,449)	247,637,426	321,256,489	-
2042	321,415,820	59,920,000	15,652,750	(1,942,559)	73,630,191	-	222,885,000	-	222,885,000	27,974,875	(3,074,082)	247,785,793	321,415,984	-
2043	321,823,711	62,095,000	13,477,225	(1,933,666)	73,638,559	-	234,670,000	-	234,670,000	16,536,000	(3,023,212)	248,182,788	321,821,347	-
2044	322,143,686	64,350,000	11,221,175	(1,924,264)	73,646,911	-	213,385,000 (2)	$415,730,000	415,508,769	5,334,625	(172,344,975)	248,498,418	322,145,330	-
2045	322,406,968	66,690,000	8,881,525	(1,914,392)	73,657,133	-	-	484,025,000	248,750,128	-	(21)	248,750,107	322,407,239	-
2046	322,638,118	69,115,000	6,455,150	(1,904,082)	73,666,068	-	-	458,315,000	248,970,457	-	(33)	248,970,424	322,636,492	-
2047	322,841,912	145,880,000 (2)	2,609,950	(76,801,255)	71,688,695	-	-	437,385,000	251,155,215	-	(30)	251,155,185	322,843,880	-
2048	323,064,264	-	-	(565,362)	(565,362)	-	-	533,190,000	323,630,334	-	(7)	323,630,327	323,064,965	-
2049	323,306,223	-	-	(565,786)	(565,786)	-	-	504,785,000	323,870,056	-	(18)	323,870,038	323,304,252	-
2050	323,568,878	-	-	(566,246)	(566,246)	-	-	357,465,000	242,429,188	-	(18)	242,429,171	241,862,925	$81,707,963
2051	326,478,364	-	-	-	-	-	-	-	-	-	-	-	-	326,478,364
2052	326,804,547	-	-	-	-	-	-	-	-	-	-	-	-	326,804,547
2053	327,155,438	-	-	-	-	-	-	-	-	-	-	-	-	327,155,438
2054	327,532,273	-	-	-	-	-	-	-	-	-	-	-	-	327,532,273
2055	327,936,323	-	-	-	-	-	-	-	-	-	-	-	-	327,936,323
2056	328,368,870	-	-	-	-	-	-	-	-	-	-	-	-	328,368,870
2057	328,842,024	-	-	-	-	-	-	-	-	-	-	-	-	328,842,024
Total	$12,215,473,602	$1,467,910,000	$881,854,989	($151,254,932)	$2,198,510,057	$100,000,000	$3,380,000,000	$3,190,895,000	$5,320,929,148	$2,575,218,000	($254,009,404)	$7,642,137,743	$9,840,647,800	$2,374,825,802

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

(2) Includes application of the Clean-Up Call.

(3) Reflects Turbo Redemption of Series 2020B-3 Senior Bonds at their then Accreted Value.

(4) Includes all Interest, Series 2020A Senior Bonds principal and mandatory Fixed Sinking Fund Installments, Series 2020B Senior Bonds projected Turbo Redemptions, less assumed earnings and releases on the Senior Liquidity Reserve Subaccounts.

SERIES 2020B SENIOR BONDS PROJECTED TURBO REDEMPTION UNDER VARIOUS CONSUMPTION DECLINE SCENARIOS

Series 2020B Senior Bonds Projected Final Turbo Redemption Payment Dates Under Various Consumption Decline Scenarios

The following tables set forth the expected final redemption dates at which the Series 2020B Senior Bonds would be paid in full based on the following cigarette consumption decline projections:

- IHS Global forecast;
- –4.08% constant annual decline beginning in 2020 (assuming a -5.5% decline in 2019); and
- –4.85% constant annual decline beginning in 2020 (assuming a -5.5% decline in 2019) (for the Series 2020B-1 Senior Bonds and the Series 2020B-2 Senior Bonds only).

The –4.08% and –4.85% constant annual declines represent the "breakeven" consumption decline rates at which debt service on the Series 2020B Senior Bonds maturing in 2055 and 2057, respectively, would be paid in full at legal final maturity. The tables below further assume the Series 2020B Senior Bonds bear interest or accrete at the rates described on the inside cover page hereof and the Pledged Tobacco Receipts are received in accordance with the Pledged Tobacco Receipts Projection Methodology and Assumptions and the Bond Structuring Methodology and Assumptions described herein under "PLEDGED TOBACCO RECEIPTS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" and applied, subject to the Payment Priorities set forth in the Trust Indenture including the application of amounts in the Turbo Redemption Account. See "SECURITY FOR THE BONDS" herein.

No assurance can be given that actual cigarette consumption in the U.S. will be as assumed, or that the other assumptions underlying the Pledged Tobacco Receipts Projection Methodology and Assumptions, including the market shares of the OPMs and the SPMs and the assumption that there will not be an NPM Adjustment, will be consistent with future events. If actual events deviate from one or more of the assumptions underlying the Pledged Tobacco Receipts Projection Methodology and Assumptions and the Bond Structuring Methodology and Assumptions, the amount of funds available to the Authority to pay the principal or Accreted Value of and interest on the Series 2020 Senior Bonds and to make Turbo Redemptions on the Series 2020B Senior Bonds could be adversely affected. See "RISK FACTORS" herein.

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Projected Principal Repayment Dates for Series 2020B Senior Bonds
Under Various Consumption Decline Scenarios

			IHS Global Forecast[1]		4.08% Annual Decline[2]		4.85% Annual Decline[2]	
	Maturity	Principal	Final Redemption	Avg. Life	Final Redemption	Avg. Life	Final Redemption	Avg. Life
2020B-1:	6/1/2029	$100,000,000	6/1/2020	0.24	6/1/2020	0.24	6/1/2020	0.24
2020B-2:	6/1/2055	$3,380,000,000	6/1/2044	15.24	6/1/2048	17.06	6/1/2055	22.18
2020B-3:	6/1/2057	$3,190,895,000	6/1/2050	27.22	6/1/2057	32.41	-	-

(1) Based on application of the Pledged Tobacco Receipts Projection Methodology and Assumptions described under "PLEDGED TOBACCO RECEIPTS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" herein.

(2) Based on application of the Pledged Tobacco Receipts Projection Methodology and Assumptions described under "PLEDGED TOBACCO RECEIPTS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" herein with the exception of the Volume Adjustment, which utilizes the above listed annual declines in cigarette consumption in the U.S. beginning in 2020.

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BREAKEVEN CONSUMPTION AND REVENUE DECLINE RATES BY MATURITY

The following table sets forth the "breakeven" constant annual rate of consumption decline at which each maturity of the Series 2020 Senior Bonds would be paid in full at maturity.

The table below assumes that Pledged Tobacco Receipts are received based on the application of the Pledged Tobacco Receipts Projection Methodology and Assumptions and the Bond Structuring Methodology and Assumptions described herein under "PLEDGED TOBACCO RECEIPTS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" with the exception that the Volume Adjustment utilizes the listed "breakeven" assumption for cigarette consumption in the U.S.

No assurance can be given that actual cigarette consumption in the U.S. will be as assumed, or that the other assumptions underlying the Pledged Tobacco Receipts Projection Methodology and Assumptions, including the market shares of the OPMs and the SPMs and the assumption that there will not be an NPM Adjustment, will be consistent with future events. If actual events deviate from one or more of the assumptions underlying the Pledged Tobacco Receipts Projection Methodology and Assumptions, the amount of Pledged Tobacco Receipts available to the Authority to pay the principal or Accreted Value of and interest on the Series 2020 Senior Bonds could be adversely affected. See "RISK FACTORS" herein.

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Series 2020 Senior Bonds Consumption Decline Rates By Maturity[(1)(2)]

Series		Maturity	Principal	Type	-5.5% (2019); Maximum Constant Consumption Declines
Series 2020A					
Senior Bonds:	2020A-1:	6/1/2020	$52,945,000	Serial	N/A*
		6/1/2021	40,045,000	Serial	-100.00%
		6/1/2022	40,690,000	Serial	-90.45%
		6/1/2023	41,365,000	Serial	-72.12%
		6/1/2024	42,065,000	Serial	-56.06%
		6/1/2025	42,810,000	Serial	-45.30%
		6/1/2026	43,625,000	Serial	-38.29%
		6/1/2027	24,855,000	Serial	-33.10%
	2020A-2:	6/1/2028	46,705,000	Serial	-28.94%
		6/1/2029	49,100,000	Serial	-25.82%
		6/1/2030	35,130,000	Serial	-24.25%
		6/1/2031	36,930,000	Serial	-22.73%
		6/1/2032	38,825,000	Serial	-21.57%
		6/1/2033	40,815,000	Serial	-20.45%
		6/1/2034	42,910,000	Serial	-19.42%
		6/1/2035	45,110,000	Serial	-18.31%
		6/1/2036	47,420,000	Serial	-17.35%
		6/1/2037	49,600,000	Serial	-16.50%
		6/1/2038	51,625,000	Serial	-15.75%
		6/1/2039	53,730,000	Serial	-15.09%
		6/1/2048	250,000,000	Term	-11.52%
		6/1/2048	331,670,000	Term	-11.52%
		TOTAL	$1,447,970,000		
Series 2020B					
Senior Bonds:	2020B-1:	6/1/2029	$100,000,000	Turbo Term	N/A*
	2020B-2:	6/1/2055	3,380,000,000	Turbo Term	-4.85%
	2020B-3:	6/1/2057	3,190,895,000	Turbo Term CAB	-4.08%
		TOTAL	$6,670,895,000		

(*) Assuming a -5.5% decline in 2019, the Series 2020A-1 Senior Bonds maturing on June 1, 2020 and the Series 2020B-1 Senior Bonds will be fully paid on June 1, 2020.

(1) Assumes the Senior Liquidity Reserve Subaccounts are used to pay debt service on each respective series of Series 2020 Senior Bonds or on prior to the final maturity of such series without a payment default.

(2) Based on application of the Pledged Tobacco Receipts Projection Methodology and Assumptions described in "PLEDGED TOBACCO RECEIPTS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" herein with the exception of the Volume Adjustment, which utilizes the above listed annual declines in cigarette consumption in the U.S. beginning in 2020.

Projected Series 2020 Senior Bonds Debt Service Under a –5.5% Cigarette Shipment Decline in 2019 and a –4.08% Constant Annual Cigarette Shipment Decline Thereafter

Set forth below is a schedule showing the projected debt service on the Series 2020A Senior Bonds and the Series 2020B Senior Bonds calculated based on a –5.5% cigarette shipment decline in 2019 and a –4.08% constant annual cigarette shipment decline thereafter.

		Series 2020A Bonds				Series 2020B Bonds								
Year	Projected Net Revenues Available for Debt Service[1]	Principal / Fixed Sinking Fund Installments	Interest	Pledged Accounts Earnings / Class 1 Senior Liquidity Reserve Account Release(2)	Series 2020A Senior Bonds Net Debt Service	Series 2020B-1 2029 Term	Series 2020B-2 2055 Term	Series 2020B-3 2057 Term	Total Projected Principal Payments[3]	Interest	Pledged Accounts Earnings / Class 2 Senior Liquidity Reserve Account Release(2)	Series 2020B Bonds Net Debt Service	Total Net Debt Service[4]	Amounts to the Residual Certificate Holder
2020	$331,846,654	$52,945,000	$38,710,935	($1,988,631)	$89,667,304	$100,000,000	$19,815,000	-	$119,815,000	$125,293,375	($2,933,224)	$242,175,151	$331,842,454	-
2021	327,898,746	40,045,000	51,612,486	(2,393,346)	89,264,140	-	76,220,000	-	76,220,000	166,103,750	(3,689,117)	238,634,633	327,898,773	-
2022	324,639,020	40,690,000	50,964,507	(2,384,765)	89,269,742	-	76,765,000	-	76,765,000	162,279,125	(3,672,449)	235,371,676	324,641,418	-
2023	321,439,706	41,365,000	50,291,623	(2,376,206)	89,280,416	-	77,390,000	-	77,390,000	158,425,250	(3,655,643)	232,159,607	321,440,023	-
2024	318,300,710	42,065,000	49,590,916	(2,367,595)	89,288,321	-	78,110,000	-	78,110,000	154,537,750	(3,638,731)	229,009,019	318,297,340	-
2025	315,221,948	42,810,000	48,844,254	(2,358,848)	89,295,406	-	78,940,000	-	78,940,000	150,611,500	(3,621,613)	225,929,887	315,225,292	-
2026	312,203,379	43,625,000	48,031,694	(2,349,876)	89,306,817	-	79,860,000	-	79,860,000	146,641,500	(3,604,260)	222,897,240	312,204,057	-
2027	309,244,988	44,795,000	46,859,300	(2,338,219)	89,316,081	-	80,890,000	-	80,890,000	142,622,750	(3,586,738)	219,926,012	309,242,092	-
2028	306,346,748	46,705,000	44,944,625	(2,323,019)	89,326,606	-	82,040,000	-	82,040,000	138,549,500	(3,568,970)	217,020,530	306,347,136	-
2029	303,508,682	49,100,000	42,549,500	(18,250,390)	73,399,110	-	99,650,000	-	99,650,000	134,007,250	(3,547,354)	230,109,896	303,509,005	-
2030	300,730,830	35,130,000	40,443,750	(2,014,703)	73,559,047	-	101,725,000	-	101,725,000	128,972,875	(3,525,285)	227,172,590	300,731,637	-
2031	298,013,244	36,930,000	38,642,250	(2,001,939)	73,570,311	-	104,120,000	-	104,120,000	123,826,750	(3,502,690)	224,444,060	298,014,372	-
2032	295,356,005	38,825,000	36,748,375	(1,988,869)	73,584,506	-	106,695,000	-	106,695,000	118,556,375	(3,479,540)	221,771,835	295,356,341	-
2033	292,759,227	40,815,000	34,757,375	(1,975,474)	73,596,901	-	109,465,000	-	109,465,000	113,152,375	(3,455,806)	219,161,569	292,758,470	-
2034	290,223,029	42,910,000	32,664,250	(1,961,731)	73,612,519	-	112,435,000	-	112,435,000	107,604,875	(3,431,448)	216,608,427	290,220,946	-
2035	287,747,563	45,110,000	30,463,750	(1,947,616)	73,626,134	-	115,625,000	-	115,625,000	101,903,375	(3,406,388)	214,121,987	287,748,120	-
2036	285,333,015	47,420,000	28,150,500	(1,933,108)	73,637,392	-	119,040,000	-	119,040,000	96,036,750	(3,380,564)	211,696,186	285,333,578	-
2037	282,979,580	49,600,000	25,973,000	(1,920,385)	73,652,615	-	122,685,000	-	122,685,000	89,993,625	(3,353,975)	209,324,650	282,977,265	-
2038	280,687,487	51,625,000	23,948,500	(1,907,417)	73,666,083	-	126,590,000	-	126,590,000	83,761,750	(3,326,511)	207,025,239	280,691,322	-
2039	278,456,983	53,730,000	21,841,400	(1,894,193)	73,677,207	-	130,750,000	-	130,750,000	77,328,250	(3,298,121)	204,780,129	278,457,337	-
2040	276,288,360	55,800,000	19,773,625	(1,881,783)	73,691,842	-	135,185,000	-	135,185,000	70,679,875	(3,268,806)	202,596,069	276,287,911	-
2041	274,181,918	57,820,000	17,750,600	(1,869,164)	73,701,436	-	139,915,000	-	139,915,000	63,802,375	(3,238,483)	200,478,892	274,180,329	-
2042	272,137,998	59,920,000	15,652,750	(1,856,323)	73,716,427	-	144,950,000	-	144,950,000	56,680,750	(3,207,046)	198,423,704	272,140,132	-
2043	270,156,957	62,095,000	13,477,225	(1,843,249)	73,728,976	-	150,300,000	-	150,300,000	49,299,500	(3,174,459)	196,425,041	270,154,016	-
2044	268,239,195	64,350,000	11,221,175	(1,829,931)	73,741,244	-	155,995,000	-	155,995,000	41,642,125	(3,140,670)	194,496,455	268,237,699	-
2045	266,385,130	66,690,000	8,881,525	(1,816,354)	73,755,171	-	162,045,000	-	162,045,000	33,691,125	(3,105,538)	192,630,587	266,385,758	-
2046	264,595,217	69,115,000	6,455,150	(1,802,507)	73,767,643	-	168,470,000	-	168,470,000	25,428,250	(3,068,985)	190,829,265	264,596,908	-
2047	262,869,937	145,880,000 (2)	2,609,950	(76,696,304)	71,793,646	-	177,325,000	-	177,325,000	16,783,375	(3,030,503)	191,077,872	262,871,519	-
2048	261,209,815	-	-	(457,117)	(457,117)	-	247,005,000 (2)	$297,925,000	427,836,537	6,175,125	(172,344,957)	261,666,705	261,209,588	-
2049	259,615,395	-	-	(454,327)	(454,327)	-	-	405,345,000	260,069,352	-	(25)	260,069,327	259,615,000	-
2050	258,087,257	-	-	(451,653)	(451,653)	-	-	381,220,000	258,539,592	-	(23)	258,539,569	258,087,916	-
2051	256,626,018	-	-	(449,096)	(449,096)	-	-	358,600,000	257,073,168	-	(34)	257,073,134	256,624,038	-
2052	255,232,332	-	-	(446,657)	(446,657)	-	-	337,410,000	255,679,176	-	(50)	255,679,126	255,232,469	-
2053	253,906,883	-	-	(444,337)	(444,337)	-	-	317,545,000	254,353,545	-	(29)	254,353,516	253,909,179	-
2054	252,650,395	-	-	(442,138)	(442,138)	-	-	298,920,000	253,092,575	-	(9)	253,092,566	252,650,428	-
2055	251,463,631	-	-	(440,061)	(440,061)	-	-	281,460,000	251,901,071	-	(31)	251,901,039	251,460,978	-
2056	250,347,393	-	-	(438,108)	(438,108)	-	-	265,095,000	250,787,823	-	(35)	250,787,788	250,349,680	-
2057	249,302,520	-	-	(436,279)	(436,279)	-	-	247,375,000	247,375,000	-	(7)	247,374,993	246,938,713	$2,364,655
Total	$10,766,233,895	$1,467,910,000	$881,854,989	($152,731,719)	$2,197,033,270	$100,000,000	$3,380,000,000	$3,190,895,000	$5,949,702,838	$2,884,391,250	($267,258,119)	$8,566,835,970	$10,763,869,240	$2,364,655

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

(2) Includes application of the Clean-Up Call.

(3) Reflects Turbo Redemption of Series 2020B-3 Senior Bonds at their then Accreted Value.

(4) Includes all Interest, Series 2020A Senior Bonds principal and mandatory Fixed Sinking Fund Installments, Series 2020B Senior Bonds projected Turbo Redemptions, less assumed earnings and releases on the Senior Liquidity Reserve Subaccounts.

PLEDGED TOBACCO RECEIPTS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS

Introduction

The following discussion describes the methodology and assumptions used to project the amount of Pledged Tobacco Receipts to be received by the Authority (the "**Pledged Tobacco Receipts Projection Methodology and Assumptions**"), as well as the methodology and assumptions used to structure the Turbo Term Bond Maturities and Projected Turbo Redemptions for the Series 2020B Senior Bonds (the "**Bond Structuring Methodology and Assumptions**").

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

In projecting the amount of Pledged Tobacco Receipts to be received by the Trustee, the forecast of cigarette consumption in the U.S. developed by IHS Global and contained within the Tobacco Consumption Report is assumed to represent actual cigarette shipments measured pursuant to the MSA for the years covered by the report, and such forecast is applied to calculate Annual Payments to be made by the PMs pursuant to the MSA. See "RISK FACTORS—Risks Relating to the Tobacco Consumption Report" herein. The calculation of payments required to be made was performed in accordance with the terms of the MSA; however, as described below, certain further assumptions were made with respect to shipments of cigarettes in the U.S. and the applicability to such payments of certain adjustments and offsets set forth in the MSA (including an assumption that there will not be an NPM Adjustment). Such further assumptions may differ materially from the actual information utilized by the MSA Auditor (as defined herein) in calculating payments due under the MSA.

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

- the PMs make all payments required to be made by them pursuant to the MSA,
- the aggregate Market Share of the OPMs remains constant throughout the forecast period at 82.91127%, based on the NAAG-reported market share for OPMs in sales year 2018 (measuring roll-your-own shipments at 0.0325 ounces per cigarette conversion rate), and
- the aggregate Market Share of the SPMs remains constant at 9.61312%, based on the NAAG-reported market share for SPMs in sales year 2018 (measuring roll-your-own shipments at 0.09 ounces per cigarette conversion rate).

Pledged Tobacco Receipts Projection Methodology and Assumptions

Cigarette Shipments under the MSA

In applying the consumption forecast from the Tobacco Consumption Report, it was assumed that U.S. cigarette consumption forecasted by IHS Global was equal to the number of cigarettes shipped in and to the U.S., the District of Columbia and Puerto Rico, which, when adjusted by the aggregate OPM Market Share, is the number used to determine the Volume Adjustment. The Tobacco Consumption Report states that the quantities of cigarettes shipped and cigarettes consumed 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. IHS Global's forecast for U.S. cigarette consumption is set forth in the Tobacco Consumption Report in APPENDIX A—"TOBACCO CONSUMPTION REPORT." The Tobacco Consumption Report contains a discussion of the assumptions underlying the projections of cigarette consumption contained therein. No assurance can be given that future consumption will be consistent with that projected in the Tobacco Consumption Report. See "RISK FACTORS – Risks Relating to the Tobacco Consumption Report."

Annual Payments

In accordance with the Pledged Tobacco Receipts Projection Methodology and Assumptions, the anticipated amounts of Annual Payments for the years 2020-2057 to be made by the OPMs were calculated by applying the adjustments applicable to the base amounts of Annual Payments set out in the MSA, in order, as described below. The anticipated amounts of Annual Payments for the years 2020-2057 to be made by the SPMs were calculated by (i) multiplying the base amounts of Annual Payments by the Adjusted SPM Market Share (as described below) and (ii) then applying the adjustments applicable to the Annual Payments for SPMs set out in the MSA, in order, as described below. In addition, according to the Authority, $627,681.96 unpaid from a prior sales year is due to be paid to the Authority by an SPM with the 2020 Annual Payment.

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

Volume Adjustment. Next, the Annual Payments calculated after application of the Inflation Adjustment were adjusted for the Volume Adjustment by multiplying the forecast for U.S. cigarette consumption contained in the Tobacco Consumption Report by the assumed aggregate Market Share of the OPMs (82.91127% as described above). No add-back or benefit was assumed from any Income Adjustment. See "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Adjustments to Payments—Volume Adjustment" for a description of the formula used to calculate the Volume Adjustment.

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

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

NPM Adjustment. Pursuant to the MSA, the NPM Adjustment will not apply to the Annual Payments payable to any state that enacts and diligently enforces a Qualifying Statute so long as such statute is not held to be unenforceable. The PMs have disputed Annual Payments attributable to sales years 2003 through 2019 and a portion of such payments have either been withheld or deposited in the Disputed Payments Account in each year since 2006. The Pledged Tobacco Receipts Projection Methodology and Assumptions include an assumption that the State has diligently enforced and will diligently enforce a Qualifying Statute that is not held to be unenforceable. Therefore, the NPM Adjustment is assumed not to apply to the State and is assumed not to reduce Annual Payments. For a discussion of the State's Qualifying Statute, which is the Model Statute, see "STATE LAWS RELATED TO THE MSA—State's Qualifying Statute."

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

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

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

Subsequent Participating Manufacturers. The Pledged Tobacco Receipts Projection Methodology and Assumptions treat the SPMs as a single manufacturer having executed the MSA on or prior to February 22, 1999 for purposes of calculating Annual Payments under Section IX(i) of the MSA. Further, the Market Share (as defined in the MSA) of the SPMs remains constant at 9.61312% (measuring roll your own cigarettes at 0.09 ounces per cigarette conversion rate) as described above. Because the 9.61312% Market Share exceeds the greater of (i) the SPM's 1998 Market Share or (ii) 125% of its 1997 Market Share, the SPMs are assumed to make Annual Payments in each year. For purposes of calculating Annual Payments owed by the SPMs, their aggregate adjusted Market Share ("**Adjusted SPM Market Share**") is equal to (y) the SPM Market Share (assumed at 9.61312%) less the Base Share (assumed at 3.49580%) divided by (z) the aggregate Market Share of the OPMs at 83.07606% (measuring roll your own cigarettes at 0.09 ounces per cigarette conversion rate), or 7.36352%.

State Allocation Percentage. The amount of Annual Payments, after application of the Inflation Adjustment, the Volume Adjustment and the Previously-Settled States Reduction for each year, was multiplied by the allocation percentage for Annual Payments for the State under the MSA (5.0375098%) in order to determine the amount of Annual Payments in each year to be made by the PMs to be allocated to the State.

Receipt and Application of Pledged Tobacco Receipts. It is assumed that the Trustee will receive Pledged Tobacco Receipts ten days after April 15 in each year, commencing in 2020, and will apply receipts, together with interest earnings in the Accounts held by the Trustee, as provided in the Trust Indenture. See "SECURITY FOR THE BONDS—Flow of Funds."

Projection of Pledged Tobacco Receipts to be Received by the Trustee

The following table shows the projection of Pledged Tobacco Receipts to be received by the Trustee in each year through 2057, calculated in accordance with the Pledged Tobacco Receipts Projection Methodology and Assumptions and using the forecast contained within the Tobacco Consumption Report. The forecast contained within the Tobacco Consumption Report for U.S. cigarette consumption is set forth in APPENDIX A—"TOBACCO CONSUMPTION REPORT" attached hereto. See APPENDIX A hereto for a discussion of the assumptions underlying the projection of cigarette consumption contained in the Tobacco Consumption Report. See also "RISK FACTORS—Risks Relating to the Tobacco Consumption Report."

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Projection of Pledged Tobacco Receipts to be Received by the Trustee

Sales Year	Payment Year	IHS Global Consumption Decline Forecast	IHS Global Forecast of Cigarette Consumption	Estimated OPM Consumption	Base Annual Payment	Inflation Adjustment	Volume Adjustment	Previously Settled State's Reduction	Total Adjusted Annual Payments by OPMs	State Allocation	OPM Annual Payments	SPM Annual Payments	Total Annual Payments to Trustee(1)
2019	2020	-5.500%	223,725,301,699	185,493,488,950	$9,000,000,000	$8,092,785,600	($10,218,502,192)	($760,754,033)	$6,113,529,375	5.0375098%	$307,969,641	$25,499,331	$334,096,654
2020	2021	-4.827%	212,925,144,424	176,538,941,392	9,000,000,000	8,605,569,600	(10,849,865,596)	(747,631,245)	6,008,072,759	5.0375098%	302,657,254	25,059,475	327,716,729
2021	2022	-4.220%	203,938,696,833	169,088,163,566	9,000,000,000	9,133,736,400	(11,453,731,116)	(739,253,920)	5,940,751,363	5.0375098%	299,265,932	24,778,680	324,044,612
2022	2023	-3.705%	196,382,031,223	162,822,836,139	9,000,000,000	9,677,748,600	(12,038,445,441)	(734,749,552)	5,904,553,607	5.0375098%	297,442,467	24,627,700	322,070,167
2023	2024	-3.786%	188,946,325,849	156,657,798,379	9,000,000,000	10,238,081,400	(12,643,959,294)	(729,749,515)	5,864,372,591	5.0375098%	295,418,344	24,460,106	319,878,450
2024	2025	-3.661%	182,028,793,367	150,922,384,347	9,000,000,000	10,815,223,500	(13,257,429,295)	(725,729,228)	5,832,064,978	5.0375098%	293,790,845	24,325,352	318,116,197
2025	2026	-3.426%	175,792,228,459	145,751,569,176	9,000,000,000	11,409,679,800	(13,872,586,327)	(723,438,347)	5,813,655,127	5.0375098%	292,863,447	24,248,565	317,112,012
2026	2027	-3.221%	170,129,920,848	141,056,878,025	9,000,000,000	12,021,970,500	(14,492,099,782)	(722,639,028)	5,807,231,689	5.0375098%	292,539,865	24,221,773	316,761,639
2027	2028	-3.051%	164,939,310,534	136,753,277,093	9,000,000,000	12,652,629,300	(15,118,851,286)	(723,071,436)	5,810,706,578	5.0375098%	292,714,913	24,236,267	316,951,180
2028	2029	-2.911%	160,138,544,498	132,772,901,003	9,000,000,000	13,302,207,900	(15,755,312,991)	(724,523,039)	5,822,371,870	5.0375098%	293,302,554	24,284,923	317,587,476
2029	2030	-2.908%	155,481,698,043	128,911,850,465	9,000,000,000	13,971,274,200	(16,410,708,238)	(726,035,969)	5,834,529,994	5.0375098%	293,915,020	24,335,634	318,250,654
2030	2031	-2.922%	150,938,151,933	125,144,738,682	9,000,000,000	14,660,412,300	(17,086,667,969)	(727,494,375)	5,846,249,956	5.0375098%	294,505,414	24,384,517	318,889,932
2031	2032	-2.929%	146,517,896,137	121,479,848,464	9,000,000,000	15,370,224,300	(17,783,282,897)	(728,954,851)	5,857,986,552	5.0375098%	295,096,647	24,433,470	319,530,117
2032	2033	-2.926%	142,230,424,226	117,925,051,052	9,000,000,000	16,101,331,200	(18,500,623,496)	(730,478,321)	5,870,229,383	5.0375098%	295,713,380	24,484,535	320,197,915
2033	2034	-2.925%	138,070,669,195	114,476,145,327	9,000,000,000	16,854,371,100	(19,239,358,773)	(732,061,366)	5,882,950,960	5.0375098%	296,354,231	24,537,596	320,891,827
2034	2035	-2.994%	133,936,726,645	111,048,641,057	9,000,000,000	17,630,001,900	(20,004,593,169)	(733,211,902)	5,892,196,830	5.0375098%	296,819,993	24,576,160	321,396,153
2035	2036	-3.014%	129,899,944,346	107,701,693,587	9,000,000,000	18,428,902,200	(20,793,874,209)	(734,276,433)	5,900,751,557	5.0375098%	297,250,938	24,611,842	321,862,780
2036	2037	-3.021%	125,975,373,727	104,447,782,244	9,000,000,000	19,251,769,500	(21,607,092,572)	(735,344,249)	5,909,332,679	5.0375098%	297,683,213	24,647,633	322,330,846
2037	2038	-3.047%	122,137,142,951	101,265,456,363	9,000,000,000	20,099,322,900	(22,446,097,797)	(736,290,247)	5,916,934,856	5.0375098%	298,066,173	24,679,342	322,745,515
2038	2039	-3.064%	118,395,012,110	98,162,808,157	9,000,000,000	20,972,302,200	(23,311,076,122)	(737,175,688)	5,924,050,390	5.0375098%	298,424,619	24,709,020	323,133,639
2039	2040	-3.080%	114,748,027,696	95,139,047,063	9,000,000,000	21,871,471,500	(24,202,734,545)	(738,006,892)	5,930,730,064	5.0375098%	298,761,108	24,736,881	323,497,989
2040	2041	-3.137%	111,148,299,958	92,154,467,078	9,000,000,000	22,797,615,600	(25,124,345,408)	(738,508,570)	5,934,761,622	5.0375098%	298,964,198	24,753,697	323,717,895
2041	2042	-3.161%	107,635,158,997	89,241,677,291	9,000,000,000	23,751,544,500	(26,074,626,554)	(738,912,255)	5,938,005,692	5.0375098%	299,127,619	24,767,227	323,894,846
2042	2043	-3.089%	104,310,200,526	86,484,911,996	9,000,000,000	24,734,090,700	(27,048,468,063)	(739,875,574)	5,945,747,063	5.0375098%	299,517,591	24,799,516	324,317,107
2043	2044	-3.128%	101,047,300,036	83,779,599,760	9,000,000,000	25,746,113,700	(28,053,589,821)	(740,639,312)	5,951,884,567	5.0375098%	299,826,768	24,825,116	324,651,884
2044	2045	-3.157%	97,857,082,556	81,134,549,932	9,000,000,000	26,788,497,300	(29,090,231,709)	(741,274,728)	5,956,990,864	5.0375098%	300,083,999	24,846,414	324,930,413
2045	2046	-3.179%	94,746,679,315	78,555,675,103	9,000,000,000	27,862,152,300	(30,158,797,958)	(741,837,883)	5,961,516,459	5.0375098%	300,311,976	24,865,290	325,177,266
2046	2047	-3.199%	91,715,972,534	76,042,877,620	9,000,000,000	28,968,016,500	(31,260,127,638)	(742,339,703)	5,965,549,159	5.0375098%	300,515,124	24,882,110	325,397,234
2047	2048	-3.204%	88,777,376,888	73,606,450,650	9,000,000,000	30,107,057,400	(32,394,241,443)	(742,884,968)	5,969,930,989	5.0375098%	300,735,859	24,900,387	325,636,245
2048	2049	-3.209%	85,928,247,498	71,244,201,290	9,000,000,000	31,280,269,500	(33,562,111,938)	(743,476,106)	5,974,681,456	5.0375098%	300,975,164	24,920,201	325,895,365
2049	2050	-3.215%	83,166,010,721	68,953,995,697	9,000,000,000	32,488,677,900	(34,764,741,512)	(744,115,629)	5,979,820,759	5.0375098%	301,234,057	24,941,637	326,175,694
2050	2051	-3.220%	80,488,162,363	66,733,757,615	9,000,000,000	33,733,338,300	(36,003,162,520)	(744,806,122)	5,985,369,658	5.0375098%	301,513,583	24,964,781	326,478,364
2051	2052	-3.225%	77,892,265,943	64,581,466,925	9,000,000,000	35,015,338,800	(37,278,438,932)	(745,550,254)	5,991,349,614	5.0375098%	301,814,824	24,989,723	326,804,547
2052	2053	-3.231%	75,375,950,987	62,495,158,238	9,000,000,000	36,335,799,000	(38,591,665,698)	(746,350,754)	5,997,782,548	5.0375098%	302,138,884	25,016,555	327,155,438
2053	2054	-3.236%	72,936,911,369	60,472,919,515	9,000,000,000	37,695,872,700	(39,943,971,164)	(747,210,439)	6,004,691,097	5.0375098%	302,486,902	25,045,370	327,532,273
2054	2055	-3.241%	70,572,903,686	58,512,890,722	9,000,000,000	39,096,748,800	(41,336,517,975)	(748,132,214)	6,012,098,612	5.0375098%	302,860,057	25,076,267	327,936,323
2055	2056	-3.247%	68,281,739,050	56,613,257,025	9,000,000,000	40,539,651,300	(42,770,503,766)	(749,118,996)	6,020,028,538	5.0375098%	303,259,528	25,109,342	328,368,870
2056	2057	-3.248%	66,063,842,007	54,774,370,419	9,000,000,000	42,025,841,100	(44,246,939,742)	(750,198,419)	6,028,702,939	5.0375098%	303,696,501	25,145,523	328,842,024

(1) Includes $627,681.96 unpaid from a prior sales year that is due to be paid to the Authority by an SPM with the 2020 Annual Payment.

Bond Structuring Methodology and Assumptions

The Bond Structuring Methodology and Assumptions of the Series 2020 Senior Bonds and the forecast contained within the Tobacco Consumption Report were applied to the projections of Pledged Tobacco Receipts described above. See "SUMMARY OF THE TOBACCO CONSUMPTION REPORT" and APPENDIX A—"TOBACCO CONSUMPTION REPORT." See also "RISK FACTORS—Risks Relating to the Tobacco Consumption Report."

The Bond Structuring Methodology and Assumptions are as follows:

Delivery Date

The Series 2020 Senior Bonds are assumed to be delivered on March 4, 2020.

Issue Size

The objective in issuing the Series 2020 Senior Bonds is to provide proceeds in an amount, together with other available funds, sufficient to: (1) refund the Series 2007 Bonds by establishing an irrevocable escrow for the defeasance and redemption thereof, (2) fund the Class 1 Senior Liquidity Reserve Subaccount for the Series 2020A Senior Bonds and the Class 2 Senior Liquidity Reserve Subaccount for the Series 2020B-1 Senior Bonds and the Series 2020B-2 Senior Bonds, and (3) pay the costs of issuance of the Series 2020 Senior Bonds.

Maturity Dates

The stated maturity dates of the Series 2020 Senior Bonds are set forth on the inside cover page hereof.

Mandatory Redemptions of Outstanding Bonds

All mandatory redemptions of the Series 2020 Senior Bonds, including Turbo Redemptions and the mandatory clean-up redemption of the Series 2020B Senior Bonds, are assumed to be made on June 1 in any year to the extent that sufficient Collateral is available therefor.

Interest Rates

The Series 2020 Senior Bonds bear interest at the rates shown on the inside cover page hereof. Interest is calculated on the basis of a 360-day year consisting of twelve 30-day months.

Senior Liquidity Reserve Account

The Class 1 Senior Liquidity Reserve Subaccount will be fully funded on the Closing Date at the Class 1 Senior Liquidity Reserve Requirement of $91,657,486.26. The Class 2 Senior Liquidity Reserve Subaccount will be fully funded on the Closing Date at the Class 2 Senior Liquidity Reserve Requirement of $170,850,000.00.

Operating and Enforcement Expense Assumptions

The Operating Account is assumed to be funded annually at the Operating Cap ($250,000 in the Fiscal Year ending June 30, 2020 inflated in each Fiscal Year thereafter by 3%) to pay the Operating Expenses of the Authority. No Operating Expenses are assumed in excess of the Operating Cap in any year, and no arbitrage payments, rebate or penalties were assumed to be paid since it has been assumed that the yield on the invested bond proceeds of the Series 2020 Senior Bonds will not exceed the arbitrage yield on the Series 2020 Senior Bonds.

The Enforcement Expenese Reserve Account is assumed to be funded annually at the Enforcement Expense Transfer Cap ($2,000,000 in each Fiscal Year) to pay the Enforcement Expenses of the Office of the Attorney General of the State.

Senior Debt Service Account

As of the Closing Date, no amounts will be on deposit in the Senior Debt Service Account.

Interest Earnings

Amounts on deposit in the Senior Debt Service Account and the Senior Liquidity Reserve Account are assumed to be invested at a rate of 1.75% per annum with earnings distributed on each Distribution Date.

Amounts in all other Accounts under the Trust Indenture are assumed to be invested at a rate of 0.00% per annum. No interest earnings have been assumed on the Annual Payments prior to the time it is assumed they will be received by the Trustee.

Miscellaneous

The Pledged Tobacco Receipts Projection Methodology and Assumptions assume that there is no optional redemption of the Series 2020 Senior Bonds, that no Event of Default occurs, and that no PM makes a Lump Sum Payment or Total Lump Sum Payment under the MSA. 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.

No assurance can be given that actual cigarette consumption in the United States during the term of the Series 2020 Senior Bonds will be as assumed, or that the other assumptions underlying the Pledged Tobacco Receipts Projection Methodology and Assumptions and Bond Structuring Methodology and Assumptions, including that certain adjustments (including the NPM Adjustment) and offsets will not apply to payments due under the MSA, will be consistent with future events. If actual events deviate from one or more of the assumptions underlying the Pledged Tobacco Receipts Projection Methodology and Assumptions and Bond Structuring Methodology and Assumptions, the amount of funds available to the Authority to pay the principal or Accreted Value of and interest on the Series 2020 Senior Bonds and to make Turbo Redemptions on the Series 2020B Senior Bonds could be adversely affected. See "RISK FACTORS" and "LEGAL CONSIDERATIONS" herein.

RISK FACTORS

The Series 2020 Senior Bonds differ from many other state and local governmental securities in a number of respects. Prospective investors should carefully consider the factors set forth below regarding an investment in the Series 2020 Senior Bonds, as well as the other information contained in this Offering Circular. One or a combination of the risk factors set forth below, and other risks, may materially adversely affect the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full, and could have a material adverse effect on the liquidity and/or market value of the Series 2020 Senior Bonds.

*The discussion of certain risks has been compiled from certain publicly available documents of the tobacco companies and their current or former parent companies, certain publicly available analyses of the domestic tobacco industry and other public sources. Certain of those companies currently 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) 551-8090; e-mail: publicinfo@sec.gov). To the extent that any risk discussed in this section describes the domestic tobacco industry and litigation relating thereto, the Authority does not warrant the accuracy or completeness of such information.*

The risks set forth herein do not comprise all of the risks associated with the Pledged Tobacco Receipts, nor does the order of presentation necessarily reflect the relative importance of the various and separate risks. Certain general categories of risks discussed below include, among others, payment decreases under the terms of the MSA, including with respect to the NPM Adjustment, declines in cigarette consumption, federal and state regulation, alternative tobacco products, litigation and bankruptcy. There can be no assurance that other risk factors will not become material in the future. See also "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT," "CERTAIN

INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY" and APPENDIX A – "TOBACCO CONSUMPTION REPORT." Additional risk factors are set forth in "LEGAL CONSIDERATIONS."

Payment Decreases Under the Terms of the MSA

Adjustments to MSA Payments

The MSA provides that the amounts payable by the PMs are subject to numerous adjustments, offsets and recalculations, some of which are material, including without limitation, the NPM Adjustment discussed below. Any such adjustment could trigger the Offset for Miscalculated or Disputed Payments. See "— Disputed MSA Payments and Potential for Significant Future Year Offsets to MSA Payments" and "— NPM Adjustment" below for a description of disputes concerning MSA payments and the calculation thereof, including pending arbitration regarding the 2004 NPM Adjustment in which the State is involved. Any such adjustments, offsets and recalculations could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full.

An amendment to the MSA (as described further herein, the "**PSS Credit Amendment**") has been proposed that would allow SPMs to elect to receive a reduction in their MSA payments in an amount equal to a percentage of the fees paid to Previously Settled States pursuant to state legislation in the Previously Settled States requiring tobacco product manufacturers that did not sign onto the Previously Settled State Settlements to pay a fee to such Previously Settled States. By its terms, the PSS Credit Amendment will only take effect if and when all Settling States having aggregate Allocable Shares equal to at least 99.937049% (the equivalent of the aggregate Allocable Share of the 46 states that are Settling States), and all OPMs and Commonwealth Brands, Inc., have executed the PSS Credit Amendment. No assurance can be given as to if or when such an amendment will take effect. Further, no assurance can be given as to whether the PSS Credit Amendment, if and when it takes effect, will reduce the amount of Pledged Tobacco Receipts available to the Authority to pay debt service on the Series 2020 Senior Bonds. See "RISK FACTORS—Other Risks Relating to the MSA and Related Statutes—Amendments, Waivers and Termination," "RISK FACTORS—Reliance on State Enforcement of the MSA; State Impairment," and "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Adjustments to Payments—Previously Settled States Reduction—PSS Credit Amendment." See also "SECURITY FOR THE BONDS – Non-Impairment Covenants" herein.

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

Disputes concerning Annual Payments (as well as Strategic Contribution Payments) and their calculations may be raised up to four years after the respective Payment Due Date (as defined in the MSA). The resolution of disputed payments that arise in prior years may result in the application of offsets against subsequent payments. Disputes could result in the future diversion of disputed payments to the Disputed Payments Account under the MSA, maintained by the MSA Escrow Agent pursuant to the MSA Escrow Agreement (the "**Disputed Payments Account**" or the "**DPA**"), the withholding of all or a portion of any disputed amounts, or the application of offsets against future payments. Any such disputes or the resolution thereof could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full.

Miscalculations or recalculations by PricewaterhouseCoopers LLP, the independent auditor under the MSA (the "**MSA Auditor**"), or disputed calculations by any of the parties to the MSA have resulted and could in the future result in offsets to, or delays in disbursements of, payments to the Settling States pending resolution of the disputed item in accordance with the provisions of the MSA, which could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full. See "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Adjustments to Payments—*Offset for Miscalculated or Disputed Payments.*"

The cash flow assumptions used to prepare the debt service coverage table herein assume that the State is not subject to the NPM Adjustment as a result of diligently enforcing its Qualifying Statute and do not factor in an offset for miscalculated or disputed payments or any release of funds currently held in the DPA. See "PLEDGED TOBACCO RECEIPTS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS." Adjustments in future Pledged Tobacco Receipts could be different from those projected.

NPM Adjustment

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

The State and certain other Settling States are currently in arbitration regarding the 2004 NPM Adjustment. No assurance can be given that the State will be found by the relevant arbitration panel to have diligently enforced its Qualifying Statute for such sales year or any subsequent sales year. The Pledged Tobacco Receipts Projection Methodology and Assumptions contain an assumption that the State will diligently enforce its Qualifying Statute in all years that the Series 2020 Senior Bonds are Outstanding and therefore that the State will not be subject to the NPM Adjustment and that the NPM Adjustment will not reduce Annual Payments. No assurance can be given that the assumptions underlying the Pledged Tobacco Receipts Projection Methodology and Assumptions will be consistent with future events. Any NPM Adjustment could have an adverse effect on the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full.

Declines in Cigarette Consumption

Cigarette consumption in the U.S. has declined significantly over the last several decades. According to the Tobacco Consumption Report, a Centers for Disease Control and Prevention ("**CDC**") study released in 2019 reported that approximately 34 million American adults were current smokers in 2018, representing approximately 13.7% of the population age 18 and older, a decline from 14.0% in 2017, 15.5% in 2016, and from 19.4% in 2010. NAAG reported that total industry domestic cigarette shipment volume was 236.7 billion cigarettes in sales year 2018, 248.5 billion cigarettes in sales year 2017, and 260.1 billion cigarettes in sales year 2016 (including a roll-your-own equivalent of 0.0325 ounces per cigarette), as compared to shipments of approximately 371.8 billion in 2007. According to the Tobacco Consumption Report, consumption fell to 237.4 billion cigarettes (including a roll-your-own equivalent of 0.0325 ounces per cigarette) in 2018, and in April 2019 NAAG reported an industry volume decline of 4.7%, to 236.7 billion (as noted above), an acceleration in the industry decline rate that coincided with the extraordinary growth of the e-cigarette JUUL, as discussed below. Altria Group, Inc. ("**Altria**") in its Form 10-K filed with the SEC for the calendar year 2019 stated that a growing number of adult smokers are converting from cigarettes to exclusive use of non-combustible tobacco product alternatives, the e-vapor category has experienced significant growth in recent years, and the number of adults who exclusively use e-vapor products also has increased which, along with growth in oral nicotine pouches, has negatively impacted consumption levels and sales volume of cigarettes, and that based on the accelerated adult smoker movement across categories and the federal government raising the legal age to purchase tobacco products to 21, as discussed below, Altria expects the U.S. adjusted cigarette industry volume for 2020 to decline by 4% - 6%. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Cigarette Shipment Trends."

A trend in the percentage of the population that smokes cigarettes does not necessarily correlate with the trends in the volume of cigarettes sold. As noted in the Tobacco Consumption Report, because of the growing number of "light smokers" (those who smoke just a few cigarettes per day), the rate of decline in the overall prevalence of smoking has slowed, while the rate of decline of the volume of cigarettes consumed has accelerated.

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

on advertising and promotions, increases in excise taxes, smoking bans in public places, the raising of the minimum age to possess or purchase tobacco products, other increased regulation such as state and local bans on characterizing flavors, a decline in the social acceptability of smoking, health concerns, funding of smoking prevention campaigns, increased pressure from anti-tobacco groups, increased usage of alternative products such as e-cigarettes and other vapor products, curtailments in the chain of distribution, and other factors. U.S. cigarette consumption is expected to continue to decline for the reasons stated above and others. Continuing declines in cigarette consumption could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full. The following factors, among others, may negatively affect cigarette consumption in the U.S.

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

The Family Smoking Prevention and Tobacco Control Act (the "**FSPTCA**"), signed by President Obama on June 22, 2009, granted the U.S. Food and Drug Administration (the "**FDA**") broad authority over the manufacture, sale, marketing and packaging of tobacco products. The legislation, among other things, requires larger and more severe health warnings on cigarette packs and cartons, bans the use of certain descriptors on tobacco products, requires the disclosure to consumers of ingredients and additives, requires FDA pre-market review for new or modified products, and allows the FDA to place more severe restrictions on the advertising, marketing and sales of cigarettes. Since the passage of the FSPTCA, the FDA, among other things, has prohibited fruit, candy or clove flavored cigarettes (menthol is currently exempted from this ban), prohibited misleading marketing terms ("Light," "Low," and "Mild") for tobacco products, rejected applications for the introduction of new tobacco products into the market, and issued its final rule subjecting e-cigarettes and certain other tobacco products to FDA regulations. In July 2017, the FDA announced its intent to develop a comprehensive plan for tobacco and nicotine regulation and is considering, among other matters, the issues surrounding the presence of menthol in cigarettes. On March 15, 2018, as part of this comprehensive plan, the FDA announced an Advance Notice of Proposed Rulemaking ("**ANPRM**") to explore and seek comment on lowering the nicotine in cigarettes to minimally or non-addictive levels, but on November 20, 2019, the FDA removed its nicotine reduction plan from its current regulatory agenda (although the FDA may revive the plan in the future). On March 21, 2018, the FDA issued an additional ANPRM regarding the role that flavors, including menthol, play in initiation, use and cessation of use of tobacco products. In April 2018, as part of the comprehensive plan, the FDA announced a Youth Tobacco Prevention Plan focused on stopping the use by youth of tobacco products, particularly e-cigarettes. In a press release dated November 15, 2018, the FDA announced its intent to advance a Notice of Proposed Rulemaking that would seek to ban menthol in combustible tobacco products, including cigarettes and cigars, based on comments received from the March 21, 2018 ANPRM. In the March 15, 2018 announcement, the FDA also stated that it is starting new work to re-evaluate and modernize its approach to the development and regulation of medicinal nicotine replacement products such as gums, patches and lozenges. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Regulatory Issues—*FSPTCA*."

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

On June 22, 2011, the FDA issued a final regulation for the imposition of larger, graphic health warnings on cigarette packaging and advertising, which was scheduled to take effect September 22, 2012 (but which the FDA was enjoined from enforcing, as described below). On August 16, 2011, tobacco companies filed a lawsuit against the FDA in the U.S. District Court for the District of Columbia, *R. J. Reynolds Tobacco Co. v. U.S. Food and Drug*

Administration, challenging the FDA's final regulation specifying nine new graphic "warnings" pursuant to the FSPTCA and seeking a declaratory judgment that the final regulation violates the plaintiffs' rights under the First Amendment to the U.S. Constitution and the Administrative Procedure Act ("**APA**"). On August 24, 2012, the U.S. Court of Appeals for the District of Columbia Circuit affirmed a February 29, 2012 decision of the district court that invalidated the graphic warning rule. On March 19, 2013, the FDA announced that it would undertake research to support a new rulemaking on different warning labels consistent with the FSPTCA. In October 2016, several public health groups filed suit in the Federal District Court for the District of Massachusetts to force the FDA to issue final rules requiring graphic warnings on cigarette packs and advertising (*American Academy of Pediatrics, et al v. United States Food and Drug Administration*). In a March 5, 2019 Memorandum and Order, the court directed the FDA to submit by March 15, 2020 a final rule mandating color graphic warnings on cigarette packs and in cigarette advertisements as required by the FSPTCA. On August 15, 2019, the FDA issued a proposed rule to require new health warnings on cigarette packages and in advertisements to promote greater public understanding of the negative health consequences of smoking. The proposed warnings feature text and photo-realistic color images depicting some of the lesser-known but serious health risks of cigarette smoking. As of February 21, 2020, the FDA has not issued a final rule, according to Altria in its Form 10-K filed with the SEC for the calendar year 2019. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Regulatory Issues" for a discussion of these cases and several other cases.

The FDA has yet to issue final guidance with respect to many provisions of the FSPTCA. It is likely that future regulations promulgated by the FSPTCA, including regulation of menthol (including an outright ban thereof) or, if the FDA adds back a nicotine reduction plan to its regulatory agenda, decreasing the permitted level of nicotine (though not to zero), as discussed herein, could result in a decrease in cigarette sales in the U.S., and an increase in costs to PMs, potentially resulting in a material adverse effect on the PMs' financial condition, results of operations and cash flows. Altria reported in its Form 10-K filed with the SEC for the calendar year 2019 that in addition to the payment of user fees required by the FSPTCA, compliance with the FSPTCA's regulatory requirements has resulted and will continue to result in additional costs and that although the amount of additional compliance and related costs has not been material in any given quarter or year to date period, such costs could become material, either individually or in the aggregate, to one or more of its tobacco subsidiaries. Additionally, the FDA's rules regarding clearance for new or modified cigarette products could adversely affect PMs' access to the market and could result in the removal of products from the market. President Trump's budget plan released February 10, 2020 proposes to move the Center for Tobacco Products out of the FDA and to create a new agency within the U.S. Department of Health and Human Services to focus on tobacco regulation, which, according to the Trump administration, would have greater capacity to respond strategically to the growing complexity of new tobacco products.

The effect of the foregoing factors could be to reduce consumption of cigarettes in the U.S. and adversely affect the operations of the PMs, thereby reducing payments under the MSA, which could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full.

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

According to research published in *Nicotine and Tobacco Research* in 2018, the menthol cigarette market share was 31.5% during 2011-2015. News reports have estimated the 2018 market share of menthol cigarettes at 35%. Some plaintiffs and constituencies, including public health agencies and non-governmental organizations, have claimed or expressed concerns that mentholated cigarettes may pose greater health risks than non-mentholated cigarettes, including concerns that mentholated cigarettes may make it easier to start smoking and harder to quit, and increase smoking initiation among youth and the incidence of smoking among youth. Such plaintiffs and constituencies may seek restrictions or a ban on the production and sale of mentholated cigarettes. On November 8, 2013, twenty-seven jurisdictions (including the State) sent a letter to the FDA in support of a ban on menthol-flavored cigarettes. In an August 2016 letter, the African American Tobacco Control Leadership Council asked President Obama to direct the FDA to issue a proposed rule to remove all flavored tobacco products, including mentholated cigarettes, from the marketplace. Any ban or material limitation on the use of menthol in cigarettes could materially adversely affect the results of operations, cash flow and financial condition of the PMs that sell large quantities of

mentholated cigarettes, especially Reynolds Tobacco, a significant portion of whose sales, after the merger with Lorillard, are dependent on the Newport brand of mentholated cigarettes.

The FSPTCA established the Tobacco Products Scientific Advisory Committee ("**TPSAC**") and directs the TPSAC to evaluate issues surrounding the use of menthol as a flavoring or ingredient in cigarettes. In addition, the legislation permits the FDA to ban menthol upon a finding that such a prohibition would be appropriate for the public health. The TPSAC or the Menthol Report Subcommittee held meetings throughout 2010 and 2011 to consider the issues surrounding the use of menthol in cigarettes. At a March 2011 meeting, TPSAC presented its findings that menthol likely increases experimentation and regular smoking, menthol likely increases the likelihood and degree of addiction for youth smokers, non-white menthol smokers (particularly African-Americans) are less likely to quit smoking and are less responsive to certain cessation medications, and consumers continue to believe that smoking menthol cigarettes is less harmful than smoking nonmenthol cigarettes as a result of the cigarette industry's historical marketing. TPSAC's overall recommendation to the FDA was that "removal of menthol cigarettes from the marketplace would benefit public health in the United States." In July 2013, the FDA released a preliminary evaluation on menthol cigarettes, finding among other things that menthol cigarettes likely pose a public health risk above that seen with non-menthol cigarettes. On March 21, 2018, as part of the FDA's comprehensive plan for tobacco and nicotine regulation, the FDA issued an ANPRM regarding the role that flavors (including menthol) play in initiation, use and cessation of use of tobacco products. The FDA is not required to follow the TPSAC's recommendations, and the FDA has not yet taken any final action with respect to menthol use. In a press release dated November 15, 2018, the FDA announced its intent to advance a Notice of Proposed Rulemaking that would seek to ban menthol in combustible tobacco products, including cigarettes and cigars, based on comments received from the March 21, 2018 ANPRM. There is no timeline or statutory requirement for the FDA to act on the TPSAC's recommendations. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Regulatory Issues–*FSPTCA Litigation*" for a discussion on litigation regarding the TPSAC.

If the FDA determines that the regulation of menthol is warranted, the FDA could promulgate regulations that, among other things, could result in a ban on or a restriction on the use of menthol in cigarettes. Several jurisdictions have already enacted bans on menthol and other characterizing flavors. The State of Maine, in 2007, became the first state to enact a statute that prohibits the sale of cigarettes and cigars that have a characterizing flavor, including menthol. In June 2017, San Francisco amended its city health code to prohibit tobacco retailers from selling flavored tobacco products, including flavored e-cigarettes and menthol cigarettes, and voters approved the measure on June 5, 2018. In February 2018, New Jersey introduced a bill that would add menthol to its list of prohibited characterizing flavors. A bill (Senate Bill 38) was introduced into the California Senate in December 2018 that would ban the sale of all flavored tobacco products, including menthol-flavored cigarettes and e-cigarettes. According to the Tobacco Consumption Report, in October 2019, Los Angeles County banned the sale of all flavored tobacco products, including menthol cigarettes. In November 2019, Massachusetts banned the sale of all flavored tobacco products, effective June 1, 2020 for menthol cigarettes. In January 2020, legislation was introduced in the New York State Senate that would ban the sale of all flavored tobacco products. A ban or any material restriction on the use of menthol in cigarettes could adversely affect the overall sales volume of cigarettes by the PMs, thereby reducing payments under the MSA, which could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full.

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

In the U.S., tobacco products are subject to substantial and increasing federal and state excise taxation, which has a negative effect on consumption. On April 2, 2009, Congress increased the federal excise tax per pack of cigarettes to $1.01 per pack (an increase of $0.62), and significantly increased taxes on other tobacco products. All of the states, the District of Columbia, Puerto Rico, Guam and the Northern Mariana Islands currently impose cigarette taxes, which ranged from $0.17 per pack in Missouri to $5.10 per pack in Puerto Rico, according to the Campaign for Tobacco-Free Kids as of January 14, 2020. Since January 1, 2002, 48 states and the District of Columbia have raised their cigarette taxes a total of 138 times, according to the Campaign for Tobacco-Free Kids as of January 14, 2020. In particular, in California, a $2.00 per pack increase in the State's cigarette excise tax (in addition to the State's then current $0.87 per pack excise tax) was passed by voters on November 8, 2016, effective April 1, 2017. In addition to federal and state excise taxes, certain city and county governments also impose substantial excise taxes on tobacco

products sold, such as New York, Philadelphia and Chicago. According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, between the end of 1998 (the year that the MSA was executed) and February 21, 2020, the weighted-average state cigarette excise tax increased from $0.36 to $1.82 per pack. In addition, according to Altria, Kentucky, Oklahoma, and Washington, D.C. enacted cigarette excise tax increases during 2018, and according to the Tobacco Consumption Report, New Mexico and Illinois increased their cigarette excise taxes during 2019. According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, as of February 21, 2020, no state has increased cigarette excise taxes in 2020, but various increases are under consideration or have been proposed. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Regulatory Issues—*Excise Taxes*" for a further description of excise taxes on cigarettes.

It is expected that state and local governments will continue to raise excise taxes on cigarettes in future years. Increased excise taxes are likely to result in declines in overall sales volume and shifts by consumers to less expensive brands, deep discount brands, untaxed cigarettes sold on certain Native American reservations and duty-free shops, counterfeit brands or pipe tobacco for roll-your-own consumers. Such trends and reductions in consumption will lead to reductions of payments under the MSA, which could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full.

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

U.S. cigarette consumption is expected to continue to decline due to legislation raising the minimum age to possess or purchase tobacco products. On December 20, 2019, the President of the United States signed legislation, effective January 1, 2020, banning the sale of tobacco products to anyone under the age of 21 (federal law had previously set the minimum age at 18). This federal legislation had been preceded by various states having raised the minimum age to purchase tobacco from 18 to 21 (or 19, in certain states), beginning in 2016 with Hawaii setting the minimum age at 21, and by numerous municipalities having enacted similar legislation. According to Altria, the following states enacted such legislation: Ohio (21), Maryland (21), Vermont (21), New York (21), Texas (21), Connecticut (21), Nebraska (19), Delaware (21), Illinois (21), Arkansas (21), Washington (21), Utah (21), Virginia (21), California (21), Hawaii (21), Alabama (19), Alaska (19), New Jersey (21), Oregon (21), Maine (21) and Massachusetts (21). According to the Campaign for Tobacco-Free Kids, prior to the federal legislation raising the minimum age, at least 540 localities had raised the tobacco age to 21.

On March 12, 2015, the Institute of Medicine of the National Academy of Sciences released a report concluding that raising the minimum legal age to 21 would likely decrease smoking prevalence by 12% among today's teenagers when they become adults. Declines in consumption due to the increased minimum age to possess or purchase tobacco products could lead to reductions of payments under the MSA, which could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full.

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

In recent years, federal, state and many local and municipal governments and agencies, as well as private businesses, have adopted legislation, regulations, insurance provisions or policies which prohibit, restrict, or discourage smoking generally, smoking in public buildings and facilities, public housing, stores, restaurants and bars, and smoking on airline flights and in the workplace. Other similar laws and regulations are currently under consideration and may be enacted by state and local governments in the future. Restrictions on smoking in public and other places may lead to a decrease in the number of people who smoke or a decrease in the number of cigarettes smoked or both. Smoking bans have recently been extended by many state and local governments to outdoor public areas, such as beaches, parks and space outside restaurants, and others may do so in the future. Increased restrictions on smoking in public and other places have caused a decrease, and may continue to cause a decrease, in the volume of cigarettes that would otherwise be sold in the U.S. absent such restrictions, which could lead to reductions of payments under the MSA and could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a

timely basis or in full. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Regulatory Issues—*State and Local Regulation.*"

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

Certain of the major cigarette makers and other manufacturers have developed (or acquired) and marketed alternative cigarette products the shipments of which do not give rise to payment obligations under the MSA. For example, numerous manufacturers have developed and are marketing "**electronic cigarettes**" or "**e-cigarettes**," which are not tobacco products but are battery powered devices that vaporize liquid nicotine which is then inhaled. E-cigarettes do not currently constitute "cigarettes" within the meaning of the MSA (as deemed by the manufacturers and certain states) because they do not contain or burn or heat tobacco. The growth in this area includes devices called "vaporizers," which are larger, customizable devices that hold more liquid, produce larger vapor clouds and last longer. They allow users to mix and match hardware and refill cartridges with liquid bought in bulk, so that they are cheaper than e-cigarettes. E-cigarettes and other vapor products are currently not subject to the advertising restrictions to which tobacco products are subject. In addition, many jurisdictions do not subject electronic cigarettes or other vapor products to excise taxes. According to research cited by the Campaign for Tobacco-Free Kids, in 2017 there were more than 430 brands of e-cigarettes, and over 15,500 unique e-cigarette flavors were available online. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—E-Cigarettes and Vapor Products." See also "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Regulatory Issues—*FSPTCA*" for a discussion of the regulation of e-cigarettes and vapor products by the FDA as well as by various states and municipalities.

According to the Tobacco Consumption Report, 2018 sales of electronic cigarettes in the U.S. were estimated at over $7 billion, with rapid growth in the past two years, led by sales of the JUUL brand. JUUL is an e-cigarette shaped like a USB flash drive. No single e-cigarette manufacturer dominated the U.S. market through 2013. However, sales of BAT's e-cigarette devices surged 146% during 2014 and led the market well into 2017. During 2016-2017, Juul Labs, Inc.'s sales increased 641 percent — from 2.2 million JUUL devices sold in 2016 to 16.2 million devices sold in 2017. By December 2017, according to the Tobacco Consumption Report, JUUL was the most popular electronic cigarette, accounting for approximately three-fourths of the e-cigarette market. According to a CDC release dated October 2, 2018, based on an analysis of retail sales data from 2013-2017, sales of JUUL grew more than seven-fold from 2016 to 2017, and held the greatest share of the U.S. e-cigarette market by December 2017.

In September 2017, Philip Morris International announced that it would contribute approximately $80 million each year for the following 12 years to a non-profit organization called the Foundation for a Smoke-Free World, to fund research on smoke-free alternatives, among other things. In addition, in January 2018, Philip Morris International announced that its long-term goal is to replace its traditional cigarettes with smoke-free alternative products. On May 22, 2018, Altria announced the creation of two divisions within Altria—one division for traditional cigarettes, pipe tobacco, cigars and snuff, and a second division for innovative, non-combustible, reduced-risk products such as vapor products. Altria reported that the new structure is expected, among other things, to accelerate innovation.

Cigarette manufacturers also market other types of alternative products, such as moist snuff, "snus" (a smokeless, spitless tobacco product that originated in Sweden), disposable nicotine discs, dissolvable tobacco tablets, orbs, strips and sticks, and oral tobacco-derived nicotine pouches. According to a CDC report published November 9, 2018, 2.1% of U.S. adults were current users of smokeless tobacco (defined as chewing tobacco, snuff, dip, snus, or dissolvable tobacco) in 2017.

Electronic cigarettes, other vapor products and smokeless tobacco products are viewed by some as alternatives to cigarette smoking that may lead to cigarette smoking cessation. According to the CDC, e-cigarettes are not currently approved by the FDA as a quit smoking aid; however, e-cigarettes may help non-pregnant adult smokers quit smoking cigarettes if used as a complete substitute for all cigarettes and other smoked tobacco products. The Tobacco Consumption Report notes that a new British study provides evidence that e-cigarettes are more effective as a smoking cessation aid than other forms of nicotine replacement products, and also notes that a study from the Centre for Substance Use Research in the United Kingdom found that at least 28.3% of adult smokers had quit smoking

cigarettes completely after using a JUUL vaporizer for 3 months. Altria reported in its Form 10-K filed with the SEC for the calendar year 2019 that the e-vapor category has experienced significant growth in recent years, and the number of adults who exclusively use e-vapor products also has increased which, along with growth in oral nicotine pouches, has negatively impacted consumption levels and sales volume of cigarettes.

It has been reported that increases in cigarette taxes have caused an increase in the sale of e-cigarettes and other alternatives to cigarettes. According to the Tobacco Consumption Report, certain sources have shown that e-cigarette use is associated with quit attempts by smokers; that youth use of e-cigarettes is unlikely to increase the number of future cigarette smokers; and that the substantial increase in e-cigarette use among U.S. adult smokers this decade was associated with a statistically significant increase in the smoking cessation rate at the population level; however, the Tobacco Consumption Report cites two studies published in 2019 that found that teens who use e-cigarettes or other tobacco-related products are more likely to later initiate cigarette use. Growth in the electronic cigarette, vapor product and smokeless tobacco product markets may have an adverse effect on the traditional cigarette market. If consumers use such alternative products in lieu of traditional cigarettes containing nicotine or to quit smoking, it could reduce the size of the cigarette market. In addition, recreational marijuana, which, according to the American Nonsmokers' Rights Foundation ("**ANRF**") as of January 2, 2020, has been legalized in the states of Alaska, California, Colorado, Illinois, Maine, Massachusetts, Michigan, Nevada, Oregon, Washington and Vermont (as well as Washington, D.C.), may be an alternative to cigarette smoking and reduce the size of the cigarette market. Furthermore, because many alternative cigarette products continue to be deemed not to constitute "cigarettes" under the MSA, as these products gain market share of the domestic cigarette market to the detriment of traditional cigarettes, payments under the MSA may decrease, which could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—E-Cigarettes and Vapor Products," "—Heat-Not-Burn Tobacco Products" and "—Smokeless Tobacco Products."

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

Television and radio advertisements of tobacco products have been prohibited since 1971. U.S. tobacco companies generally cannot use billboard advertising, cartoon characters, sponsorship of concerts, non-tobacco merchandise bearing brand names and various other advertising and marketing techniques. In addition, the MSA prohibits the targeting of youth in advertising, promotion or marketing of tobacco products. Accordingly, the tobacco companies have determined not to advertise cigarettes in magazines with large readership among people under the age of 18. Under the FSPTCA, which grants authority over the regulation of tobacco products to the FDA, the FDA has issued rules restricting access and marketing of cigarettes and smokeless tobacco products to youth, and in August 2019 the FDA issued a proposed rule to require larger, color graphic warnings on cigarette packs and in cigarette advertisements as required by the FSPTCA, as discussed herein. In addition, many states, cities and counties have enacted legislation or regulations further restricting tobacco advertising, marketing and sales promotions, and others may do so in the future. Additional restrictions may be imposed or agreed to in the future. These limitations significantly impair the ability of tobacco product manufacturers to launch new premium brands. Moreover, these limitations may make it difficult for PMs to maintain sales volume of cigarettes in the U.S., which could lead to reductions of payments under the MSA and could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full.

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

Federal, State and Local Anti-Smoking Campaigns Could Negatively Affect Cigarette Sales Volume

Federal, state and local anti-smoking campaigns have resulted and may continue to result in a decline in cigarette consumption. For example, the FDA launched an integrated anti-smoking campaign targeting teenagers, including the "Real Cost" campaign that targets young people aged 12-17 years and shows the costs and health consequences associated with tobacco use. The FDA reported that the "Real Cost" campaign prevented nearly 350,000 youth aged 11 to 18 nationwide from smoking during 2014-2016 and announced the campaign's expansion in May 2018. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Regulatory Issues—*Other Federal Action*." A decline in cigarette consumption as a result of such anti-smoking campaigns could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full.

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

Certain stores have ceased the sale of tobacco products. The retail chain store Target reportedly stopped selling tobacco products in 1996. In September 2014 the national pharmacy chain CVS reportedly stopped selling all cigarettes and other tobacco products in all its stores (following a February 2014 announcement), citing that such sales were inconsistent with its mission. A group of state attorneys general have pressured large retail stores with pharmacies to take similar action, and in April 2014 several members of Congress called on these retailers to stop selling cigarettes and other items containing tobacco. According to the ANRF, as of January 2, 2020, one state (Massachusetts) and 228 cities and counties, located principally in California and Massachusetts, have tobacco-free pharmacy laws. In addition, Costco has also reportedly reduced the number of locations that sell cigarettes because of slowing demand, according to news reports in March 2016. Furthermore, certain municipalities have enacted laws limiting the number or density of cigarette retailers. For example, in 2014, San Francisco's Tobacco Use Reduction Act was passed, which sets a cap on the number of tobacco retailers in each supervisory district and prohibits new stores from locating within 500 feet of schools or within 500 feet of another existing tobacco retailer. In 2016, Philadelphia's Retailer Reduction Regulations were passed, setting a cap on the number of tobacco retailers allowed at one per 1,000 persons in each planning district and restricting any new retailer from locating within 500 feet of K-12 schools. In August 2017, New York City updated its comprehensive point-of-sale regulations, to, among other things, set a city-wide cap on retailer licenses at half of the current number in each district. Continued curtailment in the distribution of cigarettes could negatively affect sales volume, which could lead to reductions of payments under the MSA and could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full.

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

Large pharmaceutical companies have developed and increasingly expanded their marketing of smoking cessation products. Companies such as GlaxoSmithKline, Johnson & Johnson, Novartis and Pfizer are well capitalized public companies that have entered this market and have the capability to fund significant investments in research and development and marketing of these products. Smoking cessation products can be obtained both in prescription and over-the-counter forms. From Nicorette gum in 1984, to nicotine patches, nicotine inhalers and tablets, as well as other non-pharmaceutical smoking cessation products, this market has evolved into a $1 billion business in the U.S., according to some estimates. Studies have shown that these programs are effective, and that excise taxes and smoking restrictions drive additional expenditures to the smoking cessation market. On March 15, 2018, as part of the FDA's comprehensive plan for tobacco and nicotine regulation, the FDA announced that it is starting new work to re-evaluate and modernize its approach to the development and regulation of medicinal nicotine replacement products such as gums, patches and lozenges, and on August 3, 2018, the FDA released draft guidance aimed at supporting the development of novel, inhaled nicotine replacement therapies that could be submitted to the FDA for approval as new drugs, similar to current over-the-counter pharmaceutical nicotine replacement therapy products. Certain health insurance policies, including Medicaid and Medicare, cover various forms of smoking cessation treatments, making smoking cessation treatments more affordable for covered smokers. To the extent that existing smoking cessation products, new products or products used in combination become more effective and more widely available, or that more smokers use these products, sales volumes of cigarettes in the U.S. may decline, which could lead to reductions

of payments under the MSA and could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Smoking Cessation Products."

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

The consumption of cigarettes in the U.S., and therefore the amounts payable under the MSA and the Pledged Tobacco Receipts available to the Authority to pay debt service on the Series 2020 Senior Bonds, could be materially adversely affected by new or future legal requirements imposed by legislative or regulatory initiatives, including but not limited to those relating to health care reform, climate change and environmental matters affecting the PMs and their manufacturing practices or business operations, which could adversely affect the businesses, results of operations or financial condition of the PMs.

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

Sales of counterfeit cigarettes in the U.S. could adversely affect sales by the PMs of the brands that are counterfeited and potentially damage the value and reputation of those brands. Smokers who mistake counterfeit cigarettes for cigarettes of the PMs may attribute quality and taste deficiencies in the counterfeit product to the actual branded products brands and discontinue purchasing such brands. Most significantly, the availability of counterfeit cigarettes together with substantial increases in excise taxes and other potential price increases of branded products could result in increased demand for counterfeit products that could have a material adverse effect on the sales volume of the PMs, resulting in lower payments under the MSA, which could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full.

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

The volume of cigarette sales in the U.S. is adversely affected by general economic downturns as smokers tend to reduce expenditures on cigarettes, especially premium brands, in times of economic hardship. For example, according to the Tobacco Consumption Report, there is a correlation between an increase in the price of gasoline and a reduction in tobacco consumption. In addition, consumers may become more price-sensitive, which may result in some consumers switching to lower priced, deep discount NPM brands, or counterfeit brands, or travelling to purchase untaxed NPM cigarettes on Native American reservations. Reductions in cigarette consumption or changes in consumption habits to NPM cigarettes could lead to reductions of payments under the MSA, which could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full.

The ability of the PMs to continue their operations selling cigarettes in the U.S. generally is dependent on the health of the overall economy and their ability to access the capital markets on favorable terms. In addition, the ability of the PMs to continue their operations manufacturing cigarettes is dependent on, among other things, their production facilities, shifts in crops, government mandated prices, economic trade sanctions, geopolitical instability and production control programs. To the extent that overall economic or other conditions or constrained capital access materially adversely affects their operations, the PMs may manufacture and sell fewer cigarettes, potentially resulting in reduced payments under the MSA and reduced Pledged Tobacco Receipts available to the Authority to pay debt service on the Series 2020 Senior Bonds.

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

Certain parties, including smokers, smokers' rights organizations, consumer groups, cigarette manufacturers, cigarette wholesalers, cigarette importers, cigarette distributors, Native American tribes, taxpayers, taxpayers' groups

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

All of the judgments rendered to date on the merits have rejected challenges to the MSA, Qualifying Statutes and Complementary Legislation presented in the cases. Courts rendering those decisions include the U.S. Courts of Appeals for the Second Circuit in *Freedom Holdings v. Cuomo* and *Grand River Enterprises Six Nations, Ltd. v. King*; the Third Circuit in *Mariana v. Fisher*, and *A.D. Bedell Wholesale Co. v. Philip Morris Inc.*; the Fourth Circuit in *Star Sci., Inc. v. Beales*; the Fifth Circuit in *Xcaliber Int'l Ltd. v. Caldwell* and *S&M Brands v. Caldwell*; the Sixth Circuit in *S&M Brands v. Cooper, S&M Brands, Inc. v. Summers*, *Tritent Inter'l Corp. v. Commonwealth of Kentucky* and *Vibo Corporation, Inc. d/b/a/ General Tobacco v. Conway, et al.*; the Eighth Circuit in *Grand River Enterprises v. Beebe*; the Ninth Circuit, in *Sanders v. Brown*; the Tenth Circuit in *KT & G Corp. v. Edmondson*, and *Hise v. Philip Morris Inc*.; and multiple lower courts. In addition, in January 2011, an international arbitration tribunal rejected claims brought against the United States challenging MSA-related legislation in various states under NAFTA.

The MSA, Qualifying Statutes and related state legislation may continue to be challenged in the future, on the theories described above or for other reasons that are not described herein. A determination by a court that the MSA, the Qualifying Statutes or related state legislation is void or unenforceable could have a material adverse effect on the payments by the PMs under the MSA, which could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full. No assurance can be given that a court will not find the MSA, a Qualifying Statute or related legislation to be unenforceable, unconstitutional, or void.

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

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

The tobacco industry has been the target of litigation for many years. Numerous legal actions, proceedings and claims arising out of the sale, distribution, manufacture, development, advertising, marketing and claimed health effects of cigarettes are pending against the PMs, and it is likely that similar claims will continue to be filed for the foreseeable future. Both individual and class action lawsuits have been brought by or on behalf of smokers alleging various theories of recovery including that smoking has been injurious to their health, by non-smokers alleging harm from environmental tobacco smoke ("**ETS**"), also known as "secondhand smoke," and by the federal, state and local governments seeking recovery of expenditures relating to the adverse effects on the public health caused by smoking. The claimants have sought recovery on a variety of legal theories, including, among others, negligence, fraud,

misrepresentation, strict liability in tort, design defect, breach of warranty, enterprise liability (including claims asserted under the Racketeer Influenced and Corrupt Organizations Act ("**RICO**")), civil conspiracy, intentional infliction of harm, injunctive relief, indemnity, restitution, unjust enrichment, public nuisance, unfair trade practices, claims based on antitrust laws and state consumer protection acts, and claims based on failure to warn of the harmful or addictive nature of tobacco products. Various forms of relief are sought, including compensatory and, where available, punitive damages in amounts ranging in some cases into the hundreds of millions or even billions of dollars. Claimants in some of the cases have sought treble damages, statutory damages, disgorgement of rights, equitable and injunctive relief and medical monitoring and smoking cessation programs, among other damages. It is possible that the outcome of these and similar cases, individually or in the aggregate, could result in bankruptcy or cessation of operations by one or more of the PMs. It is also possible that the PMs may be unable to post a surety bond in an amount sufficient to stay execution of a judgment in jurisdictions that require such bond pending an appeal on the merits of the case. Furthermore, even if the PMs are successful in defending some or all of the tobacco-related lawsuits against them, these types of cases are expensive to defend. The ultimate outcome of pending or future lawsuits is uncertain. Verdicts of substantial magnitude that are enforceable as to one or more PMs, if they occur, could encourage commencement of additional litigation, or could negatively affect perceptions of potential triers of fact with respect to the tobacco industry, possibly to the detriment of the PMs' positions in pending litigation. A material increase in the number of pending claims could significantly increase defense costs and have a material adverse effect on the results of operations and financial condition of the PMs and could result in a PM insolvency. Adverse decisions in litigation against the tobacco companies could have an adverse effect on the industry overall. Any of the foregoing results could potentially lower the volume of cigarette sales and could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Civil Litigation" for more information regarding the litigation described below.

Engle Progeny

The case of *Engle v. R.J. Reynolds Tobacco Co., et al.* (Circuit Court, Dade County, Florida, filed May 5, 1994) was certified in 1996 as a class action on behalf of Florida residents, and survivors of Florida residents, who were injured or died from medical conditions allegedly caused by addiction to smoking and a multi-phase trial resulted in verdicts in favor of the class. During a three-phase trial, a Florida jury awarded compensatory damages to three individuals and approximately $145 billion in punitive damages to the certified class. In 2006, although the Florida Supreme Court vacated the punitive damages award and determined that the case could not proceed further as a class action, it permitted members of the *Engle* class to file individual claims, including claims for punitive damages, and held that these individual plaintiffs are entitled to rely on a number of the jury's findings in favor of the plaintiffs in the first phase of the *Engle* trial, including that smoking cigarettes causes a number of diseases; that cigarettes are addictive or dependence-producing; and that the defendants were negligent, breached express and implied warranties, placed cigarettes on the market that were defective and unreasonably dangerous, and concealed or conspired to conceal the risks of smoking. In the wake of the Florida Supreme Court ruling, thousands of individuals that were members of the *Engle* class filed separate lawsuits in various state and federal courts in Florida seeking to benefit from the *Engle* findings (the "***Engle* Progeny Cases**"). According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, as of January 27, 2020, approximately 1,700 state court *Engle* Progeny Cases were pending against Philip Morris or Altria asserting individual claims by or on behalf of approximately 2,100 state court plaintiffs. Most federal cases were settled, as discussed herein. It is not possible to predict the final outcomes of any of the *Engle* Progeny Cases, but such outcomes may materially adversely affect the operations of the defendants and thus payments under the MSA and the Pledged Tobacco Receipts available to the Authority to pay debt service on the Series 2020 Senior Bonds. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Civil Litigation—*Engle Progeny Cases*."

The DOJ Case

In August 2006, a final judgment and remedial order was entered in *United States of America v. Philip Morris USA, Inc., et al.* (U.S. District Court, District of Columbia, filed September 22, 1999) (the "**DOJ Case**") and in June 2010 the U.S. Supreme Court denied all petitions for review of the case. Although the verdict did not award monetary damages to the plaintiff U.S. government, the final judgment and remedial order imposed a number of requirements on the defendants. Such requirements include, but are not limited to, corrective statements by defendants related to

the health effects of smoking. The remedial order also placed certain prohibitions on the manner in which defendants market their cigarette products and enjoined any use of "lights" or similar product descriptors. On November 27, 2012, the district court released the text of the corrective statements that the defendants must make. In January 2013, defendants appealed to the U.S. Court of Appeals for the District of Columbia Circuit the district court's November 2012 ruling on the text of the corrective statements, claiming a violation of free speech rights. On June 2, 2014, the U.S. District Court for the District of Columbia approved a joint motion by the U.S. government and the defendant tobacco companies, pursuant to which, for specified time periods following the date when all appeals are exhausted, corrective statements would be disseminated in newspapers (print and online), on television, on the tobacco companies' websites, and on "onserts" affixed to cigarette packs. In June 2017, after the U.S. Court of Appeals ordered revisions to such statements, the U.S. District Court for the District of Columbia issued an order adopting modified corrective statements, featuring a preamble to the effect that a federal court has ordered the OPMs to make the specified statements, and featuring statements regarding the adverse health effects of smoking, the addictiveness of smoking and nicotine, the lack of significant health benefit from smoking "low tar," "light," "ultra light," "mild" and "natural" cigarettes, the manipulation of cigarette design and composition to ensure optimum nicotine delivery, and the adverse health effects of exposure to second hand smoke. According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, the requirements related to corrective statements at point-of-sale remain outstanding, and in May 2019 the district court ordered a hearing on the point-of-sale signage issue. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Civil Litigation—*Health-Care Cost Recovery Cases*."

According to an October 2017 court order, in November 2017 the OPMs began running court-mandated announcements containing the agreed-upon corrective statements. Television announcements were between 30 and 45 seconds long and ran in prime time five days a week for 52 weeks. Full-page print ads appeared in at least 45 newspapers and ran on five weekends spread over approximately four months, and also appeared on the newspapers' websites. According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, the parties reached agreement in April 2018 on the implementation details of the corrective statements remedy for "onserts" affixed to cigarette packs and for company-owned websites and, under the agreement, the corrective statements began appearing on websites in the second quarter of 2018 and the onserts began appearing in the fourth quarter of 2018. It is possible that the district court's order, including the prohibitions on the use of the descriptors relating to low tar cigarettes and the stark text required in the corrective statements, will negatively affect the PMs' sales of and profits from cigarettes, as well as result in significant compliance costs, which could materially adversely affect their payments under the MSA, which in turn could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full.

Non-Preemption of Claims

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

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

In 1998, the OPMs entered into the MSA with 46 states and 6 other U.S. jurisdictions to settle asserted and unasserted health care cost recovery and other claims of these jurisdictions. 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. If the volume of cigarette sales by the PMs were materially reduced, these payment obligations, together with PMs' other litigation liabilities, could materially adversely affect the business operations and financial condition of the PMs and potentially the ability of PMs to make payments under the MSA, which could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full. See "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT."

Risks Relating to the Tobacco Consumption Report

The projections developed using the Pledged Tobacco Receipts Projection Methodology and Assumptions and described in "PLEDGED TOBACCO RECEIPTS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" are based in part upon the tobacco consumption forecast contained in the Tobacco Consumption Report. No assurance can be given that actual future consumption will be consistent with that which is projected in the Tobacco Consumption Report. See "SUMMARY OF THE TOBACCO CONSUMPTION REPORT." For a copy of the Tobacco Consumption Report, see APPENDIX A — "TOBACCO CONSUMPTION REPORT."

Other Risks Relating to the MSA and Related Statutes

Severability

Most of the major provisions of the MSA are not severable. If a court materially modifies, renders unenforceable or finds unlawful any non-severable provision, the attorneys general of the Settling States and the OPMs are required by the MSA to attempt to negotiate substitute terms. If, however, any OPM does not agree to the substitute terms, the MSA terminates in all Settling States affected by the court's ruling. Even if substitute terms are agreed upon, payments under such terms may be less than payments under the MSA or otherwise could be made according to or subject to different terms and conditions, which could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full. See "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Severability."

Amendments, Waivers and Termination

As a settlement agreement between the PMs and the Settling States, the MSA is subject to amendment in accordance with its terms, and may be terminated upon consent of the parties thereto. Parties to the MSA, including the State, may waive the performance provisions of the MSA. The Authority is not a party to the MSA; accordingly, the Authority has no right to challenge any such amendment, waiver or termination. No assurance can be given that such an amendment, waiver or termination of the MSA would not have a material adverse effect on the Authority's ability to make payments to the holders of the Series 2020 Senior Bonds. See "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Amendments and Waivers."

Reliance on State Enforcement of the MSA; State Impairment

The State may not convey and has not conveyed to the Authority or the Bondholders any right to enforce the terms of the MSA. Pursuant to its terms, the MSA, as it relates to the State, can only be enforced by the State. In the Purchase and Sale Agreement, the State has covenanted, among other things, to enforce the rights of the Authority to receive the 2007 Sold Tobacco Receipts and has covenanted that it will not materially impair the rights of the Authority to fulfill the terms of its agreements with the holders of outstanding Bonds under the Trust Indenture and will not materially impair the rights and remedies of the holders of outstanding Bonds or materially impair the security for those outstanding Bonds; provided, however, that such covenants do not preclude or limit the State from taxing or

regulating the sale of cigarettes or other tobacco products, or from defending or prosecuting cases or other actions relating to the sale or use of cigarettes or other tobacco products, and, except as otherwise may be agreed in writing by the Attorney General of the State, such covenants do not modify or limit the responsibility, power, judgment, and discretion of the Attorney General to protect and discharge the duties, rights and obligations of the State under the MSA, the Consent Decree, or the State's Qualifying Statute. A failure by the State to enforce the MSA or an impairment by the State of the rights and remedies of the Owners of the Series 2020 Senior Bonds or the security for such Bonds could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full. No assurance can be given that the State will enforce any particular provision of the MSA. It is also possible that the State could attempt to claim some or all of the Pledged Tobacco Receipts for itself or otherwise interfere with the security for the Series 2020 Senior Bonds. In that event, the Bondholders, the Trustee or the Authority may assert claims based on statutory, contractual, fiduciary or constitutional rights, but no prediction can be made as to the disposition of such claims. See "LEGAL CONSIDERATIONS."

Amendment to the State's Qualifying Statute

The MSA provides that if a state adopts the Model Statute or a Qualifying Statute but then repeals it or amends it in such fashion that it is no longer a Qualifying Statute, then such state will no longer be entitled to any protection from the NPM Adjustment. No assurance can be provided that a PM would not assert that, or a court or arbitrator would not determine that, the State's Qualifying Statute as may be so amended would not continue to constitute a Qualifying Statute. Should it be determined that any prior or future amendments to the State's Qualifying Statute cause it to no longer be a Qualifying Statute, then the State would no longer be entitled to any protection from the NPM Adjustment, and there could be substantial reductions in the amount of Pledged Tobacco Receipts available to the Authority to make payments on the Series 2020 Senior Bonds. See "LEGAL CONSIDERATIONS—MSA and Qualifying Statute Enforceability."

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

The enforceability of the rights and remedies of the Authority, the Trustee and the holders of the Series 2020 Senior Bonds, and of the obligations of a PM under the MSA are subject to Title 11 of the United States Code (the "**Bankruptcy Code**") and to other applicable insolvency or similar laws. If one or more PMs were to become a debtor in a case under the Bankruptcy Code, there could be delays or reductions in or elimination of payments under the MSA by the PMs in bankruptcy, and the Pledged Tobacco Receipts received by the Authority could be delayed, reduced, or eliminated.

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 or the holders or the beneficial owners of the Series 2020 Senior Bonds to collect any tobacco settlement payments or any other amounts owing by the bankrupt PM. In addition, even if the bankrupt PM wanted to continue paying the tobacco settlement payments, it could be prohibited as a matter of law from making such payments. In particular, if it were to be determined that the MSA was not an "executory contract" under the Bankruptcy Code, then the PM may be unable to make further payments of tobacco settlement payments. If the MSA is determined in a bankruptcy case to be an "executory contract" under the Bankruptcy Code, the bankrupt PM could seek court approval to reject the MSA and stop making payments under it. No assurance can be given as to whether a court will find that the MSA is or is not an executory contract.

Furthermore, payments previously made to the holders or beneficial owners of the Series 2020 Senior Bonds within a certain period prior to the bankruptcy of a PM could be avoided as preferential payments, so that such holders or beneficial owners would be required to return such payments to the bankrupt PM. Also, the bankrupt PM may have the power to alter the terms of its payment obligations under the MSA without the consent, and even over the objection of the State, the Authority, the Trustee or the holders and beneficial owners of the Series 2020 Senior Bonds. Finally, while there are provisions of the MSA purporting to deal with the situation when a PM goes into bankruptcy (including provisions regarding the termination of that PM's obligations) (see "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Termination of MSA"), such provisions may be unenforceable. NAAG has stated that it actively monitors any bankruptcy related activity of the PMs with the goals of preventing the debtors from using bankruptcy law to avoid their MSA payment obligations to the Settling States and ensuring that Settling States can continue to

perform their regulatory duties despite the bankruptcy filing, but there can be no assurance that the actions of NAAG will be successful. There may be other possible effects of a bankruptcy of a PM that could result in delays and/or reductions in, or elimination of, tobacco settlement payments under the MSA. Regardless of any specific adverse determination in a PM bankruptcy proceeding, the fact of a PM bankruptcy proceeding could materially adversely affect the liquidity and value of the Series 2020 Senior Bonds and could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full.

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

A PM could discontinue making required payments under the MSA for any reason. Any attempts to enforce payments under the MSA from a PM in breach could be costly and time consuming as well as likely to include litigation. For example, Vibo Corporation, Inc., d/b/a General Tobacco ("**General Tobacco**") ceased production of cigarettes in 2010 and has defaulted upon certain of its MSA payments. General Tobacco has stated that it will be unable to make any back payments it owes under the MSA. Two Settling States brought suit on behalf of all of the Settling States seeking full payment by General Tobacco of its MSA obligations. The ability of the Settling States to enforce and collect such payments in instances such as this is limited by the ability of the defaulting PM to meet its obligations and may be costly. Failure by other PMs to make payments could be coupled with an inability on the part of the Settling States to enforce and collect defaulted payments under the MSA, which could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full.

Series 2020 Senior Bonds Secured Solely by the Collateral

The Series 2020 Senior Bonds are payable only from the Collateral. In the event that the Collateral has been exhausted, no amounts will thereafter be paid on the Series 2020 Senior Bonds. The Series 2020 Senior Bonds are not obligations of the State, and no recourse may be had to the State for payment of amounts owing on the Series 2020 Senior Bonds. Investors in the Series 2020 Senior Bonds must look solely to the Collateral for repayment of their investment. The Authority's only source of funds for payments on the Series 2020 Senior Bonds is the Collateral.

Pursuant to the Act, (i) the Series 2020 Senior Bonds are not general obligations of the State and the full faith and credit, revenue, and taxing power of the State are not pledged to the payment of debt service on the Series 2020 Senior Bonds or to any guarantee of the payment of that debt service, (ii) the Holders of Series 2020 Senior Bonds shall have no right to have any moneys obligated or pledged for the payment of debt service except the Collateral, and (iii) the rights of the Holders of Series 2020 Senior Bonds to payment of debt service are limited to all or that portion of the Pledged Tobacco Receipts, and the Pledged Accounts, pledged to the payment of debt service pursuant to the Trust Indenture in accordance with the Act. The Authority has no taxing power.

Uncertainty as to Timing of Turbo Redemptions of the Series 2020B Senior Bonds

No assurance can be given as to the timing of Turbo Redemptions of the Series 2020B Senior Bonds. A certain level of payments due under the MSA has been forecast based on various assumptions, including, among others, levels of domestic cigarette consumption as set forth in the Tobacco Consumption Report and an assumption that there will not be an NPM Adjustment. These assumptions, which were used to provide expectations of Turbo Redemptions of the Series 2020B Senior Bonds from Collections, are discussed in "PLEDGED TOBACCO RECEIPTS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS." No assurance can be given that these assumptions will be realized. Actual results could and likely will vary from such assumptions. Such variance could be material. Any material reduction in Pledged Tobacco Receipts or earnings on the Pledged Accounts would impair the Collections available to make Turbo Redemptions of the Series 2020B Senior Bonds and extend the average lives of the Series 2020B Senior Bonds. Owners of the Series 2020B Senior Bonds bear the reinvestment risk from faster than expected amortization as well as the extension risk from slower than expected amortization. Turbo Redemptions on the Series 2020B-1 Senior Bonds are not rated by S&P. The Series 2020B-2 Senior Bonds and the Series 2020B-3 Senior Bonds are not rated by S&P.

Limited Remedies

The Trustee is limited under the terms of the Purchase and Sale Agreement to enforcing the terms of such agreement and to receiving the Pledged Tobacco Receipts and applying them in accordance with the Trust Indenture. If an Event of Default occurs, the Trustee cannot sell or foreclose on the Pledged Tobacco Receipts or its rights under the Purchase and Sale Agreement. The Authority is not a party to the MSA, and the Authority has not made any representation or warranty that the MSA is enforceable. Remedies under the Purchase and Sale Agreement do not include the repurchase by the State of the 2007 Sold Tobacco Receipts under any circumstances, including unenforceability of the MSA or the State's Qualifying Statute or breach of any representation or warranty. There is no direct right of enforcement by anyone other than the State against the PMs as obligors to make the tobacco settlement payments needed to make payments with respect to the Series 2020 Senior Bonds. In any suit against the State or the Authority, the State or Authority may seek to assert statutory or constitutional defenses and limitations on remedies and payment of claims.

Limited Liquidity of the Series 2020 Senior Bonds; Price Volatility

There is currently a limited secondary market for securities such as the Series 2020 Senior Bonds. The Underwriters are under no obligation to make a secondary market for the Series 2020 Senior Bonds. There can be no assurance that a secondary market for the Series 2020 Senior Bonds will develop, or if a secondary market does develop, that it will provide holders of the Series 2020 Senior Bonds with liquidity or that it will continue for the life of the Series 2020 Senior Bonds. Tobacco settlement revenue bonds generally have also exhibited greater price volatility than traditional municipal bonds. Any purchaser of the Series 2020 Senior Bonds must be prepared to hold such securities for an indefinite period of time or until redemption or final payment of such securities.

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

In recent years, rating agencies have revised their assumptions regarding their ratings of unenhanced tobacco settlement bonds on account of the continuing decline in MSA payments resulting from cigarette volume decline, withholdings by PMs of MSA payments, and disputes and settlements relating to MSA payments. One rating agency (Fitch Ratings) withdrew in June 2016 its outstanding structured finance ratings on all of its rated U.S. tobacco asset-backed securities. In its May 2016 announcement of its intention to withdraw the ratings, Fitch Ratings said the primary reason for the withdrawal was that individual, custom modifications (by several participants) to material calculations originally part of the MSA eroded Fitch Ratings' confidence that ratings "can be consistently maintained, as insufficient information exists to predict the likelihood and effect of future modifications or that insufficient information will exist to support new, material variables included in them." As a result, Fitch withdrew its ratings on the Authority's Series 2007 Bonds in June 2016. The Trust Indenture as then in effect required the Authority to pay such reasonable fees and provide such available information as may be necessary to obtain and keep in effect on each Series of Bonds the number of ratings from nationally recognized rating organizations, if any, originally assigned to each such Series.

S&P Global Ratings ("**S&P**"), the sole rating agency providing ratings for the rated Series 2020 Senior Bonds, has periodically revised its assumptions for all tobacco settlement securitizations and placed on downgrade watch or lowered its ratings on various tobacco settlement securitizations. Most recently, in October 2019 S&P downgraded various tobacco settlement securitizations following its May 2019 and January 2019 announcements of a ratings downgrade watch as a result of NAAG's publication of data indicating an accelerating decline in domestic cigarette shipment volume and a ratings downgrade of Altria, respectively. In October 2018, June 2019 and October 2019, S&P downgraded certain of the Authority's Series 2007 Bonds as a result of projected cigarette shipment volume declines and the Senior Liquidity Reserve Account not being fully funded. There is no assurance that S&P will not change its assessment of unenhanced tobacco settlement bonds as a class of securities in a way that would result in a reduction, suspension or withdrawal of the ratings of the rated Series 2020 Senior Bonds.

The ratings assigned to the Series 2020A Senior Bonds and the Series 2020B-1 Senior Bonds by S&P will reflect S&P's assessment of the likelihood of the payment of interest on such Bonds, when due, and the payment of principal of such Bonds by their Maturity Dates (and, with respect to the Series 2020A-2 Senior Bonds that are Term Bonds, Fixed Sinking Fund Installment dates). The ratings do <u>not</u> address the payment of Turbo Redemptions on the Series 2020B-1 Senior Bonds. The Series 2020B-2 Senior Bonds and the Series 2020B-3 Senior Bonds are <u>not</u> rated

and involve additional risks that may not be appropriate for certain investors. See "RISK FACTORS—Market for Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds; No Credit Rating on Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds." The ratings of the Series 2020A Senior Bonds and Series 2020B-1 Senior Bonds will not be a recommendation to purchase, hold or sell such Bonds and such ratings will not address the marketability of such 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 S&P if, in S&P'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 adversely affect the availability of a market for, or the market price of, the rated Series 2020 Senior Bonds. See "RATINGS" herein.

Market for Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds; No Credit Rating on Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds

The Series 2020B-2 Senior Bonds and the Series 2020B-3 Senior Bonds are not rated. There may be a limited secondary market for the Series 2020B-2 Senior Bonds and the Series 2020B-3 Senior Bonds because the absence of any rating could adversely affect the ability of holders of such Bonds to sell such Bonds or the price at which such Bonds can be sold.

LEGAL CONSIDERATIONS

The following discussion summarizes some, but not all, of the possible legal issues that could adversely affect the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full, and could have an adverse effect on the liquidity and/or market value of the Series 2020 Senior Bonds. The discussion does not address every possible legal challenge that could result in a decision that would cause the Pledged Tobacco Receipts to be reduced or eliminated. Any reference in the discussion to an opinion is an incomplete summary of such opinion and is qualified in its entirety by reference to the actual opinion.

Bankruptcy of a PM

The enforceability of the rights and remedies of the State (and thus the Authority, the Trustee and the holders of the Series 2020 Senior Bonds) and of the obligations of a PM under the MSA (on which the debt service payments of the Authority depend) are subject to the Bankruptcy Code and to other applicable insolvency or similar laws. See "RISK FACTORS—Bankruptcy of a PM May Delay, Reduce or Eliminate Payments Under the MSA" for a description of risks arising from the bankruptcy of a PM, including, without limitation, the automatic stay provisions of the Bankruptcy Code, "executory contracts," preferential payments, alteration of the terms of payment obligations, and other factors.

MSA and Qualifying Statute Enforceability

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

No assurance can be given that a particular court would not hold that the MSA is not valid or enforceable, or that the State's Qualifying Statute is not valid, enforceable, or constitutional, thus resulting in delays and/or reductions in, or elimination of, payments on the Series 2020 Senior Bonds.

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

Limitations on Certain Opinions of Counsel

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

Enforcement of Rights to Pledged Tobacco Receipts

It is possible that the State could in the future attempt to claim some or all of the Pledged Tobacco Receipts for itself, or otherwise interfere with the security for the Series 2020 Senior 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.

Contractual Remedies. Under State law, settlements are treated as contracts and may be enforced according to their terms. The Consent Decree coupled with the MSA is a court-approved settlement of lawsuits that establishes the State's right to receive the tobacco settlement payments. In the Purchase and Sale Agreement, the State covenants, among other things, to enforce the rights of the Authority to receive the 2007 Sold Tobacco Receipts. Thus, if the State violates such covenant so as to impair the Authority's right to the 2007 Sold Tobacco Receipts, the Trustee, as assignee of the Authority's rights under the Purchase and Sale Agreement, could seek to compel the State to honor such covenant. Such enforcement costs will be paid from the Operating Account. 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, since they are not parties to the MSA they may not have enforceable rights to do so.

Based on the U.S. Supreme Court's standard of review for Contract Clause challenges in *Energy Reserves Group, Inc. v. Kansas Power & Light Co.*, 459 U.S. 400 (1983), the State must justify the exercise of its inherent police power to safeguard the vital interests of its people before the State may alter contracts similar to the MSA or the financing arrangements in a manner that would substantially impair the rights of the Bondholders to be paid from the Pledged Tobacco Receipts. In those instances, however, where a state's own contractual obligations involving financing will be substantially impaired, the U.S. Supreme Court applies a stricter standard of judgment to a state's actions due to the risk that a state's self-interest rather than any public necessity will be the motivation for its actions. Indeed, in *United States Trust Company of New York v. New Jersey*, 431 U.S. 1 (1977), the U.S. Supreme Court noted that only once in an entire century had the U.S. Supreme Court upheld the alteration of a municipal bond contract. Thus, in order to justify the enactment by the State of legislation that substantially impairs the contractual rights of the Bondholders to be paid from the Collateral, the State must demonstrate a significant and legitimate public purpose, such as the remedying of a broad and general social or economic problem. In the event that the State demonstrates a significant and legitimate public purpose for such legislation, the State must also show 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 Bondholders' rights is based upon reasonable conditions and are of a character appropriate to the public purpose justifying the legislation's adoption.

Constitutional Claims. The Bondholders may also have constitutional claims under the Due Process Clauses of the United States Constitution and State Constitution in the event the State attempts to claim some or all of the Pledged Tobacco Receipts for itself, or otherwise interferes with the security for the Series 2020 Senior Bonds.

No Assurance As to the Outcome of Litigation or Arbitration Proceedings

With respect to all matters of litigation or arbitration proceedings mentioned herein 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 Tobacco

Receipts or otherwise filed in connection with the domestic tobacco industry, the outcome of such litigation or arbitration proceedings, in general, cannot be predicted with certainty and depends, among other things, on (i) the issues being appropriately presented and argued before the courts (including the applicable appellate courts) and arbitration panels and (ii) the courts or panels, having been presented with such issues, correctly applying applicable legal principles in reaching appropriate decisions regarding the merits. In addition, courts and panels may, in their exercise of equitable jurisdiction, reach judgments based not upon the legal merits but upon a balancing of the equities among the parties. Accordingly, no assurance can be given as to the outcome of any such litigation or arbitration and any such adverse outcome could materially adversely affect the amount and/or timing of the Pledged Tobacco Receipts and the ability of the Authority to pay debt service on all or a portion of the Series 2020 Senior Bonds on a timely basis or in full.

The Act Prohibits Bankruptcy of the Authority

Under the Act, the Authority is prohibited from filing a voluntary petition under the United States Bankruptcy Code, or voluntarily commencing any similar bankruptcy proceeding under state law, including, without limitation, consenting to the appointment of a receiver or trustee or making a general or specific assignment for the benefit of creditors. In addition, as provided in the Act, the State has covenanted in the Purchase and Sale Agreement, not to permit the Authority, or permit any public officer or organization, entity, or other person, to authorize the Authority, prior to the date which is one year and one day after which the Authority no longer has any Bonds Outstanding, (i) to file a voluntary petition under the United States Bankruptcy Code, or (ii) to voluntarily commence any similar bankruptcy proceeding under state law including, without limitation, consenting to the appointment of a receiver or trustee or making a general or specific assignment for the benefit of creditors. This covenant, as authorized by the Purchase and Sale Agreement and the Act, has also been included in the Trust Indenture. Congress may have the power to amend the Bankruptcy Code to permit the Authority to file for bankruptcy, notwithstanding the prohibition in the Act.

SUMMARY OF THE MASTER SETTLEMENT AGREEMENT

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

General

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

Parties to the MSA

The Settling States are all of the states, territories and the District of Columbia, except for the four states (Florida, Minnesota, Mississippi and Texas) that separately settled with the original OPMs prior to the adoption of the MSA (the "**Previously Settled States**"). According to NAAG, the following PMs are parties to the MSA (as of October 4, 2019, NAAG's most recent reference date):

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

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

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

[3] A subsidiary of Imperial Tobacco and an OPM with respect to those cigarette brands purchased from Reynolds Tobacco and Lorillard.

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

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

The MSA restricts PMs from transferring their tobacco product brands, cigarette product formulas and cigarette businesses (unless they are being transferred exclusively for use outside the United States) to any entity that is not a PM under the MSA, unless the transferee agrees to assume the obligations of the transferring PM under the MSA related to such brands, formulas or businesses. The MSA expressly provides that the payment obligations of each PM are not the obligation or responsibility of any affiliate of such PM or any other PM and, further, that the remedies, penalties and sanctions that may be imposed or assessed in connection with a breach or violation of the MSA will only apply to the PMs and not against any other person or entity. Obligations of the SPMs, to the extent that they differ from the obligations of the OPMs, are described below under "—Subsequent Participating Manufacturers."

Scope of Release

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

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

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

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

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

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

Overview of Payments by the Participating Manufacturers; MSA Escrow Agent

The MSA requires that the PMs make several types of payments, including Initial Payments, Annual Payments and Strategic Contribution Payments, as discussed below.* These payments (with the exception of the upfront Initial Payment) are subject to various adjustments and offsets, some of which could be material. See "—Adjustments to Payments" and "—Subsequent Participating Manufacturers" below. SPMs were not required to make Initial Payments. The OPMs have made all of the Initial Payments. Thus far, most of the PMs† have made the Annual Payments due in 2000 through, and including, 2019, and Strategic Contribution Payments due in 2008 through, and including, 2017, which was the last year in which such Strategic Contribution Payments were due (subject, in each case, to certain withholdings and payments into the DPA, including as described in "—NPM Adjustment Claims"). See "—Payments Made to Date" below.

Payments required to be made by the OPMs are calculated annually based on actual domestic shipments of cigarettes in the prior calendar year by reference to the OPMs' domestic shipment of cigarettes in 1997, with consideration under certain circumstances for the profitability of each OPM. Payments to be made by the SPMs are recalculated each year based on the Market Share of each individual SPM in relation to the Market Share of the OPMs. For SPMs that became signatories to the MSA within 90 days of its execution, payments are recalculated each year based on the Market Share less the Base Share of such SPM in relation to the Market Share of the OPMs. See "—Subsequent Participating Manufacturers" below. Pursuant to an escrow agreement (the "**MSA Escrow Agreement**") established in conjunction with the MSA, Annual Payments are to be made to Citibank, N.A., as escrow agent (the "**MSA Escrow Agent**"), which in turn will disburse the funds to the parties entitled thereto. In connection with the execution of the Purchase and Sale Agreement, the State, through the Attorney General, irrevocably directed the MSA Escrow Agent to transfer all of the 2007 Sold Tobacco Receipts directly to the Trustee acting as depository agent.

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

Initial Payments

Initial Payments were made only by the OPMs. In December 1998, the OPMs collectively made an up-front Initial Payment of $2.40 billion. The 2000 Initial Payment, which had a scheduled base amount of approximately $2.47 billion, was paid in December 1999 in the approximate amount of $2.13 billion due to various adjustments. The 2001 Initial Payment, which had a scheduled base amount of approximately $2.55 billion, was paid in December 2000 in the approximate amount of $2.04 billion after taking into account various adjustments and an earlier overpayment. The 2002 Initial Payment, which had a scheduled base amount of approximately $2.62 billion, was paid in December 2001, in the approximate amount of $1.89 billion after taking into account various adjustments and a deposit made to the DPA. Approximately $204 million, which was substantially all of the money previously deposited in the DPA for payment to the Settling States, was distributed to the Settling States with the Annual Payment due April 15, 2002. The 2003 Initial Payment, which had a scheduled base amount of approximately $2.7 billion, was paid in December 2002 and January 2003, in the approximate amount of $2.14 billion after taking into account various adjustments. No Initial Payments were due after the 2003 Initial Payment.

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

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

Annual Payments

The OPMs and the other PMs are required to make Annual Payments on each April 15 in perpetuity. Most of the PMs made the Annual Payments due April 15 in each of the years 2000 through 2019. The MSA sets forth the following table of scheduled base amounts of Annual Payments:

Base Amounts of Annual Payments[(1)]

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

(1) The Annual Payments from 2000 through 2019 have been made. Adjustments to Annual Payments for a given year may affect Annual Payments due in subsequent years. This table reflects base amounts of Annual Payments only, and does not reflect adjustments. Actual payments received have been substantially lower than the base amounts due to the application of adjustments. See "—Payments Made to Date" below.

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

"**Relative Market Share**" is defined as an OPM's 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. ("**MSAI**") (or any successor acceptable to all the OPMs and a majority of the attorneys general of the Settling States who are also members of the NAAG executive committee). The term "**cigarette**" is defined in the MSA to mean any product that contains nicotine, is intended to be burned or heated under ordinary conditions of use, contains tobacco and is likely to be offered to, or purchased by, consumers as a cigarette and includes "roll-your-own" tobacco.

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

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

Application of these adjustments resulted in a material reduction of the Pledged Tobacco Receipts under the MSA from the scheduled base amounts for the years 2000 through 2019, as discussed below under the caption "—Payments Made to Date."

Strategic Contribution Payments

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

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

Adjustments to Payments

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

Inflation Adjustment

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

Volume Adjustment

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

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

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

Any add-back due to an increase in Actual Operating Income will be allocated among the OPMs on a Pro Rata basis in accordance with their respective increases in Actual Operating Income over 1997 Base Operating Income.

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

Previously Settled States Reduction

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

PSS Credit Amendment. Certain of the Settling States have executed documentation approving an amendment to the MSA that would allow SPMs to elect to receive a reduction in their MSA payments in an amount equal to a percentage (100% or a lesser percentage, depending on the SPM's election and the number of years the amendment has been in effect) of the fees paid to Previously Settled States pursuant to state legislation in the Previously Settled States requiring tobacco product manufacturers that did not sign onto the Previously Settled State Settlements to pay a fee to such Previously Settled States (the "**PSS Credit Amendment**"). The PSS Credit Amendment would also provide for certain increases in the electing SPMs' MSA payments. Three Previously Settled States impose a fee on tobacco product manufacturers that did not sign onto the applicable state's Previously Settled State Settlement ($0.50 per pack of 20 cigarettes in Minnesota, $0.27, adjusted for inflation, per pack of 20 cigarettes in Mississippi, and $0.55 per pack of 20 cigarettes in Texas; see "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Regulatory Issues—*Excise Taxes*" for a discussion of litigation relating to the Texas fee). The State has not executed the PSS Credit Amendment. The PSS Credit Amendment is not currently in effect, because by its terms it will only take effect if and when all Settling States having aggregate Allocable Shares equal to at least 99.937049% (the equivalent of the aggregate Allocable Share of the 46 states that are Settling States), and all OPMs and Commonwealth Brands, Inc., have executed the PSS Credit Amendment. No assurance can be given as to if or when the PSS Credit Amendment will take effect. Further, no assurance can be given as to whether the PSS Credit Amendment, if and when it takes effect, will reduce the amount of Pledged Tobacco Receipts available to the Authority to pay debt service on the Series 2020 Senior Bonds. See "RISK FACTORS—Other Risks Relating to the MSA and Related Statutes—*Amendments, Waivers and Termination" and "—Reliance on State Enforcement of the MSA; State Impairment."*

Non-Settling States Reduction

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

Non-Participating Manufacturers Adjustment

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

Under the MSA, three conditions must be met in order to trigger an NPM Adjustment: (1) the aggregate market share of the PMs in any year must fall more than 2% below the aggregate market share held by those same

PMs in 1997, (2) a nationally recognized firm of economic consultants must determine that the disadvantages experienced as a result of the provisions of the MSA were a significant factor contributing to the market share loss for the year in question, and (3) the Settling States in question must be proven to not have diligently enforced their Model Statutes. Once a significant factor determination in favor of the PMs for a particular year has been made by an economic consulting firm, or the states' agreement not to contest that the disadvantages of the MSA were a significant factor contributing to the PMs' collective loss of market share in a particular year has become effective, a PM has the right under the MSA to pay the disputed amount of the NPM Adjustment for that year into the DPA or withhold it altogether. The NPM Adjustment, after conclusion of the applicable arbitration regarding diligent enforcement for the relevant sales year, is applied to the subsequent year's Annual Payment and the decrease in total funds available as a result of the NPM Adjustment is then allocated on a Pro Rata basis among those Settling States that have been found (i) to not diligently enforce their Qualifying Statutes, or (ii) to have enacted the Model Statute or a Qualifying Statute that is declared invalid or unenforceable by a court of competent jurisdiction.

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

The NPM Adjustment is also state-specific in that a Settling State may avoid or mitigate the effects of an NPM Adjustment by enacting and diligently enforcing the Model Statute or a Qualifying Statute. Any Settling State that adopts and diligently enforces the Model Statute or a Qualifying Statute is exempt from the NPM Adjustment. The decrease in total funds available due to the NPM Adjustment is allocated on a Pro Rata basis among those Settling States that either (i) did not enact and diligently enforce the Model Statute or Qualifying Statute, or (ii) enacted the Model Statute or a Qualifying Statute that is declared invalid or unenforceable by a court of competent jurisdiction. The practical effect of a decision by a PM to claim an NPM Adjustment for a given year and pay its portion of the amount of such claimed NPM Adjustment into the DPA, or withhold payment of such amount, would be to reduce the payments to all Settling States on a pro rata basis until a resolution is reached regarding the diligent enforcement dispute for all Settling States for such year, or until a settlement is reached for some or all such disputes for such year. If the PMs make a claim for an NPM Adjustment for any particular year and a state is determined to be one of a few states (or the only state) not to have diligently enforced its Model Statute or Qualifying Statute in such year, the amount of the NPM Adjustment applied to such state in the year following such determination could be as great as the amount of Annual Payments that could otherwise have been received by such state in such year. In the view of the State of Ohio, the State has been and is diligently enforcing its Qualifying Statute. See "STATE LAWS RELATED TO THE MSA—State Statutory Enforcement Framework and Enforcement Agencies" herein. The Pledged Tobacco Receipts Projection Methodology and Assumptions contain an assumption that the State will diligently enforce its Qualifying Statute in all years that the Series 2020 Senior Bonds are Outstanding and therefore that the State will not be subject to the NPM Adjustment and that the NPM Adjustment will not reduce Annual Payments. See "PLEDGED TOBACCO RECEIPTS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS".

If a Settling State enacts and diligently enforces a Qualifying Statute that is the Model Statute but it is declared invalid or unenforceable by a court of competent jurisdiction, the NPM Adjustment for any given year will not exceed 65% of the amount of such state's allocated payment for the subsequent year. If a Qualifying Statute that is not the Model Statute is held invalid or unenforceable, however, such state is not entitled to any protection from the NPM

Adjustment. Moreover, if a state adopts the Model Statute or a Qualifying Statute but then repeals it or amends it in such fashion that it is no longer a Qualifying Statute, then such state will no longer be entitled to any protection from the NPM Adjustment. At all times, a state's protection from the NPM Adjustment is conditioned upon the diligent enforcement of its Model Statute or Qualifying Statute, as the case may be. See "RISK FACTORS—Payment Decreases Under the Terms of the MSA" above and "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—MSA Provisions Relating to Model/Qualifying Statutes" below. See also "—Most Favored Nation Provisions."

For a discussion of the pending arbitration regarding the 2004 NPM Adjustment in which the State is involved, see "—NPM Adjustment Claims" below.

Offset for Miscalculated or Disputed Payments

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

Litigating Releasing Parties Offset

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

Offset for Claims-Over

If a Releasing Party pursues and collects on a released claim against an NPM or a retailer, supplier or distributor arising from the sale or distribution of tobacco products of any NPM or the supply of component parts of tobacco products to any NPM (collectively, the "**Non-Released Parties**"), and the Non-Released Party in turn successfully pursues a claim for contribution or indemnification against a Released Party (as defined herein), the Releasing Party must (i) reduce or credit against any judgment or settlement such Releasing Party obtains against the Non-Released Party the full amount of any judgment or settlement such Non-Released Party may obtain against the Released Party, and (ii) obtain from such Non-Released Party for the benefit of such Released Party a satisfaction in full of such Non-Released Party's judgment or settlement against the Released Party. In the event that such reduction or satisfaction in full does not fully relieve any OPM (or any person or entity that is a Released Party by virtue of its relation to any OPM) of its duty to pay to the Non-Released Party, such OPM (or any person or entity that is a Released Party by virtue of its relation to any OPM) is entitled to a dollar-for-dollar offset from its payment to the applicable Settling State (the "**Offset for Claims-Over**"). For purposes of the Offset for Claims-Over, any person or entity that is enumerated in the definition of Releasing Party set forth above is treated as a Releasing Party without regard to

whether the applicable attorney general had the power to release claims of such person or entity. The Offset for Claims-Over is state-specific and would apply only to MSA payments owed to the Settling State of the Releasing Party.

Subsequent Participating Manufacturers

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

For each Annual Payment, each SPM is required to pay an amount equal to the base amount of the Annual Payment owed by the OPMs, collectively, adjusted for the Volume Adjustment described above but prior to any other adjustments, reductions or offsets, multiplied by (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 to be made by the SPMs are calculated in a manner different from the calculations for Annual Payments to be made by the OPMs, a change in market share between the OPMs and the SPMs could cause the amount of Annual Payments required to be made by the PMs in the aggregate to be greater or less than the amount that would be payable if their market share remained the same. In certain circumstances, an increase in the market share of the SPMs could increase the aggregate amount of Annual Payments because the Annual Payments to be made by the SPMs are not adjusted for the Previously Settled States Reduction. However, in other circumstances, an increase in the market share of the SPMs could decrease the aggregate amount of Annual Payments because the SPMs are not required to make any Annual Payments unless their market share increases above their Base Share, or because of the manner in which the Inflation Adjustment is applied to each SPM's payments.

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

Payments Made to Date

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

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

Year[1]	Base Payment Allocable to the State[2]	Actual Receipts[3]
2010 Annual Payment and Strategic Contribution Payment	$433,956,000	$305,559,000
2011 Annual Payment and Strategic Contribution Payment	433,956,000	289,290,000
2012 Annual Payment and Strategic Contribution Payment	433,956,000	294,592,000
2013 Annual Payment and Strategic Contribution Payment	433,956,000	294,951,000
2014 Annual Payment and Strategic Contribution Payment	433,956,000	292,509,000
2015 Annual Payment and Strategic Contribution Payment	433,956,000	285,822,000
2016 Annual Payment and Strategic Contribution Payment	433,956,000	297,098,000
2017 Annual Payment and Strategic Contribution Payment	433,956,000	270,231,000
2018 Annual Payment	453,376,000	331,794,000
2019 Annual Payment	453,376,000	297,690,000

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[1] Annual Payments are, and Strategic Contribution Payments were, due from the PMs on April 15 of the applicable calendar year (payment year) pursuant to the MSA. Actual receipts are listed as of June 30 (the end of the Authority's fiscal year) of each year.

[2] Rounded. The State's allocable portion of base payments consists of the State's 5.0375098% share of Annual Payments under the MSA, and the State's 2.7819695% share of Strategic Contribution Payments under the MSA.

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

The terms of the MSA relating to such payments and various adjustments thereto are described above under the captions "—Annual Payments," "—Strategic Contribution Payments" and "—Adjustments to Payments." One or more of the PMs are disputing or have disputed the calculations of some of the Annual Payments for the years 2000 through 2019 and Strategic Contribution Payments for the years 2008 through 2017, as described further herein. In addition, subsequent revisions in the information delivered to the MSA Auditor (on which the MSA Auditor's calculations of Annual Payments are based) have in the past and may in the future result in a recalculation of the payments shown above. Such revisions may also result in routine recalculation of future payments. No assurance can be given as to the magnitude of any such recalculation and such recalculation could trigger the Offset for Miscalculated or Disputed Payments.

Most Favored Nation Provisions

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

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

Disbursement of Funds from Escrow

The MSA Auditor makes all calculations necessary to determine the amounts to be paid by each PM, as well as the amounts to be disbursed to each of the Settling States. Not less than 40 days prior to the date on which any payment is due, the MSA Auditor must provide copies of the disbursement calculations to all parties to the MSA, who must within 30 days prior to the date on which such payment is due advise the other parties if it questions or challenges

the calculations. The final calculation is due from the MSA Auditor not less than 15 days prior to the payment due date. The calculation is subject to further adjustments if previously missing information is received. In the event of a challenge to the calculations, the non-challenged part of a payment shall be processed in the normal course. Challenges will be submitted to binding arbitration. The information provided by the MSA Auditor to the State with respect to calculations of amounts to be paid by PMs is confidential under the terms of the MSA and may not be disclosed to the Authority or the Owners.

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

Advertising and Marketing Restrictions; Educational Programs

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

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

Remedies Upon the Failure of a PM to Make a Payment

Each PM is obligated to pay when due the undisputed portions of the total amount calculated as due from it by the MSA Auditor's final calculation. Failure to pay such portion shall render the PM liable for interest thereon from the date such payment is due to (but not including) the date paid at the prime rate published from time to time by *The Wall Street Journal* or, in the event *The Wall Street Journal* is no longer published or no longer publishes such rate, an equivalent successor reference rate determined by the MSA Auditor, plus 3%. In addition, any Settling State may bring an action in court to enforce the terms of the MSA. Before initiating such proceeding, the Settling State is required to provide thirty (30) days' written notice to the attorney general of each Settling State, to NAAG and to each PM of its intent to initiate proceedings.

Termination of MSA

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

manufacturer under the MSA, although this provision may not be enforceable. See "RISK FACTORS—Bankruptcy of a PM May Delay, Reduce or Eliminate Payments 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 of the PMs affected by the amendment and by all of the Settling States affected by the amendment. The terms of any amendment will not be enforceable against any PM or Settling State which is not a party to the amendment. Any waiver will be effective only against the parties to such waiver and only with respect to the breach specifically waived.

MSA Provisions Relating to Model/Qualifying Statutes

General

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

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

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

diligently enforced a Qualifying Statute. Thus, Settling States that do not adopt and diligently enforce a Qualifying Statute will receive reduced allocated payments if an NPM Adjustment is in effect. The MSA provides an economic incentive for most states to adopt and diligently enforce a Qualifying Statute.

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

As discussed herein, the State is in pending arbitration regarding the 2004 NPM Adjustment and whether or not the State diligently enforced its Qualifying Statute during sales year 2004. See "—NPM Adjustment Claims" below and "STATE LAWS RELATED TO THE MSA—State's Qualifying Statute" herein.

Summary of the Model Statute

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

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

Accordingly, pursuant to the Model Statute, a tobacco manufacturer that is an NPM under the MSA must deposit an amount for each cigarette that constitutes a "unit sold" into an escrow account (which amount increases on a yearly basis, as set forth in the Model Statute). "Units sold" is defined in the State's Qualifying Statute as 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 amounts deposited into the escrow accounts by the NPMs may only be used in limited circumstances. Although the NPM receives the interest or other appreciation on such funds, the principal may only be released (i) to pay a judgment or settlement on any claim of the type that would have been released by the MSA brought against such NPM by the applicable Settling State or any Releasing Party located within such state; (ii) with respect to Settling States that have enacted and have in effect Allocable Share Release Amendments (described in the next paragraph), to the extent that the NPM establishes that the amount it was required to deposit into the escrow account was greater than the total payments that such NPM would have been required to make if it had been a PM under the MSA (as determined before certain adjustments or offsets) or, with respect to Settling States that do not have in effect such Allocable Share Release Amendments, to the extent that the NPM establishes that the amount it was required to deposit into the escrow account was greater than such state's allocable share of the total payments that such NPM would have

been required to make if it had been a PM under the MSA (as determined before certain adjustments or offsets); or (iii) 25 years after the date that the funds were placed into escrow (less any amounts paid out pursuant to (i) or (ii)).

The Model Statute, in its original form, required an NPM to make escrow deposits approximately in the amount that the NPM would have had to pay to all of the states had it been a PM and further authorized the NPM to obtain from the applicable Settling State the release of the amount by which the escrow deposit in that state exceeded that state's allocable share of the total payments that the NPM would have made as a PM. In recent years legislation has been enacted in the State and all other Settling States, except Missouri,* to amend the Qualifying or Model Statutes in those states by eliminating the reference to the allocable share and limiting the possible release an NPM may obtain under the Model Statute to the excess above the total payment that the NPM would have paid for its cigarettes had it been a PM (each an "**Allocable Share Release Amendment**"). NAAG has endorsed these legislative efforts. A majority of the PMs, including all OPMs, have indicated their agreement in writing that in the event a Settling State enacts legislation substantially in the form of the model Allocable Share Release Amendment, such Settling State's previously enacted Model Statute or Qualifying Statute will continue to constitute the Model Statute or a Qualifying Statute within the meaning of the MSA.

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

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

Complementary Legislation

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

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

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

NPM Adjustment Claims

Settlement of 1999 through 2002 NPM Adjustment Claims

In June 2003, the OPMs, certain SPMs and the Settling States settled all NPM Adjustment claims for the payment years 1999 through 2002, subject, however, under limited circumstances, to the reinstatement of a PM's right to an NPM Adjustment for the payment years 2001 and 2002. In connection therewith, such PMs and the Settling States agreed prospectively that PMs claiming an NPM Adjustment for any year will not make a deposit into the DPA or withhold payment with respect thereto unless and until the selected economic consultants determine that the disadvantages of the MSA were a significant factor contributing to the Market Share loss giving rise to the alleged NPM Adjustment. If the selected economic consultants make such a "significant factor" determination regarding a year for which one or more PMs have claimed an NPM Adjustment, such PMs may, in fact, either make a deposit into the DPA or withhold payment reflecting the claimed NPM Adjustment.

NPM Adjustment Claims for 2003 Onward, Generally

According to NAAG, one or more of the PMs are disputing or have disputed the calculations of some Annual Payments and Strategic Contribution Payments, totaling over $14 billion, for the sales years 2003 through 2018 (payment years 2004 through 2019) as part of the NPM Adjustment. No provision of the MSA attempts to define what activities, if undertaken by a Settling State, would constitute diligent enforcement. Furthermore, the MSA does not explicitly state which party bears the burden of proving or disproving whether a Settling State has diligently enforced its Qualifying Statute, or whether any diligent enforcement dispute would be resolved in state courts or through arbitration. However, regarding the 2003 NPM Adjustment dispute, the State's MSA court determined that the 2003 NPM Adjustment dispute was to be determined by a panel of arbitrators, and such panel of arbitrators determined that, when contested, a state bears the burden of proving its diligence. As discussed further below, the State had been a contested state in the 2003 NPM Adjustment dispute and was determined by the arbitration panel to have diligently enforced its Qualifying Statute during sales year 2003 and was thus not subject to the 2003 NPM Adjustment. The State and certain other Settling States are currently in arbitration regarding the 2004 NPM Adjustment. No assurance can be given as to the outcome of any pending or future arbitration regarding NPM Adjustment claims. In the view of the State of Ohio, the State has been and is diligently enforcing its Qualifying Statute. The Pledged Tobacco Receipts Projection Methodology and Assumptions contain an assumption that the State will diligently enforce its Qualifying Statute in all years that the Series 2020 Senior Bonds are Outstanding and therefore that the State will not be subject to the NPM Adjustment. No assurance can be given that the assumptions underlying the Pledged Tobacco Receipts Projection Methodology and Assumptions will be consistent with future events. If the assumptions are not realized and future NPM Adjustments, withholdings or Disputed Payments are taken against MSA payments to the State, it could have a material adverse effect on the payments by PMs under the MSA and could have a material adverse effect on the amount and/or timing of Pledged Tobacco Receipts available to the Authority to pay debt service on the Series 2020 Senior Bonds.

2003 NPM Adjustment Claims

An independent economic consulting firm, jointly selected by the MSA parties, determined that the disadvantages of the MSA were a significant factor contributing to the PMs' collective loss of market share for 2003. Following the "significant factor" determination with respect to 2003, each of 38 Settling States filed a declaratory judgment action in state court seeking a declaration that such Settling State diligently enforced its Qualifying Statute during 2003. The OPMs and SPMs responded to these actions by filing motions to compel arbitration in accordance with the terms of the MSA, including motions to compel arbitration in 11 states and territories that did not file declaratory judgment actions. With one exception (Montana), the courts have ruled that the states' claims of diligent enforcement are to be submitted to arbitration. The Montana Supreme Court ruled that Montana did not agree to arbitrate the question of whether it diligently enforced a Qualifying Statute and that diligent enforcement claims of that state must be litigated in state court, rather than in arbitration. Subsequently, in June 2012, Montana and the PMs reached an agreement whereby the PMs agreed not to contest Montana's claim that it diligently enforced the Qualifying Statute during 2003 and therefore Montana would not be subject to the 2003 NPM Adjustment.

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

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

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

NPM Adjustment Settlement

On December 17, 2012, terms of a settlement were agreed to in the form of a term sheet (the "**NPM Adjustment Settlement Term Sheet**") by 19 jurisdictions, the OPMs and certain SPMs regarding claims related to the 2003 through 2012 NPM Adjustments and the determination of subsequent NPM Adjustments. The 19 jurisdictions that signed the NPM Adjustment Settlement Term Sheet on December 17, 2012 were Alabama, Arizona, Arkansas, California, the District of Columbia, Georgia, Kansas, Louisiana, Michigan, Nebraska, Nevada, New Hampshire, New Jersey, North Carolina, Puerto Rico, Tennessee, Virginia, West Virginia and Wyoming. In April 2013, Oklahoma joined the NPM Adjustment Settlement Term Sheet; in May 2013, Connecticut and South Carolina joined the NPM Adjustment Settlement Term Sheet; in June 2014, Kentucky and Indiana joined the NPM Adjustment Settlement Term Sheet (on modified terms); and in April 2017, Rhode Island and Oregon joined the NPM Adjustment Settlement Term Sheet. In October 2017, a final settlement agreement (the "**NPM Adjustment Settlement Agreement**") became effective, incorporating the terms of, and superseding, the NPM Adjustment Settlement Term Sheet, and also providing for settlement of claims related to the 2013 through 2015 NPM Adjustments. According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, 10 additional jurisdictions (Alaska, Colorado, Delaware, Hawaii, Maine, North Dakota, Pennsylvania, South Dakota, Utah and Vermont) joined the NPM Adjustment Settlement Agreement in 2018, settling disputes related to the 2004-2017 NPM Adjustments. On various dates between June 14, 2018 and November 27, 2018, the initial 26 states that had joined the NPM Adjustment Settlement Agreement, and 39 tobacco manufacturers (including Philip Morris, Reynolds Tobacco, Liggett, Imperial Tobacco, and Lorillard), executed the 2016 and 2017 NPM Adjustments Settlement Agreement (the "**2016 and 2017 NPM Adjustments Settlement Agreement**"), providing for settlement of disputes related to the 2016-2017 NPM Adjustments. The signatory jurisdictions to the NPM Adjustment Settlement Term Sheet, NPM Adjustment Settlement Agreement and 2016 and 2017 NPM Adjustments Settlement Agreement, as applicable, are referred to herein as the "**NPM Adjustment Settlement Signatories**" (which term, where appropriate, includes any additional jurisdictions that may in the future sign the settlement), and the settlement effected by the NPM Adjustment Settlement Term Sheet, the NPM Adjustment Settlement Agreement and the 2016 and 2017 NPM Adjustments Settlement Agreement, as applicable, is referred to herein as the "**NPM Adjustment Settlement**." Additional jurisdictions were permitted to join the settlement up to the end date of the last individual state-specific diligent enforcement hearings for the 2003 NPM Adjustment claims, although with potentially different and potentially less favorable payment obligations than those detailed in the NPM Adjustment Settlement. After such time, additional jurisdictions may join

the settlement only if the signatory PMs, in their sole discretion, agree. The State has not signed onto the NPM Adjustment Settlement.

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

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

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

In addition to settling the 2003 through 2012 NPM Adjustment claims as described above, the NPM Adjustment Settlement sets forth the terms by which NPM Adjustments for sales years 2013 onward are to be determined. Under the NPM Adjustment Settlement, sales years 2013-2014 were transition years for which an adjustment was applied in payment years 2014-2015 for SET-Paid NPM Sales, as described below, and for which an adjustment for Non-SET-Paid NPM Sales, as described below, did not apply. In October 2017, pursuant to the NPM Adjustment Settlement Agreement, the NPM Adjustment Settlement Signatories and signatory PMs agreed similarly

to settle sales year 2015 as a transition year, and the signatory PMs received an adjustment to the MSA payments in April 2018 for SET-Paid NPM Sales as a result of the settlement of 2015 as a transition year (such adjustment being 25% of the maximum 2015 NPM Adjustment of the NPM Adjustment Settlement Signatories). In 2018, pursuant to the 2016 and 2017 NPM Adjustments Settlement Agreement, claims related to the 2016-2017 NPM Adjustments were settled, and the signatory PMs are to receive an adjustment to the MSA payments in April 2019 and April 2020. Furthermore, pursuant to the NPM Adjustment Settlement, beginning with the 2022 NPM Adjustment, the OPMs shall not receive any part of the NPM Adjustment allocated to any NPM Adjustment Settlement Signatory for any year for which the aggregate Market Share of all the PMs, as determined by the MSA Auditor using the 0.0325 roll-your-own conversion factor, is equal to or exceeds 97%.

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

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

The NPM Adjustment Settlement provides that the arbitration regarding NPM Adjustment Settlement Signatories' diligent enforcement for a specified year will not commence until the diligent enforcement arbitration for such year begins as to NPM Adjustment Settlement Non-Signatories (with an exception for an accelerated schedule as described therein). In the interim, pending the ultimate outcome of the applicable proceedings with respect to NPM Adjustments, the signatory PMs will deposit into the DPA on the next April's MSA payment date the NPM Adjustment Settlement Signatories' aggregate Allocable Share of the potential maximum NPM Adjustment for such sales year, and the PMs and the NPM Adjustment Settlement Signatories will jointly instruct the MSA Auditor to release promptly the entire amount deposited to the DPA and distribute it among the PMs and the NPM Adjustment Settlement Signatories according to a formula set forth in the NPM Adjustment Settlement.

In the NPM Adjustment Settlement, the NPM Adjustment Settlement Signatories agree that diligent enforcement will be determined as to them in a single arbitration each year. The NPM Adjustment Settlement further states that the NPM Adjustment Settlement Signatories and the PMs shall cooperate in merging the NPM Adjustment arbitration as to the NPM Adjustment Settlement Signatories with the NPM Adjustment arbitration for the year in question as to the NPM Adjustment Settlement Non-Signatories.

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

On September 11, 2013, the Arbitration Panel released its decisions in connection with the 2003 NPM Adjustment disputes with respect to each of the fifteen contested states that were NPM Adjustment Settlement Non-Signatories. The Arbitration Panel determined that nine states (including the State) diligently enforced their respective

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

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

Several states, including all six states that were found to be non-diligent in the 2003 NPM Adjustment claims arbitration, disputed the NPM Adjustment Settlement Term Sheet and NPM Adjustment Stipulated Partial Settlement and Award. As an initial step, on March 13, 2013, the Office of the Attorney General of the State of Illinois sent a letter, on behalf of itself and 23 other NPM Adjustment Settlement Non-Signatories (to which letter several additional NPM Adjustment Settlement Non-Signatories later joined), to the MSA Auditor, affirming their position that the Arbitration Panel lacked jurisdiction and that the NPM Adjustment Stipulated Partial Settlement and Award was inconsistent with the terms of the MSA, and informing the MSA Auditor that they objected to and would contest any action by the MSA Auditor to release funds from the DPA or to reallocate the 2003 NPM Adjustment under the terms of the NPM Adjustment Stipulated Partial Settlement and Award. Subsequently, motions were filed by various NPM Adjustment Settlement Non-Signatories in their respective MSA courts to vacate and/or modify the NPM Adjustment Stipulated Partial Settlement and Award. Two of the states (Colorado and Ohio) had also unsuccessfully sought to preliminarily enjoin the implementation of the NPM Adjustment Stipulated Partial Settlement and Award (but the MSA Auditor carried out the implementation of the NPM Adjustment Stipulated Partial Settlement and Award over the objections of the NPM Adjustment Settlement Non-Signatories, as discussed above).

The status of the motions filed by the six states that were determined by the Arbitration Panel in the 2003 NPM Adjustment dispute not to have diligently enforced their Qualifying Statutes in sales year 2003, is as follows. Indiana and Kentucky joined the NPM Adjustment Settlement in 2014 and those states stayed any further proceedings on their motions. In Pennsylvania, the state court entered an order that modified the judgment reduction method that had been adopted by the Arbitration Panel: the Pennsylvania court ruled that the states that signed the NPM Adjustment Settlement and had been contested in the 2003 NPM Adjustment arbitration would be deemed non-diligent for purposes of calculating Pennsylvania's share of the 2003 NPM Adjustment, resulting in a partial reduction of Pennsylvania's share of the 2003 NPM Adjustment allocation. Upon appeal, in April 2015, the intermediate appellate court in Pennsylvania upheld the trial court ruling. The Pennsylvania Supreme Court declined to take the PMs' appeal of that ruling. The defendant PMs filed a petition for writ of certiorari with the U.S. Supreme Court in April 2016, which was denied in October 2016. Similar to Pennsylvania, the state court in Missouri entered an order that modified the judgment reduction method that had been adopted by the Arbitration Panel, which order reduced Missouri's share of the NPM Adjustment allocation. Upon appeal, in September 2015, the intermediate appellate court in Missouri reversed the trial court ruling. Missouri appealed that ruling to the Missouri Supreme Court, and on February 14, 2017,

the Supreme Court of Missouri issued a ruling affirming the trial court decision and overturning the intermediate appellate court decision. The Missouri Supreme Court's decision found in part that the Arbitration Panel exceeded its authority by deeming the NPM Adjustment Settlement Signatories diligent for purposes of reallocation and applying the pro rata judgment reduction. The Supreme Court of Missouri, in its February 14, 2017 decision, also denied Missouri's motion to order the PMs to arbitrate the question of Missouri's diligent enforcement in a single-state arbitration for 2004. In addition, Missouri had negotiated a settlement with PMs regarding the NPM Adjustment but failed to consummate that settlement because the Missouri legislature did not adopt an Allocable Share Release Amendment by the April 15, 2016 deadline that had been a condition to the settlement. In Maryland, that state's motion challenging the judgment reduction method adopted by the Arbitration Panel was denied by its state court. Upon appeal, in October 2015, the intermediate appellate court in Maryland reversed the trial court, the effect of which was to reduce Maryland's share of the NPM Adjustment allocation. The Maryland Supreme Court declined to take the PMs' appeal of that ruling. The PMs filed a petition for writ of certiorari with the U.S. Supreme Court in June 2016, which was denied in October 2016. Lastly, the New Mexico court granted that state's motion challenging the judgment reduction method that had been adopted by the Arbitration Panel, thereby reducing that state's share of the NPM Adjustment allocation.

NPM Adjustment Settlement Non-Signatories' Ongoing NPM Adjustment Claims

According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, the hearings in the 2004 NPM Adjustment multi-state arbitration with all of the NPM Adjustment Settlement Non-Signatories (including the State) other than Montana and New Mexico (as described below) concluded in July 2019, and as of January 27, 2020, no decisions have resulted from the arbitration. Montana had obtained a ruling from the Montana Supreme Court that the issue of diligent enforcement under the MSA must be heard before that state's MSA court. According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, the PMs have agreed not to contest the applicability of the 2004 NPM Adjustment to Montana. New Mexico had appealed a trial court ruling that the state must participate in the multi-state arbitration for 2004, and on October 9, 2019, the appellate court upheld the trial court's ruling that New Mexico must participate in the multi-state arbitration for 2004, and in November 2019, the New Mexico Supreme Court declined to review that decision. According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, the arbitration hearing for New Mexico has not yet been scheduled. The 2004 NPM Adjustment arbitration is pending before two separate arbitration panels. The two arbitration panels have two arbitrators in common. No assurance can be given that the State will be determined by the relevant arbitration panel to have diligently enforced its Qualifying Statute for sales year 2004.

According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, no assurance can be given as to when proceedings for 2005 and subsequent years will be scheduled or the precise form those proceedings will take.

Altria stated in its Form 10-K filed with the SEC for the calendar year 2019 that it continues to pursue the NPM Adjustments against jurisdictions that have not signed onto settlements (such as the State).

Other Settlements

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

No prediction can be given as to whether or when any other NPM Adjustment Settlement Non-Signatories will enter into settlements with respect to their NPM Adjustment disputes, what form those settlements may take, or what effect, if any, such settlements will have on other NPM Adjustment Settlement Non-Signatories such as the State.

STATE LAWS RELATED TO THE MSA

State's Qualifying Statute

Both houses of the Ohio Legislature passed a Qualifying Statute, codified as Chapter 1346, Ohio Revised Code, which was signed by the Governor on June 30, 1999 and became effective on such date. Counsel to the OPMs confirmed that the OPMs will not dispute that the Ohio Qualifying Statute constitutes a Model Statute under the MSA.

On June 30, 2003, the State enacted an Allocable Share Release Amendment, which became effective September 26, 2003, to amend the Qualifying Statute by changing the release calculation from being based on the State's allocable share of the payments the NPM would have made if it were a signatory to the MSA to being based on the payments that the NPM would have made as a signatory to the MSA on account of units sold in the State by the NPM. "Units sold" is defined in the State's Qualifying Statute as 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. A majority of the PMs, including all three OPMs, had indicated in writing that in the event a Settling State enacted legislation substantially in the form of the Allocable Share Release Amendment, the Settling State's previously enacted Qualifying Statute would continue to constitute a Model Statute and a Qualifying Statute within the meaning of the MSA.

Pursuant to the State's Qualifying Statute, any tobacco product manufacturer selling cigarettes to consumers within the State (whether directly or through a distributor, retailer or similar intermediary or intermediaries) shall do one of the following: (A) become a PM and generally perform its financial obligations under the MSA; or (B) place into a qualified escrow fund by April 15 of the year following the year in question specified escrow amounts per units sold. Each tobacco product manufacturer that elects to place funds into escrow shall annually certify to the Attorney General of the State that it is in compliance with the escrow deposit requirements of the Qualifying Statute. The Attorney General may bring a civil action on behalf of the State against any tobacco product manufacturer that fails to place into escrow the funds required under the Qualifying Statute. Any tobacco product manufacturer that fails in any year to place into escrow the funds required under the Qualifying Statute shall be required within fifteen days to place such funds into escrow as shall bring it into compliance. The court, upon a finding of a violation of the escrow deposit requirements, may impose a civil penalty in an amount not to exceed 5% of the amount improperly withheld from escrow per day of the violation and in a total amount not to exceed 100% of the original amount improperly withheld from escrow, and, in the case of a knowing violation, the court may impose a civil penalty in an amount not to exceed 15% of the amount improperly withheld from escrow per day of the violation and in a total amount not to exceed 300% of the original amount improperly withheld from escrow. In the case of a second knowing violation, the tobacco product manufacturer may be prohibited from selling cigarettes to consumers within the State (whether directly or through a distributor, retailer or similar intermediary) for a period not to exceed two years. Each failure to make an annual deposit required under the Qualifying Statute shall constitute a separate violation.

State's Complementary Legislation

Pursuant to the State's Complementary Legislation, every tobacco product manufacturer whose cigarettes are sold in the State either directly or through a distributor, retailer, or other intermediary shall execute and deliver to the Attorney General of the State an annual certification stating that, as of the date of the certification, the tobacco manufacturer is either a PM or an NPM in full compliance with the State's Qualifying Statute. The State's administrative code allows the Attorney General to impose quarterly rather than annual filing requirements and payment obligations on certain NPMs, including those NPMs which are new, have extensive cigarette sales, or which the Attorney General reasonably believes might not make the required annual payment.

Pursuant to the State's Complementary Legislation, each PM shall include in its certification a list of its brand families. Thirty days before making any additions to or modifications of its brand families, a PM shall update its brand family list by executing and delivering a supplemental certification to the Attorney General. Each NPM shall include all of the following in its certification: (a) a list of all of its brand families and the number of units sold during the preceding calendar year for each brand family, and a list of all of its brand families that have been sold in the State at any time during the current calendar year. Thirty days before making any additions to or modifications of its brand families, an NPM shall update its brand family list by executing and delivering a supplemental certification to the

Attorney General; (b) a statement that the NPM is registered to do business in the State or has appointed an agent for service of process in the State and provided required notice of that appointment; (c) a certification that the NPM has established and continues to maintain a qualified escrow fund and that the qualified escrow fund is governed by a qualified escrow agreement executed by the NPM and reviewed and approved by the Attorney General; (d) all of the following information regarding the qualified escrow fund: (i) the name, address, and telephone number of the financial institution at which the NPM has established its qualified escrow fund; (ii) the account number of the qualified escrow fund and any subaccount number for the State; (iii) the amount that the NPM deposited in the qualified escrow fund for cigarettes sold in the State during the preceding calendar year, the date and amount of each deposit, and any evidence or verification the Attorney General deems necessary to confirm those deposits; and (iv) the amount and date of any withdrawal or transfer of funds the NPM made at any time from any qualified escrow fund into which it ever made payments under the Qualifying Statute; and (e) a statement that the NPM is in full compliance with the specified provisions of the Qualifying Statute and Complementary Legislation.

Pursuant to the State's Complementary Legislation, the Attorney General of the State shall develop and publish on its web site a directory listing all tobacco product manufacturers that have provided current and accurate certifications and all brand families listed in those certifications. The Attorney General shall update the directory as necessary to correct mistakes or to add or remove a tobacco product manufacturer or brand family to keep the directory in conformity with the requirements of the Complementary Legislation. At least ten days before any tobacco product manufacturer or brand family is added to or removed from the directory, the Attorney General shall publish notice of the pending addition or removal online in the directory and shall notify the tax commissioner of those pending changes. At least ten days before such addition or removal, the tax commissioner shall transmit by electronic mail or other practicable means to each stamping agent notice of the pending addition or removal.

The Attorney General shall not include or retain in the directory an NPM or a brand family of an NPM if any of the following applies: (a) the NPM fails to provide the required annual certification under the Complementary Legislation, or the Attorney General determines that the certification is not in compliance with the requirements of the Complementary Legislation, unless the Attorney General determines that the violation has been cured to the Attorney General's satisfaction; (b) the Attorney General determines that any escrow payment required under the Qualifying Statute for any period for any brand family of the NPM, regardless of whether the brand family is listed by the NPM in its certification, has not been fully paid into a qualified escrow fund governed by a qualified escrow agreement that has been approved by the Attorney General; or (c) the Attorney General determines that the NPM has not fully satisfied any outstanding final judgment, including interest, for a violation of the Qualifying Statute.

Pursuant to the State's Complementary Legislation, no person shall do any of the following: (a) affix a tax stamp to a package or other container of cigarettes of a tobacco product manufacturer or a brand family that is not included in the directory; (b) sell, offer for sale, or possess for sale in the State cigarettes of a tobacco product manufacturer or a brand family that is not included in the directory; (c) sell or distribute cigarettes that have had a tax stamp affixed while the tobacco product manufacturer or brand family of those cigarettes was not included in the directory; (d) acquire, hold, own, possess, transport, import, or cause to be imported cigarettes that the person knows or should know are intended for distribution or sale in the State and that have had a tax stamp affixed while the tobacco product manufacturer or brand family of those cigarettes was not included in the directory; or (e) acquire, hold, own, possess, transport, import, or cause to be imported cigarettes that the person knows or should know are intended for distribution or sale in the State and that are the cigarettes of a tobacco product manufacturer or a brand family that is not included in the directory. Any cigarettes sold, offered for sale, or possessed for sale in violation of the Complementary Legislation shall be considered contraband, and those cigarettes shall be subject to seizure and forfeiture. Cigarettes so seized and forfeited shall not be resold and shall be destroyed.

In addition, pursuant to the State's Complementary Legislation, not later than the last day of each month or less frequently if so directed by the tax commissioner, each stamping agent and other tobacco products ("**OTP**") distributor shall submit information for the previous month. The information shall include, but is not limited to, a list by brand family of the total number of cigarettes, or, in the case of roll-your-own, the number of ounces, for which the stamping agent or OTP distributor during the period covered by the report affixed stamps or otherwise paid the tax due. The stamping agent or OTP distributor shall maintain and make available to the tax commissioner all invoices and documentations of sales of all NPM cigarettes, receipt of roll-your-own tobacco and any other information the agent relies upon in submitting information to the tax commissioner.

The Attorney General at any time may require an NPM to provide proof, from the financial institution in which the manufacturer has established a qualified escrow fund under the Qualifying Statute, of the amount of money in the fund, exclusive of interest, the amount and date of each deposit in the fund, and the amount and date of each withdrawal from the fund. In addition to the information required to be submitted or provided to the tax commissioner and the Attorney General, the Attorney General may require a stamping agent or tobacco product manufacturer to submit any additional information necessary to enable the Attorney General to determine whether a manufacturer is in compliance with the Complementary Legislation. The information shall include, but is not limited to, samples of the packaging or labeling of each brand family. The tax commissioner and the Attorney General shall share information received for purposes of determining compliance with and enforcement of the Complementary Legislation. The tax commissioner and the Attorney General also may share information received with federal, state, or local agencies for purposes of the enforcement of the Complementary Legislation or corresponding laws of other states.

Pursuant to the State's Complementary Legislation, the Attorney General, on behalf of the tax commissioner, may seek an injunction to restrain a threatened or actual violation of the annual certification requirements and information submission requirements of the Complementary Legislation by a stamping agent and to compel the stamping agent to comply with those requirements.

In lieu of or in addition to any other remedy provided by law, upon a determination that a stamping agent has violated the requirements of the Complementary Legislation or any administrative rule adopted thereunder, the tax commissioner may revoke the license of the stamping agent following a hearing pursuant to Ohio Revised Code Section 5743.18. For each violation, in addition to any other penalty provided by law, the tax commissioner may impose a fine in an amount not to exceed the greater of 500% of the retail value of the cigarettes involved or $5,000. Each stamp affixed to a package of cigarettes and each sale or offer for sale of cigarettes in violation of the Complementary Legislation shall constitute a separate violation.

State 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 includes:

- The State's Qualifying Statute and Complementary Legislation, both codified in Ohio Revised Code ("**ORC**") Chapter 1346, as implemented by the State's Tobacco Products Manufacturer Escrow Account regulations, Chapter 109:8, Ohio Administrative Code. This statutory enforcement framework is administered and enforced by the Ohio Attorney General's Tobacco Enforcement Unit (the "**Tobacco Enforcement Unit**") and the Ohio Department of Taxation. The Tobacco Enforcement Unit enforces the MSA between the State and participating tobacco manufacturers and represents the Ohio Department of Health in matters related to smoking ban laws.

- The Cigarette Tax, codified as ORC Chapter 5743, levies statewide excise taxes on cigarettes, tobacco products and vapor products, permits local excise taxes, and sets cigarette tax stamping requirements and tax rates. The Tax Commissioner of the State has regulatory and enforcement powers over the administration and collection of cigarette, tobacco and vaping products taxes.

- Additional tax on litter stream products, codified as ORC Section 5733.065, imposes an additional tax on cigarettes, cigars and tobacco for the purpose of providing additional funding for recycling and litter prevention.

- Tobacco 21, codified in ORC Sections 2151.87 and 2927.02, prohibits the distribution or use of tobacco products to persons under twenty-one years of age. There are several organizations that conduct compliance checks. The United States Food and Drug Administration conducts checks in Ohio through a third-party contractor agency. The Ohio Department of Public Safety's Ohio Investigative Unit is contracted to complete compliance checks throughout Ohio by the Ohio Department of Health and the Ohio Department of Mental Health and Addiction Services. Additionally, many local health departments and local law enforcement agencies may also conduct

compliance checks as part of grant funded activities or as part of stricter local Tobacco 21 ordinances that have been passed in local jurisdictions.

- The Smoking Ban, codified as ORC Chapter 3794, prohibits the smoking of tobacco products in public places and places of employment and is enforced by the Ohio Department of Health.

The Ohio Attorney General, the Department of Taxation and the Department of Health have promulgated various implementing regulations pursuant to the above described statutes.

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), the Prevention of All Cigarette Trafficking ("**PACT**") Act of 2010, the Contraband Cigarette Trafficking Act ("**CCTA**") (which renders unlawful the shipment, transport, reception, possession, selling, distribution or purchase of 10,000 or more unstamped cigarettes) and the Further Consolidated Appropriations Act, 2020 (which prohibits retailers from selling tobacco products to persons under twenty-one years of age).

This federal statutory enforcement framework is administered and enforced by the Tobacco Enforcement Unit and by the Department of Taxation, among other agencies and departments. The Tobacco Enforcement Unit notifies the U.S. Department of Justice's Bureau of Alcohol, Tobacco, Firearms and Explosives ("**ATF**") and the U.S. Department of the Treasury's Alcohol and Tobacco Tax and Trade Bureau ("**TTB**") when it becomes of aware of violations of federal law.

The Tobacco Enforcement Unit is responsible for enforcing the MSA, maintaining the State of Ohio Directory of PMs (including brand-specific information) and the State of Ohio Directory of Compliant NPMs, and for receiving the annual compliance certifications from PMs and NPMs. Tobacco product manufacturers report directly to the Tobacco Enforcement Unit 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 Department of Taxation reports of sales of NPM brands and such sales must bear Ohio cigarette tax stamps. Tobacco distributors that are licensed to pay the other tobacco products tax must file reports for sales of NPM "roll your own" cigarettes. NPMs are required to make escrow payments quarterly. Cigarette and roll-your-own tobacco brands must be certified on the Ohio Tobacco Directory in order to be sold in Ohio. The directory is published on the Attorney General's website at https://www.ohioattorneygeneral.gov/Business/Services-for-Business/Tobacco-Directory-Search.

The Tobacco Enforcement Unit has brought numerous enforcement actions and has 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 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 2005 to present.

The Tobacco Enforcement Unit 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.

The Ohio Attorney General has brought numerous enforcement actions against both NPMs and PMs. An arbitration panel found Ohio diligently enforced its Qualifying Statute for calendar year 2003. Ohio is waiting for a final award from an arbitration panel regarding diligent enforcement for calendar year 2004. Ohio's hearing took place in March 2018.

The Tax Commissioner, Department of Taxation. The Tax Commissioner, who leads the Department of Taxation, is responsible for licensing all cigarette distributors and manufacturers and ensuring tobacco taxes are properly paid. The Department of Taxation's Excise and Energy Tax Division monitors compliance with State and federal laws regulating the sale and distribution of cigarettes and works to prevent the sale and distribution of

contraband cigarettes. The Excise and Motor Fuel Tax Division reviews returns and supporting schedules filed by licensed distributors and manufacturers to identify potential illegal activity, track shipments of cigarettes in and out of Ohio and ensure proper payment of taxes. When requested, it shares this data with other state and federal law enforcement officials. Under the 2010 PACT Act, persons who sell and ship cigarettes across state lines to a purchaser, other than persons licensed with the State, are required to provide monthly reports of their sales to the Department of Taxation. The Department then uses information that is reported to ensure that taxes are paid on cigarettes obtained through remote sales.

The Ohio Department of Taxation's Criminal Investigations Division ("**CID**") was created in 1971 and, as of October 1, 2019, is comprised of 32 sworn police officers and two civilian employees who enforce the criminal provisions of tax laws administered by the Department of Taxation, including the cigarette tax and the other tobacco products tax. The Excise & Energy Tax Division and the Audit Division share responsibility with CID for enforcement of the State's tax laws for tobacco.

Effective July 1, 2015, H.B. 64, the State's biennial operating budget, increased the tax on cigarettes from $1.25 to $1.60 per pack, in part to help provide for a $1.9 billion tax cut over the course of the two-year budget. That budget also appropriated $250,000 to the Department of Taxation to hire and dedicate Criminal Investigation Agents to the enforcement of tobacco laws. Since then, the State's operating budgets have continued to appropriate funds for these enforcement activities. Four agents are assigned to the Tobacco Team and focus their efforts on tobacco investigations and inspections. Beyond these four officers, the remaining 28 officers also conduct tobacco inspections.

Enforcement measures are focused on the State's borders with Kentucky, West Virginia and Pennsylvania, states with significant disparities in tax rates on cigarettes or other tobacco products. Kentucky and West Virginia have lower tax rates than Ohio. Pennsylvania's tax on cigarettes is greater than Ohio's. The disparities in tax rates among neighboring states create an incentive for illegal smuggling of tobacco products from lower tax states to sell in higher tax states. With multiple interstate highways traversing Ohio, the state is also a throughway for smugglers shipping contraband tobacco products around the United States. The Tobacco Team focuses on the State's borders with Kentucky, West Virginia and Pennsylvania, monitoring persons going to those states to purchase and transport tobacco products that have not been taxed by Ohio.

All CID agents, and particularly those with the Tobacco Team, conduct tobacco inspections within the State. With approximately 11,500 retail cigarette licenses statewide, excluding those establishments operating without proper licenses, CID agents are not able to conduct an annual inspection of every business selling tobacco products. CID agents do, however, make inspections in all 88 counties each year. If the agent finds a violation of the laws in ORC Chapters 1346 and 5743, a citation is issued and any tobacco product and/or records related to the violation are confiscated.

Tobacco wholesalers and retailers are also subject to MSA audit by the Audit Division of the Department of Taxation. In the third quarter of 2019, the Audit Division conducted 14 MSA audits.

Absence of Tribal Reservations. There are no Federally recognized Native American reservation lands located within the borders of the State.

CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY

The following description of the domestic tobacco industry has been compiled from certain publicly available documents of the tobacco companies and their current or former parent companies, certain publicly available analyses of the tobacco industry, and other public sources. Certain of those companies currently file annual, quarterly and certain other reports with the SEC. Such reports are available on the SEC's website (www.sec.gov) and upon request from the SEC's Investor Information Service, 100 F Street, NE, Washington, D.C. 20549 (phone: (800) SEC-0330 or (202) 551-8090; e-mail: publicinfo@sec.gov). 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 knowledge of any facts indicating that the following information is inaccurate in any material respect, the Authority has not verified this information and cannot and does not warrant the accuracy or completeness of this

information. To the extent that reports submitted to the MSA Auditor by the PMs pursuant to the requirements of the MSA provide information that is pertinent to the following discussion, including market share information, the Attorney General of the State has not consented to the release of such information pursuant to the confidentiality provisions of the MSA. Prospective investors in the Series 2020 Senior Bonds should conduct their own independent investigations of the domestic tobacco industry to determine if an investment in the Series 2020 Senior Bonds is consistent with their investment objectives.

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

Retail market share information, based upon shipments or sales as reported by the OPMs for purposes of their filings with the SEC, may be different from Relative Market Share for purposes of the MSA and the respective obligations of the PMs to contribute to Annual Payments. The Relative Market Share information reported is confidential under the MSA, except to the extent reported by NAAG. See "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Overview of Payments by the Participating Manufacturers; MSA Escrow Agent" and "—Annual Payments." Additionally, aggregate market share information, based upon shipments as reported by OPMs and reflected in the chart below entitled "Manufacturers' Domestic Market Share of Cigarettes" is different from that utilized in the Pledged Tobacco Receipts Projection Methodology and Assumptions. See "PLEDGED TOBACCO RECEIPTS PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS."

Industry Overview

According to NAAG, the OPMs accounted for approximately 82.91% (based upon shipments and measuring roll-your-own cigarettes at 0.0325 ounces per cigarette conversion rate) of the U.S. domestic cigarette market in sales year 2018. See "—Industry Market Share" below. The market for cigarettes in the U.S. divides generally into premium and discount sales.

Philip Morris USA Inc. ("**Philip Morris**"), a wholly-owned subsidiary of Altria Group, Inc. ("**Altria**"), is the largest tobacco company in the U.S. Prior to a name change on January 27, 2003, Altria was named Philip Morris Companies Inc. In its Form 10-K filed with the SEC for the calendar year 2019, Altria reported that Philip Morris's domestic cigarette market share for the year ended December 31, 2019 was 49.7% (based on retail sales data from IRI/Management Science Associate, Inc., a tracking service that uses a sample of stores and certain wholesale shipments to project market share and depict share trends), compared to 50.2% for 2018 and 50.8% for 2017. Philip Morris's major premium brands are Marlboro, Virginia Slims and Parliament (with Marlboro representing approximately 86.9% of Philip Morris's domestic cigarette shipment volume during the year ended December 31, 2019, according to Altria's Form 10-K filed with the SEC for the calendar year 2019). Marlboro is also the largest selling cigarette brand in the U.S., with approximately 43.1% and 43.2% of the U.S. domestic retail share for the years ended December 31, 2019 and 2018, respectively, according to Altria in its Form 10-K filed with the SEC for the calendar year 2019, and has been the world's largest-selling cigarette brand since 1972. Philip Morris's principal discount brands are Basic and L&M. In 2009, Altria acquired UST LLC, whose subsidiary, U.S. Smokeless Tobacco Company LLC ("**UST**"), is the leading producer of smokeless tobacco in the U.S. On May 22, 2018, Altria announced the creation of two divisions within Altria—one division for traditional cigarettes, pipe tobacco, cigars and snuff, and a second division for innovative, non-combustible, reduced-risk products such as vapor products. Altria reported that the new structure is expected, among other things, to accelerate innovation. According to Altria in its SEC filings, on March 8, 2019, Altria completed its acquisition, through a subsidiary, of a $1.8 billion, 45% economic and voting interest in Cronos Group Inc., a global cannabinoid company headquartered in Toronto, Canada, and in December 2018, Altria purchased, through a wholly-owned subsidiary, shares of non-voting convertible common stock of Juul Labs, Inc., representing a 35% economic interest, for $12.8 billion (Altria's economic interest in Juul Labs, Inc. remained at 35% at December 31, 2019, according to Altria in its Form 10-K filed with the SEC for the calendar year 2019). Altria reported in its Form 10-K filed with the SEC for the calendar year 2019 that for 2019, Altria recorded a total pre-tax impairment charge of $8.6 billion to its Juul Labs, Inc. investment, bringing the value of such investment to $4.2 billion as of December 31, 2019. Juul Labs, Inc. is engaged in the manufacture and sale of e-vapor products globally. See "—E-Cigarettes and Vapor Products" below.

R.J. Reynolds Tobacco Company ("**Reynolds Tobacco**") is the second-largest tobacco company in the U.S. Reynolds Tobacco is a wholly-owned subsidiary of Reynolds American Inc. ("**Reynolds American**"), which in turn is a wholly-owned subsidiary of British American Tobacco p.l.c. ("**BAT**") following BAT's acquisition on July 25, 2017 of the approximately 58% of Reynolds American stock not then owned by BAT. As a result of the acquisition by BAT, Reynolds American no longer files quarterly or annual reports with the SEC. BAT is subject to applicable SEC reporting obligations as a foreign private issuer. BAT is responsible for Reynolds Tobacco's payment obligations under the MSA as a result of the acquisition of Reynolds Tobacco's parent company Reynolds American. In an earlier merger, in June 2015, Reynolds American acquired Lorillard, Inc., the parent company of Lorillard Tobacco Company ("**Lorillard**"), the then third-largest tobacco company in the U.S., with Reynolds Tobacco continuing as the surviving entity. In yet an earlier merger, in July 2004, the U.S. operations of Brown & Williamson Tobacco Corporation ("**B&W**") (the then third-largest tobacco company in the U.S.) were combined with Reynolds Tobacco. In its Half-Year Report for the period ended June 30, 2019, BAT reported that its U.S. retail cigarette market share at June 30, 2019 increased 30 basis points from 2018. In its Annual Report on Form 20-F for the year ended December 31, 2018, BAT reported that its U.S. retail cigarette market share at December 31, 2018 declined 20 basis points from 2017. In its Annual Report for calendar year 2017, BAT reported a U.S. market share of 34.7%. In its Form 10-K filed with the SEC for the calendar year 2016, Reynolds American reported that Reynolds Tobacco's domestic retail cigarette market share at December 31, 2016 and December 31, 2015 was 32.3%. Reynolds Tobacco's major premium brands are Newport (which it acquired in the 2015 merger with Lorillard) and Camel, and its discount brands include Pall Mall and Doral. BAT, through Reynolds American, is also the parent company of American Snuff Company, LLC, the second-largest smokeless tobacco products manufacturer in the U.S., and Santa Fe Natural Tobacco Company, Inc. ("**Santa Fe Natural Tobacco Company**"), an SPM that manufactures a super-premium cigarette brand.

Contemporaneous with the 2015 merger of Lorillard, Inc. into Reynolds American, Imperial Tobacco Group PLC, currently named Imperial Brands PLC ("**Imperial Tobacco**") (through its subsidiary ITG Brands, LLC, an SPM under the MSA), purchased Reynolds Tobacco's Kool, Salem and Winston cigarette brands, Lorillard, Inc.'s Maverick cigarette brand and blu eCig electronic cigarette brand, and other assets. Imperial Tobacco is listed on the London Stock Exchange and does not file quarterly or annual reports with the SEC. According to Imperial Tobacco's annual report for the fiscal year ended September 30, 2019, Imperial Tobacco's market share in the U.S. tobacco market at fiscal year-end 2019 was 8.8% (representing an increase from 8.7% at fiscal year-end 2017), making it the third-largest tobacco company in the U.S. market. In accordance with Section XVIII(c) of the MSA, which states that "[n]o Original Participating Manufacturer may sell or otherwise transfer or permit the sale or transfer of any of its Cigarette brands, Brand Names, Cigarette product formulas or Cigarette businesses … to any person or entity unless such person or entity is an Original Participating Manufacturer or prior to the sale or acquisition agrees to assume the obligations of an Original Participating Manufacturer with respect to such Cigarette brands, Brand Names, Cigarette product formulas or businesses," the OPM payment obligations under the MSA with respect to the cigarette brands, brand names, cigarette product formulas and businesses acquired by Imperial Tobacco from Reynolds Tobacco and Lorillard have been assumed and continued by Imperial Tobacco. Imperial Tobacco also is the parent company of Commonwealth Brands, Inc. ("**CBI**"), an SPM under the MSA, which markets deep discount brands in the U.S., including USA Gold, Sonoma and Fortuna.

Based on the domestic retail market shares discussed above, the remaining share of the U.S. retail cigarette market was held by a number of other cigarette manufacturers, including Liggett Group LLC ("**Liggett**") (the operating successor to the Liggett & Myers Tobacco Company), an SPM under the MSA and a wholly-owned subsidiary of Vector Group Ltd. ("**Vector Group Ltd.**"). In its Form 10-K filed with the SEC for calendar year 2018, Vector Group Ltd. reported that the domestic market share of its Liggett subsidiary in calendar year 2018 was 4.0% (compared to 3.7% in 2017 and 3.3% in 2016), measured by MSAI shipment volume data, and that all of Vector Group Ltd.'s tobacco sales in those years were in the discount category. According to Vector Group Ltd. in its SEC filings, Liggett and Vector Tobacco are required to make payments under the MSA to the extent such companies' market shares exceed approximately 1.65% and approximately 0.28%, respectively, of the U.S. cigarette market (with the MSA payment obligations based on each respective company's incremental market share above the aforementioned minimum thresholds). Vector Group Ltd.'s brands include Pyramid, Eagle 20's, Grand Prix and Liggett Select.

Industry Market Share

The following table sets forth the approximate comparative market share positions of the leading producers of cigarettes in the U.S. tobacco industry. Lorillard is included for historical comparison. Individual domestic

manufacturers' market shares presented below are derived from the publicly available documents of the respective manufacturers and, as a result of differing methodologies used by the manufacturers to calculate market share, may not be accurate.

Manufacturers' Domestic Market Share of Cigarettes[1]

	Calendar Year							
Manufacturer	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Philip Morris	49.8%	50.7%	50.9%	51.3%	51.4%	50.7%	50.1%	49.7%
Reynolds Tobacco[2]	26.5	26.0	26.5	32.0	32.3	34.7	34.5	34.8
Imperial Tobacco[3]	----	----	----	9.5	9.2	8.7	8.7	8.8
Lorillard[4]	14.4	14.9	15.1	----	----	----	----	----
Other[5]	9.3	8.4	7.5	7.2	7.1	5.9	6.7	6.7

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

2 Reynolds Tobacco's market share for 2014 and prior years is based on market share information prior to the merger with Lorillard. Reynolds Tobacco's 2015 market share assumes that cigarette brands acquired in the merger were part of Reynolds Tobacco's portfolio for the entire period, and also reflects for that entire period the divestiture of assets to Imperial Tobacco. Data for calendar years 2017 onward is as reported by BAT. Reynolds Tobacco's 2019 market share is as of June 30, 2019, according to BAT's Half-Year Report.

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

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

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

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Cigarette Shipment Trends

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

NAAG-Reported U.S. Cigarette Shipments 2009-2018

Sales Year	Overall No. of Cigarettes (in billions) (with 0.0325 oz. RYO conversion)	% Change From Prior Year (with 0.0325 oz. RYO conversion)[1]	OPM No. of Cigarettes (in billions) (with 0.0325 oz. RYO conversion)	% Change From Prior Year (with 0.0325 oz. RYO conversion)[1]
2018	236.746	(4.72)%	197.132	(5.94)%
2017	248.487	(4.46)	209.584	(5.09)
2016	260.090	(4.06)	220.818	(2.40)
2015	271.090	1.87	226.214	(0.14)
2014	266.122	(3.73)	226.553	(3.53)
2013	276.423	(4.85)	234.841	(4.34)
2012	290.520	(1.90)	245.486	(1.99)
2011	296.159	(2.75)	250.461	(3.09)
2010	304.547	(6.36)	258.440	(3.96)
2009	325.226	(9.09)	269.095	(10.35)

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

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

TTB-Reported Quantity of Cigarettes Shipped Domestically 2009-2018

Calendar Year	No. of Cigarettes (in billions)	Percent Change From Prior Year[1]
2018	235.319	(4.79)%
2017	247.162	(4.00)
2016	257.453	(4.03)
2015	268.261	2.10
2014	262.736	(4.04)
2013	273.787	(4.67)
2012	287.187	(1.91)
2011	292.769	(2.57)
2010	300.489	(5.52)
2009	318.029	(8.20)

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

According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, when adjusted for certain factors, total cigarette industry volumes declined by an estimated 5.5% in 2019, compared to 4.5% in 2018.

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

Physical Plant, Raw Materials, Distribution and Competition

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

Cigarette manufacturers sell tobacco products to wholesalers (including distributors), large retail organizations, including chain stores, and the armed services. However, certain stores have ceased the sale of tobacco products. The retail chain store Target reportedly stopped selling tobacco products in 1996. In September 2014, the national pharmacy chain CVS reportedly stopped selling all cigarettes and other tobacco products in all its stores (following a February 2014 announcement), citing that such sales were inconsistent with its mission. CVS recently reported that a year after it stopped selling cigarettes, cigarette sales across all retailers have dropped in 13 states where it has sizable market share. A group of state attorneys general have pressured large retail stores with pharmacies to take similar action, and in April 2014 several members of Congress called on these retailers to stop selling cigarettes and other items containing tobacco. According to the American Nonsmokers' Rights Foundation ("**ANRF**"), as of January 2, 2020, one state (Massachusetts) and 228 cities and counties, located principally in California and Massachusetts, have tobacco-free pharmacy laws. In addition, Costco has also reportedly removed tobacco products from a majority of its U.S. locations, according to news reports in March 2016. The Walgreens drugstore chain announced in April 2019 that, effective September 1, 2019, it would require customers to be at least 21 years old to purchase tobacco in any of its more than 9,500 stores nationwide. On May 8, 2019, Walmart announced that, beginning July 1, 2019, all Walmart and Sam's Club stores would raise the minimum age to purchase tobacco products, including all e-cigarettes, to 21, and would discontinue the sale of fruit- and dessert-flavored electronic nicotine delivery systems. Furthermore, certain municipalities have enacted laws limiting the number or density of cigarette retailers. For example, in 2014, San Francisco's Tobacco Use Reduction Act was passed, which sets a cap on the number of tobacco retailers in each supervisory district and prohibits new stores from locating within 500 feet of schools or within 500 feet of another existing tobacco retailer. In 2016, Philadelphia's Retailer Reduction Regulations were passed, setting a cap on the number of tobacco retailers allowed at one per 1,000 persons in each planning district and restricting any new retailer from locating within 500 feet of K-12 schools. In August 2017, New York City updated its comprehensive point-of-sale regulations, to, among other things, set a city-wide cap on retailer licenses at half of the current number in each district.

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

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

The tobacco products of the cigarette manufacturers and their affiliates and licensees are advertised and promoted through various media, although television and radio advertising of cigarettes is prohibited in the U.S. The domestic tobacco manufacturers have agreed to additional marketing restrictions in the U.S. as part of the MSA and

other settlement agreements. They are still permitted, however, to conduct advertising campaigns in magazines, at retail cigarette locations, in direct mail campaigns targeted at adult smokers, and in other adult media.

E-Cigarettes and Vapor Products

Numerous manufacturers have recently developed (or acquired) and are marketing "electronic cigarettes" (or "e-cigarettes"), which, while not tobacco products, are battery powered devices in the shape of a cigarette that vaporize liquid nicotine, which is then inhaled by the consumer. Because they do not contain or burn or heat tobacco, the manufacturers (and certain states) do not deem e-cigarettes to constitute "cigarettes" within the meaning of the MSA. Electronic nicotine products also include devices called "vaporizers," which are larger, customizable devices. They have larger batteries and cartridges, hold more liquid, produce larger vapor clouds and last longer. They allow users to mix and match hardware and refill cartridges with liquid bought in bulk, so that they generally are cheaper than e-cigarettes. As discussed below, in May 2016, the U.S. Food and Drug Administration ("**FDA**") released its final rule which subjects manufacturers, importers and/or retailers of e-cigarettes, other vapor products and certain other tobacco related products to the same and additional regulations applicable to cigarettes, cigarette tobacco, roll-your-own tobacco and smokeless tobacco. However, e-cigarettes and vapor products are currently not subject to the advertising restrictions to which tobacco products are subject. According to research cited by the Campaign for Tobacco-Free Kids, in 2017 there were more than 430 brands of e-cigarettes, and over 15,500 unique e-cigarette flavors were available online.

According to the Tobacco Consumption Report, growth of e-cigarette use increased dramatically in 2017 and 2018, led by sales of the JUUL brand. JUUL is an e-cigarette shaped like a USB flash drive, which heats a nicotine-containing liquid to produce an aerosol that is inhaled. No single e-cigarette manufacturer dominated the U.S. market through 2013. However, sales of BAT's e-cigarette devices surged 146% during 2014 and led the market well into 2017. During 2016-2017, Juul Labs, Inc.'s sales increased 641 percent — from 2.2 million JUUL devices sold in 2016 to 16.2 million devices sold in 2017. By December of 2017, Juul Labs, Inc.'s sales comprised nearly 1 in 3 e-cigarette sales nationally, giving it the largest market share in the United States. According to a CDC release dated October 2, 2018, based on an analysis of retail sales data from 2013-2017, sales of JUUL grew more than seven-fold from 2016 to 2017, and held the greatest share of the U.S. e-cigarette market by December 2017. According to news reports, on October 17, 2019, Juul Labs, Inc. stopped selling all flavors except mint and menthol for its e-cigarettes in the United States, and on November 7, 2019, Juul Labs, Inc. announced that it would stop selling mint-flavored e-cigarettes (but would continue to sell menthol and tobacco flavors). According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, in December 2018, Altria, through a wholly-owned subsidiary, purchased shares of non-voting convertible common stock of Juul Labs, Inc., representing a 35% economic interest, for $12.8 billion (Altria's economic interest in Juul Labs, Inc. remained at 35% at December 31, 2019, according to Altria in its Form 10-K filed with the SEC for the calendar year 2019). Altria reported in its Form 10-K filed with the SEC for the calendar year 2019 that for 2019, Altria recorded a total pre-tax impairment charge of $8.6 billion to its Juul Labs, Inc. investment, bringing the value of such investment to $4.2 billion as of December 31, 2019.

The parent companies of each of the OPMs have launched e-cigarette brands. Altria introduced e-vapor products through its subsidiary Nu Mark LLC under the "MarkTen" brand in 2013, but according to Altria in its Form 10-K filed with the SEC for the calendar year 2019, in December 2018, Altria refocused its innovative product efforts, which included the discontinuation of production and distribution of all e-vapor products by Nu Mark LLC, and the purchase of its 35% economic interest in Juul Labs, Inc., as described above. Reynolds American markets the e-cigarette product VUSE and introduced its VUSE Fob power unit, which offers an on-device display with information about battery and cartridge levels, in March 2016, and began national distribution of its VUSE Vibe high-volume cartridge and closed-tank system, with a stronger and longer-lasting battery, in November 2016. As discussed above under "—Industry Overview," on May 22, 2018, Altria announced the creation of a separate division within Altria for innovative, non-combustible, reduced-risk products such as vapor products and reported that the new structure is expected, among other things, to accelerate innovation. In April 2012 Lorillard, Inc. acquired the blu eCigs brand, which it sold to Imperial Tobacco contemporaneously with the Lorillard, Inc. merger into Reynolds American in 2015. In May 2018, Imperial Tobacco introduced to the Canadian market its vapor product Vype, a fillable e-cigarette that produces an inhalable aerosol, comes in a number of flavors and is available with various levels of nicotine, including one with no nicotine. In addition, Vector Group Ltd.'s subsidiary Zoom E-Cigs LLC rolled out its Zoom e-cigarette brand nationally in 2014. Other manufacturers also have e-cigarette brands on the market.

E-cigarette and vapor product sales were an estimated $3.5 billion in 2015 and $4 billion in 2016, according to news reports, and estimated at $6 billion for 2018, according to research cited by Campaign for Tobacco-Free Kids. According to the Tobacco Consumption Report, 2018 sales of electronic cigarettes in the U.S. were estimated at over $7 billion, with rapid growth in the past two years, led by sales of the JUUL brand, which is now the most popular electronic cigarette accounting for approximately three-fourths of the market share. Altria reported in its Form 10-K filed with the SEC for the calendar year 2019 that its subsidiaries believe that a significant number of adult tobacco consumers switch among tobacco categories, use multiple forms of tobacco products and try innovative tobacco products, such as e-vapor products and oral tobacco-derived nicotine products. In addition, Altria stated that a growing number of adult smokers are converting from cigarettes to exclusive use of non-combustible tobacco product alternatives, the e-vapor category has experienced significant growth in recent years, and the number of adults who exclusively use e-vapor products also has increased which, along with growth in oral nicotine pouches, has negatively impacted consumption levels and sales volume of cigarettes. Altria and its tobacco subsidiaries believe that the innovative tobacco product categories will continue to be dynamic as adult tobacco consumers explore a variety of tobacco product options and as the regulatory environment for these innovative tobacco products evolves, according to Altria in its Form 10-K filed with the SEC for the calendar year 2019.

According to a CDC report published November 9, 2018, in 2017 2.8% of adults were current e-cigarette users. The CDC in September 2014 reported results of a survey that indicated that in 2013 approximately 8.5% of the adult population, and 36.5% of smokers, had tried e-cigarettes at some time. According to the Tobacco Consumption Report, a survey in 2019 reported that the prevalence of self-reported, current e-cigarette use was 27.5% among high school students and 10.5% among middle school students. According to an article in the February 2019 CDC Morbidity and Mortality Weekly Report, current e-cigarette use among high school students had increased to 20.8% in 2018 from 1.5% in 2011, and had increased by 78% (from 11.7% to 20.8%) during 2017–2018 alone. According to the same report, e-cigarettes were the most commonly used tobacco product among high school students (20.8%), followed by cigarettes (8.1%), and among middle school students, the most commonly used tobacco product was e-cigarettes (4.9%), followed by cigarettes (1.8%). In January 2016 the CDC reported that in 2014 approximately 2.4 million middle and high school students had used electronic cigarettes in the preceding 30 days. The CDC in June 2016 released survey results showing that 45% of high school students had tried e-cigarettes in 2015, compared with only 32% who had tried cigarettes. In December 2014 the University of Michigan's Survey for Research Center ("**UMSRC**") reported its findings that e-cigarette use exceeded traditional cigarette smoking among teens in 2014. In December 2015, the UMSRC reported its findings that in 2015, a substantially higher percentage of adolescents used e-cigarettes in the last 30 days than had smoked regular cigarettes and that cigarette smoking among teens continued a decades-long decline in 2015 and reached the lowest levels recorded since annual tracking began over 40 years ago. The National Health Survey of the CDC reported that in 2016, 15.4% of adults had tried e-cigarettes, and 3.2% were current users. In addition, it has been reported that increases in taxes on traditional cigarettes have caused an increase in the sale of e-cigarettes. According to the Tobacco Consumption Report, certain sources have shown that e-cigarette use is associated with quit attempts by smokers; that youth use of e-cigarettes is unlikely to increase the number of future cigarette smokers; and that the substantial increase in e-cigarette use among U.S. adult smokers this decade was associated with a statistically significant increase in the smoking cessation rate at the population level; however, the Tobacco Consumption Report cites two studies published in 2019 that found that teens who use e-cigarettes or other tobacco-related products are more likely to later initiate cigarette use.

On May 5, 2016, the FDA released final rules that extend its regulatory authority to electronic cigarettes and certain other tobacco products under the FSPTCA (following an April 25, 2014 release of proposed rules). The rules ban sales of e-cigarettes and other vapor products, cigars, hookah tobacco, pipe tobacco, oral tobacco-derived nicotine products and other products to people under 18, effective August 2016. The rules also require new health warnings for these products, and manufacturers must seek FDA permission to continue marketing all such products launched since 2007 (comprising virtually all of the market), as discussed below under "—Regulatory Issues—FSPTCA." In addition, the rules require that product manufacturers register with the FDA and report product and ingredient listings; only make direct and implied claims of reduced risk if the FDA confirms that scientific evidence supports the claim and that marketing the product will benefit public health as a whole; not distribute free samples; and not sell products in vending machines, unless in a facility that never admits youth. The rules do not restrict flavored products, online sales or advertising for e-cigarettes and vapor products. The FDA considered banning flavors of e-cigarettes and other vapor products, but comments from President Trump in November 2019 suggested that the administration may not pursue such a ban, and on January 2, 2020, the FDA announced that while it was not banning the sale of flavored e-cigarettes and other vapor products, it would prioritize flavored products in its enforcement efforts against illegally

marketed e-cigarettes and other vapor products, as discussed below under "—Regulatory Issues—FSPTCA". Various manufacturers have sued the FDA over the final rules. As part of the FDA's comprehensive plan for tobacco and nicotine regulation discussed below under "—Regulatory Issues—FSPTCA," in March 2018 the FDA announced that it is considering over-the-counter regulation of e-cigarettes and in April 2018 the FDA announced a Youth Tobacco Prevention Plan focused on stopping the use by youth of tobacco products, particularly e-cigarettes. As part of the Youth Tobacco Prevention Plan, the FDA conducted a large-scale, undercover nationwide blitz to crack down on the sale of e-cigarettes – specifically JUUL products – to minors at both brick-and-mortar and online retailers, and sent an official request for information directly to Juul Labs, Inc., requiring the company to submit certain documents to better understand the reportedly high rates of youth use and the particular youth appeal of these products. Moreover, in September 2019, the FDA issued a warning letter to Juul Labs, Inc. for marketing unauthorized modified risk tobacco products by engaging in labeling, advertising, and/or other activities directed to consumers. On December 20, 2019, the President of the United States signed legislation, effective January 1, 2020, banning the sale of e-cigarettes and other vapor products (along with tobacco products) to anyone under the age of 21. See also "—Heat-Not-Burn Tobacco Products" below.

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

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

According to the Tobacco Consumption Report, in October 2019, a bill to limit the amount of nicotine in e-cigarette products was introduced in the U.S. House of Representatives. The bill would restrict nicotine content to a maximum of 20 milligrams per milliliter and would give the FDA the authority to reduce the cap if necessary.

Certain legislation has been passed by states and localities restricting the use and sale of electronic cigarettes and other vapor products. According to ANRF, as of January 2, 2020, 22 U.S. states and territories and 929 municipalities have banned the use of e-cigarettes in smoke-free venues, and 13 states and territories have restricted e-cigarette use in other venues. On December 19, 2013, the New York City Council approved legislation that prohibits the use of e-cigarettes in indoor public places and in places of employment (where smoking of traditional cigarettes is prohibited), and on January 3, 2017 a New York appellate panel affirmed the constitutionality of the ban. Chicago, Los Angeles, San Francisco and Philadelphia passed similar legislation in 2014. In June 2019, San Francisco's Board of Supervisors voted to ban the sale and distribution of e-cigarettes in San Francisco. According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, the governors of eight states exercised executive action to temporarily prohibit either the sale of all e-vapor products or e-vapor products with flavors other than tobacco. In November 2019, Massachusetts banned the sale of all flavored tobacco products, effective immediately with respect to electronic cigarettes and other vapor products. In September 2019, New York State banned the sale of flavored e-cigarettes and other vapor products, with the exception of menthol and tobacco flavors; however, the emergency ban is currently blocked by a state appellate court from taking effect. Also in September 2019, the Governor of Michigan directed the state health department to issue emergency rules to temporarily ban the sale of flavored vaping products. In January 2020, legislation was introduced in the New York State Senate that would ban the sale of all flavored tobacco products. On January 21, 2020, New Jersey banned the sale of flavored vaping products, effective April 20, 2020.

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

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

Heat-Not-Burn Tobacco Products

Certain tobacco product manufacturers have developed alternative products in which the tobacco is electronically heated rather than burned. Philip Morris International has developed the IQOS and TEEPS heat-not-burn tobacco products, over which Altria has sole distribution rights in the United States through a licensing agreement with Philip Morris International. BAT has developed a similar product, Glo. Such products are currently sold in certain international markets, and according to the Tobacco Consumption Report, sales of IQOS began in the United States in October 2019 in Atlanta and November 2019 in Richmond (following authorization by the FDA as described below). In addition, in July 2018, BAT received approval from the FDA under the substantial equivalence application process to begin selling its Neocore heated-tobacco device, which was formerly known as Eclipse, according to the Tobacco Consumption Report. Neocore is a carbon-tipped product that is lit with a match but does not burn the tobacco. The FDA regulatory authority described under "—E-Cigarettes and Vapor Products" above extends to heat-not-burn tobacco products, and any state and local regulation on vapor products described under "—E-Cigarettes and Vapor Products" above would also extend to heat-not-burn tobacco products. According to news reports, in December 2016 Philip Morris International filed a modified risk tobacco product application with the FDA to market IQOS in the U.S. as a "less harmful" tobacco product than traditional cigarettes. In March 2017 Philip Morris International filed the corresponding pre-market tobacco production application with the FDA, and in January 2018 an FDA advisory panel found that IQOS significantly reduces exposure to harmful or potentially harmful chemicals, but the panel rejected Philip Morris International's claim that the product is less harmful than traditional cigarettes. On April 30, 2019, the FDA, which is not required to follow the advice of the advisory panel, announced that it had authorized the marketing of the IQOS "Tobacco Heating System" in the U.S. following review through the FDA's Premarket Tobacco Application pathway. Altria has stated that it considers IQOS and other products in which tobacco is heated rather than burned as "tobacco products" under the MSA.

Smokeless Tobacco Products

Smokeless tobacco products, which are not "cigarettes" within the meaning of the MSA, have been available for centuries. Chewing tobacco and snuff are the most significant components of this market segment. Snuff is a ground or powdered form of tobacco that is placed under the lip to dissolve. It delivers nicotine effectively to the body. Moist snuff, including "snus" (originated in Sweden), is both smoke-free and potentially spit-free. As cigarette consumption expanded in the last century, the use of smokeless products declined. Recently, however, the industry has expanded its smokeless tobacco products in response to the general decline in cigarette consumption, the proliferation of smoking bans and the perception that smokeless use is a less harmful mode of tobacco and nicotine usage than cigarettes. Snuff, for example, is now being marketed to adult cigarette smokers as an alternative to cigarettes. UST, the largest producer of moist smokeless tobacco (and a subsidiary of Altria, Philip Morris's parent company), which manufactures Copenhagen and Skoal smokeless products, among others, is explicitly targeting adult smoker conversion in its growth strategy. In 2006, the OPMs entered the market of smokeless tobacco products. Reynolds American has tested dissolvable tobacco products Camel Sticks (a twisted, dissolvable stick made of tobacco), Camel Orbs (dissolvable tobacco tablets) and Camel Strips (dissolvable tobacco strips), but in recent years has scaled back marketing of these products. According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, during the third quarter of 2019, Helix Innovations LLC, a subsidiary of Altria, acquired Burger Söhne Holding and its subsidiaries as well as certain affiliated companies that are engaged in the manufacture and sale of oral tobacco-derived nicotine pouches under the brand name "*on!*".

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. According to a CDC report published November 9, 2018, 2.1% of U.S. adults were current users of smokeless tobacco (defined as chewing tobacco, snuff, dip, snus, or dissolvable tobacco) in 2017. According to a CDC report published December 9, 2016, per capita consumption of smokeless tobacco (defined as chewing tobacco and dry snuff) increased modestly, from 0.533 pounds in 2000 to 0.555 pounds in 2015, or 4.2%. According to Altria's Form 10-K filed with the SEC for the calendar year 2019, smokeless products accounted for approximately 9.7% of Altria's net revenues for the smokeable and smokeless products segments for the year ended December 31, 2019, compared with approximately 9.2% for 2018.

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

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

Smoking Cessation Products

A variety of smoking cessation products and services have been developed to assist individuals to quit smoking. While some studies have shown that smokers who use a smoking cessation product to help them quit smoking are more likely to relapse, other studies have shown that these products and programs are effective, and that excise taxes and smoking restrictions and related tobacco regulation drive additional expenditures to the smoking cessation market. The smoking cessation industry is broadly divided into two segments, counseling services (*e.g.*, individual, group, or telephone), and pharmacological treatments (both prescription and over-the-counter). Several large pharmaceutical companies, including GlaxoSmithKline, Johnson & Johnson, Novartis and Pfizer are significant participants in the smoking cessation market. The FDA has approved a variety of smoking cessation products and these products include prescription medicine, such as Nicotrol, Chantix, and Zyban, as well as over-the-counter products such as skin patches, lozenges and chewing gum. Alternative therapies, such as psychotherapy and hypnosis, are also in use and available to individuals. On March 15, 2018, as part of the FDA's comprehensive plan for tobacco and nicotine regulation discussed below under "—Regulatory Issues—FSPTCA," the FDA announced that it is starting new work to re-evaluate and modernize its approach to the development and regulation of medicinal nicotine replacement products such as gums, patches and lozenges, and on August 3, 2018, the FDA released draft guidance aimed at supporting the development of novel, inhaled nicotine replacement therapies that could be submitted to the FDA for approval as new drugs, similar to current over-the-counter pharmaceutical nicotine replacement therapy products.

According to the Tobacco Consumption Report, a CDC study released in 2019 reported that approximately 34 million American adults were current smokers in 2018, representing approximately 13.7% of the population age 18 and older, a decline from 14.0% in 2017, 15.5% in 2016, and from 19.4% in 2010. It is possible that many former smokers were aided by smoking cessation products.

Regarding smoking cessation generally, the CDC in January 2017 released the results of a study of quitting smoking, which found that in 2015, 68.0% of smokers wanted to stop smoking, 55.4% had made a quit attempt in the past year, 7.4% had recently quit, 57.2% had been advised by a health professional to quit, and 31.2% had used counseling and/or medications when they tried to quit.

Private health insurance carriers have increased 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.

Gray Market

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

Regulatory Issues

Regulatory Restrictions and Legislative Initiatives

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

Federal Regulation

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

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

FSPTCA

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

- establishes a Tobacco Products Scientific Advisory Committee ("**TPSAC**") to, among other things, evaluate the issues surrounding the use of menthol as a flavoring or ingredient in cigarettes;
- allows the FDA to impose a ban on the use of menthol and other flavors in cigarettes upon a finding that such a prohibition would be appropriate for the public health;
- allows the FDA to require the reduction of nicotine or any other compound in cigarettes;

- imposes restrictions on the advertising, promotion, sale and distribution of tobacco products, including at retail;

- requires larger and more severe health warnings on cigarette packs and cartons;

- requires pre-market approval by the FDA for claims made with respect to reduced risk or reduced exposure products and bans the use of descriptors on tobacco products, such as "low tar," "mild" and "light," when used as descriptors of modified risk, unless expressly authorized by the FDA;

- requires the disclosure of ingredients and additives to consumers;

- allows the FDA to mandate the use of reduced risk technologies in conventional cigarettes;

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

- allows the FDA to subject new or modified tobacco products to application and premarket review and authorization requirements (the "**New Product Application Process**") if the FDA does not find them to be "substantially equivalent" to products commercially marketed as of February 15, 2007, and to deny any such new product application thus preventing the distribution and sale of any product affected by such denial; and

- grants the FDA the regulatory authority to consider and impose broad additional restrictions through a rule making process.

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

- established the collection of user fees from the tobacco industry;

- created and staffed the TPSAC;

- selected the Director of the Center for Tobacco Products;

- announced and began enforcing a ban on fruit, candy or clove flavored cigarettes (menthol is currently exempted from this ban);

- issued guidance on registration and product listing;

- issued final rules on tobacco marketing, including restricting access and marketing of cigarettes and smokeless tobacco products to youth;

- issued a prohibition on misleading marketing terms ("Light," "Low," and "Mild") for tobacco products;

- has proposed new graphic warnings to appear on cigarette packages and in cigarette advertisements;

- required warning labels for smokeless tobacco products;

- authorized the sale and marketing of new tobacco products and rejected applications to introduce certain new tobacco products into the market;

- issued its final rule subjecting e-cigarettes, vapor products and certain other tobacco products to FDA regulation (as discussed under "—E-Cigarettes and Vapor Products" above);

- stated its intent to issue a notice of proposed rulemaking that would seek to ban menthol in combustible tobacco products; and

- issued an ANPRM in order to obtain information for consideration in developing a tobacco product standard to set the maximum nicotine level for cigarettes (on November 20, 2019, the FDA removed its nicotine reduction plan from its current regulatory agenda, although the FDA may revive the plan in the future).

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

Warnings. Pursuant to requirements of the FSPTCA, the FDA issued a proposed rule in November 2010 to modify the required warnings that appear on cigarette packages and in cigarette advertisements. The proposed new warnings consisted of nine new textual warning statements accompanied by color pictures depicting the negative health consequences of smoking. The FDA took public comments on the proposed rule through January 2011, and in June 2011, the FDA unveiled nine new graphic health warnings that were required to appear on cigarette packages and advertisements no later than September 2012. As discussed below under "*–FSPTCA Litigation*," five tobacco companies in August 2011 filed a complaint against the FDA challenging the FDA's rule, and the district court enjoined the FDA from enforcing the rule. In a March 5, 2019 Memorandum and Order, a federal court directed the FDA to submit by March 15, 2020 a final rule mandating color graphic warnings on cigarette packs and in cigarette advertisements as required by the FSPTCA. On August 15, 2019, the FDA issued a proposed rule to require new health warnings on cigarette packages and in advertisements to promote greater public understanding of the negative health consequences of smoking. The proposed warnings feature text and photo-realistic color images depicting some of the lesser-known but serious health risks of cigarette smoking. The cigarette health warnings, once finalized, would appear prominently on cigarette packages and in advertisements, occupying the top 50% of the area of the front and rear panels of cigarette packages and at least 20% of the area at the top of cigarette advertisements. The warnings would be required to appear on packages and in advertisements 15 months after a final rule is issued. The proposed rule was open for public comments, and the FDA had announced that it was seeking comments on the proposed cigarette health warnings and how many of the 13 proposed warnings should be selected for the final rule. The FDA also sought proposals for alternative text and images. As of February 21, 2020, the FDA has not issued a final rule, according to Altria in its Form 10-K filed with the SEC for the calendar year 2019.

Dissolvable Tobacco Products. In July 2010, the TPSAC conducted hearings on the impact of dissolvable tobacco products on public health. A report on these hearings was submitted to the FDA in 2011. Written comments regarding dissolvable tobacco products were submitted to the TPSAC ahead of its January 2012 meeting, at which the TPSAC continued its discussions of issues related to the nature and impact of dissolvable tobacco products on public health. The TPSAC's final report released to the FDA in March 2012 found that dissolvable tobacco products would reduce health risks compared to smoking cigarettes, but also have the potential to increase the number of tobacco users. The TPSAC could not reach any overall judgment as to whether or not the consequence of dissolvable tobacco products would be an increase or decrease in the number of people who successfully quit smoking. In May 2016, the FDA finalized its rule extending regulatory authority to cover all tobacco products, including dissolvable tobacco products, which do not fit the definition of smokeless tobacco products. The FDA regulates the manufacture, import, packaging, labeling, advertising, promotion, sale, and distribution of all dissolvable tobacco products.

Menthol. The TPSAC and the Menthol Report Subcommittee held meetings throughout 2010 and 2011 to consider the issues surrounding the use of menthol in cigarettes. At its March 2011 meeting, TPSAC presented its report and recommendations on menthol, which included that menthol likely increases experimentation and regular smoking, menthol likely increases the likelihood and degree of addiction for youth smokers, non-white menthol smokers (particularly African-Americans) are less likely to quit smoking and are less responsive to certain cessation medications, and consumers continue to believe that smoking menthol cigarettes is less harmful than smoking non-menthol cigarettes as a result of the cigarette industry's historical marketing. TPSAC's overall recommendation to the FDA was that "removal of menthol cigarettes from the marketplace would benefit public health in the United States." At the July 2011 meeting, TPSAC considered revisions to its report, and the voting members unanimously approved the final report for submission to the FDA with no change in its recommendation. On July 23, 2013, the FDA released its Independent Preliminary Scientific Evaluation of the Public Health Effects of Menthol Versus Non-menthol Cigarettes (the "**Preliminary Evaluation**") for public comment, and issued an Advance Notice of Proposed Rulemaking ("**ANPRM**") seeking additional information to help the FDA make informed decisions about menthol in cigarettes. The Preliminary Evaluation found that although there is little evidence to suggest menthol cigarettes are more toxic than regular cigarettes, the mint flavor of menthol masks the harshness of tobacco, which makes it easier to become addicted and harder to quit, and increases smoking initiation among youth. The FDA concluded that menthol cigarettes likely pose a public health risk above that seen with non-menthol cigarettes. During the public comment period, the FDA was to consider all comments, data and research submitted to determine what regulatory action, if any, with respect to menthol cigarettes is appropriate, including the establishment of product standards. In the meantime the FDA was to conduct and support research on the differences between menthol and non-menthol cigarettes as they relate to menthol's likely impact on smoking cessation. The FDA is allowed to rely on the TPSAC's report but is not required to follow the TPSAC's recommendations, and the FDA has not yet taken any final action with respect to menthol use. In a press release dated November 15, 2018, the FDA announced its intent to advance a Notice of Proposed Rulemaking that would seek to ban menthol in combustible tobacco products, including cigarettes and cigars, based on comments received from the March 2018 ANPRM. See "*—Comprehensive Regulatory Plan for Tobacco and Nicotine*" below for a description of the FDA's ANPRM issued on March 20, 2018 regarding flavors, including menthol, in tobacco products. See "*—FSPTCA Litigation*" below for a description of litigation regarding the composition of the TPSAC and reliance upon the menthol report.

On November 8, 2013, twenty-seven jurisdictions (including the State) sent a letter to the FDA in support of a ban on menthol-flavored cigarettes. Any ban or material limitation on the use of menthol in cigarettes could materially adversely affect the results of operations, cash flow and financial condition of the PMs, especially with respect to the *Newport* brand mentholated cigarettes, which is owned by BAT through its subsidiary Reynolds American (following the Reynolds American merger with Lorillard, Inc.). According to research published in *Nicotine and Tobacco Research* in May 2018, the menthol cigarette market share increased from 30.2% in 2011 to 32.5% in 2015. News reports have estimated the 2018 market share of menthol cigarettes at 35%.

Pre-Market Review for New and Modified Products. The FSPTCA imposes restrictions on marketing new and modified tobacco products, requiring FDA review in order for a manufacturer to begin marketing a new product or continue marketing a modified product. Unless a manufacturer can demonstrate that its products are "substantially equivalent" to products commercially marketed as of February 15, 2007, the FDA could require the removal of such products or subject them to the new product application process and, if any such new product applications are denied, prevent the continued distribution and sale of such products. Manufacturers intending to first introduce new and modified cigarette, cigarette tobacco and smokeless tobacco products into the market after March 22, 2011 or intending to first introduce other new and modified products such as e-cigarettes and other vapor products into the market after August 8, 2016 must submit substantial equivalence reports to the FDA and obtain "substantial equivalence orders" from the FDA, or submit new tobacco product applications to the FDA and obtain "new tobacco product marketing orders" from the FDA before introducing the products into the market. According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, new tobacco product applications must demonstrate that the marketing of the product would be appropriate for the protection of the public health. In June 2019, the FDA issued guidance on the content of new tobacco product applications for e-vapor products and in September 2019, the FDA issued a proposed rule in which it set forth proposed requirements for content, format and FDA's procedures for reviewing such applications.

According to FDA guidance issued in January 2011, for cigarettes, cigarette tobacco and smokeless tobacco products modified or first introduced into the market between February 15, 2007 and March 22, 2011 for which a

manufacturer submitted substantial equivalence reports that the FDA determines are not "substantially equivalent" to products commercially marketed as of February 15, 2007, the FDA could require the removal of such products from the marketplace. In its May 2016 final rule on e-cigarettes and other vapor products, the FDA left the "grandfather" date of February 15, 2007 in place for e-cigarettes and vapor products. For e-cigarettes and other vapor products modified or first introduced into the market between February 15, 2007 and August 8, 2016, if a manufacturer submits substantial equivalence reports for products that the FDA determines are not "substantially equivalent" to products commercially marketed as of February 15, 2007, or rejects a new tobacco product application submitted by a manufacturer, the FDA could require the removal of such products from the marketplace. Few, if any, e-cigarettes and other vapor products were on the market as of February 15, 2007, and thousands of such products subsequently entered into commerce. To address this issue, the FDA established a compliance policy regarding its premarket review requirements for all products (such as e-cigarettes and other vapor products) deemed by the May 2016 final rule to be tobacco products that are not grandfathered products but were on the market as of August 8, 2016. The FDA will allow such products to remain on the market so long as the manufacturer has filed the appropriate Premarket Tobacco Application ("**PMTA**") by a specific deadline. In August 2017 in a "Guidance for Industry" (the "**August 2017 Guidance**") the FDA extended the filing deadlines for combustible non-cigarette products, such as cigars and pipe tobacco, to August 8, 2021, and for non-combustible products, such as e-cigarettes, other vapor products and oral tobacco-derived nicotine products, to August 8, 2022. The August 2017 Guidance also provided that the FDA will permit manufacturers to continue to market such products that were on the market on August 8, 2016 until the FDA renders a decision on the applicable substantial equivalence report or new tobacco product application. In July 2019, the U.S. District Court for the District of Maryland ordered the FDA to adopt a 10-month deadline (May 12, 2020) for the submission of e-cigarette PMTAs (and the products whose applications are timely filed can remain on the market without being subject to FDA enforcement action for up to one year from the date of the application). The court had ruled that the FDA had exceeded its authority in allowing e-cigarettes to remain on the market until 2022 before the manufacturers applied for regulatory approval. According to news reports, on October 11, 2019, Reynolds American submitted to the FDA a PMTA for some of its Vuse e-cigarettes.

In addition, modifications to currently-marketed products, including modifications that result from, for example, a supplier being unable to maintain the consistency required in ingredients or a manufacturer being unable to obtain the ingredients with the required specifications, can trigger the FDA's pre-market review process described above.

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

Since the FSPTCA's enactment, the FDA has received thousands of applications for products that tobacco companies claimed were "substantially equivalent" to ones already on the market. The FDA began announcing decisions on substantial equivalence reports in 2013. The FDA announced on June 25, 2013 that it approved the applications and authorized the sale of two new non-menthol Newport cigarettes that were made by Lorillard (after determining that the cigarettes, while slightly different than previous products, would not pose new health issues) and rejected four other new tobacco products, based on new health concerns raised by some ingredients and a lack of detail about product design. It was the first instance of a federal agency rejecting an application by a tobacco manufacturer to bring a new tobacco product to the market based on the product's threat to public health. Four additional tobacco products were rejected by the FDA on August 28, 2013 because they were found to be "not substantially equivalent" to the predicate products to which they were compared, and in September 2013 four roll-your-own products were approved for marketing and sale by the FDA because the products were determined to be "substantially equivalent" to the predicate products to which they were compared. In February 2014, the FDA issued orders to prevent the further sale and distribution of four of the "not substantially equivalent" tobacco products that were currently on the market, marking the first time the FDA has used its authority to order a tobacco manufacturer to stop selling and distributing currently available tobacco products. In August 2014, the FDA ordered a tobacco product manufacturer to stop selling

and distributing seven dissolvable tobacco products because they were not substantially equivalent to predicate products. On December 17, 2019, the FDA authorized the marketing of two new tobacco products manufactured by SPM 22nd Century Group Inc., Moonlight and Moonlight Menthol, which are combusted, filtered cigarettes that contain a reduced amount of nicotine compared to typical commercial cigarettes. After reviewing the PMTAs submitted by the tobacco manufacturer, the FDA determined that authorizing these reduced nicotine products for sale in the U.S. is appropriate for the protection of the public health because of, among several key considerations, the potential to reduce nicotine dependence in addicted adult smokers. According to the FDA, on average, conventional cigarettes made in the U.S. contain tobacco with a nicotine content of 10 to 14 milligrams per cigarette, and Moonlight and Moonlight Menthol have nicotine content between 0.2 to 0.7 milligrams per cigarette. The FDA has not yet made a ruling on the modified risk tobacco product application for these reduced nicotine cigarettes.

Altria reported in its Form 10-K filed with the SEC for the calendar year 2019 that it is not possible to predict how long reviews by the FDA of substantial equivalence reports or new tobacco product applications will take, and a "not substantially equivalent" determination or denial of a new tobacco product application could have a material adverse impact on its business, cash flows or financial position.

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

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

On August 27, 2015, the FDA sent a warning letter to Reynolds American's subsidiary Santa Fe Natural Tobacco Company, claiming that its use of the terms "Natural" and "Additive Free" in the product labeling and advertising for Natural American Spirit cigarettes violates the modified risk tobacco products provision of the FSPTCA. The FDA stated that in order for such terms to be used, these cigarettes must have an FDA modified-risk tobacco product order, which requires scientific evidence in order to legally make those claims. Following discussions between the parties, on January 23, 2017 the FDA and Santa Fe Natural Tobacco Company reached an agreement whereby, among other things, Santa Fe Natural Tobacco Company committed to phasing out use of the terms "Natural" and "Additive Free" from product labeling and advertising for Natural American Spirit cigarettes on an established timeframe, but it may continue to use the term "Natural" in the Natural American Spirit brand name and trademarks.

In connection with a 2016 lawsuit initiated by Altria's subsidiary John Middleton Co. ("**Middleton**") the Department of Justice, on behalf of the FDA, informed Middleton that the FDA does not intend to bring an enforcement action against Middleton for the use of the term "mild" in the trademark "Black & Mild" (Middleton's principal cigar brand), according to Altria's Form 10-K filed with the SEC for the calendar year 2019.

As described above under "—Heat-Not-Burn Tobacco Products," in January 2018 an advisory panel to the FDA rejected Philip Morris International's claim that its product IQOS, in which tobacco is electronically heated rather than burned, is less harmful than traditional cigarettes. On April 30, 2019, the FDA, which is not required to follow the advice of the advisory panel, announced that it had authorized the marketing of the IQOS "Tobacco Heating System" in the U.S. following review through the FDA's PMTA pathway.

As described above under "—*E-Cigarettes and Vapor Products*," in September 2019, the FDA issued a warning letter to Juul Labs, Inc. for marketing unauthorized modified risk tobacco products by engaging in labeling, advertising, and/or other activities directed to consumers.

Product Constituents and Product Standards. On March 30, 2012 the FDA issued draft guidance on the reporting of harmful and potentially harmful constituents in tobacco products and tobacco smoke pursuant to the FSPTCA. In January 2017, the FDA proposed a product standard for N-nitrosonornicotine (NNN) levels in finished smokeless tobacco products.

Comprehensive Regulatory Plan for Tobacco and Nicotine. On July 28, 2017, the FDA announced its intent to develop a comprehensive plan for tobacco and nicotine regulation that recognizes the continuum of risk for nicotine delivery. On March 15, 2018, as part of this comprehensive plan, the FDA announced an ANPRM to explore and seek comment on lowering the nicotine in cigarettes to minimally or non-addictive levels, but on November 20, 2019, the FDA removed its nicotine reduction plan from its current regulatory agenda (although the FDA may revive the plan in the future). On March 20, 2018, the FDA issued an additional ANPRM regarding the role that flavors, including menthol, play in initiation, use and cessation of use of tobacco products, and in a press release dated November 15, 2018, the FDA announced its intent to advance a Notice of Proposed Rulemaking that would seek to ban menthol in combustible tobacco products, including cigarettes and cigars, based on comments received from the March 2018 ANPRM. In the March 15, 2018 announcement, the FDA also stated that it is starting new work to re-evaluate and modernize its approach to the development and regulation of medicinal nicotine replacement products such as gums, patches and lozenges; and plans to issue a series of foundational rules and guidance that will delineate key requirements of the regulatory process, such as the demonstration of substantial equivalence and the submission of applications for new tobacco products, as well as a framework for addressing substantial equivalence applications for provisional products that entered the market during applicable grace periods. The FDA also noted in the July 2017 announcement that it plans to develop product standards to protect against known public health risks such as issues with electronic nicotine delivery systems batteries and concerns about children's exposure to liquid nicotine. On March 28, 2018, the FDA announced, as part of the comprehensive plan, that it is considering over-the-counter regulation of e-cigarettes. On April 24, 2018, the FDA announced a Youth Tobacco Prevention Plan focused on stopping the use by youth of tobacco products, particularly e-cigarettes, as part of its comprehensive plan. Among other initial actions, the FDA sent official requests for information to several e-cigarette manufacturers, requiring them to submit documents to enable the FDA to better understand the youth appeal of e-cigarettes, and conducted an undercover nationwide blitz to crack down on illicit sales of e-cigarettes. The Youth Tobacco Prevention Plan will also include efforts to make tobacco products less toxic, appealing and addictive in order to deter use by youth, which may include measures on flavors or designs that appeal to youth, child-resistant packaging and product labeling to prevent accidental child exposure to liquid nicotine. Additionally, the FDA plans to explore additional restrictions on the sale and promotion of electronic nicotine delivery systems to further reduce youth exposure and access to these products. On August 3, 2018, the FDA released draft guidance aimed at supporting the development of novel, inhaled nicotine replacement therapies that could be submitted to the FDA for approval as new drugs, similar to current over-the-counter pharmaceutical nicotine replacement therapy products.

FDA March 2019 Draft Guidance. In March 2019 the FDA issued a draft Guidance for Industry entitled "Modifications to Compliance Policy for Certain Deemed Tobacco Products" (the "**March 2019 Draft Guidance**"). The March 2019 Draft Guidance proposed, among other things, to revise the FDA compliance policy for flavored e-vapor products by, among other things, moving the deadline for filing pre-market applications from August 2022 to August 2021 (however, as described above, in July 2019, a federal court ordered the FDA to adopt a 10-month deadline (May 12, 2020) for the submission of such applications), and imposing restrictions on sales of such tobacco products at in-person locations and online in order to reduce underage access. In the March 2019 Draft Guidance, the FDA also announced its intention to restrict certain flavors of e-vapor products in order to deter underage usage of such products. In September 2019, the United States Department of Health and Human Services announced that the FDA's compliance policy for flavored e-vapor products will be broader than that announced in the March 2019 Draft Guidance by including both mint and menthol flavored e-vapor products as the subject of any FDA enforcement; however, comments from President Trump in November 2019 suggested that the administration may not pursue a ban of flavored e-vapor products, and on January 2, 2020, the FDA announced that while it was not banning the sale of flavored e-cigarettes and other vapor products, it would prioritize flavored products in its enforcement efforts against illegally marketed e-cigarettes and other vapor products. The March 2019 Draft Guidance was subject to a 30-day comment period, after which the FDA may issue a final guidance. According to the March 2019 Draft Guidance, enforcement actions under the revised policies would begin 30 days after the issuance of the final guidance.

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

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

President Trump's budget plan released February 10, 2020 proposes to move the Center for Tobacco Products out of the FDA and to create a new agency within the U.S. Department of Health and Human Services to focus on tobacco regulation, which, according to the Trump administration, would have greater capacity to respond strategically to the growing complexity of new tobacco products.

FSPTCA Litigation

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

In a separate lawsuit that challenged the constitutionality of the FDA regulation that restricts tobacco manufacturers from using the trade or brand name of a non-tobacco product on cigarettes or smokeless tobacco products, the case was dismissed without prejudice pursuant to a stipulation by which the FDA agreed not to enforce the current or any amended trade name rule against plaintiffs until at least 180 days after rulemaking on the amended rule concludes. This relief only applies to plaintiffs in the case. However, in May 2010, the FDA issued guidance on the use of non-tobacco trade and brand names applicable to all cigarette and smokeless tobacco product manufacturers. This guidance indicated the FDA's intention not to commence enforcement actions under the regulation while it considers how to address the concerns raised by various manufacturers.

In February 2011, Lorillard, along with Reynolds Tobacco, filed a lawsuit in the U.S. District Court for the District of Columbia, *Lorillard, Inc. v. U.S. Food and Drug Administration*, against the FDA challenging the composition of the TPSAC because of the FDA's appointment of certain voting members with significant financial conflicts of interest. Lorillard believed these members were financially biased because they regularly testify as expert witnesses against tobacco-product manufacturers, and because they are paid consultants for pharmaceutical companies that develop and market smoking-cessation products. The suit similarly challenged the presence of certain conflicted individuals on the Constituents Subcommittee of the TPSAC. The complaint sought a judgment (i) declaring that, among other things, the appointment of the conflicted individuals to the TPSAC (and its Constituents Subcommittee) was arbitrary, capricious, an abuse of discretion, and otherwise not in compliance with the law because it prevented the TPSAC from preparing a report that was unbiased and untainted by conflicts of interest, and (ii) enjoining the

FDA from, among other things, relying on the TPSAC's report. On July 21, 2014, the U.S. District Court for the District of Columbia granted plaintiffs' summary judgment motion, in part, and denied defendants' summary judgment motion, finding that three of the panel's members had conflicts of interest that biased them against the tobacco industry and that "the FDA's appointment of those members was arbitrary and capricious, in violation of the APA, and fatally tainted the composition of the TPSAC and its work product, including the Menthol Report." The court ordered the FDA to reconstitute the TPSAC so that it complies with the applicable ethics laws and barred the FDA from relying on the TPSAC 2011 report on menthol, which the court found to be, "at a minimum suspect, and at worst untrustworthy." The FDA appealed the district court's decision to the U.S. Court of Appeals for the District of Columbia in September 2014. On March 5, 2015, the FDA announced the resignation or termination of four members from the TPSAC and the addition of three members to the TPSAC, in response to the district court's order to reconstitute the committee. The FDA also announced that it would work expeditiously to fill the remaining vacancy. On January 15, 2016, the appellate court reversed the decision of the district court, finding that the plaintiffs did not have standing to challenge appointments of certain TPSAC members. Under the appellate court's order, the three former committee members can serve once again on the TPSAC and the FDA can rely on the TPSAC menthol report. On February 26, 2016, the plaintiff tobacco manufacturers filed a petition for a rehearing en banc, which was denied in May 2016.

On August 16, 2011, five tobacco companies (including OPMs Reynolds Tobacco and Lorillard as well as SPMs Commonwealth Brands, Inc., Liggett Group LLC, and Santa Fe Natural Tobacco Company) filed a complaint against the FDA in the U.S. District Court for the District of Columbia, *R.J. Reynolds Tobacco Co. v. U.S. Food and Drug Administration*, challenging the FDA's rule requiring new textual and graphic warning labels on cigarette packaging and advertisements. The tobacco companies sought a declaratory judgment that the FDA's final rule violates the First Amendment and the Administrative Procedure Act (the "**APA**"). On February 29, 2012, the district court granted the plaintiffs' motion for summary judgment and entered an order permanently enjoining the FDA, until 15 months following the issuance of new regulations implementing Section 201(a) of the FSPTCA that are substantively and procedurally valid and permissible under the United States Constitution and federal law, from enforcing against plaintiffs the new textual and graphic warnings required by Section 201(a) of the FSPTCA. The district court ruled that the mandatory graphic warnings violated the First Amendment by unconstitutionally compelling speech, and that the FDA had failed to carry both its burden of demonstrating a compelling interest for its rule requiring the textual and graphic warning labels and its burden of demonstrating that the rule is narrowly tailored to achieve a constitutionally permissible form of compelled commercial speech. The FDA filed an appeal with the U.S. Court of Appeals for the District of Columbia Circuit on March 4, 2012, and on August 24, 2012, the Court of Appeals affirmed the district court's decision invalidating the graphic warning rule. On October 9, 2012, the FDA filed a motion for rehearing en banc with the Court of Appeals, and on December 5, 2012, the Court of Appeals denied the FDA's petition for a rehearing en banc. On March 19, 2013, the FDA announced that it would not file a petition for a *writ of certiorari* with the U.S. Supreme Court, but instead would undertake research to support a new rulemaking on different warning labels consistent with the FSPTCA. In October 2016, several public health groups filed suit in the Federal District Court for the District of Massachusetts to force the FDA to issue final rules requiring graphic warnings on cigarette packs and advertising (*American Academy of Pediatrics, et al v. United States Food and Drug Administration*, No. 16-cv-11985, D. Mass.). In a March 5, 2019 Memorandum and Order, the court directed the FDA to submit by March 15, 2020 a final rule mandating color graphic warnings on cigarette packs and in cigarette advertisements as required by the FSPTCA. As discussed above under "*—Warnings*", on August 15, 2019, the FDA issued a proposed rule to require new health warnings on cigarette packages and in advertisements to promote greater public understanding of the negative health consequences of smoking.

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

Surgeon General Reports

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

In June 2006, the Office of the Surgeon General released a report, "The Health Consequences of Involuntary Exposure to Tobacco Smoke." It is a comprehensive review of health effects of involuntary exposure to tobacco smoke. It concludes definitively that secondhand smoke causes disease and adverse respiratory effects. It also concludes that policies creating completely smoke-free environments are the most economical and efficient approaches to providing protection to non-smokers. On September 18, 2007, the Office of the Surgeon General released the report, "Children and Secondhand Smoke Exposure," which concludes that many children are exposed to secondhand smoke in the home and that establishing a completely smoke-free home is the only way to eliminate secondhand smoke exposure in that setting. The Surgeon General also addressed the health risks of second-hand smoke in its 2010 report entitled "How Tobacco Smoke Can Cause Disease: The Biology and Behavioral Basis for Smoking-Attributable Disease." In 2012, the Surgeon General released a report on preventing tobacco use among youth and young adults, and on January 17, 2014, the Surgeon General released a report on the health consequences of smoking, contending that smoking is linked in the U.S. to a higher number of deaths than previous estimates, that filtered cigarettes may increase the risk of certain diseases, and that cigarettes are a causal factor in certain conditions and diseases that had not previously been linked to cigarette smoking. These reports are expected to strengthen arguments in favor of further smoking restrictions across the country.

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

Other Federal Action

In October 2011, the FDA and the National Institutes of Health (the "**NIH**") announced a joint national study called the "Tobacco Control Act National Longitudinal Study of Tobacco Users" to monitor and assess the behavioral and health impacts of new government tobacco regulations. This study, now referred to as the Population Assessment of Tobacco and Health (PATH) Study, started in 2013 and is the first large research effort undertaken by the NIH and the FDA after Congress gave the FDA authority to regulate tobacco products in 2009. About 49,000 people ages 12 years and older are participating in the PATH Study. The results of the study will be used to guide the FDA in targeting effective actions to reduce the effects of smoking on public health.

In November 2011, the FDA announced its plans for an integrated anti-smoking campaign targeting teenagers, with a combined budget of up to $600 million over five years. As part of this campaign, the FDA announced in February 2014 that advertisements would run for at least one year under the "Real Cost" campaign that targets young people aged 12-17 years and shows the costs and health consequences associated with tobacco use. The FDA reported that the "Real Cost" campaign prevented as many as 587,000 youths nationwide from smoking during 2014-

2016. According to the FDA, subsequent campaigns will target young adults aged 18-24 years and people who influence teens, including parents, family members and peers. In May 2018, the FDA announced that it expanded the "Real Cost" public education campaign with messages focused on preventing use by youth of e-cigarettes and announced the launch of the full-scale campaign in June 2019.

In March 2012, the CDC announced its first national anti-tobacco effort entitled "Tips From Former Smokers" (TIPS) which features graphic advertisements intended to shock smokers into quitting with stories of people damaged by tobacco products. The initial campaign's goal was to convince 500,000 people to try quitting smoking and 50,000 to quit long-term, and the CDC reported that as a result of the 2012 campaign an estimated 1.6 million smokers attempted to quit smoking and more than 200,000 Americans had quit smoking immediately following the campaign, of which researchers estimated that more than 100,000 would likely quit smoking permanently, according to the CDC. The TIPS advertising campaign was subsequently renewed in March of 2013, July of 2014 and March of 2015 with new advertisements showing in stark terms the negative health effects of smoking. The CDC announced the launch of another graphic anti-smoking campaign beginning in January 2016, to run for 20 weeks on television, radio, billboards online and in magazines and newspapers. The CDC has reported that the TIPS advertising campaign helped prompt more than 16 million smokers to try to quit since it began in 2012, and approximately one million have quit for good because of the campaign. Annual budgets of the CDC have consistently included funds for tobacco prevention and control, including in order to continue the national tobacco education campaigns that are meant to raise awareness about the health effects of tobacco use and prompt smokers to quit.

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

The U.S. Defense Department has undertaken efforts to reduce smoking among members of the military. A March 14, 2014 Defense Department memo encouraged the services to eliminate tobacco sales and tobacco use on military bases, although it did not order specific actions. In April 2016, Defense Secretary Ash Carter approved a policy set forth in DoD Tobacco Policy Memorandum 16-001 which directs all Department of Defense facilities to restrict tobacco use to outdoor areas; directs military branches to implement plans to improve tobacco education for their personnel, strengthen programs for quitting tobacco, review efforts to institute smoke-free military housing and implement tobacco-free zones in areas frequented by children; and also requires tobacco prices at military base exchanges and commissaries to match local civilian store prices, including tax.

Excise Taxes

Cigarettes are subject to substantial excise taxes in the U.S. On February 4, 2009, President Obama signed into law, effective April 1, 2009, an increase of $0.62 in the excise tax per pack of cigarettes, bringing the total federal excise tax to $1.01 per pack, and significant tax increases on other tobacco products. The federal excise tax rate for snuff increased $0.925 per pound to $1.51 per pound. The federal excise tax on small cigars, defined as those weighing three pounds or less per thousand, increased by $48.502 per thousand to $50.33 per thousand. In addition, the federal excise tax rate for roll-your-own tobacco increased from $1.097 per pound to $24.78 per pound. Press reports have

noted that many consumers who previously purchased roll-your-own tobacco began using pipe tobacco to roll their own cigarettes in order to avoid the new excise tax, as pipe tobacco excise taxes were unaffected, and using new, mechanized rolling machines to process cigarettes in bulk. Press reports have also noted that increased excise taxes have led to an increase in cigarette smuggling. On July 6, 2012, President Obama signed into law a provision classifying retailers that operate roll-your-own machines as cigarette manufacturers, thus requiring those retailers to pay the same tax rate as other cigarette manufacturers.

All of the states, the District of Columbia, Puerto Rico, Guam and the Northern Mariana Islands currently impose cigarette taxes, which ranged from $0.17 per pack in Missouri to $5.10 per pack in Puerto Rico, according to the Campaign for Tobacco-Free Kids as of January 14, 2020. Altria reported in its Form 10-K filed with the SEC for the calendar year 2019 that between the end of 1998 (the year in which the MSA was executed) and February 21, 2020, the weighted-average state cigarette excise tax increased from $0.36 to $1.82 per pack. Since January 1, 2002, 48 states and the District of Columbia have raised their cigarette taxes a total of 138 times, according to the Campaign for Tobacco-Free Kids as of January 14, 2020. According to a report by the American Lung Association, in 2009, 14 states turned to cigarette taxes to increase revenue in response to record state deficits. As reported by the American Lung Association's Tobacco Policy Project/State Legislated Actions on Tobacco Issues ("**SLATI**"), six states passed cigarette excise tax increases during 2010, two states (Connecticut and Vermont) passed cigarette excise tax increases during 2011, and in 2012, Illinois and Rhode Island enacted legislation to increase their cigarette excise taxes. During 2013, Massachusetts, Minnesota, Oregon and Puerto Rico had enacted legislation to increase their cigarette taxes. In particular, Minnesota increased its cigarette excise tax in July 2013 by $1.60 per pack, and Massachusetts raised its excise tax by $1.00 per pack, effective July 31, 2013, bringing its tax to $3.51 per pack. New Hampshire's cigarette tax also increased by $0.10 on August 1, 2013 due to legislation enacted in 2011. Vermont enacted a cigarette excise tax increase in 2014. During 2015, Alabama, Nevada, Kansas, Vermont, Louisiana, Ohio, Rhode Island and Connecticut enacted legislation to increase their cigarette excise taxes. During 2016, Louisiana, Pennsylvania, West Virginia and California enacted legislation to increase cigarette excise taxes. In particular, in California, a $2.00 per pack increase in the State's cigarette excise tax (in addition to that state's then current $0.87 per pack excise tax) was passed by voters on November 8, 2016, effective April 1, 2017. During 2017, Rhode Island, Delaware, Connecticut and Puerto Rico enacted legislation to increase their cigarette excise taxes. During 2018, Kentucky, Oklahoma, and Washington D.C. enacted cigarette excise tax increases. According to the Tobacco Consumption Report, New Mexico and Illinois increased their cigarette excise taxes during 2019. According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, as of February 21, 2020, no state has increased cigarette excise taxes in 2020, but various increases are under consideration or have been proposed.

In addition to federal and state excise taxes, certain city and county governments also impose substantial excise taxes on tobacco products sold, such as New York City, Philadelphia and Chicago. It is expected that state and local governments will continue to raise excise taxes on cigarettes in future years.

All 50 states and the District of Columbia subject smokeless tobacco to excise taxes. According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, a majority of states currently tax smokeless tobacco products using an ad valorem method, which is calculated as a percentage of the price of the product, typically the wholesale price. As of February 21, 2020, the federal government, 23 states, Puerto Rico, Philadelphia, Pennsylvania and Cook County, Illinois have adopted a weight-based tax methodology for smokeless tobacco, according to Altria in its Form 10-K filed with the SEC for the calendar year 2019.

According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, as of February 21, 2020, 21 states, the District of Columbia, Puerto Rico and a number of cities and counties tax e-vapor products; these taxes are calculated in varying ways and may differ based on the e-vapor product form. Nine states and the District of Columbia tax oral nicotine pouches, according to Altria in its Form 10-K filed with the SEC for the calendar year 2019.

According to the Campaign for Tobacco-Free Kids, six states have special taxes or fees on brands of manufacturers not participating in the State Settlement Agreements: Alaska, Michigan, Minnesota, Mississippi, Texas and Utah. Texas's tax took effect on September 1, 2013, but in November 2013, a district court judge in *Texas Small Tobacco Coalition. v. Combs* (Tex. Dist. Ct., Travis Cnty.) ruled that the tax violated the Equal and Uniform Taxation clause of the Texas Constitution. The Texas Comptroller of Public Accounts appealed this decision on November 13, 2013, and on August 15, 2014 the Texas Court of Appeals affirmed the district court judge's decision, holding that

the tax violates the Texas Constitution, and enjoined Texas from collecting or assessing the tax. The State of Texas filed its petition for review with the Texas Supreme Court in October 2014, and on April 1, 2016, the Texas Supreme Court reversed the Texas Court of Appeals and ruled that the Texas equity fee legislation does not violate the Texas Constitution and remanded the case back to the Texas Court of Appeals for that court to consider the non-settling manufacturers' remaining challenges to the legislation. On March 24, 2017, the Texas Court of Appeals granted Texas' motion for summary judgment, ruling that the tax does not violate the equal protection and due process clauses of the U.S. Constitution.

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

In November 2013, New York City passed an ordinance that set a minimum price of $10.50 for every pack of cigarettes sold in New York City and prohibited the use of coupons or other promotional discounts to lower that price. In August 2017 New York City further raised the minimum price of a pack of cigarettes to $13.00, effective June 1, 2018. On February 16, 2014, tobacco companies and trade groups representing cigarette retailers filed a motion for preliminary injunction in federal court to block that portion of the ordinance that prohibited the use of coupons and other promotional discounts (*National Association of Tobacco Outlets Inc. et al. v. City of New York et al.*), but in June 2014 the court upheld that portion of the ordinance.

Minimum Age to Possess or Purchase Tobacco Products

On December 20, 2019, the President of the United States signed legislation, effective January 1, 2020, banning the sale of tobacco products to anyone under the age of 21 (federal law had previously set the minimum age at 18). This federal legislation had been preceded by various states having raised the minimum age to purchase tobacco from 18 to 21 (or 19, in certain states), beginning in 2016 with Hawaii setting the minimum age at 21, and by numerous municipalities having enacted similar legislation. According to Altria, the following states enacted such legislation: Ohio (21), Maryland (21), Vermont (21), New York (21), Texas (21), Connecticut (21), Nebraska (19), Delaware (21), Illinois (21), Arkansas (21), Washington (21), Utah (21), Virginia (21), California (21), Hawaii (21), Alabama (19), Alaska (19), New Jersey (21), Oregon (21), Maine (21) and Massachusetts (21). According to the Campaign for Tobacco-Free Kids, prior to the federal legislation raising the minimum age, at least 540 localities had raised the tobacco age to 21.

On March 12, 2015, the Institute of Medicine of the National Academy of Sciences released a report concluding that raising the minimum legal age to 21 would likely decrease smoking prevalence by 12% among today's teenagers when they become adults.

State and Local Regulation

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

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

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

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

In July 2007, the State of Maine became the first state to enact a statute that prohibits the sale of cigarettes and cigars that have a characterizing flavor. The legislation defines characterizing flavor as "a distinguishable taste or aroma that is imparted to tobacco or tobacco smoke either prior to or during consumption, other than a taste or aroma from tobacco, menthol, clove, coffee, nuts or peppers." In 2008 New Jersey passed similar legislation prohibiting the sale of cigarettes that have a characterizing flavor (other than the flavors of tobacco, clove or menthol). In February 2018, New Jersey introduced a bill that would add menthol to its list of prohibited characterizing flavors. Numerous counties and municipalities have adopted laws prohibiting or restricting the sale of certain tobacco products containing "characterizing flavors." The scope of these laws varies from jurisdiction to jurisdiction; for example, some, but not all, of these laws exempt menthol from the definition of a "characterizing flavor," and certain laws apply to tobacco products other than cigarettes. The "characterizing flavor" ordinances in New York City and Providence, Rhode Island were each challenged on the grounds, among others, that the FSPTCA preempts such local laws. The U.S. Courts of Appeals for the Second Circuit and First Circuit have held that the FSPTCA does not preempt the New York City and Providence, Rhode Island ordinances, respectively. In June 2017, San Francisco amended its city health code to prohibit tobacco retailers from selling flavored tobacco products, including flavored e-cigarettes and menthol cigarettes, and voters approved the measure on June 5, 2018. In June 2019, San Francisco's Board of Supervisors voted to ban the sale and distribution of e-cigarettes in San Francisco. According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, the governors of eight states exercised executive action to temporarily prohibit either the sale of all e-vapor products or e-vapor products with flavors other than tobacco. In September 2019, New York State banned the sale of flavored e-cigarettes and other vapor products, with the exception of menthol and tobacco flavors; however, the ban is currently blocked by a state appellate court from taking effect. Also in September 2019, the Governor of Michigan directed the state health department to issue emergency rules to temporarily ban the sale of flavored vaping products. In November 2019, Massachusetts banned the sale of all flavored tobacco products, effective immediately for electronic cigarettes and other vapor products, and effective June 1, 2020 for menthol cigarettes. In January 2020, legislation was introduced in the New York State Senate that would ban the sale of all flavored tobacco products.

According to ANRF, as of January 2, 2020, 41 states and territories have laws that require 100% smoke-free non-hospitality workplaces or restaurants or bars (and only 14 states and territories do not have laws that require 100% smoke-free non-hospitality workplaces or restaurants or bars, being Alabama, Alaska, Arkansas, Georgia, Kentucky, Mississippi, Missouri, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia and Wyoming). On September 4, 2014, Kentucky banned all uses of tobacco products on most government properties. Also according to ANRF, as of January 2, 2020, 29 states and territories have laws that require 100% smoke-free non-hospitality workplaces and restaurants and bars: Arizona, California, Colorado, Delaware, Hawaii, Illinois, Iowa, Kansas, Maine, Maryland, Massachusetts, Michigan, Minnesota, Montana, Nebraska, New Jersey, New Mexico, New York, North Dakota, Ohio, Oregon, Puerto Rico, Rhode Island, South Dakota, the U.S. Virgin Islands, Utah, Vermont, Washington and Wisconsin. Restrictions in many jurisdictions also include a ban on outdoor smoking within a specified number of feet of the entrances of restaurants and other public places. ANRF also tracks clean indoor air ordinances by local governments throughout the U.S. Most states without a statewide smoking ban have some local municipalities that have enacted smoking regulations. As of January 2, 2020, there were 1,597 local jurisdictions with local laws that require 100% smoke-free non-hospitality workplaces or restaurants or bars, of which 1,107 local jurisdictions (including the District of Columbia) have local laws that require 100% smoke-free non-hospitality workplaces and

restaurants and bars. In addition, according to ANRF, as of January 2, 2020, there were at least 783 state-regulated gambling facilities that are required to be 100% smoke-free indoors, and there were at least 634 smoke-free airports. It is expected that restrictions on indoor smoking will continue to proliferate.

Smoking bans have also extended outdoors. For example:

- According to ANRF, as of October 2, 2017 (the most recent reference date), Puerto Rico prohibits smoking on beaches, Maine prohibits smoking on beaches in its state parks, and 317 municipalities had enacted ordinances that specified that all city beaches and/or specifically named city beaches are smoke-free. In July 2018, the Governor of New Jersey signed legislation banning smoking on all public beaches, effective January 1, 2019. On October 11, 2019, legislation banning smoking at all California state beaches was signed by the Governor, effective January 1, 2020;

- According to ANRF, as of October 2, 2017 (the most recent reference date), Oklahoma prohibits tobacco and e-cigarette use on all state lands and parks, Puerto Rico prohibits smoking in all parks, and 1,531 municipalities specified that all city parks and/or specifically named city parks are smoke-free. In addition, on March 31, 2016, New York's highest court upheld a smoking ban in certain outdoor areas, state parks and historic sites; in July 2018, the Governor of New Jersey signed legislation banning smoking in public parks, effective January 1, 2019; and on October 11, 2019, legislation banning smoking at all California state parks was signed by the Governor, effective January 1, 2020;

- According to ANRF, as of January 2, 2020, Hawaii, Maine, Michigan, Washington and Puerto Rico laws prohibit smoking in both outdoor dining areas and bar patios (while Iowa prohibits smoking only in outdoor dining areas), and 541 municipalities have enacted laws for 100% smoke-free outdoor dining, while 363 municipalities have enacted laws for 100% smoke-free outdoor dining areas and bar patios; and

- According to ANRF, as of October 2, 2017 (the most recent reference date), Iowa, New York, Wisconsin, Guam and the U.S. Virgin Islands prohibit smoking in outdoor public transit waiting areas, and there are 535 municipalities with smoke-free outdoor public transit waiting area laws.

Smoking bans have also been enacted for smaller governmental and private entities. According to the ANRF, as of January 2020, there are at least 2,487 100% smoke-free university and college campuses, and of these, 2,062 have a 100% tobacco-free policy and 2,094 prohibit the use of e-cigarettes anywhere on campus. The University of California implemented its system-wide smoke-free and tobacco-free policy effective January 1, 2014. ANRF further reports, as of January 2, 2020, that four national hospitals, clinics, insurers and health service companies, and at least 4,110 local and/or state hospitals, healthcare systems and clinics have adopted 100% smoke-free grounds policies; that in July 2013, New York State enacted a law requiring 100% smoke-free grounds of general hospitals; in April 2016, Hawaii enacted a law requiring 100% tobacco- and e-cigarette-free grounds of state health facility properties; and that certain municipalities had enacted laws specifically requiring 100% smoke-free hospital grounds. In addition, ANRF reports as of October 1, 2019 (the most recent reference date) that, effective January 2015, the Federal Bureau of Prisons prohibits the smoking of tobacco in any form in and on the grounds of its institutions and offices, that correctional facilities in 23 states and territories are 100% smoke-free indoors and outdoors, and that 27 other states ban smoking indoors in correctional facilities (but allow smoking in outdoor areas). ANRF reports that as of January 2, 2020, six states and 254 municipalities have laws requiring that all hotel and motel rooms be 100% smoke-free. Furthermore, ANRF reports as of January 2, 2020 that 56 municipalities prohibit, and an additional 18 municipalities partially restrict, smoking in private units of market-rate multi-unit housing (whether privately-owned or publicly-owned housing), and 621 municipalities have smoke-free policies for publicly-owned multi-unit housing. The Department of Housing and Urban Development prohibits smoking in public housing residences nationwide under a federal rule effective February 3, 2017, which gave public housing agencies 18 months to put smoke-free policies into effect.

Voluntary Private Sector Regulation

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

International Agreements

On March 1, 2003, the member nations of the World Health Organization concluded four years of negotiations on an international treaty, the Framework Convention on Tobacco Control (the "**FCTC**"), whose objective is to establish a global agenda for tobacco regulation with the purpose of reducing initiation of tobacco use and encouraging cessation. The FCTC entered into force in February 2005, and according to Altria in its Form 10-K filed with the SEC for the calendar year 2019, as of February 21, 2020, 180 countries and the European Community have become party to the FCTC. The treaty recommends (and in certain instances, requires) signatory nations to enact legislation that would, among other things: establish specific actions to prevent youth tobacco product use; restrict or eliminate all tobacco product advertising, marketing, promotion and sponsorship; initiate public education campaigns to inform the public about the health consequences of tobacco consumption and exposure to tobacco smoke and the benefits of quitting; implement regulations imposing product testing, disclosure and performance standards; impose health warning requirements on packaging; adopt measures intended to combat tobacco product smuggling and counterfeit tobacco products, including tracking and tracing of tobacco products through the distribution chain; and restrict smoking in public places, according to Altria in its SEC filings. While the United States is a signatory of the FCTC, it is not currently a party to the agreement, as the agreement has not been submitted to, or ratified by, the United States Senate, according to Altria in its Form 10-K filed with the SEC for the calendar year 2019.

Civil Litigation

Overview

Legal proceedings or claims covering a wide range of matters are pending or threatened in various United States and foreign jurisdictions against the tobacco industry. Several types of claims are raised in these proceedings including, but not limited to, claims for product liability, consumer protection, antitrust, and reimbursement. Litigation is subject to many uncertainties and it is possible that there could be material adverse developments in pending or future cases. Damages claimed in some tobacco-related and other litigation are or can be significant and, in certain cases, range in the billions of dollars. It can be expected that at any time and from time to time there will be developments in the litigation presently pending and filing of new litigation that could materially adversely affect the business of the PMs and the market for or prices of securities such as the Series 2020 Senior Bonds payable from tobacco settlement payments made under the MSA.

Thousands of claims have been brought against the PMs in tobacco-related litigation. According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, the following tobacco-related cases were pending against Philip Morris and, in some instances, Altria, as of December 31, 2019: 104 individual smoking and health cases (see "*—Individual Smoking and Health Cases*" below); 1,472 flight attendant cases (see "*—Flight Attendant Cases*" below); approximately 1,700 *Engle* Progeny Cases in state court (involving approximately 2,200 state court plaintiffs) and approximately 4 *Engle* Progeny Cases in federal court (see "*—Engle Progeny Cases*" below); 2 smoking and health class action cases and aggregated claims and an additional 2 "Lights/Ultra Lights" class action cases (see "*—Class Action Cases and Aggregated Claims*" below); the federal government's health care cost recovery case (see "*—Health Care Cost Recovery Cases*" below); and 101 e-vapor cases (see "*—E-Vapor Cases*" below). Altria reported in its Form 10-K filed with the SEC for the calendar year 2019 that after exhausting all appeals in cases resulting in adverse verdicts associated with tobacco-related litigation, since October 2004 Philip Morris has paid in the aggregate

judgments (and related costs and fees) totaling approximately $724 million and interest totaling approximately $214 million as of December 31, 2019.

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

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

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

Type of Case

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

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

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

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

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

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

"**E-Vapor Cases**" are cases relating to e-cigarettes and other vapor products, brought as class actions or by individuals, state or local governments or school districts, seeking various remedies including damages and injunction.

Individual Smoking and Health Cases

This category of cases includes smoking and health cases alleging personal injury caused by smoking cigarettes, by using smokeless tobacco products, by addiction to tobacco, or by exposure to environmental tobacco smoke that are brought by or on behalf of individual plaintiffs, but as described herein does not include the Flight Attendant Cases or *Engle* Progeny Cases discussed below. An example of an Individual Smoking and Health Case is *Laramie*, in which, in August 2019, a jury in a Massachusetts state court returned a verdict in favor of plaintiff, awarding $11 million in compensatory damages and $10 million in punitive damages, and Philip Morris and plaintiff appealed, according to Altria in its Form 10-K filed with the SEC for the calendar year 2019.

Flight Attendant Cases

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

According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, 1,472 cases brought by flight attendants seeking compensatory damages for personal injuries allegedly caused by exposure to environmental tobacco smoke were pending as of December 31, 2019, and an additional 923 Flight Attendant Cases were voluntarily dismissed without prejudice in March 2018.

Engle Progeny Cases

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

The Florida Supreme Court's 2006 ruling also permitted *Engle* class members to file individual actions, including claims for punitive damages. The court further held that these individuals are entitled to rely on a number of the jury's findings in favor of the plaintiffs in the first phase of the *Engle* trial. These findings included that smoking

cigarettes causes a number of diseases; that cigarettes are addictive or dependence-producing; and that the defendants were negligent, breached express and implied warranties, placed cigarettes on the market that were defective and unreasonably dangerous, and concealed or conspired to conceal the risks of smoking. The time period for filing *Engle* Progeny Cases expired in January 2008, and thereafter no additional cases may be filed. In 2009, the Florida Supreme Court rejected a petition that sought to extend the time for purported class members to file an additional lawsuit.

In the wake of the Florida Supreme Court ruling, thousands of individuals filed separate lawsuits seeking to benefit from the *Engle* findings. According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, as of January 27, 2020, 134 state and federal *Engle* Progeny Cases involving Philip Morris have resulted in verdicts since the Florida Supreme Court's *Engle* decision, 77 of which were returned in favor of plaintiffs, 47 of which were returned in favor of Philip Morris, six of which were initially returned in favor of plaintiffs but were reversed post-trial or on appeal and remain pending, and four of which were returned in favor of Philip Morris but were reversed for new trials. In addition, according to Altria's Form 10-K filed with the SEC for the calendar year 2019, as of January 27, 2020 approximately 1,700 state court cases were pending against Philip Morris or Altria asserting individual claims by or on behalf of approximately 2,200 state court plaintiffs, and approximately 4 cases were pending against Philip Morris in federal court representing the federal cases excluded from the settlement agreement discussed below.

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

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

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

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

the Eleventh Circuit affirmed the final judgment entered in the plaintiff's favor. In January 2018, the U.S. Supreme Court denied Philip Morris's petition for writ of certiorari in *Graham*. On January 6, 2016, in *Marotta v. R. J. Reynolds Tobacco Co.*, the Florida Fourth District Court of Appeal also disagreed with the 2015 *Graham* panel decision and held that federal law does not impliedly preempt any tort claims against cigarette manufacturers, including those of plaintiffs in *Engle* Progeny Cases. The Florida Supreme Court accepted jurisdiction in *Marotta*, and in April 2017 affirmed the ruling of the Florida Fourth District Court of Appeal and found that federal law does not preempt the *Engle* Progeny Case plaintiff's claims, according to Altria in its SEC filings.

In addition, in *Burkhart* and *Searcy*, *Engle* Progeny Cases against Philip Morris and Reynolds Tobacco on appeal to the Eleventh Circuit, defendants argued that application of the *Engle* findings to the *Engle* progeny plaintiffs' concealment and conspiracy claims violated defendants' due process rights. In March 2018, in *Burkhart*, the Eleventh Circuit rejected defendants' due process arguments and affirmed the final judgment entered in plaintiff's favor. Defendants filed a motion for rehearing challenging that decision, which the Eleventh Circuit denied. In September 2018, in *Searcy*, the Eleventh Circuit also affirmed the judgment in plaintiff's favor, and in February 2019, the United States Supreme Court denied Philip Morris's petition for review, according to Altria in its SEC filings. In *Soffer*, an *Engle* Progeny Case against Reynolds Tobacco, the Florida First District Court of Appeal held that *Engle* progeny plaintiffs can recover punitive damages only on their intentional tort claims; the Florida Supreme Court accepted jurisdiction over plaintiff's appeal from the Florida First District Court of Appeal's decision and, in March 2016, held that *Engle* progeny plaintiffs can recover punitive damages in connection with all of their claims, and the plaintiffs now generally seek punitive damages in connection with all of their claims in *Engle* Progeny Cases, according to Altria in its SEC filings. In *Schoeff*, an *Engle* Progeny Case against Reynolds Tobacco, the Florida Supreme Court held that comparative fault does not reduce compensatory damages awards for intentional torts, according to Altria in its SEC filings.

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

Various *Engle* Progeny Cases in addition to the cases described herein are discussed in detail in the SEC filings of Altria. As of January 27, 2020, 4 *Engle* Progeny Cases are set for trial through March 31, 2020, according to Altria's Form 10-K filed with the SEC for the calendar year 2019. Trial schedules are subject to change.

In June 2009, Florida amended its existing bond cap statute by adding a $200 million bond cap that applied to all *Engle* Progeny Cases in the aggregate. In May 2011, Florida removed the provision that would have allowed it to expire on December 31, 2012. The bond cap for any given individual *Engle* Progeny Case varies depending on the number of judgments in effect at a given time, but never exceeds $5 million per case for appeals within the Florida state court system. The legislation, which became effective in June 2009 and 2011, applies to judgments entered after the original 2009 effective date. The plaintiffs in some cases challenged the constitutionality of the amended statute, but the challenges were unsuccessful. No federal court has yet addressed the constitutionality of the bond cap statute or the applicability of the bond cap to *Engle* Progeny Cases tried in federal court, according to Altria in its Form 10-K filed with the SEC for the calendar year 2019. From time to time, legislation has been presented to the Florida legislature that would repeal the 2009 appeal bond cap statute; however to date, no legislation repealing the statute has passed, according to Altria in its Form 10-K filed with the SEC for the calendar year 2019.

Class Action Cases and Aggregated Claims

In 1996, the Fifth Circuit Court of Appeals in *Castano v. American Tobacco Co.* overturned the certification of a nation-wide class of persons whose claims related to alleged addiction to tobacco products, finding that the district court failed to properly assess variations in the governing state laws and whether common issues predominated over individual issues. Since the Fifth Circuit's ruling in *Castano*, plaintiffs have filed numerous putative smoking and health class action suits in various state and federal courts; in general, these cases purport to be brought on behalf of residents of a particular state or states (although a few cases purport to be nationwide in scope), according to Altria in its Form 10-K filed with the SEC for the calendar year 2019. In most of the class action cases, plaintiffs seek class certification on behalf of groups of cigarette smokers, or the estates of deceased cigarette smokers, who reside in the state in which the case is filed. Several categories of class action cases are discussed below.

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

In one of the "lights" class action cases, *Good v. Altria Group, Inc., et al*., the U.S. Supreme Court ruled in December 2008 that neither the Federal Cigarette Labeling and Advertising Act nor the Federal Trade Commission's regulation of cigarettes' tar and nicotine disclosures preempts (or bars) certain of plaintiffs' claims. Although the Court rejected the argument that the Federal Trade Commission's actions were so extensive with respect to the descriptors that the state law claims were barred as a matter of federal law, the Court's decision was limited: it did not address the ultimate merits of plaintiffs' claim, the viability of the action as a class action, or other state law issues. The case was returned to the federal court in Maine and consolidated by the Judicial Panel on Multidistrict Litigation ("**JPMDL**") with other federal cases in a multidistrict litigation proceeding. In June 2011, the plaintiffs voluntarily dismissed the *Good* case without prejudice after the district court denied plaintiffs' motion for class certification, concluding the litigation. The other multidistrict cases were either voluntarily dismissed or resolved in a manner favorable to Philip Morris, according to Altria's SEC filings.

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

should have recused himself, and in June 2016 the U.S. Supreme Court denied plaintiffs' petition for writ of certiorari, concluding the litigation.

According to Altria's Form 10-K filed with the SEC for the calendar year 2019, 21 state courts in 23 "lights" cases have refused to certify class actions, dismissed class action allegations, reversed prior class certification decisions or entered judgment in favor of Philip Morris. As of January 27, 2020, two "lights" class actions were pending in U.S. state court, and neither case is active, according to Altria's Form 10-K filed with the SEC for the calendar year 2019.

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

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

Health Care Cost Recovery Cases

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

According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, although there have been some decisions to the contrary, most judicial decisions in the U.S. have dismissed all or most health care cost recovery claims against cigarette manufacturers; nine federal circuit courts of appeals and eight state appellate courts, relying primarily on grounds that plaintiffs' claims were too remote, have ordered or affirmed dismissals of health care cost

recovery actions, and the U.S. Supreme Court has refused to consider plaintiffs' appeals from the cases decided by five circuit courts of appeals.

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

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

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

During the following several years, the parties engaged in court proceedings regarding the content and implementation of the corrective statements. In June 2017, after the U.S. Court of Appeals ordered revisions to the corrective statements, the U.S. District Court for the District of Columbia issued an order adopting modified corrective statements, featuring a preamble to the effect that a federal court has ordered the OPMs to make the specified statements, and featuring statements regarding the adverse health effects of smoking, the addictiveness of smoking and nicotine, the lack of significant health benefit from smoking "low tar," "light," "ultra light," "mild" and "natural" cigarettes, the manipulation of cigarette design and composition to ensure optimum nicotine delivery, and the adverse health effects of exposure to second hand smoke.

In October 2017, the U.S. District Court for the District of Columbia approved the parties' consent order implementing the corrective statements remedy for newspapers and television. According to the October 2017 court order, in November 2017 the OPMs began running court-mandated announcements containing the agreed-upon corrective statements. Television announcements were between 30 and 45 seconds long and ran in prime time five

days a week for 52 weeks. Full-page print ads appeared in at least 45 newspapers and ran on five weekends spread over approximately four months, and also appeared on the newspapers' websites. According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, the parties reached agreement in April 2018 on the implementation details of the corrective statements remedy for "onserts" affixed to cigarette packs and for company-owned websites. Under the agreement, the corrective statements began appearing on company-owned websites in the second quarter of 2018 and the onserts began appearing in the fourth quarter of 2018. Altria stated in its Form 10-K filed with the SEC for the calendar year 2019 that in 2014, Altria and Philip Morris recorded provisions totaling $31 million for the estimated costs of implementing the corrective communications remedy, and in the fourth quarter of 2019, Philip Morris updated its estimate and recorded approximately $5 million for additional costs to finish implementing the corrective communications remedy.

The requirements related to corrective statements at point-of-sale remain outstanding. In May 2018, the parties submitted a joint status report and additional briefing on point-of-sale signage to the district court, and in May 2019, the district court ordered a hearing on the point-of-sale signage issue, according to Altria in its Form 10-K filed with the SEC for the calendar year 2019.

E-Vapor Cases

According to Altria in its Form 10-K filed with the SEC for the calendar year 2019, as of January 27, 2020, Altria and/or its subsidiaries, including Philip Morris, were named as defendants in 21 class action lawsuits relating to JUUL e-vapor products; Juul Labs, Inc. is an additional named defendant in each of these lawsuits. The theories of recovery include violation of RICO; fraud; failure to warn; design defect; negligence; and unfair trade practices. Plaintiffs seek various remedies including compensatory and punitive damages and an injunction prohibiting product sales. Altria and/or its subsidiaries, including Philip Morris, also have been named as defendants in other lawsuits involving JUUL e-vapor products, including 76 individual lawsuits, two lawsuits filed by state or local governments and one lawsuit filed by a school district, according to Altria in its Form 10-K filed with the SEC for the calendar year 2019; Juul Labs, Inc. is an additional named defendant in each of these lawsuits. The majority of the individual and class action lawsuits mentioned above were filed in federal court, and in October 2019, the United States Judicial Panel on Multidistrict Litigation ordered the coordination or consolidation of these lawsuits in the United States District Court for the Northern District of California for pretrial purposes, according to Altria in its Form 10-K filed with the SEC for the calendar year 2019. Neither Altria nor any of its subsidiaries has filed a response in any of these cases, and no case has been set for trial, according to Altria in its Form 10-K filed with the SEC for the calendar year 2019. Juul Labs, Inc. also is named in a significant number of additional individual and class action lawsuits to which neither Altria nor any of its subsidiaries is currently named, according to Altria in its Form 10-K filed with the SEC for the calendar year 2019.

Claims involving e-cigarettes and vapor products have been filed following deaths and injuries from using such products. The CDC has reported deaths and injuries from a vaping-related lung disease, although the CDC has noted that the harmful chemical found to be present in cases of such lung disease is used as an additive in vaping products containing THC (a chemical found in cannabis), and the CDC has recommended that people do not use e-cigarettes containing THC.

On February 12, 2020 the Attorney General of Massachusetts sued Juul Labs, Inc. in state court, accusing the company of deliberately targeting young people through its marketing campaigns and alleging that the company's misconduct has created a public health crisis and an epidemic of youth nicotine use and addiction. According to the complaint, the company's e-cigarettes cause underage consumers to absorb large amounts of nicotine, a toxic and addictive substance that is especially detrimental to the health of adolescents and young adults. The complaint alleges that Juul Labs, Inc. bought advertisements on websites designed for teens and children, as well as websites aimed at helping middle and high school students with math and social studies, and that Juul Labs, Inc. tried to recruit celebrities and social media influencers who were popular among young people to tout their products. The lawsuit also alleges that Juul Labs, Inc. has sold and shipped its e-vapor products without age verification. According to news accounts, at least three other states, including Pennsylvania, New York and California, have filed similar lawsuits against Juul Labs, Inc. On February 25, 2020, 39 state attorneys general announced a joint investigation into whether Juul Labs, Inc. is marketing its products to children. The investigation will also examine Juul Labs, Inc.'s claims about its products' nicotine content and their effectiveness in helping longtime smokers quit. Altria reported in its Form 10-K filed with the SEC for the calendar year 2019 that Juul Labs, Inc. is currently under investigation by various federal

and state agencies, including the FDA and the Federal Trade Commission, and state attorneys general, and that such investigations vary in scope but at least some appear to include Juul Labs, Inc.'s marketing practices, particularly as such practices relate to youth.

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 that 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, (g) antitrust claims and (h) employment litigation claims. Tobacco manufacturers are also subject to international litigation.

Defenses

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

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

The foregoing discussion of civil litigation against the domestic tobacco industry is not exhaustive and is not based upon the examination or analysis by the Authority of the court records of the cases mentioned or of any other court records. It is based on SEC filings by Altria (as well as certain prior SEC filings of other OPMs) and on other publicly available information published by the OPMs or others. Prospective purchasers of the Series 2020 Senior Bonds are referred to such SEC filings and applicable court records for additional descriptions thereof.

Litigation is subject to many uncertainties, and it is not possible to predict the outcome of litigation or estimate the possible loss or range of loss to the tobacco manufacturers. Altria has stated in its SEC filings that damages claimed in some tobacco-related and other litigation are or can be significant and, in certain cases, have ranged in the billions of dollars. Altria has further stated in its SEC filings that it is possible that the consolidated results of operations, cash flows or financial position of itself or one or more of its subsidiaries could be materially affected in a particular fiscal quarter or fiscal year by an unfavorable outcome or settlement of certain pending litigation. It can be expected that at any time and from time to time there will be developments in the litigation currently pending and filing of new litigation that could materially adversely affect the business of the PMs and the market for or prices of securities such as the Series 2020 Senior Bonds payable from tobacco settlement payments made by the PMs under the MSA.

SUMMARY OF THE TOBACCO CONSUMPTION REPORT

The following is a brief summary of the Tobacco Consumption Report, a copy of which is attached hereto as APPENDIX A. This summary does not purport to be complete, and the Tobacco Consumption Report should be read in its entirety for an understanding of the assumptions on which it is based and the conclusions it reaches. The Tobacco Consumption Report forecasts future United States cigarette consumption. The MSA payments are based in large part on cigarettes shipped in and to the United States. Cigarette shipments and cigarette consumption may not match as a result of various factors such as inventory adjustments, but are substantially the same when compared over a period of time. IHS Global's forecasts, including, but not limited to, the forecast regarding future cigarette consumption, are estimates, which have been prepared by IHS Global on the basis of certain assumptions and hypotheses. No representation or warranty of any kind is or can be made with respect to the accuracy or completeness of and no representation or warranty should be inferred from, these forecasts. The cigarette consumption forecast contained in the Tobacco Consumption Report is based upon assumptions as to future events and, accordingly, is subject to varying degrees of uncertainty. Some assumptions inevitably will not materialize and, additionally, unanticipated events and circumstances may occur. Therefore, for example, actual cigarette consumption inevitably will vary from the forecast included in the Tobacco Consumption Report and the variations may be material and adverse. No assurance can be given that actual cigarette consumption in the United States during the term of the Series 2020 Senior Bonds will be as assumed. See "RISK FACTORS" herein.

General

IHS Global prepared the Tobacco Consumption Report for the Authority. IHS Global provided the following description to the Authority for use in this Offering Circular: "IHS Global is an internationally recognized econometric and forecasting firm with over 600 economists located in more than 30 countries. IHS Global is a subsidiary of IHS Markit, Inc., a publicly traded company on the NASDAQ (NASDAQ: INFO). IHS Markit is a leading source of information, insight and advisory services in the areas of finance, economics, energy, chemicals, technology, transportation, healthcare, geopolitical risk, sustainability and supply chain management."

IHS Global has developed an econometric model of cigarette consumption in the United States based on historical United States data between 1965 and 2018, and what IHS Global describes as widely accepted economic principles and IHS Global's experience in building econometric forecasting models. IHS Global considered the impact of demographics, cigarette prices, disposable income, employment and unemployment, industry advertising expenditures, the future effect of the incidence of smoking amongst underage youth, and qualitative variables that captured the impact of anti-smoking regulations, legislation, health warnings, and the availability of alternative tobacco and nicotine products. After determining which variables were effective in building this cigarette consumption model (including real cigarette prices, real per capita disposable personable income, the impact of workplace smoking restrictions, stricter restrictions on smoking in public places, the rapid increase in consumption of electronic cigarettes, and the trend over time in individual behavior and preferences), IHS Global employed standard multivariate regression analysis to determine the nature of the economic relationship between these variables and per capita cigarette consumption in the United States.

IHS Global's model, coupled with its long-term forecast of the United States economy, was then used to project total United States cigarette consumption from 2019 through 2057 (the "**Tobacco Consumption Forecast**"). The Tobacco Consumption Forecast indicates that the total consumption of cigarettes in the United States is projected to fall at an average annual rate of 3.3% from 2019 through 2057, resulting in a forecast of total U.S. cigarette consumption in 2057 of 63.9 billion cigarettes including a roll-your-own equivalent of 0.0325 ounces per cigarette (a 73% decline from the 2018 level), as set forth in the Tobacco Consumption Report. According to IHS Global, the assumptions on which the Tobacco Consumption Forecast is based are reasonable.

Historical Cigarette Consumption

The U.S. Department of Agriculture, which has compiled data on cigarette consumption since 1900, reports that consumption (which is defined as taxable United States consumer sales, plus shipments to overseas armed forces, ship stores, Puerto Rico and other United States possessions, and small tax-exempt categories, as reported by the Bureau of Alcohol, Tobacco, Firearms and Explosives) grew from 2.5 billion in 1900 to a peak of 640 billion in 1981. Following the release of the Surgeon General's Report in 1964, cigarette consumption continued to increase at an

average annual rate of 1.2% between 1965 and 1981. Between 1981 and 1990, however, U.S. cigarette consumption declined at an average annual rate of 2.2%. From 1990 to 1998, the average annual rate of decline in cigarette consumption was 1.5%; but for 1998 the decline increased to 3.1% and increased further to 6.5% for 1999. These declines are correlated with large price increases in 1998 and 1999 following the MSA and the Previously Settled States Settlements. In 2000 and 2001, the rate of decline moderated to 1.2%. In 2002 and 2003, coincident with many state excise tax increases, the rate of decline accelerated to an average annual rate of 3.0%. The decline rate moderated for the next four years, through 2007, averaging 2.3%. The rate of decline accelerated dramatically in 2008 through 2010 (due to indoor smoking bans, recession and the increases in the federal and state excise taxes), before finally decelerating in 2011 and 2012. In 2013 the decline sharpened to nearly 5%. This decline has been attributed by the industry to a weak economy, the rapid increase in usage of electronic cigarettes, and to an unfavorable comparison with a surprisingly strong 2012. In addition, some of the decline was due to a reduction in wholesale inventories late in the year, some of which was reversed in 2014. In 2015, cigarette shipment declines stopped, and manufacturers reported increased shipments for most of the year. Cigarette shipment decline resumed in 2016 and continued in 2017. NAAG reported an industry volume decline in 2018 of 4.7%.

Factors Affecting Cigarette Consumption

Most empirical studies have found a common set of variables that are relevant in building a model of cigarette demand. These conventional analyses usually evaluate one or more of the following factors: (i) general population growth, (ii) price increases, (iii) changes in disposable income, (iv) youth consumption, (v) trend over time, (vi) workplace smoking bans, (vii) smoking bans in public places, (viii) nicotine dependence, and (ix) health warnings. While some of these factors were not found to have a measurable impact on changes in demand for cigarettes, all of these factors are thought to affect smoking in some manner and to be incorporated into current levels of consumption. IHS Global's analysis includes a time trend variable in order to capture the impact of changing health trends and the effects of other such variables, which are difficult to quantify. In addition, IHS Global has added to its forecast the impact of electronic cigarette use, which has significantly increased the cigarette consumption rate of decline and is expected to continue to do so, and the raising of the minimum legal age to 21 to purchase cigarettes in the U.S. beginning in 2020.

Comparison with Prior Forecast

On October 24, 2007, IHS Global presented a study to the Authority, in which IHS Global's base case forecast projected that total consumption in 2052 would be 163 billion cigarettes, a 59% decline from the 2003 level. From 2004 through 2052 the average annual rate of decline was projected to be 1.81%. The current forecast projects an average decline rate, from 2003, of 3.4% through 2052, with a projected annual consumption level of 75.4 billion cigarettes in such year. The current forecast was developed with consideration of the large federal tax increase in 2009, the negative effects of the proliferation of smoking ban legislation across the U.S., and the introduction and expansion of e-cigarette use this decade.

CONTINUING DISCLOSURE UNDERTAKING

In order to assist the Underwriters in complying with Rule 15c2-12 (the "**Rule**") of the SEC promulgated under the Securities Exchange Act of 1934, as amended, the Authority will execute a Continuing Disclosure Undertaking (the "**Continuing Disclosure Undertaking**") for the benefit of the holders and beneficial owners of the Series 2020 Senior Bonds. Pursuant to the Continuing Disclosure Undertaking, the Authority will provide, or cause to be provided by a dissemination agent, to the Municipal Securities Rulemaking Board, on its Electronic Municipal Market Access ("**EMMA**") system, certain annual financial information and operating data and, in a timely manner, notices of the occurrence of certain events specified therein. See APPENDIX G — "FORM OF CONTINUING DISCLOSURE UNDERTAKING."

LITIGATION

There is no litigation pending in any court (either State or federal) to restrain or enjoin the issuance or delivery of the Series 2020 Senior Bonds or questioning the creation, organization or existence of the Authority, the validity

or enforceability of the Trust Indenture, the sale of the 2007 Sold Tobacco Receipts by the State to the Authority, the proceedings for the authorization, execution, authentication and delivery of the Series 2020 Senior Bonds or the validity of the Series 2020 Senior Bonds. For a discussion of other legal matters, including certain pending litigation involving the MSA and the PMs, see "RISK FACTORS," "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY" and "LEGAL CONSIDERATIONS" herein.

TAX MATTERS

Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds

In the opinion of Orrick, Herrington & Sutcliffe LLP, Transaction Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "**Code**"). Orrick, Herrington & Sutcliffe LLP is of the further opinion that interest on the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds is not a specific preference item for purposes of the federal alternative minimum tax. In the opinion of Orrick, Herrington & Sutcliffe LLP and Squire Patton Boggs (US) LLP, Co-Transaction Counsel to the Authority, under existing law, interest on, and any profit made on the sale, exchange or other disposition of, the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds are exempt from all Ohio state and local taxation, except the estate tax, the domestic insurance company tax, the dealers in intangibles tax, the tax levied on the basis of the total equity capital of financial institutions, and the net worth base of the corporate franchise tax. Neither Orrick, Herrington & Sutcliffe LLP nor Squire Patton Boggs (US) LLP expresses any opinion regarding any other tax consequences relating to the ownership or disposition of, or the amount, accrual, or receipt of interest on, the Series 2020A-2 Senior Bonds, the Series 2020B-2 Senior Bonds and the Series 2020B-3 Senior Bonds. Complete copies of the proposed forms of opinions of Orrick, Herrington & Sutcliffe LLP and Squire Patton Boggs (US) LLP are set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds is less than the amount to be paid at maturity of such Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each beneficial owner thereof ("**Beneficial Owner**"), is treated as interest on the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds which is excluded from gross income for federal income tax purposes and State of Ohio state and local taxation, except the estate tax, the domestic insurance company tax, the dealers in intangibles tax, the tax levied on the basis of the total equity capital of financial institutions, and the net worth base of the corporate franchise tax. For this purpose, the issue price of a particular maturity of the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds is the first price at which a substantial amount of such maturity of the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds accrues daily over the term to maturity of such Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds. Beneficial Owners of the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds is sold to the public.

Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("**Premium Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds**") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a Beneficial Owner's basis in a Premium Series 2020A-2 Senior Bond, Series 2020B-2 Senior Bond and Series 2020B-3 Senior Bond will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds. The Authority and the State have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds. The opinion of Orrick, Herrington & Sutcliffe LLP assumes the accuracy of these representations and compliance with these covenants. Orrick, Herrington & Sutcliffe LLP has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Orrick, Herrington & Sutcliffe LLP's attention after the date of issuance of the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds may adversely affect the value of, or the tax status of interest on, the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds. Accordingly, the opinion of Orrick, Herrington & Sutcliffe LLP is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Orrick, Herrington & Sutcliffe LLP is of the opinion that interest on the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds is excluded from gross income for federal income tax purposes, and Orrick, Herrington & Sutcliffe LLP and Squire Patton Boggs (US) LLP are of the opinion that interest on, and any profit made on the sale, exchange or other disposition of, the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds are exempt from all State of Ohio state and local taxation, except the estate tax, the domestic insurance company tax, the dealers in intangibles tax, the tax levied on the basis of the total equity capital of financial institutions, and the net worth base of the corporate franchise tax, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Neither Orrick, Herrington & Sutcliffe LLP nor Squire Patton Boggs (US) LLP expresses any opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation (whether in Ohio or otherwise), or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds. Prospective purchasers of the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Orrick, Herrington & Sutcliffe LLP is expected to express no opinion.

The opinion of Orrick, Herrington & Sutcliffe LLP is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Orrick, Herrington & Sutcliffe LLP's judgment as to the proper treatment of the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("**IRS**") or the courts. Furthermore, Orrick, Herrington & Sutcliffe LLP cannot give and has not given any opinion or assurance about the future activities of the Authority or the State or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the State have covenanted, however, to comply with the requirements of the Code.

Orrick, Herrington & Sutcliffe LLP's engagement with respect to the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds ends with the issuance of the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds, and, unless separately engaged, Orrick, Herrington & Sutcliffe LLP is not obligated to defend the Authority, the State or the Beneficial Owners regarding the tax-exempt status of the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the State and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority or the State legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2020A-2 Senior Bonds, Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds, and may cause the Authority, the State or the Beneficial Owners to incur significant expense.

Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds

In the opinion of Orrick, Herrington & Sutcliffe LLP and Squire Patton Boggs (US) LLP, under existing law, interest on, and any profit made on the sale, exchange or other disposition of, the Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds are exempt from all State of Ohio state and local taxation, except the estate tax, the domestic insurance company tax, the dealers in intangibles tax, the tax levied on the basis of the total equity capital of financial institutions, and the net worth base of the corporate franchise tax. Orrick, Herrington & Sutcliffe LLP observes that interest on the Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Neither Orrick, Herrington & Sutcliffe LLP nor Squire Patton Boggs (US) LLP expresses any opinion regarding any other tax consequences relating to the ownership or disposition of, or the amount, accrual, or receipt of interest on, the Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds. Complete copies of the proposed forms of opinions of Orrick, Herrington & Sutcliffe LLP and Squire Patton Boggs (US) LLP are contained in Appendix C hereto.

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds that acquire their Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to any of the U.S. federal tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with U.S. tax consequences applicable to any given investor, nor does it address the U.S. tax considerations applicable to all categories of investors, some of which may be subject to special taxing rules (regardless of whether or not such investors constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences, (ii) the net investment income tax imposed under Section 1411 of the Code, or (iii) the indirect effects on persons who hold equity interests in a holder of Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds. Aside from the Ohio tax opinion set forth in the first paragraph of this summary, this summary does not consider the taxation of the Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds under state, local or non-U.S. tax laws. In addition, this summary generally is limited to U.S. tax considerations applicable to investors

that acquire their Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds pursuant to this offering for the issue price that is applicable to such Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds (i.e., the price at which a substantial amount of the Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds are sold to the public) and who will hold their Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds as "capital assets" within the meaning of Section 1221 of the Code.

As used herein, "**U.S. Holder**" means a beneficial owner of a Series 2020A-1 Senior Bond or Series 2020B-1 Senior Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, "**Non-U.S. Holder**" generally means a beneficial owner of a Series 2020A-1 Senior Bond or Series 2020B-1 Senior Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds (including their status as U.S. Holders or Non-U.S. Holders).

Notwithstanding the rules described below, it should be noted that certain taxpayers that are required to prepare certified financial statements or file financial statements with certain regulatory or governmental agencies may be required to recognize income, gain and loss with respect to the Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds at the time that such income, gain or loss is recognized on such financial statements instead of under the rules described below (in the case of original issue discount, such requirements are only effective for tax years beginning after December 31, 2018).

Prospective investors should consult their own tax advisors in determining the U.S. federal, state, local or non-U.S. tax consequences to them from the purchase, ownership and disposition of the Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds in light of their particular circumstances.

U.S. Holders

Interest. Interest on the Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes.

To the extent that the issue price of any maturity of the Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds is less than the amount to be paid at maturity of such Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds) by more than a de minimis amount, the difference may constitute original issue discount ("**OID**"). U.S. Holders of Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds will be required to include OID in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds purchased for an amount in excess of the principal amount payable at maturity (or, in some cases, at their earlier call date) will be treated as issued at a premium. A U.S. Holder of a Series 2020A-1 Senior Bond or Series 2020B-1 Senior Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such U.S. Holder, to amortize such premium, using a constant yield method over the term of such Series 2020A-1 Senior Bond or Series 2020B-1 Senior Bond.

Sale or Other Taxable Disposition of the Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant

to an offer by the Authority) or other disposition of a Series 2020A-1 Senior Bond or Series 2020B-1 Senior Bond will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Series 2020A-1 Senior Bond or Series 2020B-1 Senior Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Series 2020A-1 Senior Bond or Series 2020B-1 Senior Bond, which will be taxed in the manner described above) and (ii) the U.S. Holder's adjusted U.S. federal income tax basis in the Series 2020A-1 Senior Bond or Series 2020B-1 Senior Bond (generally, the purchase price paid by the U.S. Holder for the Series 2020A-1 Senior Bond or Series 2020B-1 Senior Bond, decreased by any amortized premium, and increased by the amount of any OID previously included in income by such U.S. Holder with respect to such Series 2020A-1 Senior Bond or Series 2020B-1 Senior Bond). Any such gain or loss generally will be capital gain or loss. In the case of a non-corporate U.S. Holder of the Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder's holding period for the Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

Defeasance of the Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds. If the Authority defeases any Series 2020A-1 Senior Bond or Series 2020B-1 Senior Bond, the Series 2020A-1 Senior Bond or Series 2020B-1 Senior Bond may be deemed to be retired for U.S. federal income tax purposes as a result of the defeasance. In that event, in general, a U.S. Holder will recognize taxable gain or loss equal to the difference between (i) the amount realized from the deemed sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and (ii) the U.S. Holder's adjusted tax basis in the Series 2020A-1 Senior Bond or Series 2020B-1 Senior Bond.

Information Reporting and Backup Withholding. Payments on the Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate U.S. Holder of the Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds may be subject to backup withholding at the current rate of 24% with respect to "reportable payments," which include interest paid on the Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("**TIN**") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(D) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain U.S. holders (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. A U.S. Holder's failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

Non-U.S. Holders

Interest. Subject to the discussions below under the headings "*Information Reporting and Backup Withholding*" and "*Foreign Account Tax Compliance Act*," payments of principal of, and interest on, any Series 2020A-1 Senior Bond or Series 2020B-1 Senior Bond to a Non-U.S. Holder, other than a bank which acquires such Series 2020A-1 Senior Bond or Series 2020B-1 Senior Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. federal withholding tax provided that the Non-U.S. Holder provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading "*Information Reporting and Backup Withholding*," or an exemption is otherwise established.

Disposition of the Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds. Subject to the discussions below under the headings "*Information Reporting and Backup Withholding*" and "*FATCA*," any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the Authority or a deemed retirement due to defeasance of the Series 2020A-1 Senior Bond or Series 2020B-1 Senior Bond) or other disposition of a Series 2020A-1 Senior Bond or Series 2020B-1 Senior Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade

or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder has a substantial presence, within the meaning of Code Section 7701(b)(3)(A), in the United States during the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the Authority) or other disposition and certain other conditions are met.

U.S. Federal Estate Tax. A Series 2020A-1 Senior Bond or Series 2020B-1 Senior Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual's death, provided that, at the time of such individual's death, payments of interest with respect to such Series 2020A-1 Senior Bond or Series 2020B-1 Senior Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

Information Reporting and Backup Withholding. Subject to the discussion below under the heading "*FATCA*," under current U.S. Treasury Regulations, payments of principal and interest on any Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds to a Non-U.S. Holder will not be subject to any backup withholding tax requirements if the Non-U.S. Holder or a financial institution holding the Series 2020A-1 Senior Bond or Series 2020B-1 Senior Bond on behalf of the Non-U.S. Holder in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a Non-U.S. Holder provides the certification, the certification must give the name and address of such Holder, state that such Holder is not a United States person, or, in the case of an individual, that such Holder is neither a citizen nor a resident of the United States, and the Non-U.S. Holder must sign the certificate under penalties of perjury. The current backup withholding tax rate is 24%.

Foreign Account Tax Compliance Act ("FATCA")—U.S. Holders and Non-U.S. Holders

Sections 1471 through 1474 of the Code impose a 30% withholding tax on certain types of payments made to foreign financial institutions, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, unless the foreign financial institution is otherwise exempt from those requirements. In addition, FATCA imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. Under current guidance, failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of interest on the Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds. In general, withholding under FATCA currently applies to payments of U.S. source interest (including OID) and, under current guidance, will apply to certain "passthru" payments no earlier than the date that is two years after publication of final U.S. Treasury Regulations defining the term "foreign passthru payments." Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

The foregoing summary is included herein for general information only and does not discuss all aspects of U.S. federal taxation that may be relevant to a particular holder of Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds in light of the holder's particular circumstances and income tax situation. Prospective investors are urged to consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of Series 2020A-1 Senior Bonds and Series 2020B-1 Senior Bonds, including the application and effect of state, local, non-U.S., and other tax laws.

RATINGS

It is expected that, upon issuance of the Series 2020 Senior Bonds, S&P Global Ratings (together with its predecessor organizations, "**S&P**") will assign a rating of "A (sf)" to the Series 2020A-1 Senior Bonds; a rating of "A (sf)" to the Series 2020A-2 Senior Bonds maturing June 1, 2027 through June 1, 2029; a rating of "A- (sf)" to the Series 2020A-2 Senior Bonds maturing June 1, 2030 through June 1, 2039; a rating of "BBB+ (sf)" to the Series 2020A-2 Senior Bonds of each interest rate maturing June 1, 2048; and a rating of "BBB+ (sf)" to the Series 2020B-1 Senior Bonds. The Series 2020B-2 Senior Bonds and the Series 2020B-3 Senior Bonds are <u>not</u> rated and involve additional risks that may not be appropriate for certain investors. See "RISK FACTORS—Market for Series 2020B-

2 Senior Bonds and Series 2020B-3 Senior Bonds; No Credit Rating on Series 2020B-2 Senior Bonds and Series 2020B-3 Senior Bonds."

According to the S&P ratings guide, (a) the "sf" identifier shall be assigned to ratings on "structured finance instruments" when required to comply with applicable law or regulatory requirement or when S&P believes it appropriate, and (b) the addition of the "sf" identifier to a rating does not change that rating's definition or S&P's opinion about the issue's creditworthiness.

The ratings address S&P's assessment of the ability of the Authority to pay (i) interest on the Series 2020A Senior Bonds and Series 2020B-1 Senior Bonds, when due, and (ii) principal of the Series 2020A Senior Bonds and Series 2020B-1 Senior Bonds by their Maturity Dates (and, with respect to the Series 2020A-2 Senior Bonds that are Term Bonds, Fixed Sinking Fund Installment dates). The ratings do not address the payment of Turbo Redemptions on the Series 2020B-1 Senior Bonds. The ratings of the rated Series 2020 Senior Bonds by S&P 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 S&P with respect thereto should be obtained from S&P at the following address: S&P Global Ratings, 55 Water Street, New York, New York 10041.

There is no assurance that the initial ratings assigned to the rated Series 2020 Senior 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 S&P. Any such downward revision, suspension or withdrawal of such ratings may have an adverse effect on the availability of a market for or the market prices of the rated Series 2020 Senior Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Series 2020 Senior Bonds, the arithmetical accuracy of certain computations included in the schedules relating to the adequacy of the amounts to be applied to the refunding and defeasance of the Series 2007 Bonds will be verified by Causey Demgen & Moore P.C., independent certified public accountants (the "**Verification Agent**"). In addition, the Verification Agent will verify the arithmetical accuracy of certain computations included in the schedules relating to the projections of debt service coverage of the Series 2020 Senior Bonds and breakeven consumption declines under various consumption decline scenarios. The verifications will be based solely upon information and assumptions supplied to the Verification Agent. The Verification Agent has not made a study or evaluation of the information and assumptions on which such computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions or the achievability of the forecasted outcome.

UNDERWRITING

Jefferies LLC and Citigroup Global Markets Inc., as representatives of the Underwriters set forth on the cover page hereof, have agreed, subject to certain conditions, to purchase all, but not less than all, of the Series 2020 Senior Bonds from the Authority at an underwriters' discount of $26,787,720.01. The Underwriters will be obligated to purchase all of the Series 2020 Senior Bonds if any are purchased. The initial public offering prices of the Series 2020 Senior Bonds may be changed from time to time by the Underwriters. The Series 2020 Senior Bonds may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Series 2020 Senior Bonds into investment trusts) at prices lower than such public offering prices.

Certain of the Underwriters have entered into distribution agreements with other broker-dealers (that have not been designated by the Authority as Underwriters) for the distribution of the Series 2020 Senior Bonds at the original public offering prices. Such agreements generally provide that the relevant Underwriter will share a portion of its underwriting compensation with such other broker-dealers.

The Underwriters and their respective affiliates are full-service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriters and their respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments

(which may include bank loans, credit support or interest rate swaps). The Underwriters and their respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the Authority. The Underwriters and their respective affiliates may make a market in credit default swaps with respect to municipal securities in the future. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the Authority.

Citigroup Global Markets Inc. is an affiliate of Citibank, N.A., which is acting as MSA Escrow Agent under the MSA.

LEGAL MATTERS

The validity of the Series 2020 Senior Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, as Transaction Counsel to the Authority, and Squire Patton Boggs (US) LLP, as Co-Transaction Counsel to the Authority. Complete copies of the forms of opinions of Transaction Counsel and Co-Transaction Counsel are contained in APPENDIX C hereto. Transaction Counsel and Co-Transaction Counsel undertake no responsibility for the accuracy, completeness or fairness of this Offering Circular. Certain legal matters with respect to the State and the Authority will be passed upon by the State's Attorney General. Certain legal matters with respect to the Authority will be passed upon by Orrick, Herrington & Sutcliffe LLP and Squire Patton Boggs (US) LLP. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, as Underwriters' Counsel. Dinsmore & Shohl LLP is acting as Co-Underwriters' Counsel.

OTHER PARTIES

IHS Global

IHS Global has been retained on behalf of the Authority as an independent econometric consultant. The Tobacco Consumption Report attached as APPENDIX A is included herein in reliance on IHS Global as experts in such matters. IHS Global's fees for acting as independent econometric consultant are not contingent upon the issuance of the Series 2020 Senior Bonds. The Tobacco Consumption Report should be read in its entirety.

Municipal Advisor

PFM Financial Advisors LLC ("**PFM**") has served as municipal advisor to the Authority in connection with the issuance of the Series 2020 Senior Bonds. PFM is an independent municipal advisory firm and is not engaged in the business of underwriting municipal bonds or other securities. PFM is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Offering Circular.

BUCKEYE TOBACCO SETTLEMENT FINANCING AUTHORITY

By: /s/ Kimberly Murnieks
Secretary

APPENDIX A

TOBACCO CONSUMPTION REPORT

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A Forecast of U.S. Cigarette Consumption (2019-2057) for The Buckeye Tobacco Settlement Financing Authority

Submitted to:

The Buckeye Tobacco Settlement Financing Authority

Prepared by:

IHS Global Inc.

February 25, 2020

James Diffley
Executive Director

IHS Global Inc.
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Executive Summary

IHS Global Inc. has developed a cigarette consumption model based on historical U.S. data between 1965 and 2018. This econometric model, coupled with our long-term forecast of the U.S. economy, has been used to project total U.S. cigarette consumption from 2019 through 2057. Our forecast indicates that total consumption in 2057 will be 63.7 billion cigarettes (or 63.9 billion including roll-your-own ("RYO") tobacco equivalents at 0.0325 ounces per cigarette), a 73% decline from the 2018 level. From 2019 through 2057 the average annual rate of decline is projected to be approximately 3.3%.

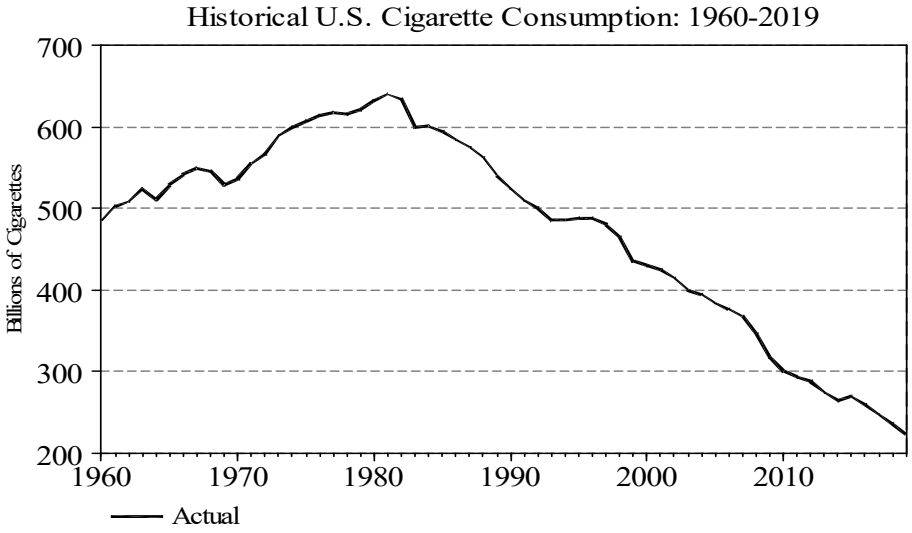
Our model was constructed based on widely accepted economic principles and IHS Global Inc.'s considerable experience in building econometric forecasting models. A review of the economic research literature indicates that our model is consistent with the prevalent consensus among economists concerning cigarette demand. We considered the impact of demographics, cigarette prices, disposable income, employment and unemployment, industry advertising expenditures, the future effect of the incidence of smoking amongst underage youth, and qualitative variables that captured the impact of anti-smoking regulations, legislation, health warnings, and the availability of alternative tobacco and nicotine products. After extensive analysis, we found the following variables to be effective in building an empirical model of per capita cigarette consumption: real cigarette prices, real per capita disposable personal income, the impact of workplace smoking restrictions first instituted widely in the 1980s, the stricter restrictions on smoking in public places instituted over the last decade, the rapid increase in consumption of electronic cigarettes, especially the JUUL brand, and the trend over time in individual behavior and preferences. This forecast is based on reasonable assumptions regarding the future paths of these factors.

Disclaimer

The forecasts included in this report, including, but not limited to, those regarding future cigarette consumption, are estimates, which have been prepared on the basis of certain assumptions and hypotheses. No representation or warranty of any kind is or can be made with respect to the accuracy or completeness of, and no representation or warranty should be inferred from, these forecasts. The cigarette consumption forecast contained in this report is based upon assumptions as to future events and, accordingly, is subject to varying degrees of uncertainty. Some assumptions inevitably will not materialize and, additionally, unanticipated events and circumstances may occur. Therefore, for example, actual cigarette consumption inevitably will vary from the forecasts included in this report and the variations may be material and adverse.

Cigarette Use in the United States

People have used tobacco products for centuries. Tobacco was first brought to Europe from America in the late 15th century and became America's major cash crop in the 17th and 18th centuries[1]. Prior to 1900, tobacco was most frequently used in pipes, cigars, and snuff. With the widespread production of manufactured cigarettes (as opposed to hand-rolled cigarettes) in the United States in the early 20th century, cigarette consumption expanded dramatically. Consumption is defined as taxable U.S. consumer sales, plus shipments to overseas armed forces, ship stores, Puerto Rico, and other U.S. possessions, and small tax-exempt categories[2] as reported by the Bureau of Alcohol, Tobacco, Firearms, and Explosives. The USDA, which compiled data on cigarette consumption between 1900 and 2007, reports that consumption grew from 2.5 billion cigarettes in 1900 to a peak of 640 billion in 1981[3]. Consumption declined in the 1980s, 1990s, and 2000s, reaching a level of 465 billion cigarettes in 1998 and decreased to less than 400 billion cigarettes in 2003[4] and under 300 billion in 2011[5]. Cigarette consumption has now declined through three decades, reversing four decades of increases from the 1940s.



While the historical trend in consumption prior to 1981 was increasing, there was a decline in cigarette consumption of 9.8% during the Great Depression between 1931 and 1932.

[1] *Source*: "Tobacco Timeline," Gene Borio (1998).
[2] Bureau of Alcohol, Tobacco, Firearms, and Explosives reports as categories such as transfer to export warehouses, use of the U.S., and personal consumption/experimental.
[3] *Source*: "Tobacco Situation and Outlook", U.S. Department of Agriculture-Economic Research Service, September 1999 (USDA-ERS).
[4] *Source*: USDA-ERS. April 2005.
[5] *Source*: U.S. Tobacco and Tax Bureau, MSAI.

Notwithstanding this steep decline, consumption rapidly increased after 1932, exceeding previous levels by 1934. Following the release of the Surgeon General's Report in 1964, cigarette consumption continued to increase at an average annual rate of 1.2% between 1965 and 1981. Between 1981 and 1990, however, U.S. cigarette consumption declined at an average annual rate of 2.2%. From 1990 to 1998, the average annual rate of decline in cigarette consumption was 1.5%; but in 1998 the rate of decline increased to 3.1% and increased further to 6.5% for 1999. These declines are correlated with large price increases in 1998 and 1999 following the Master Settlement Agreement ("MSA") and previously settled states agreements. In 2000 and 2001, the rate of decline moderated to 1.2%. In the early part of the decade (in 2002 and 2003), coincident with many state excise tax increases, the rate of decline accelerated to an annual rate of 3.0%. The decline rate moderated for the next four years, through 2007, averaging 2.3%.

The rate of decline accelerated dramatically beginning in 2008, with a 3.8% decline in the number of cigarettes (including RYO equivalents to cigarettes as defined by the MSA at 0.0325 ounces of loose tobacco per cigarette) for that year, 9.1% in 2009, and 6.4% in 2010.

There was a confluence of factors which led to the dramatically reduced consumption in 2009. First, indoor smoking bans spread rapidly across the country in the latter half of the decade. We now estimate that their impact on decreased smoking and cigarette consumption was approximately 6 billion cigarettes in 2009. Second, the latter months of 2008 saw a very deep recession. Our model estimates that, given the lower realized levels of household income in 2009, consumption was negatively impacted by about 8 billion cigarettes. Third, the increase in the federal excise tax to $1.01 per pack, effective April 1, 2009, decreased cigarette demand by about 10 billion in 2009 according to our model of price elasticity. Fourth, the acceleration of state excise tax increases, prompted by the recession, similarly reduced consumption by a further 4 billion cigarettes.

The consumption declines finally decelerated to 2.8% in 2011 and 1.9% in 2012. In 2013 the decline sharpened to nearly 5%. This decline has been attributed by the industry to a weak economy, the rapid increase in usage of electronic cigarettes ("e-cigarettes"), and to an unfavorable comparison with a surprisingly strong 2012. In addition, some of the decline was due to a reduction in wholesale inventories late in the year, part of which was reversed in 2014.

Full year 2014 shipments reported by Management Science Associates, Inc. ("MSAI") were 3.2% lower than 2013, with actual consumption net of the inventory change estimated to be down 3.4%. The National Association of Attorneys General ("NAAG"), in its report for 2015 MSA Payments, reported shipments of 264.2 billion cigarettes (265.8 billion including RYO).

In 2015 cigarette shipment declines stopped, and manufacturers reported increased shipments for most of the year. The Alcohol and Tobacco Tax and Trade Bureau ("TTB") reported that shipments of 267.0 billion cigarettes exceeded the 2014 level by 1.7%, while NAAG ultimately certified an increase of 1.9% to 269.1 billion. But Reynolds American

Inc. (“RAI”), in its 2015 earnings release, indicated that MSAI estimated total industry shipments at 264.3 billion cigarettes, a 0.1% increase from 2014. In 2016, reported shipments were much less divergent, with MSAI reporting 258.0 billion and NAAG 258.6 billion, a decline of 3.96% from its higher 2015 estimate. The decline rate per MSAI was 2.4%. In April 2018, NAAG reported that 2017 market volume fell to 248.5 billion cigarette equivalents (-4.47% from 2016). In April 2019, NAAG reported an industry volume decline of 4.7%, to 236.7 billion. This acceleration in the industry decline rate coincided with the extraordinary growth of JUUL, a recent entrant to the e-cigarette market.

The following table sets forth United States domestic cigarette consumption, with and without roll-your-own equivalents, for the twenty years ended December 31, 2018. The data in this table vary from statistics on cigarette shipments in the United States. While this Report is based on consumption, payments made under the MSA dated November 23, 1998 between certain cigarette manufacturers and certain settling states are computed based in part on shipments in or to the fifty United States, the District of Columbia and Puerto Rico. The quantities of cigarettes shipped, and cigarettes consumed 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.

U.S. Cigarette Consumption

Year Ended December 31	Consumption (Billions of Cigarettes)	Percentage Change	Consumption (Billions of Cigarettes with roll-your-own equivalents)	Percentage Change
2018	237	-4.65	236	-4.72
2017	248	-4.37	247	-4.46
2016	259	-3.89	260	-4.06
2015	269	1.84	271	1.87
2014	264	-3.76	266	-3.73
2013	275	-4.76	276	-4.86
2012	288	-1.79	291	-1.90
2011	294	-2.57	296	-2.75
2010	301	-5.52	305	-6.36
2009	319	-8.03	325	-9.09
2008	348	-4.35	358	-3.79
2007	368	-2.28	372	-4.97
2006	377	-1.93	391	0.26
2005	384	-2.69	390	-3.51
2004	395	-1.28	404	0.09
2003	400	-3.66	404	-3.30
2002	415	-2.35	418	-2.68
2001	425	-1.16	429	-1.51
2000	430	-1.15	436	-1.30
1999	435	-6.45	442	
1998	465	-3.13		

The U.S. Cigarette Industry

The domestic cigarette market is an oligopoly that, through 2016, had been dominated by two leading manufacturers, Altria and Reynolds American, that account for more than three-quarters of the market. On October 21, 2017, British American Tobacco ("BAT") completed its acquisition of Reynolds American. BAT had an estimated market share of 32.2% in 2019, second to Altria's 49.7% share.

NAAG reports that in 2018, the share of the Original Participating Manufacturers ("OPMs") was 83.3%, down from 84.5% in 2015. This decline in market share of the leading manufacturers from over 96% in 1998 has been due to inroads by smaller manufacturers and importers following the MSA and other state settlement agreements. For 2018, NAAG determined that total shipments by the remaining OPMs, which is the basis for the computation of MSA payments, equaled 197 billion cigarettes, down from 210 billion cigarettes in 2017, a 5.9% decline. ITG Brands is the third largest US manufacturer, with an 8.8% market share in 2019. The fourth largest market participant, the Vector (formerly, Liggett) Group accounted for 4.0% of the US market in 2018, and 4.0% through the first three quarters of 2019.

The United States government has raised revenue through tobacco taxes since the Civil War. Although the federal excise taxes have risen throughout the years, excise taxes as a percentage of total federal revenue have fallen from 3.4% in 1950 to approximately 0.4% prior to the 2009 federal excise tax increase. In fiscal year 2018, the federal government received $13.0 billion in excise tax revenue from tobacco sales. In addition, state governments also raised significant revenues from excise taxes ($19.5 billion in 2018). Cigarettes constitute the majority of revenues, which also include revenues from sales of cigars and other tobacco products.

Regulation

Since June 22, 2009, when President Obama signed the Family Smoking Prevention and Tobacco Control Act, the FDA has had broad authority over the sale, distribution, and advertising of tobacco products. Such legislation significantly restricts tobacco marketing and sales to youth, requires the disclosure of cigarette ingredients, bigger and bolder health warnings, and bans labels thought to be deceptive, such as "light", and "low-tar" from cigarettes.

Nicotine Reduction

Whether FDA regulation will result in a significantly faster rate of decline of smoking in the U.S. cannot be determined at this time. But it clearly does have the potential to do so if regulators take an aggressive and effective approach towards that goal. One of the most profound actions it is empowered to take is to mandate the reduction of nicotine levels in

cigarettes. Nicotine is widely believed to be an addictive substance. The Surgeon General[6] and the American Medical Association[7] (AMA) both conclude that nicotine is an addictive drug that produces dependence. The American Psychiatric Association has determined that cigarette smoking causes nicotine dependence in smokers and nicotine withdrawal in those who stop smoking. The American Medical Association Council on Scientific Affairs found that one-third to one-half of all people who experiment with smoking become smokers[8].

On March 15, 2018, the FDA issued an advance notice of proposed rulemaking to explore a product standard to lower nicotine in cigarettes to minimally or non-addictive levels. As a very low nicotine product has never been introduced into a large consumer market, there is no economic data available with which to statistically estimate its impact on the U.S. market. In a 6-week study, reduced-nicotine cigarettes versus standard-nicotine cigarettes reduced nicotine exposure, dependence, and the number of cigarettes smoked.[8] Other research has also concluded that smokers of reduced nicotine products do not increase the number of cigarettes smoked to compensate for the reduction per cigarette.[9] Most recently, the FDA commissioned a study, published in the New England Journal of Medicine in March 2018[10], that evaluated one possible policy scenario for a nicotine product standard. If this scenario were implemented, this analysis suggests that approximately 5 million additional adult smokers could quit smoking within one year of implementation, and 13 million after five years. The authors acknowledge a great deal of uncertainty in the results of their simulation, which is developed from the views of a panel of health experts on smoker behavior if nicotine levels are reduced. They offer a wide range of potential outcomes. For instance, their estimate of 13 million fewer smokers after five years is the average value from a range of simulated results as low as 0.4 million to as high as 30 million fewer smokers.

Menthol Cigarettes

A significant issue before the FDA is the role of menthol cigarettes. It has been argued that menthol flavoring serves as an inducement to youth smoking and that its prevalence is especially high among minority groups, raising a call for a ban on its manufacturing and sale. In an August 2016 letter, the African American Tobacco Control Leadership Council asked President Obama to direct the FDA to issue a proposed rule to remove all flavored tobacco products, including mentholated cigarettes, from the marketplace. Menthol cigarette sales represent approximately 35% of total cigarette sales. Moreover, menthol smoking rates among young adults have increased during the past decade. In September 2012 the American Journal of Public Health published the first peer-reviewed data on menthol smokers. It reported the results of a national survey of those smokers showing that

[6] *Source:* Surgeon General's 1988 Report, "The Health Consequences of Smoking – Nicotine Addiction".

[7] *Source*: Council on Scientific Affairs, "Reducing the Addictiveness of Cigarettes", Report to the AMA House of Delegates, June 1998.

[8] Eric C. Donny, Ph.D., et al. N Engl J Med 2015; 373:1340-1349October 1, 2015DOI: 0.1056/NEJMsa1502403

[9] Neal L Benowitz1 and Jack E Henningfield2Tob Control. 2013 May; 22(Suppl 1): i14–i17. doi: 10.1136/tobaccocontrol-2012-050860

[10]Benjamin J. Apelberg et al. N Engl J Med 2018; 373:1340-1349March 15: 0.1056/NEJMsa1714617.

nearly 40% of menthol smokers say they would quit smoking if menthol cigarettes were no longer available. While an outright ban would no doubt prompt a significant number of these smokers to switch to other brands, any significant amount of quitting as a result would have a large negative effect on total consumption and sales. This survey suggests that the effect might be as large as a 12% reduction in cigarette consumption. In 2011, the FDA's Tobacco Products Scientific Advisory Committee ("TPSAC") determined that menthol use is most prevalent among younger smokers and among African Americans. It concluded that the availability of menthol cigarettes more likely than not: 1) increases experimentation and regular smoking, 2) increases the likelihood and degree of addiction in youth smokers and, 3) results in lower likelihood of smoking cessation success in African Americans. The FDA, in July 2013, released its review, "Preliminary Scientific Evaluation of the Possible Public Health Effects of Menthol Versus Nonmenthol Cigarettes". It concluded that menthol in cigarettes is likely to be associated with: 1) altered physiological responses to tobacco smoke, 2) increased dependence, 3) reduced success in smoking cessation, and 4) increased smoking initiation by youth. Though the report did not constitute a decision about regulatory action, the FDA did conclude that it is likely that menthol cigarettes pose a public health risk above that seen with nonmenthol cigarettes. In August 2013, the American Academy of Family Physicians advocated a menthol ban in an open letter to the FDA, and in November 2013, twenty-five state attorneys general asked U.S. public health regulators to ban menthol cigarettes. No regulatory action has been taken, though in 2017 the San Francisco City Council banned the sale of menthol cigarettes beginning in 2018. In 2018, legislation was introduced in California and New Jersey which would ban menthol cigarette sales in those states. In October 2019, Los Angeles County banned the sale of all flavored tobacco products, including menthol cigarettes.

On March 20, 2018, the FDA issued an advance notice of proposed rulemaking seeking comments, data, research results, or other information related to the role that flavors, including menthol, play in tobacco product use and potential regulatory options the agency could take, such as tobacco product standards and measures related to the sale and distribution of flavored tobacco products. Specifically, the FDA wanted input on the extent to which flavorings promote initiation and affect patterns of tobacco use, particularly among youth and young adults. It is possible that the subsequent rulemaking would include a ban on menthol cigarette sales.

Recent research undertaken in Canada has supported the efficacy of a menthol ban, suggesting that it results in an increase in those attempting to quit, and an increase in the use of other flavored tobacco or electronic-cigarette use.[11][12] The researchers found that before the ban, 59.7% of menthol smokers said that they would switch to or only use nonmenthol cigarettes; at follow-up, only 28.2% had done so. In contrast, 29.1% attempted to quit at follow-up, compared with 14.5% who intended to do so before the ban. Compared with pre-ban plans (5.8%), a larger proportion (29.1%) reported using other flavored

[11] Michael Chaiton, et al. Association of Ontario's Ban on Menthol Cigarettes With Smoking Behavior 1 Month After Implementation, March 5, 2018 JAMA Internal Medicine.
[12] Michael Chaiton, et al. Ban on Menthol-flavoured tobacco products predicts cigarette cessation at 1 year., http://dx.doi.org/10.1136/tobaccocontrol-2018-054841.

tobacco or e-cigarette products. Participants were less likely to anticipate using other flavored products after the ban. Of those who made a quit attempt, 80.0% of those who primarily smoked menthol cigarettes at baseline versus 25.6% of those who smoked menthol cigarettes only occasionally suggested that the ban affected their decision to quit.

The smaller manufacturers believe that FDA regulation will strengthen the role of the major producers, as the regulation raises costs of compliance and narrows price gaps of discount cigarettes. In October 2011, the FDA and the U.S. National Institutes of Health announced a national study of the effects of new tobacco regulation on smokers. The study will examine, by following more than 40,000 smokers, susceptibility to tobacco use, use patterns, resulting health problems, and will evaluate how regulations affect tobacco-related attitudes and behaviors. Initial data, on the first wave of data collection, began to be published in 2017.

Research has indicated, and our model incorporates, a negative impact on cigarette consumption due to tobacco tax increases, and a negative trend decline in levels of smoking since the Surgeon General's 1964 warning, subsequent anti-smoking initiatives, and regulations which restrict smoking. Our model and forecast acknowledge the efficacy of these activities in reducing smoking and assumes that the effectiveness of such anti-smoking efforts will continue.

Plain packaging, absent brand names has also been used as a tobacco control policy. Australia, in 2001 introduced plain-packaging requirements. A recent study concluded that a significant decline in smoking prevalence followed the introduction of plain packaging (3.7% over 2001-2013), after adjusting for the impact of other tobacco control measures.[13]

As the prevalence of smoking declines, it is likely that the achievement of further declines will require either a greater level of spending, or more effective programs. This is the common economic principle of diminishing returns**.**

Survey of the Economic Literature on Smoking

Many organizations have conducted studies on U.S. cigarette consumption. These studies have utilized a variety of methods to estimate levels of smoking, including interviews and/or written questionnaires. Although these studies have tended to produce varying estimates of consumption levels due to a number of factors—including different survey methods and different definitions of smoking—taken together such studies provide a general approximation of consumption levels and trends. Set forth below is a brief summary of some of the more recent studies on cigarette consumption levels.

[13]Dietheim P. Farley T. "Refuting tobacco-industry funded research: empirical data shoes a decline in smoking prevalence following the introduction of plain packaging in Australia". Tobacco Prevention & Cessation. 2015; 1 November.

Incidence of Smoking

Approximately 34 million American adults were current smokers in 2018, representing approximately 13.7% of the population age 18 and older, a decline from 14.0% in 2017, 15.5% in 2016, and from 19.4% in 2010, according to a Centers for Disease Control and Prevention ("CDC") study released in 2019. The National Health Interview Survey defines "current smokers" as those persons who have smoked at least 100 cigarettes in their lifetime and who smoked every day or some days at the time of the survey. Although the percentage of adults who smoke (incidence) declined from 42.4% in 1965 to 25.5% in 1990 and 24.1% in 1998, the incidence rate had declined relatively slowly since 1998. The decline accelerated between 2002 and 2004, when the incidence rate dropped from 22.5% to 20.9%, but remained as high as 20.6% in 2009. The 2014 CDC report also indicated that the percentage of smokers who smoked less than 30 cigarettes per day had declined from 12.6% in 2005 to 7.0%. In 2018 the CDC added that the proportion of daily smokers was 76.1% in 2016, which declined from 80.8% in 2005. And the mean number of cigarettes smoked per day declined from 2005 (16.7) to 2016 (14.1). Among daily smokers over the same period, the percentage of those who had smoked and quit smoking increased from 50.8% to 59.0%.

A recent trend, likely influenced by extensive indoor smoking bans in the U.S., is growth in the number of "light smokers", those who smoke just a few cigarettes per day. Thus, the decline in the overall prevalence of smoking has slowed while the rate of decline of the volume of cigarettes consumed has accelerated. In a similar fashion, e-cigarettes have replaced cigarette consumption in locations subject to indoor smoking bans, to the extent that e-cigarettes are not similarly excluded (see p 18 below).

Youth Smoking

Certain studies have focused in whole or in part on youth cigarette consumption. Surveys of youth typically define a "current smoker" as a person who has smoked a cigarette on one or more of the 30 days preceding the survey. The CDC's Youth Risk Behavior Surveillance System ("YRBSS") estimated that from 1991 to 1999 incidence among high school students (grades 9 through 12) rose from 27.5% to 34.8%, representing an increase of 26.5%. By 2003, incidence had fallen to 21.9%, a decline of 37.1% over four years. The rate of decline has continued, though at a slower pace. By 2011, the incidence was 18.1%[14]. It declined to 15.7% in 2013 and to 10.8% in 2015.

According to the Monitoring the Future Study, a school-based study of cigarette consumption and drug use conducted by the Institute for Social Research at the University of Michigan, smoking incidence over the prior 30 days among twelfth graders was, for the eleventh consecutive year, lower in 2018 than in 2017, continuing a trend that began in 1996. Smoking incidence in all grades has been below 1991 levels since 2001 for eighth graders and 2002 for tenth and twelfth graders.

[14] *Source*: CDC. Morbidity and Mortality Weekly Report. "Quitting Smoking Among Adults – United States, 2000-2015". January 2017.

Prevalence of Cigarette Use Among 8th, 10th, and 12th Graders

Grade	1991 (%)	2016 (%)	2017 (%)	2018 (%)	'91-'18 Change (%)
8th	14.3	2.6	1.9	2.2	-84.6%
10th	20.8	4.9	5.0	4.2	-79.8
12th	28.3	10.5	9.7	7.6	-73.1%

The study also reports that marijuana use among teens exceeds tobacco use. Several states have, or are considering, relaxing the legal prohibition on marijuana use. The effects of legalized marijuana on cigarettes were studied in Australia following that country's marijuana legalization. The study concluded that marijuana was, if anything, complementary to cigarette smoking, and was more likely to result in an increase in tobacco use rather than a reduction. However, a recent study published in the journal, Addictive Behaviors, found that one of the chemical compounds found in marijuana can decrease the craving for nicotine and hence potentially help smokers quit tobacco use.

The 2013 National Survey on Drug Use and Health (formerly called National Household Survey on Drug Abuse) conducted by the Substance Abuse and Mental Health Services Administration of the United States Department of Health and Human Services ("SAMHSA") estimated that approximately 55.8 million Americans age 12 and older were current cigarette smokers (defined by this survey to mean that they had smoked cigarettes at least once during the 30 days prior to the interview). The survey found that an estimated 5.6% of youths ages 12 to 17 were current cigarette smokers in 2013, down from 8.4% in 2010 and 13.0% in 2002. In 2016 the survey indicated that the percentage of youths ages 12 to 17 who were current smokers declined to 3.4% from 4.2% in 2015.

The CDC reported on February 15, 2019 that the National Youth Tobacco Survey found that in 2018 the prevalence of tobacco product use among middle and high school students was 7.2% and 27.1%, respectively. For cigarettes the prevalence was 1.8% and 8.1%, respectively, increasing for high-school students from 7.6% in 2016. Electronic cigarettes were the most commonly used tobacco product, by 20.8% of high school students, up from 11.7% in 2017, and by 4.9% of middle school students, increasing from 3.3% in 2017.

Until recently, in most of the nation, the minimum legal age to purchase cigarettes was 18. In 2013, New York City increased that age to 21, and the Campaign for Tobacco-Free Kids reported that at least 340 localities had also raised the minimum legal age to 21. Hawaii became the first state to raise its legal age to 21 on January 1, 2016, and California's legislation to do the same went into effect on June 9, 2016. In 2017, Maine, Oregon and New Jersey did the same, and in 2018 Massachusetts became the sixth state to do so. In 2019 Arkansas, Connecticut, Delaware, Illinois, Maryland, New York, Texas, Vermont, Virginia, and Washington have raised their legal age to 21 as well, and Alabama, Alaska, and Utah set the age at 19.

In November 2017, U.S. Congresswoman Diana DeGette introduced the Tobacco to 21 Act (H.R.4273), legislation that would prohibit the sale of tobacco products to anyone

under age 21, and in May 2019 Senators McConnell and Kaine introduced similar legislation in the Senate. Also, in May 2019 Walmart announced that it would prohibit cigarette purchases by individuals under age 21 in its stores. Congressional budget negotiations in December 2019 resulted in agreement to change, effective January 1, 2020, the minimum age for cigarette and other tobacco purchases to 21 from the current 18. The U.S. Food and Drug Administration will be developing regulations governing state compliance over the next nine months.

Approximately 90% of smokers indicate that they began smoking before the age of 19. In March 2015, the Institute of Medicine of the National Academies published a study, "Public Health Implications of Raising the Minimum Age of Legal Access to Tobacco Products" which concluded that there would be a 3 percent decrease in the prevalence of tobacco use if the minimum legal age was raised to 19, and a 12 percent decrease if raised to 21. A July 26, 2019 study[15] from the Yale School of Public Health found that, in areas covered by age 21 tobacco laws, the smoking prevalence among 18-20-year old's was lower by 1.2 percentage points.

Price Elasticity of Cigarette Demand

The price elasticity of demand reflects the impact of changes in price on the demand for a product. Based on recent research studies, cigarette price elasticities have generally fallen between an interval of -0.3 to -0.5, meaning as the price of cigarettes increases by 1.0%, the quantity demanded decreases by 0.3% to 0.5%. A few researchers have estimated price elasticity as high as -1.23. Research focused on youth smoking has found price elasticity levels of up to -1.41.

Two studies published by the National Bureau of Economic Research also examine the price elasticity of youth smoking. In their study on youth smoking in the United States, Gruber and Zinman estimate an elasticity of smoking participation (defined as smoking any cigarettes in the past 30 days) of –0.67 for high school seniors in the period from 1991 to 1997.[16] The study's findings state that the decrease in cigarette prices in the early 1990's can explain 26% of the upward trend in youth smoking during that time period. The study also found that price has little effect on the smoking habits of younger teens (8th grade through 11th grade), but that youth access restrictions have a significant impact on limiting the extent to which younger teens smoke. Tauras and Chaloupka also found an inverse relationship between price and cigarette consumption among high school seniors.[17] Their estimates imply that a 1% increase in the real price of cigarettes will result in an increase in the probability of smoking cessation for high school senior males and females of 1.12% and 1.19%, respectively. A study utilizing more recent data, from 1975 to 2003, by

[15] https://news.yale.edu/sites/default/files/files/ntz123.pdf
[16] *Source*: Gruber, Jonathon and Zinman, Jonathon. "Youth Smoking in the U.S.:Evidence and Implications". Working Paper No. W7780. National Bureau of Economic Research. 2000.
[17] Source: Tauras, John A. and Chaloupka, Frank, J. "Determinants of Smoking Cessation: An Analysis of Young Adult Men and Women". Working Paper No. W7262. National Bureau of Economic Research. 1999.

Grossman, estimated an elasticity of smoking participation of just -0.12.[18] Nevertheless it concludes that price increases subsequent to the 1998 MSA explain almost the entire 12% drop in youth smoking over that time.

In another study, Czart et al. (2001) looked at several factors which they felt could influence smoking among college students. These factors included price, school policies regarding tobacco use on campus, parental education levels, student income, student marital status, sorority/fraternity membership, and state policies regarding smoking. The authors considered two ways in which smoking behavior could be affected: (1) smoking participation; and (2) the number of cigarettes consumed per smoker. The results of the study suggest that, (1) the average estimated price elasticity of smoking participation is –0.26, and (2), the average conditional demand elasticity is –0.62. These results indicate that a 1% increase in cigarette prices, will reduce smoking participation among college students by 0.26% and will reduce the level of smoking among current college students by 0.62%.[19]

Tauras et al. (2001) conducted a study that looked at the effects of price on teenage smoking initiation.[20] The authors used data from the Monitoring the Future study which examines smoking habits, among other things, of 8th, 10th, and 12th graders. They defined smoking initiation in three different ways: smoking any cigarettes in the last 30 days, smoking at least one to five cigarettes per day on average, or smoking at least one-half of a pack per day on average. The results suggest that the estimated price elasticities of initiation are –0.27 for any smoking, -0.81 for smoking at least one to five cigarettes, and –0.96 for smoking at least one-half of a pack of cigarettes. These results above indicate that a 10% increase in the price of cigarettes will decrease the probability of smoking initiation between approximately 3% and 10%, depending on the definition of initiation. In a related study, Powell et al. (2003) estimated a price elasticity of youth smoking participation of –0.46.[21]

In conclusion, economic research suggests the demand for cigarettes is relatively price inelastic, with an elasticity generally found to be between -0.3 and -0.5.

[18] Michael Grossman. "Individual Behaviors and Substance Use: The Role of Price". Working Paper No. W10948. National Bureau of Economic Research. December 2004.
[19] Czart et al. “The impact of prices and control policies on cigarette smoking among college students”. Contemporary Economic Policy. Western Economic Association. Copyright April 2001.
[20] Tauras et al. “Effects of Price and Access Laws on Teenage Smoking Initiation: A National Longitudinal Analysis”. University of Chicago Press. Copyright 2001.
[21] Powell et al. “Peer Effects, Tobacco Control Policies, and Youth Smoking Behavior”. Impacteen. February 2003.

Nicotine Replacement Products

In January 2017, the CDC released the results of a study on quitting smoking[22]. It found that, in 2015, 68.0% of smokers wanted to stop smoking, 55.4% had made a quit attempt in the past year, 7.4% had recently quit, 57.2% had been advised by a health professional to quit, and 31.2% had used counseling and/or medications when they tried to quit.

Nicotine replacement products, such as Nicorette Gum and Nicoderm patches, are used to aid those who are attempting to quit smoking. Before 1996, these products were only available with a doctor's prescription. Currently, they are available as over-the-counter products. Many researchers now recommend that those trying to quit smoking use a variety of these methods in combination.

A study, by Hu et al., (2000) examines the effects of nicotine replacement products on cigarette consumption in the United States.[23] Among other things, the study found that, "a 0.076% reduction in cigarette consumption is associated with the availability of nicotine patches after 1992." In 2002, the Food and Drug Administration ("FDA") approved the Commit lozenge for over-the-counter sale. This product is similar to the gum and patch nicotine replacement products. NicoBloc, a liquid applied to cigarettes to block tar and nicotine from being inhaled, is another cessation product on the market since 2003. It has been available for purchase without a prescription since October 2015, and a wholesale distribution marketing campaign is underway. Zyban is a non-nicotine cessation drug that has been available since 2000. It has been shown to be effective when combined with intensive behavioral support.[24]

In 2006, the FDA approved varenicline, a Pfizer product marketed as Chantix, for use as a prescription medicine. It is intended to satisfy nicotine cravings without being pleasurable or addictive. The drug binds to the same brain receptor as nicotine. Tests indicate that it is more effective as a cessation aid than Zyban. Pfizer introduced Chantix with a novel marketing program, GETQUIT, an integrated consumer support system which emphasizes personalized treatment advice with regular phone and e-mail contact. The drug debuted with strong sales in 2007 but suffered a reversal the following year due to safety concerns. It has since seen increased sales and marketing success. Free & Clear, a provider of tobacco treatment services, reported in June 2008, that Chantix has achieved higher average quit rates than Zyban, patches, gum, and lozenges. Though Pfizer reported additional positive results in 2009, the FDA required that Pfizer update the Chantix label with the most restrictive, "Black Box", safety labeling describing the risks. But the FDA does conclude: "The Agency continues to believe that the drug's benefits outweigh the risks and the current warnings in the Chantix label are appropriate." These warnings include changes in behavior, hostility, agitation, depressed mood, and suicidal thoughts or actions, as well as serious skin reactions and heart and blood vessel problems. Nevertheless, the FDA said on

[22] *Source*: CDC. Morbidity and Mortality Weekly Report. "Quitting Smoking Among Adults – United States, 2000-2015". January 2017.
[23] Hu et al. "Cigarette consumption and sales of nicotine replacement products". TC Online. Tobacco Control. Summer 2000. http:\\tc.bmjjournals.com.
[24] Roddy, Elin. "Bupropion and Other Non-nicotine Pharmacotherapies". *British Medical Journal.* 28 February 2004.

October 24, 2011 that it will continue to evaluate the risk of mood changes and other psychiatric events associated with its use. In March 2013, researchers at the University of Texas M.D. Anderson Cancer Center reported a better quitting experience with varenicline than other treatments. In 2018, further research determined that Chantix and Zyban posed no heart risks.

In September 2013 researchers in a Pfizer sponsored study concluded that Chantix helps some patients, already suffering from depression or mood disorders to quit smoking without worsening their depression or anxiety symptoms. In September 2016 however, a preliminary review by the FDA expressed doubts about the trial. The FDA, in December 2016, announced that the Black Box labeling is no longer required, as the risk of serious side effects is lower than previously suspected. Also, in October 2013 researchers at the University of Bristol reported in the British Medical Journal that cessation drugs do not increase suicide risk. This was followed by a 2015 study in Sweden which reached the same conclusion. In January 2016, a study concluded that the relative effectiveness of Chantix was equal to that of nicotine patches.

In September 2011, the New England Journal of Medicine reported positive smoking cessation efficacy and safety tests for Cytisine, an inexpensive cessation aid long sold in Eastern Europe as Tabex.

In 2011, the FDA cleared an Investigational New Drug Application to conduct a Phase II-B trial of X-22, a smoking cessation kit of very low nicotine cigarettes made by the 22nd Century Group. The company has continued its development plans, and in 2016 the New Zealand Medical Journal recommended the low-nicotine cigarettes as a smoking reduction tool.

In 2012, a team from Weill Cornell Medical College reported the development of an anti-nicotine vaccine using a genetically engineered virus. The vaccine was successful when tested in mice, though it will take several years before it can be tested in humans. In January 2015, a team from the Scripps Research Institute reported in the Journal of Medicinal Chemistry that the new vaccine design had yielded positive results and recommended its further development. Also, in 2015, early phase drug development was reported by the Scripps Research Institute. They discovered an enzyme, NicA2, which they hope will destroy nicotine in the body, serving as an alternative to other smoking cessation aids. In October 2018, Scripps announced that they have created NicA2-J1, a modification, and have found that it reduced nicotine dependence in rats.

In October 2015, Invion Limited completed a successful Phase 2 trial of INV102 (Nadolol), an inhaled respiratory drug for smoking cessation. The company has requested that the FDA move this drug to Phase 3 development.

It is expected that products such as these will continue to be developed and that their introduction and use will contribute to the continued trend decline in smoking. Our forecast includes a strong negative trend in smoking rates which incorporates the influence of these factors. On August 2, 2018, the FDA announced efforts to re-evaluate and modernize its

approach to the development and regulation of Nicotine Replacement Therapy ("NRT") products, aiming to open new pathways for the development of improved products, regulated as new drugs, that demonstrate that they are safe and effective for the purpose of helping smokers quit.

Further aiding sales of these products is the decision by 45 state Medicaid programs to offer cessation benefits to Medicaid beneficiaries. Additionally, at least ten states (California, Colorado, Maryland, New Jersey, New Mexico, New York, North Dakota, Oregon, Rhode Island, and Vermont) have established minimum standards for private insurance coverage of cessation products and services. In October 2010, Medicare coverage was expanded to provide cessation counseling to seniors without tobacco-related disease. Recent research indicates this benefits expansion increased cessation product prescriptions by 36%.[25] The Affordable Care Act now mandates that new private health insurance plans cover tobacco cessation, and effective January 2014, that tobacco cessation medications can no longer be excluded from state Medicaid coverage. Recent research found that the Medicaid expansion may have increased smoking cessation among low-income adults.[26]

Electronic Cigarettes

E-cigarettes, which are not subject to the MSA, have also gained in popularity in recent years. 2018 sales in the U.S. were estimated at over $7 billion, with rapid growth once again in the past two years. The National Health Survey of the CDC reports that in 2016, 15.4% of adults had tried e-cigs and 3.2% were current users. In June 2016, the CDC released YRBSS survey results indicating that 45% of high school students had tried e-cigarettes and only 32% in 2015, had tried cigarettes. In April 2016, the CDC's National Youth Tobacco Survey had found that e-cigarette use among high school students had increased to 16% in 2015, from 1.5% in 2011. It was 5.3% among middle school students in 2015. Growth of e-cigarette use increased dramatically in 2017 and 2018, led by sales of the JUUL brand, introduced in 2015, and now the most popular electronic cigarette with approximately three-fourths of the market. As a result, the incidence of e-cigarette tobacco use by 12th grade high school students increased from 11.7% in 2017 to 20.8% in 2018. A survey in 2019 that included 19,018 participants, reported that the prevalence of self-reported current e-cigarette use was 27.5% among high school students and 10.5% among middle school students[27]. The report from the Monitoring the Future Survey also found usage among 10th graders increased from 8.2% to 16.1%, and among 8th graders from 3.5% to 6.1%. In December 2018, U.S. Surgeon General Jerome Adams, MD, officially declared youth vaping an epidemic.

[25] MacLean, Pesko, Hill, National Bureau of Economic Research. Working Paper No. 3450. May 2017.

[26] Jonathan W. Koma, et al. Medicaid Coverage Expansions and Cigarette Smoking Cessation Among Low-income Adults Medical Care. Oct 2017.

[27] Karen A. Cullen, PhD, Center for Tobacco Products, US Food and Drug Administration, November 5, 2019, doi:10.1001/jama.2019.18387

On the one hand, e-cigarettes are alternatives to cigarettes, as smokers cope with indoor and outdoor bans. On the other hand, they are cessation devices whose nicotine content can be controlled. Their role in smoking, and smoking cessation, is ambiguous. When they can be used as a cessation device to wean a smoker away from cigarettes, they serve as a substitute for cigarettes, and therefore result in lower cigarette consumption. A new British study provides evidence that e-cigarettes are more effective as a smoking cessation aid than other forms of nicotine replacement products. The study reported that after a year, 18 percent of the vapers were no longer smoking, compared to 9.9 percent of the NRT users.[28] And a large study from the Centre for Substance Use Research in the UK found that at least 28.3% of adult smokers had quit smoking cigarettes completely after using a JUUL vaporizer for 3 months.[29] Moreover, a study on vaping safety has confirmed that vapers are exposed to far fewer toxic chemicals than smokers.[30] The study suggests that current smokers who try using an e-cigarette may experience reductions in dependence on combustible cigarettes. And a new peer-reviewed study[31] published in the Journal of Environmental Research and Public Health of 72 adult smokers willing to try vaping as an alternative to smoking found that after 90 days, 37% of them had completely replaced their cigarettes and switched to vaping products.

Alternatively, in the presence of indoor smoking bans where e-cigarettes are not also banned, e-cigarettes can also allow smokers to maintain a nicotine habit or addiction indoors, offsetting some of the bans' effectiveness in reducing smoking and consumption of cigarettes. In October 2019, a bill to limit the amount of nicotine in e-cigarette products was introduced in the U.S. House of Representatives. The bill would restrict nicotine content to a maximum of 20 milligrams per milliliter and would give the Food and Drug Administration the authority to reduce the cap if necessary.

In this case e-cigarettes are complements to cigarettes. Indoor smoking restrictions have reduced the consumption of cigarettes and created a demand for e-cigarettes. But e-cigarettes themselves do not further reduce consumption except to the extent that they are substitutes for cigarette usage. Nevertheless, a 2013 study in the United Kingdom found that 76% of e-cigarette users said they started using their devices to replace cigarettes entirely. Results of a clinical trial in Italy, published by the journal Plos One in June 2013, found that 8.7% of e-cigarette users stopped smoking cigarettes. In September 2013, The Lancet published a New Zealand study which concluded that smoking cessation attempts using e-cigarettes were at least as effective as those using nicotine patches. (In a sample, the quit rate after six months with e-cigarettes was 7.3%, versus 5.8% with patches). By 2016, the scientific consensus was that e-cigarette use was associated with quit attempts by

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[28] Peter Hajek , "A randomized trial of E-Cigarettes versus Nicotine-Replacement Therapy" N Engl J Med 2019; 380:629-637

[29] Christopher Russell et al. Factors associated with past 30-day abstinence from cigarette smoking in a non-probabilistic sample of 15,456 adult established current smokers in the United States who used JUUL vapor products for three months. Harm Reduction Journal 2019 **16**:22

[30] Maciej Goniewicz, Comparison of Nicotine and Toxicant Exposure in Users of Electronic Cigarettes and Combustible Cigarettes. . JAMA Netw Open. 2018;1(8):e185937

[31] McKeganey, Miller, and Haseen, The Value of Providing Smokers with Free E-Cigarettes: Smoking Reduction and Cessation Associated with the Three-Month Provision to Smokers of a Refillable Tank-Style E-Cigarette. Int. J. Environ. Res. Public Health 2018

smokers.[32] Others also conclude that youth use of e-cigarettes is unlikely to increase the ranks of future cigarette smokers.[33] In 2017, research concluded that the substantial increase in e-cigarette use among U.S. adult smokers this decade was associated with a statistically significant increase in the smoking cessation rate at the population level.[34] But in 2019, two new studies[35] [36], found that teens who use e-cigarettes or other tobacco-related products are more likely to later initiate cigarette use.

In terms of price, e-cigarettes are generally a less expensive alternative for the consumer, as they are not taxed as cigarettes. However, Minnesota has imposed a 95% tax on the wholesale cost, North Carolina in 2014 added a 5 cent per milliliter tax on liquid nicotine, and the District of Columbia, Kansas, and Louisiana added millimeter taxes in 2015. Though smoking habits vary, a 5 cent/mL tax is approximately equivalent to a 2.5 cent tax per pack of cigarettes. A cartridge and battery for an e-cigarette would cost less than half as much as an equivalent pack of cigarettes in an average tax state. JUUL, for instance, costs as little as $4 per pod, which is the nicotine equivalent of a pack of cigarettes.

Researchers have reported several safety concerns with the products, including concerns on the variability in delivered nicotine content. In March 2016, the U.S. Department of Transportation implemented a ban on e-cigarettes on all flights to and from the U.S., a prohibition already enacted by Amtrak on its trains. The states of California, Connecticut, Delaware, Hawaii, Maine, New Jersey, New York, North Dakota, Oregon, Utah, and Vermont prohibit e-cigarette use in workplaces, restaurants, and bars. Arkansas, Colorado, New Hampshire, and Oklahoma restrict e-cigarette use at state workplaces and school grounds. Based on data from the American Nonsmokers' Rights Foundation ("ANRF"), there are e-cigarette restrictions at indoor smoke-free venues in 861 localities in the U.S. In 2014, Chicago, New York, and San Francisco extended public places smoking bans to include e-cigarettes. In September 2013, forty state attorneys general sent a letter to the FDA urging the agency to regulate e-cigarettes in the same way it regulates tobacco products. In 2014, the state of Rhode Island banned e-cig sales to those under 18 years of age.

In 2010, the U.S. Court of Appeals for the District of Columbia Circuit ruled that the FDA could not regulate e-cigarettes as a drug, rather it must regulate them as tobacco products. On May 5, 2016, the FDA released its final rule which subjects manufactures, importers and/or retailers of e-cigarettes and certain other tobacco related products to the same regulations applicable to cigarettes, cigarette tobacco, roll-your-own tobacco and smokeless tobacco, with respect to the following; (i) enforcement action against product determined to be adulterated or misbranded; (ii) required submission of ingredient listing

[32] Zhu SH,et al, "E-cigarette use and associated changes in population smoking cessation: evidence from U.S. current population surveys", BMJ 2017;358:j3262,
[33] Kozlowski, L. T., & Warner, K. E. (2017). "Adolescents and e-cigarettes: Objects of concern may appear larger than they are". Drug and Alcohol Dependence, 174, 209-214.
[34] Zhu, hu-Hong et al. "E-cigarette use and associated changes in population smoking cessation: evidence from US current population surveys." BMJ 2017;358:j3262
[35] Berry et al. "Deciphering the Correlation Between Youth e-Cigarette and Tobacco Use". JAMA Netw Open. 2019;2(2):e187794. doi:10.1001/jamanetworkopen.2018.779
[36] Berry et al. "Association of electronic cigarette use with subsequent initiation of tobacco cigarettes in U.S. youths." *JAMA Netw Open*. 2019;2(2): e187794. doi:10.1001/jamanetworkopen.2018.7794.

and reporting; (iii) required registration of tobacco product manufacturing establishments and product listing; (iv) prohibition against sale and distribution of products with modified risk descriptors (e.g. “light”, “low” or “mild”) and claims unless authorized by the FDA; (v) placing health warnings on product packages and advertisements; (vi) prohibition on the distribution of free samples; and (vii) premarket review requirements. In addition, the final rule established additional restriction for e-cigarettes and certain other tobacco products, as follows: (i) restriction on sales to persons under the age of 18 and requiring age verification; (ii) prohibition of sales in vending machines unless in adult-only facilities; and (iii) prohibition against free samples.

In August 2013, the Consumer Advocates for Smoke-free Alternatives Association released a study it funded by the Drexel University School of Public Health. It found that chemicals in e-cigarettes pose no health concern for users or bystanders. In August 2014, the American Health Association backed the use of e-cigarettes as a last resort (after other cessation methods) to help smokers quit.

On July 28, 2017, FDA Commissioner Scott Gottlieb announced that new regulations would not be imposed on e-cigarettes at this time, stating that electronic products may have a positive role to play in reducing the harmful effects of nicotine addiction.

On April 24, 2018 the FDA announced that as part of its Youth Tobacco Prevention Plan, that it would take actions to reduce the use of e-cigarettes by youth. First, it is conducting a large-scale, undercover nationwide blitz to crack down on the illicit sale of e-cigarettes. Second, it contacted eBay to raise concerns over several listings for JUUL products on its website, which eBay subsequently removed. Third, the FDA also sent an official request for information directly to JUUL Labs, requiring the company to submit important documents to better understand the reportedly high rates of youth use and the particular youth appeal of these products. Fourth, it is planning additional enforcement actions focused on companies that they think are marketing products in ways that are misleading to kids. On January 2, the U.S. Food and Drug Administration issued a policy prioritizing enforcement against certain unauthorized flavored e-cigarette products that appeal to kids, including fruit and mint flavors. Under this policy, companies that do not cease manufacture, distribution, and sale of unauthorized flavored cartridge-based e-cigarettes (other than tobacco or menthol) within 30 days risk FDA enforcement actions.

A New Product - Heat not Burn

Altria plans to market IQOS, a tobacco product as being less harmful than traditional cigarettes. The product, developed by Philip Morris International (“PMI”), heats tobacco without burning, and is already on sale in key cities in 37 countries around the world. The product’s advantage over e-cigarettes is that, unlike the latter, it delivers a “throat-hit” sensation like combustible cigarettes. Following the FDA’s scientific review of PMI’s Modified Risk Tobacco Product Application for its IQOS device, the agency announced, on April 30, 2019, that it would approve Altria’s request to market IQOS in the U.S. In October 2019, U.S. sales began in Atlanta, GA, and subsequently Richmond, VA. In Japan, IQOS sales have expanded rapidly since launching nationwide last summer and now account for about 10% of the overall cigarette market. Also, in April, Imperial

Brands announced it would begin to market Pulze, its heat-not-burn product, in Japan. In July 2018, BAT had received approval under the substantial equivalence application process, from the U.S. Food and Drug Administration to begin selling its Neocore heated-tobacco device, which was formerly known as Eclipse. Neocore is a carbon-tipped product that is lit with a match yet doesn't burn the tobacco.

Different from e-cigarettes, the electronic device is used with mini tobacco sticks as opposed to a nicotine-laced liquid. These are then placed into the device before being heated, rather than burned, which is claimed to make them less harmful because they aren't burning the tobacco. The concept behind 'Heat-not-Burn' is that heating tobacco, rather than burning it, reduces or eliminates the formation of many of the harmful compounds that are produced at the high temperatures associated with combustion. However, concerns have been raised in the scientific community that IQOS and other heat-not-burn products still pose a significant health risk to users. Altria has stated that it expects the tobacco sticks to be considered as cigarettes for purposes of the MSA computations.

Workplace Restrictions

In their 1996 study on the effect of workplace smoking bans on cigarette consumption, Evans, Farrelly, and Montgomery found that between 1986 and 1993 smoking participation rates among workers fell 2.6% more than non-workers.[37] Their results suggest that workplace smoking bans reduce smoking prevalence by 5% and reduce consumption by nearly 10%. The authors also found a positive correlation between hours worked and the impact on smokers in workplaces that have smoking bans. The more hours per day a smoker spent working in a smoking restricted environment, the greater the decline in the quantity of cigarettes that smoker consumed.

Factors Affecting Cigarette Consumption

Most empirical studies have found a common set of variables that are relevant in building a model of cigarette demand. These conventional analyses usually evaluate one or more of the following factors: (i) general population growth, (ii) price increases, (iii) changes in disposable income, (iv) youth consumption, (v) trend over time, (vi) workplace smoking bans, (vii) smoking bans in public places, (viii) nicotine dependence and (ix) health warnings. While some of these factors were not found to have a measurable impact on changes in demand for cigarettes, all these factors are thought to affect smoking in some manner and to be incorporated into current levels of consumption.

Price Elasticity of Demand. Based on recent conventional research studies cigarette price elasticities have generally fallen between an interval of -0.3 to -0.5. IHS Global's multivariate regression analysis using U.S. data from 1965 to 2018 shows that the long-run

[37] *Source*: Evans, William N.; Farrelly, Matthew C.; and Montgomery, Edward. "Do Workplace Smoking Bans Reduce Smoking*?".* Working Paper No. W5567, National Bureau of Economic Research, 1996.

price elasticity of consumption for the entire population is -0.33; meaning a 1.0% increase in the price of cigarettes decreases consumption by 0.33%.

In 1998, the average price of a pack of cigarettes in the U.S. in nominal terms was $2.20. This increased to $2.88 per pack in 1999, representing a nominal growth in the price of cigarettes of 30.9% from 1998. During 1999, consumption declined by 6.45%. This was primarily due to a $0.45 per pack increase in November 1998 which was intended to offset the costs of the MSA and agreements with previously settled states. Over the next several years, the cigarette manufacturers continued to increase wholesale prices, and state excise taxes rose dramatically across the nation. By 2008, the weighted average state excise tax was $1.23 per pack and cigarette prices averaged $5 per pack.

The 2008-2009 recession and its stress on state budget revenues prompted acceleration in excise tax increases, as sixteen states increased taxes, resulting in an average tax of $1.34 at the end of 2009. In 2010, Hawaii, New Mexico, New York, South Carolina, Utah, and Washington, raised excise taxes. In 2011, excise tax increases went into effect in Connecticut, again in Hawaii, and in Vermont. In 2012, Illinois and Rhode Island raised cigarette excise taxes by $1.00 and $0.04 per pack per pack, respectively.

In 2013, Cook County, Illinois increased its cigarette excise tax by $1.00 per pack, and in November of that year, Chicago increased its excise tax by $0.50 to push city, county, and state taxes in Chicago to $7.17 per pack. Also, in 2013, cigarette excise tax increases were enacted in Minnesota, by $1.60 per pack, Massachusetts, by $1.00 per pack, Oregon, by $0.13 per pack, and New Hampshire, by $0.10 per pack. Puerto Rico also enacted increases in its excise taxes in 2014 and 2015. New York City now sets a minimum retail price of a pack of cigarettes at $13.00 and prohibits the use of coupons and promotions to discount that price. In September 2014, the City of Philadelphia enacted a $2.00 per pack tax.

The increases in New Hampshire and Oregon were the only state excise tax increases in 2014, bringing the average state cigarette excise tax rate in December 2014 to $1.53. Eight states also raised cigarette taxes in 2015: Alabama by $0.25 per pack, Connecticut by $0.25, Kansas by $0.50, Louisiana by $0.32, Nevada by $1.00, Ohio by $0.35, Rhode Island by $0.25, and Vermont by $0.33.

In 2016, the excise tax was increased in Minnesota, by $0.10, and Oregon, by $0.01, on January 1, in Louisiana, by $0.22 on April 1, and in Connecticut, by $0.25, and in West Virginia, by $0.65, on July 1. Pennsylvania increased its excise tax by $1.00 per pack effective August 1, 2016. In November 2016, a ballot initiative for excise tax increases passed in California ($2.00, effective April 2017). The average state cigarette excise tax increased from $1.63 to $1.89 in 2017, following increases in California, Delaware, Oklahoma, and Rhode Island. In 2018, Oklahoma enacted legislation to raise its excise tax by $1.00, Kentucky increased its tax by $0.50, and the District of Columbia increased its tax by $2, to $4.50 per pack.

In 2019, Illinois and New Mexico increased excise taxes per pack by $1.00 and $0.34, respectively. This brought the average state rate to $1.96 per pack. A November 2020 ballot measure in Oregon would raise its excise tax by $2.00 per pack.

The federal excise tax had remained constant, at $0.39 per pack, from 2002 until 2009 when the U.S. Congress adopted legislation which raised the tax by $0.62, to $1.01, effective April 1, 2009. As a result, the total state and federal excise tax now equals an average of $2.97 per pack.

Purchases of roll-your-own cigarette tobacco were discouraged by 2009 legislation that substantially raised its excise tax. However, the excise tax changes also had the effect of encouraging the use of pipe tobacco, combined with the availability of roll-your-own machines to circumvent the higher excise taxes. Legislation introduced by Senator Richard Durbin on January 31, 2013, and most recently in September 2017, the Tobacco Tax Equity Act, would similarly equalize federal excise tax rates on all tobacco products.

During much of the period following the MSA, the major manufacturers refrained from wholesale price increases and actively pursued extensive promotional and dealer and retailer discounting programs which served to hold down retail prices. They did this in part due to the state tax increases, but primarily to maintain their market share from its erosion by a deep discount segment which grew rapidly following the MSA. The major manufacturers were finally successful in stemming the increase in the deep discount market share, which stabilized in 2004. The major manufacturers have raised prices or reduced discounts and promotions in each year since 2004.

In 2017, the manufacturers raised prices by $0.08 in March, and in September, by $0.10 per pack. In March 2018, and in March 2019, Altria and Reynolds announced list price increases of $0.09 per pack. In December 2018, the average price, including excise taxes, was $8.76 per pack, a 3.4% increase from a year before. On October 20, 2019, Atria raised its prices by $0.09 per pack. In December 2019, prices had increased by 4.7% year over year and are estimated to average $9.17 per pack.

Over the longer term, our forecast expects price increases to continue to exceed the general rate of inflation due to increases in the manufacturers' prices as well as further increases in excise taxes.

Premium brands are typically $1.00 to $2.00 more expensive per pack than discount brands, allowing a margin for consumers to switch to less costly discount brands in the event of price increases. The availability of cigarette outlets on Indian reservations, where some sales are typically exempt from taxes, provides another opportunity for consumers to reduce the cost of smoking. Similarly, Internet sales of cigarettes initially grew rapidly, though credit card companies and shippers including the U.S. Postal Service have now put significant restrictions on shipping of cigarettes, and the federal government has enacted the Prevent All Cigarette Trafficking ("PACT") Act which requires the collection of all applicable taxes on Internet and mail-order cigarette shipments. Under the MSA, volume adjustments to payments are based on the quantity (and not the price or type) of cigarettes

shipped. The availability of lower price alternatives lessens the negative impact of price increases on cigarettes volume, but it may negatively impact MSA receipts if non-participating manufacturers gain sales.

Changes in Disposable Income. Analyses from many conventional models also include the effect of real personal disposable income. Most studies have found cigarette consumption in the United States increases as disposable income increases.[38] However, a few studies found cigarette consumption decreases as disposable income increases.[39] Based on our multivariate regression analysis, the income elasticity of consumption is 0.27, meaning a 1.0% increase in real disposable income per capita increases per capita cigarette consumption by 0.27%. In normal periods of economic growth, this factor contributes a positive impact to cigarette demand, offsetting some of the negative impacts previously discussed. However, with the recession of 2008-2009, this factor also affected cigarette demand and consumption in a negative way.

Youth Consumption. The number of teenagers who smoke is another likely determinant of future adult consumption. While this variable has been largely ignored in empirical studies of cigarette consumption,[40] almost all adult smokers first used cigarettes by high school, and very little first use occurs after age 20.[41] One study examines the effects of youth smoking on future adult smoking.[42] The study found that between 25% and 50% of any increase or decrease in youth smoking would persist into adulthood. According to the study, several factors may alter future correlation between youth and adult smoking: there are better means for quitting smoking than in the past, and there are more workplace bans in effect that those who are currently in their teen years will face as they age.

We have compiled U.S. data from the CDC that measures the incidence of smoking in the 12-17 age group as the percentage of the population in this category that first become daily smokers. This percentage, after falling since the early 1970s, began to increase in 1990 and increased through the decade. We assume that this recent trend peaked in the late 1990s, and youth smoking has resumed its long-term decline. This decline will be further accentuated by the 2020 imposition of a national restriction of tobacco sales to those over 21 years of age.

In 2012, the Surgeon General issued a report, "Preventing Tobacco Use among Youth and Young Adults." Among its major conclusions were, 1) that prevention efforts must focus on both adolescents and young adults, 2) that advertising and promotional activities by tobacco companies have been shown to cause the onset and continuation of smoking among youth, 3) that after years of steady progress, declines in tobacco use by the young have slowed, and 4) that coordinated, multi-component interventions that combine mass media campaigns, price increases, school-based programs, and community wide smoke-free

[38] Ippolito, et al.; Fuji.
[39] Wasserman, et al.; Townsend et al.
[40] Except for those such as Wasserman, et al. that studied the price elasticity for different age groups.
[41] *Source*: Surgeon General's 1994 Report, "Preventing Tobacco Use Among Young People."
[42] *Source*: Gruber, Jonathon and Zinman, Jonathon. "Youth Smoking in the U.S.:Evidence and Implications". Working Paper No. W7780, National Bureau of Economic Research, 2000..

policies and norms are effective in reducing tobacco use. Also, in 2012, the CDC produced a mass-media advertising campaign featuring graphic descriptions of the adverse health effects of smoking. In August 2012, the CDC declared the campaign a major success, as the agency concluded that the ads helped to double the amount of calls to their telephone quit line. New CDC campaigns, with graphic adverse health images began in March 2013, and again in July 2014. In September 2013, the CDC announced survey results which concluded that cessation attempts increased from 31.1% to 34.8% of smokers who had seen the graphic ads, which the CDC extrapolated to 100,000 sustained quitters, approximately 0.25% of U.S. smokers. In 2001, Canada began requiring cigarette labels to include large graphic depictions of adverse health consequences of smoking. Early research suggested that these warnings have some effectiveness, as one-fifth of the participants in a survey reported smoking less as a result of the labels.[43] In November 2013, the journal Tobacco Control published research from the University of Illinois at Chicago which concluded that the FDA has underestimated the impact of graphic labels. Examining the experience in Canada, the researchers concluded that graphic warning labels reduced smoking rates in Canada by 3% to 5%.[44] In 2015, the Rand Corporation reported results of a convenience store experiment where cigarette displays were hidden from view. The researchers found that teen smoking susceptibility was reduced by 11% by the hidden placement.

In December 2014, research was published on the effectiveness of youth-targeted, anti-smoking public service announcements. It was found that a 100-ad increase in the yearly volume of ads was associated with a 0.1 percentage point drop in youth smoking rates in the following year. A 2016 study determined that smoke-free laws in workplaces are associated with a lower prevalence of youth smoking.[45] It estimated that youth smoking initiation declined by 34%.

Trend Over Time. Since 1964 there has been a significant decline in adult per capita cigarette consumption. The Surgeon General's health warning (1964) and numerous subsequent health warnings, together with the increased health awareness of the population over the past fifty years, may have contributed to decreases in cigarette consumption levels. If, as we assume, the awareness of the adult population continues to change in this way, overall consumption of cigarettes will decline gradually over time. Our analysis includes a time trend variable in order to capture the impact of these changing health trends and the effects of other such variables, which are difficult to quantify.

Health Warnings. Categorical variables also have been used to capture the effect of different time periods on cigarette consumption. For example, some researchers have identified the United States Surgeon General's Report in 1964 and subsequent mandatory health warnings on cigarette packages as turning points in public attitudes and knowledge of the health effects of smoking. The Cigarette Labeling and Advertising Act of 1965

[43] Hammond, Fong, McDonald, Brown, and Cameron. "Graphic Canadian Warning Labels and Adverse Outcomes: Evidence from Canadian Smokers". *American Journal of Public Health.* August 2004.
[44] Huang J, Chaloupka FJ, Fong GT. Cigarette graphic warning labels and smoking prevalence in Canada: a critical examination and reformulation of the FDA regulatory impact analysis. Tobacco Control 2013.
[45] Song, Dutra, Nielands, Glantz. Association of Smoke-Free Laws with Lower Percentages of New and Current Smokers Among Adolescents and Young Adults. Journal of American Medical Association, 2015:169.

required a health warning to be placed on all cigarette packages sold in the United States beginning January 1, 1966. The Public Health Smoking Act of 1969 required all cigarette packages sold in the United States to carry an updated version of the warning, stating that it was a Surgeon General's warning, beginning November 1, 1970. The Comprehensive Smoking Education Act of 1984 led to even more specific health warnings on cigarette packages. The Family Smoking Prevention and Tobacco Control Act of 2009 requires that cigarette packages have larger and more visible graphic health warnings. Regulations that were to go into effect in September 2012 mandated that a series of nine graphic health warnings must 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. Five manufacturers challenged the implementation of these new warnings on First Amendment grounds, and on November 7, 2011 a federal judge issued a preliminary injunction blocking the FDA requirement. The judge ruled that the labels were not factual, but rather, "…calculated to provoke the viewer to quit…." In 2012, a federal judge in Washington blocked the new requirement, while a federal appeals court in Ohio ruled to uphold parts of the Act. In March 2013, the Attorney General decided not to ask the U.S. Supreme Court to review the case. Instead, the FDA announced on March 19, 2013 that it would undertake research to support new rulemaking. On April 22, 2013, the Supreme Court upheld the provisions of the 2009 law, allowing the FDA to develop and implement new graphic warning labels. In October 2018, the FDA said in court documents that the earliest it can produce the new labels is summer 2021. In a March 5, 2019 Memorandum and Order, the court directed the FDA to submit, by March 15, 2020, a final rule mandating color graphic warnings on cigarette packs and in cigarette advertisements as required by the FSPTCA. On August 15, 2019, the FDA issued a proposed rule to require new health warnings on cigarette packages and in advertisements to promote greater public understanding of the negative health consequences of smoking. The proposed warnings feature text and photo-realistic color images depicting some of the lesser-known but serious health risks of cigarette smoking.

In October 2016, eight public health groups, including the American Academy of Pediatrics, the American Cancer Society, the American Heart Association, and the American Lung Association, filed suit in federal court to force the FDA to issue final rules requiring graphic warnings on cigarette packs and advertising. On May 1, 2018, the U.S. District Court for the District of Columbia mandated that new statements must be published on cigarette packaging. The statements address five areas where tobacco companies deliberately misled the public: the health risks of smoking, the addictiveness of smoking and nicotine, that there are no significant health benefits from smoking cigarettes labeled as low-tar, light, ultra-light, mild and natural, and the risks of secondhand smoke.

Smoking Bans in Public Places. Beginning in the 1970s, numerous states passed laws banning smoking in public places as well as private workplaces. In 2003, Alabama joined the other 49 states and the District of Columbia in requiring smoke-free indoor air to some degree or in some public places.

The most comprehensive bans, extending to restaurants and bars, have been enacted since 1998 in 39 states and a number of large cities. Restrictions to all workplaces, restaurants,

and bars cover 66.2% of the U.S population, according to the ANRF. In 2012, North Dakota became the most recent state to adopt these bans in public places. In 2015, smoking ban legislation was introduced in Kentucky, and New Orleans passed an ordinance banning smoking in bars and casinos.

The ANRF documents clean indoor air ordinances by local governments throughout the U.S. As of October 1, 2019, there were 1,572 municipalities with local laws that require 100% smoke-free, non-hospitality workplaces or restaurants or bars, of which 1,085 municipalities (including the District of Columbia) have local laws that require 100% smoke-free, non-hospitality workplaces and restaurants and bars. The number of such ordinances has grown rapidly in the past two decades. Ordinances completely restricting smoking in restaurants and bars have generally appeared in the past decade. In 1993 only 13 municipalities prohibited all smoking in restaurants, and 6 in bars.[46]

Based on the regression analysis using data from 1965 to 2015, the restrictions on workplace smoking that proliferated in the 1980s appear to have had an independent effect on per capita cigarette consumption. We estimated that the restrictions instituted beginning in the late 1970s have reduced smoking by about 2%. Nevertheless, the timing of the restrictions within and across states makes such statistical identification difficult. Bauer, et al. estimates that U.S. workers in smoke-free workplaces from 1993 to 2001 decreased their average daily consumption by 2.6 cigarettes.[47] Research in Canada, by the Ontario Tobacco Research Unit, concluded that consumption drops by almost five cigarettes per person per day in workplaces where smoking is banned. Tauras, in a study based on a large survey of smokers, found that the more restrictive smoke-free air laws decrease average smoking but have little influence on prevalence.[48] The study predicted that moving from no smoking restrictions at all to the most restrictive bans reduces average smoking from 5% to 8%. In September 2015, the American Medical Association published research examining 11 years of smoke-free laws which research concluded that they are associated with a lower prevalence of smoking among adolescents and young adults.[49]

The extension of the indoor bans to restaurants and bars in the last decade began largely in the Northeast and did not appear, in our econometric analysis, to have a significant independent impact on smoking there. Nevertheless, with data available from later in the decade across a wider geography, econometric analysis reveals that the bans did have a significant impact, and we have added a variable quantifying the effect in our consumption model.

The first extensive outdoor smoking restrictions were instituted in March 2006 in Calabasas, California. The cities of Los Angeles and Oakland, Contra Costa County, and the California municipalities of Belmont, Beverly Hills, Campbell, Concord, Dublin, El

[46] *Source:* American Nonsmokers' Rights Foundation. http://www.no-smoke.org. July 2018.
[47] Bauer, Hyland, Li, Steger, and Cummings. "A Longitudinal Assessment of the Impact of Smoke-Free Worksite Policies on Tobacco Use". American Journal of Public Health. June 2005
[48] Tauras, John A. "Smoke-Free Air Laws, Cigarette Prices, and Adult Cigarette Demand". Economic Inquiry, April 2006.
[49] Song, Dutra, Neilands, and Glantz. "Association of Smoke-Free Laws with Lower Percentages of New and Current Smokers Among Adolescents and Young Adults". JAMA Pediatrics. September 2015.

Cajon, Emeryville, Hayward, Loma Linda, Santa Cruz, San Rafael, Santa Monica, and Walnut Creek have also established extensive outdoor restrictions, as have Boulder, Colorado, and Davis County and the City of Murray in Utah. In 2007, San Diego City and Los Angeles, Santa Cruz and San Mateo Counties banned smoking at beaches and parks, joining over 30 other Southern California cities in prohibiting smoking on the beach. In 2011, the New York City Council approved a bill to ban smoking in all city parks, beaches and pedestrian plazas. That ban went into effect on May 23, 2011. In January 2014, a smoking ban went into effect in Boston's parks, and on Hawaii's beaches. On July 20, 2018, New Jersey banned smoking at state beaches and parks. According to ANRF, as of October 2017, 1,531 municipalities prohibit smoking in city parks, and 317 municipalities mandate smoke-free city beaches. On October 11, 2019, legislation banning smoking at all California state beaches and parks was signed by the Governor. It will go into effect January 1, 2020.

Additional restrictions are being placed in residential units as well. First, many hotels, including the Marriott, Sheraton, and Westin chains, have adopted completely smoke-free room standards. And multi-family residential buildings have been increasingly subject to restrictions, beginning in 2008 when the California cities of Belmont and Calabasas, approved ordinances restricting smoking anywhere in the city except for single-family detached homes. Alameda, Oakland, Pasadena, Santa Monica, and Thousand Oaks are among eight other California cities with such extensive bans. In September 2011, Sonoma County imposed a similar ban, effective June 2012. In August 2011, the California Legislature passed legislation enabling landlords to ban smoking in residential rental units. In June 2012, the Towbes Group of Santa Barbara became the largest apartment portfolio, with 2,000 units, to impose a smoking ban. In April 2013, California Assembly Bill 746 was defeated; it would have prohibited smoking in, and within 20 feet of entrances of, condominiums, duplexes, and apartment units throughout the state. A similar bill has also been introduced in Massachusetts.

New York City's first non-smoking apartment building opened in late 2009. Many landlords and condominium associations in California and New York City, have also established smoke-free apartment policies. In 2013 Related Companies, which manages 40,000 rental units across the country, announced a ban on smoking for all new tenants. In July 2011, the San Antonio Housing Authority announced a ban, effective in January 2012, on smoking in its 6,175 rental units. Similar bans went into effect in 2012 for public housing in Boston and Minneapolis. The U.S. Department of Housing and Urban Development in November 2015 announced plans to make all public housing smoke-free. The proposal would cover about 940,000 units. The plan went into effect in February 2017 and was to be fully implemented by July 2019. ANRF reports that there are 53 municipalities in the U.S. that have enacted laws prohibiting smoking in all multi-unit housing, and 619 municipalities that have in publicly-owned housing.

New Jersey has prohibited smoking in college dormitories since 2005. At least 2,375 colleges nationwide now prohibit smoking everywhere on campus. In 2013 the California and Louisiana state college and university systems banned tobacco use, joining Arkansas and Oklahoma with no-smoking restrictions at its public colleges and universities, and

Iowa, which prohibits smoking at all colleges and universities. Twenty states have banned smoking, indoors and outdoors, at state prisons. Since February 2015, smoking has been prohibited in all federal prisons. Arkansas, California, Louisiana, Maine, Puerto Rico, Texas, Virginia, and Rockland County, NY prohibit smoking in a car where there are children present, and similar legislation has been proposed in Alabama, Connecticut, Florida, Illinois, Maryland, New York, Ohio, Oregon, Utah, Vermont, and other states.

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. We expect that the report will strengthen arguments in favor of further smoking restrictions across the country. Further ammunition for activists for smoke-free environments was provided by the California Environmental Protection Agency Air Resources Board, which in 2006 declared environmental tobacco smoke to be a toxic air contaminant.

Electronic Cigarettes. The introduction of e-cigarettes followed the enactment of many indoor smoking restrictions throughout the U.S. Together, these two factors contributed to a sharper decline in cigarette consumption. In the past two years, however, the use of e-cigarettes, especially of JUUL, accelerated sharply, particularly among teenagers. This has significantly increased the cigarette consumption rate of decline and is expected to continue to do so. We have added this impact to our forecast going forward.

Smokeless Tobacco Products. Unlike e-cigarettes, 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. Chewing tobacco and dry snuff consumption had been declining in the U.S. into this century, but moist snuff consumption has increased at an annual rate of more than 5% since 2002. Snuff is now being marketed to adult cigarette smokers as an alternative to cigarettes. UST (purchased by Altria in 2009), was the largest producer of moist smokeless tobacco, and explicitly targeted adult smoker conversion in its growth strategy over the last decade. As with e-cigarettes, the leading cigarette manufacturers soon added smokeless products to their offerings, 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. Philip Morris USA now markets Marlboro Snus and Reynolds American offers Camel Snus. On December 18, 2017, Reynolds American announced that the FDA accepted, and filed for substantive review, Modified Risk Tobacco Product applications covering Camel Snus, thus requesting FDA authorization to market Camel Snus as a modified risk tobacco product. Following a Feb. 2019 hearing, the Tobacco Products Scientific Advisory Committee voted that the manufacturer's proposed "modified risk" claim for Copenhagen Snuff Fine Cut is scientifically accurate.

In 2014, according to SAMHSA's National Survey on Drug Use & Health, 3.3% of adults used smokeless tobacco products. Among young adults, who had been more likely to use smokeless products, 2.0% used smokeless tobacco. A Massachusetts survey in 2011 found that in snus test markets 29% of male smokers aged 18-24 had tried snus products.

Advocates of the use of snuff as part of a harm reduction strategy, point to Sweden, where "snus", a moist snuff manufactured by Swedish Match, use has increased sharply since 1970, and 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.[50] The Sweden experience is unique, even with respect to its Northern European neighbors, and it is not clear whether it could be replicated elsewhere. A May 2008 study using data from the 2000 National Health Interview Survey reported 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.[51] A 2009 study concluded however that young males who used smokeless tobacco products were more likely to be concurrent smokers.[52] Public health advocates in the U.S. emphasize that smokeless use results in both nicotine dependence and increased risks of oral cancer, among other health concerns. Snuff use is also often criticized as a gateway to cigarette use.

Other Considerations. At least six states - Alabama, Georgia, Idaho, Kentucky, South Carolina, and West Virginia - charge higher health insurance premiums to state employee smokers than non-smokers, and many states have implemented legislation that allows employers to provide incentives to employees who do not smoke. Several large corporations, including Meijer Inc., Gannett Co., American Financial Group Inc., JP Morgan Chase, PepsiCo Inc., Delta Airlines, Safeway, Tribune Co., and Whirlpool, are now charging smokers higher premiums.

In September 2014, CVS Caremark ceased selling cigarettes at its nationwide chain of more than 7,600 pharmacy stores.

[50] Foulds, Ramstrom, Burke, and Fagerstrom. "Effect of Smokeless Tobacco (Snus) on Smoking and Public Health in Sweden". Tobacco Control. Vol. 12, 2003.
[51] Rodu and Phillips, "Switching to Smokeless Tobacco as a Smoking Cessation Method: Evidence form the 2000 National Health Interview Survey". Harm Reduction Journal. 23 May 2008.
[52] Tomar, Alpert, and Connolly, "Patterns of Dual Use of Cigarettes and Smokeless Tobacco among US Males: Findings from National Surveys". Tobacco Control. 11 December 2009.

An Empirical Model of Cigarette Consumption

An econometric model is a set of mathematical equations which statistically best describes the available historical data. It can be applied, with assumptions on the projected path of independent explanatory variables, to predict the future path of the dependent variable being studied, in this case adult per capita cigarette consumption. After extensive analysis of available data measuring all of the above-mentioned factors which influence smoking, we found the following variables to be effective in building an empirical model of adult per capita cigarette consumption for the United States:

1) the real price of cigarettes
2) the level of real disposable income per capita
3) the impact of restrictions on smoking in public places
4) the trend over time in individual behavior and preferences

We used the tools of standard multivariate regression analysis to determine the nature of the economic relationship between these variables and adult per capita cigarette consumption in the U.S. Then, using that relationship, along with IHS Global's standard population growth forecast, we projected actual cigarette consumption (in billions of cigarettes) out to 2057. It should also be noted that since our entire dataset incorporates the effect of the Surgeon General's health warning (1964), the impact of that variable is also accounted for in the forecast. Similarly, the effect of nicotine dependence is incorporated into our entire dataset and influences the trend decline.

Using U.S. data from 1965 through 2018 on the variables described above, we developed the following regression equation.

log (per capita consumption) = 54.1

- 0.024 * trend

- 0.223 * log (cigarette price)

- 0.104 * log (cigarette price last year)

+ 0.274 * log (per capita disposable income)

- 0.001 * percentage of U.S. with strong indoor smoking ban

- 0.002 * percentage of U.S. with strong indoor smoking ban last year.

This model has an R-square in excess of 0.99, meaning that it explains more than 99 percent of the variation in U.S. adult per capita cigarette consumption over the 1965 to 2018 period. In terms of explanatory power this indicates a very strong model with a high level of statistical significance.

According to the regression equation specified above, cigarette consumption per capita (CPC) displays a trend decline of 2.4% per year. The trend reflects the impact of a systematic change in the underlying data that is **not** explained by the included explanatory variables. In the case of cigarette consumption, the systematic change is in public attitudes toward smoking. The trend may also reflect the cumulative impact of health warnings, advertising restrictions, and other variables which are statistically insignificant when viewed in isolation. Some of the impact of the availability of e-cigarettes may be captured here, though it is also captured in the indoor smoking ban terms. This trend, primarily due to an increase in the health-conscious proportion of the population averse to smoking, would by itself account for 90.3% of the variation in consumption. This coefficient is estimated such that a statistical confidence interval of 95% for its value is from 0.0195 to 0.0269 (1.95% to 2.69%). This implies that there is a probability of 5% that the trend rate of decline is outside this range.

Forecast Assumptions

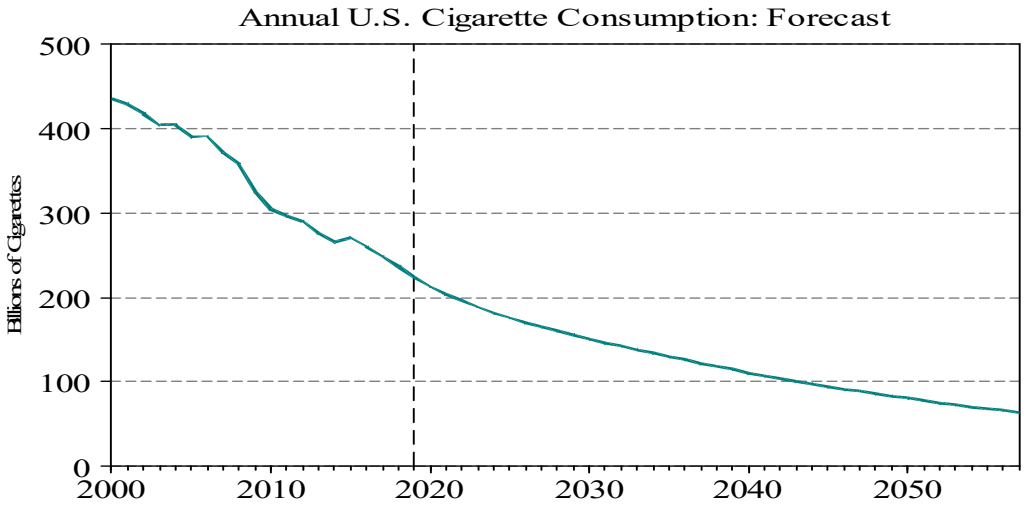
Our forecast is based on assumptions regarding the future path of the explanatory variables in the regression equation. Projections of U.S. population and real per capita personal disposable income are standard IHS Global forecasts. Annual population growth, based on April 2018 Census Bureau projections, is projected to average 0.67%, and real per capita personal disposable income is projected to increase over the long term at just over 2.1% per year.

The projection of the real price of cigarettes is based upon its past behavior with an adjustment for the shock to prices due to the MSA and other state settlement agreements and subsequent excise tax increases. Cigarette prices increased dramatically in November 1998, as manufacturers raised prices by $0.45 per pack. Subsequent increases by the manufacturers and numerous federal and state hikes in excise taxes brought prices to an average of $3.84 per pack in 2004, to $4.04 in 2005, to $4.18 in 2006, $4.47 in 2007, $4.75 in 2008, and to $5.99 in 2009, $6.62 in 2010, $6.85 in 2011, $7.00 in 2012, $7.19 in 2013, $7.40 in 2014, $7.60 in 2015, $7.89 in 2016, $8.41 in 2017, and $8.76 in 2018, and $9.17 in 2019. Our forecast assumptions have incorporated price increases in excess of general inflation to offset excise and other taxes. Relative to other goods, cigarette prices will rise by an average of 1.9% per year over the long term. The average real increase over the 30 years ending 1998 was 1.48% per year.

In addition, we assume that the prevalence of indoor and outdoor restrictions on smoking will continue to increase. It is assumed that by 2020, 100% of states and municipalities will completely restrict smoking in workplaces, restaurants and bars. At the same time, outdoor and residential restrictions will proliferate over this and the following decades. These bans are assumed to be as effective in reducing smoking as the indoor bans.

Forecast of Cigarette Consumption

The graph below illustrates total actual and projected cigarette consumption in the U.S.



In addition to the expected trend decline in cigarette consumption, the sharp upward shock to cigarette prices in late 1998 and 1999 contributed to a 6.5% reduction in consumption in 1999. The rate of decline moderated considerably in the following years, averaging 2.1% from 1999 to 2007, before accelerating sharply in 2008.

The economic downturn in the U.S. in 2008 turned into the deepest since the 1930s, with sharply negative effects on household disposable income. At the same time, a rapid increase in gasoline and energy prices significantly reduced the discretionary spending of consumers. In addition, cigarette price increases continued, the federal excise tax was raised dramatically, and indoor smoking bans continued to proliferate. Consumption fell by nearly 4% in 2008 and by over 9% in 2009. Cigarette shipment declines moderated after 2010, and in 2012 the rate of decline was slightly less than 2%. (Roll-your-own tobacco had represented as much as 3% of tobacco volume under the MSA but has declined in volume by over 70% since 2008, after federal excise taxes were substantially increased.)

In 2013, shipments reported by MSAI were 4.6% lower than in 2012. For the full year, U.S. Tobacco and Tax Bureau (TTB) reported shipments 4.8% lower than in 2012. Weak per capita disposable income growth was responsible for part of the decline. In addition, the manufacturers reported that wholesale inventories declined by 1.4 billion cigarettes during the year. In 2014, MSAI estimated shipments of 264.6 billion cigarettes, a 3.2% decline from 2013. The decline in consumption of cigarettes was somewhat greater, however, as inventories were rebuilt by 0.7 billion cigarettes to offset the 2013 decline. TTB has reported that 2014 shipments declined 4.1% compared with 2013. In its report for the 2015 MSA payments, NAAG estimated 264.2 billion cigarettes in 2014 (265.8 billion when including RYO).

For 2015, RAI reported that MSAI estimated industry shipments of 264.3 billion, a 0.1% decline from 2014. TTB reported shipments for the year to be 267.0 billion, an increase of 1.67% from 2014. The dramatic decline in oil prices, and hence gasoline prices, was coincident with higher than expected cigarette sales, most notably in convenience stores, that reported increased sales during 2015.

RAI in its 2016 fourth quarter report indicated that industry shipments declined 1.8% from 2015. After adjusting for inventory movement, TTB data for the year indicated a 3.5% decline, and NAAG certified that in 2017.

In February 2018, Altria reported estimates that industry shipments in 2017 declined by 4% for the full year, noting one fewer shipping day during the year. And the Vector Group reported MSAI estimates of a 4.1% decline for 2017. On March 6, 2018, TTB reported full year 2017 shipments of 247.2 billion cigarettes, a 3.99% decline from 2016 (excluding RYO). The official 2017 results as reported by NAAG on April 15, 2018, were that 2017 shipments, including RYO equivalents, were 248.5 billion, a 4.47% decline from 2016.

For 2018, NAAG reported an industry decline of 4.7%. The heightened rate of decline was driven by the rapid sales expansion of JUUL. It is also the case that gasoline prices, to which we have found cigarette sales quite sensitive, increased by 13% on average in 2018.

Altria announced in April 2019 that it expected consumption declines of 4.5% to 5% over the next five years. It also projected that its newly acquired JUUL e-cigarette brand will contribute an additional 0.4% per year to the decline rate of combustible cigarette consumption in the U.S. IHS Global has incorporated this into the forecast and has adjusted its model by that amount.

Altria, in its 2019 earnings report on January 30, 2020, reported that industry shipments in 2019 declined by 5.5% net of inventory changes. TTB data for the year through October show that shipments declined by 4.1% versus the same period in 2018.

Beginning in 2020 the minimum legal age to purchase cigarettes in the U.S. will be 21. This restriction will further reduce cigarette consumption. Based on research and simulations by the Institute of Medicine of the National Academies[53] we have incorporated its impact, of approximately 0.17% per year, on additional cigarette consumption declines. Over the longer term, our model also includes estimates of the negative impact of indoor smoking bans, which we anticipate will ultimately be enacted in all states. For instance, in 2011 legislation to establish indoor bans in Texas and Louisiana made significant advances before being defeated. We also assume that stringent restrictions on smoking will continue to be enacted, including their gradual extension to outdoor public places, as well as to private indoor residential spaces such as in multi-family housing.

From 2019 through 2057, the average annual rate of decline is projected to be 3.3%.

[53] Op cit.

Forecast U.S. Consumption of Cigarettes

	Total Consumption	Decline Rate	Consumption including Roll-Your-Own	Decline Rate
	(billions)	*(%)*	*(billions)*	*(%)*
2014	264.2	-3.8%	266.1	-3.7%
2015	269.1	1.9%	271.1	1.9%
2016	258.6	-3.9%	260.1	-4.1%
2017	247.3	-4.4%	248.5	-4.5%
2018	235.8	-4.6%	236.7	-4.7%
		FORECAST		
2019	222.9	-5.5%	223.7	-5.5%
2020	212.1	-4.8%	212.9	-4.8%
2021	203.2	-4.2%	203.9	-4.2%
2022	195.6	-3.7%	196.4	-3.7%
2023	188.2	-3.8%	188.9	-3.8%
2024	181.3	-3.7%	182.0	-3.7%
2025	175.1	-3.4%	175.8	-3.4%
2026	169.5	-3.2%	170.1	-3.2%
2027	164.3	-3.1%	164.9	-3.1%
2028	159.5	-2.9%	160.1	-2.9%
2029	154.9	-2.9%	155.5	-2.9%
2030	150.4	-2.9%	150.9	-2.9%
2031	146.0	-2.9%	146.5	-2.9%
2032	141.7	-2.9%	142.2	-2.9%
2033	137.5	-2.9%	138.1	-2.9%
2034	133.4	-3.0%	133.9	-3.0%
2035	129.4	-3.0%	129.9	-3.0%
2036	125.5	-3.0%	126.0	-3.0%
2037	121.7	-3.0%	122.1	-3.0%
2038	117.9	-3.1%	118.4	-3.1%
2039	114.3	-3.1%	114.7	-3.1%
2040	110.7	-3.1%	111.1	-3.1%
2041	107.2	-3.2%	107.6	-3.2%
2042	103.9	-3.1%	104.3	-3.1%
2043	100.7	-3.1%	101.0	-3.1%
2044	97.5	-3.2%	97.9	-3.2%
2045	94.4	-3.2%	94.7	-3.2%
2046	91.4	-3.2%	91.7	-3.2%
2047	88.4	-3.2%	88.8	-3.2%
2048	85.6	-3.2%	85.9	-3.2%
2049	82.8	-3.2%	83.2	-3.2%
2050	80.2	-3.2%	80.5	-3.2%
2051	77.6	-3.2%	77.9	-3.2%
2052	75.1	-3.2%	75.4	-3.2%
2053	72.7	-3.2%	72.9	-3.2%
2054	70.3	-3.2%	70.6	-3.2%
2055	68.0	-3.2%	68.3	-3.2%
2056	65.8	-3.2%	66.1	-3.2%
2057	63.7	-3.2%	63.9	-3.2%

Comparison with Prior Forecast

On October 24, 2007, IHS Global presented a similar study for the Buckeye Tobacco Settlement Financing Authority in which our Base Case Forecast projected that total consumption in 2052 would be 163 billion cigarettes, a 59% decline from the 2003 level. From 2004 through 2052 the average annual rate of decline was projected to be 1.81%. The current forecast projects an average decline rate, from 2003, of 3.4% through 2052, to an annual consumption level of 75.4 billion sticks. The new forecast was developed with consideration of the large federal tax increase in 2009, the negative effects of the proliferation on smoking ban legislation across the U.S., as well the introduction and expansion of e-cigarette use this decade.

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APPENDIX B

MASTER SETTLEMENT AGREEMENT

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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 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.

CONSENT DECREE AND FINAL JUDGMENT

- x

WHEREAS, Plaintiff, the State of [name of Settling State], commenced this action on [date], [by and through its Attorney General [name]], pursuant to [her/his/its] common law powers and the provisions of [state and/or federal law];

WHEREAS, the State of [name of Settling State] asserted various claims for monetary, equitable and injunctive relief on behalf of the State of [name of Settling State] against certain tobacco product manufacturers and other defendants;

WHEREAS, Defendants have contested the claims in the State's complaint [and amended complaints, if any] and denied the State's allegations [and asserted affirmative defenses];

WHEREAS, the parties desire to resolve this action in a manner which appropriately addresses the State's public health concerns, while conserving the parties' resources, as well as those of the Court, which would otherwise be expended in litigating a matter of this magnitude; and

WHEREAS, the Court has made no determination of any violation of law, this Consent Decree and Final Judgment being entered prior to the taking of any testimony and without trial or final adjudication of any issue of fact or law;

NOW, THEREFORE, IT IS HEREBY ORDERED, ADJUDGED AND DECREED, AS FOLLOWS:

I. JURISDICTION AND VENUE

This Court has jurisdiction over the subject matter of this action and over each of the Participating Manufacturers. Venue is proper in this [county/district].

II. DEFINITIONS

The definitions set forth in the Agreement (a copy of which is attached hereto) are incorporated herein by reference.

III. APPLICABILITY

A. This Consent Decree and Final Judgment applies only to the Participating Manufacturers in their corporate capacity acting through their respective successors and assigns, directors, officers, employees, agents, subsidiaries, divisions, or other internal organizational units of any kind or any other entities acting in concert or participation with them. The remedies, penalties and sanctions that may be imposed or assessed in connection with a violation of this Consent Decree and Final Judgment (or any order issued in connection herewith) shall only apply to the Participating Manufacturers, and shall not be imposed or assessed against any employee, officer or director of any Participating Manufacturer, or against any other person or entity as a consequence of such violation, and there shall be no jurisdiction under this Consent Decree and Final Judgment to do so.

B. This Consent Decree and Final Judgment is not intended to and does not vest standing in any third party with respect to the terms hereof. No portion of this Consent Decree and Final Judgment shall provide any rights to, or be enforceable by, any person or entity other than the State of [name of Settling State] or a Released Party. The State of [name of Settling State] may not assign or otherwise convey any right to enforce any provision of this Consent Decree and Final Judgment.

IV. VOLUNTARY ACT OF THE PARTIES

The parties hereto expressly acknowledge and agree that this Consent Decree and Final Judgment is voluntarily entered into as the result of arm's-length negotiation, and all parties hereto were represented by counsel in deciding to enter into this Consent Decree and Final Judgment.

V. INJUNCTIVE AND OTHER EQUITABLE RELIEF

Each Participating Manufacturer is permanently enjoined from:

A. Taking any action, directly or indirectly, to target Youth within the State of [name of Settling State] in the advertising, promotion or marketing of Tobacco Products, or taking any action the primary purpose of which is to initiate, maintain or increase the incidence of Youth smoking within the State of [name of Settling State].

B. After 180 days after the MSA Execution Date, using or causing to be used within the State of [name of Settling State] any Cartoon in the advertising, promoting, packaging or labeling of Tobacco Products.

C. After 30 days after the MSA Execution Date, making or causing to be made any payment or other consideration to any other person or entity to use, display, make reference to or use as a prop within the State of [name of Settling State] any Tobacco Product, Tobacco Product package, advertisement for a Tobacco Product, or any other item bearing a Brand Name in any Media; provided, however, that the foregoing prohibition shall not apply to (1) Media where the audience or viewers are within an Adult-Only Facility (provided such Media are not visible to persons outside such Adult-Only Facility); (2) Media not intended for distribution or display to the public; (3) instructional Media concerning non-conventional cigarettes viewed only by or provided only to smokers who are Adults; and (4) actions taken by any Participating Manufacturer in connection with a Brand Name Sponsorship permitted pursuant to subsections III(c)(2)(A) and III(c)(2)(B)(i) of the Agreement, and use of a Brand Name to identify a Brand Name Sponsorship permitted by subsection III(c)(2)(B)(ii).

D. Beginning July 1, 1999, marketing, distributing, offering, selling, licensing or causing to be marketed, distributed, offered, sold, or licensed (including, without limitation, by catalogue or direct mail), within the State of [name of Settling State], any apparel or other merchandise (other than Tobacco Products, items the sole function of which is to advertise Tobacco Products, or written or electronic publications) which bears a Brand Name. Provided, however, that nothing in this section shall (1) require any Participating Manufacturer to breach or terminate any licensing agreement or other contract in existence as of June 20, 1997 (this exception shall not apply beyond the current term of any existing contract, without regard to any renewal or option term that may be exercised by such Participating Manufacturer); (2) prohibit the distribution to any Participating Manufacturer's employee who is not Underage of any item described above that is intended for the personal use of such an employee; (3) require any Participating Manufacturer to retrieve, collect or otherwise recover any item that prior to the MSA Execution Date was marketed, distributed, offered, sold, licensed or caused to be marketed, distributed, offered, sold or licensed by such Participating Manufacturer; (4) apply to coupons or other items used by Adults solely in connection with the purchase of Tobacco Products; (5) apply to apparel or other merchandise used within an Adult-Only Facility that is not distributed (by sale or otherwise) to any member of the general public; or (6) apply to apparel or other merchandise (a) marketed, distributed, offered, sold, or licensed at the site of a Brand Name Sponsorship permitted pursuant to subsection III(c)(2)(A) or III(c)(2)(B)(i) of the Agreement by the person to which the relevant Participating Manufacturer has provided payment in exchange for the use of the relevant Brand Name in the Brand Name Sponsorship or a third-party that does not receive payment from the relevant Participating Manufacturer (or any Affiliate of such Participating Manufacturer) in connection with the marketing, distribution, offer, sale or license of such apparel or other merchandise, or (b) used at the site of a Brand Name Sponsorship permitted pursuant to subsections III(c)(2)(A) or III(c)(2)(B)(i) of the Agreement (during such event) that are not distributed (by sale or otherwise) to any member of the general public.

E. After the MSA Execution Date, distributing or causing to be distributed within the State of [name of Settling State] any free samples of Tobacco Products except in an Adult-Only Facility. For purposes of this Consent Decree and Final Judgment, a "free sample" does not include a Tobacco Product that is provided to an Adult in connection with (1) the purchase, exchange or redemption for proof of purchase of any Tobacco Products (including, but not limited to, a free offer in connection with the purchase of Tobacco Products, such as a "two-for-one" offer), or (2) the conducting of consumer testing or evaluation of Tobacco Products with persons who certify that they are Adults.

F. Using or causing to be used as a brand name of any Tobacco Product pursuant to any agreement requiring the payment of money or other valuable consideration, any nationally recognized or nationally established brand name or trade name of any non-tobacco item or service or any nationally recognized or nationally established sports team, entertainment group or individual celebrity. Provided, however, that the preceding sentence shall not apply to any Tobacco Product brand name in existence as of July 1, 1998. For the purposes of this provision, the term "other valuable consideration" shall not include an agreement between two entities who enter into such agreement for the sole purpose of avoiding infringement claims.

G. After 60 days after the MSA Execution Date and through and including December 31, 2001, manufacturing or causing to be manufactured for sale within the State of [name of Settling State] any pack or other container of Cigarettes containing fewer than 20 Cigarettes (or, in the case of roll-your-own tobacco, any package of roll-your-own tobacco containing less than 0.60 ounces of tobacco); and, after 150 days after the MSA Execution Date and through and including December 31, 2001, selling or distributing within the State of [name of Settling State] any pack or other container of Cigarettes containing fewer than 20 Cigarettes (or, in the case of roll-your-own tobacco, any package of roll-your-own tobacco containing less than 0.60 ounces of tobacco).

H. Entering into any contract, combination or conspiracy with any other Tobacco Product Manufacturer that has the purpose or effect of: (1) limiting competition in the production or distribution of information about health hazards or other consequences of the use of their products; (2) limiting or suppressing research into smoking and health; or (3) limiting or suppressing research into the marketing or development of new products. Provided, however, that nothing in the preceding

sentence shall be deemed to (1) require any Participating Manufacturer to produce, distribute or otherwise disclose any information that is subject to any privilege or protection; (2) preclude any Participating Manufacturer from entering into any joint defense or joint legal interest agreement or arrangement (whether or not in writing), or from asserting any privilege pursuant thereto; or (3) impose any affirmative obligation on any Participating Manufacturer to conduct any research.

I. Making any material misrepresentation of fact regarding the health consequences of using any Tobacco Product, including any tobacco additives, filters, paper or other ingredients. Provided, however, that nothing in the preceding sentence shall limit the exercise of any First Amendment right or the assertion of any defense or position in any judicial, legislative or regulatory forum.

VI. MISCELLANEOUS PROVISIONS

A. Jurisdiction of this case is retained by the Court for the purposes of implementing and enforcing the Agreement and this Consent Decree and Final Judgment and enabling the continuing proceedings contemplated herein. Whenever possible, the State of [name of Settling State] and the Participating Manufacturers shall seek to resolve any issue that may exist as to compliance with this Consent Decree and Final Judgment by discussion among the appropriate designees named pursuant to subsection XVIII(m) of the Agreement. The State of [name of Settling State] and/or any Participating Manufacturer may apply to the Court at any time for further orders and directions as may be necessary or appropriate for the implementation and enforcement of this Consent Decree and Final Judgment. Provided, however, that with regard to subsections V(A) and V(I) of this Consent Decree and Final Judgment, the Attorney General shall issue a cease and desist demand to the Participating Manufacturer that the Attorney General believes is in violation of either of such sections at least ten Business Days before the Attorney General applies to the Court for an order to enforce such subsections, unless the Attorney General reasonably determines that either a compelling time-sensitive public health and safety concern requires more immediate action or the Court has previously issued an Enforcement Order to the Participating Manufacturer in question for the same or a substantially similar action or activity. For any claimed violation of this Consent Decree and Final Judgment, in determining whether to seek an order for monetary, civil contempt or criminal sanctions for any claimed violation, the Attorney General shall give good-faith consideration to whether: (1) the Participating Manufacturer that is claimed to have committed the violation has taken appropriate and reasonable steps to cause the claimed violation to be cured, unless that party has been guilty of a pattern of violations of like nature; and (2) a legitimate, good-faith dispute exists as to the meaning of the terms in question of this Consent Decree and Final Judgment. The Court in any case in its discretion may determine not to enter an order for monetary, civil contempt or criminal sanctions.

B. This Consent Decree and Final Judgment is not intended to be, and shall not in any event be construed as, or deemed to be, an admission or concession or evidence of (1) any liability or any wrongdoing whatsoever on the part of any Released Party or that any Released Party has engaged in any of the activities barred by this Consent Decree and Final Judgment; or (2) personal jurisdiction over any person or entity other than the Participating Manufacturers. Each Participating Manufacturer specifically disclaims and denies any liability or wrongdoing whatsoever with respect to the claims and allegations asserted against it in this action, and has stipulated to the entry of this Consent Decree and Final Judgment solely to avoid the further expense, inconvenience, burden and risk of litigation.

C. Except as expressly provided otherwise in the Agreement, this Consent Decree and Final Judgment shall not be modified (by this Court, by any other court or by any other means) unless the party seeking modification demonstrates, by clear and convincing evidence, that it will suffer irreparable harm from new and unforeseen conditions. Provided, however, that the provisions of sections III, V, VI and VII of this Consent Decree and Final Judgment shall in no event be subject to modification without the consent of the State of [name of Settling State] and all affected Participating Manufacturers. In the event that any of the sections of this Consent Decree and Final Judgment enumerated in the preceding sentence are modified by this Court, by any other court or by any other means without the consent of the State of [name of Settling State] and all affected Participating Manufacturers, then this Consent Decree and Final Judgment shall be void and of no further effect. Changes in the economic conditions of the parties shall not be grounds for modification. It is intended that the Participating Manufacturers will comply with this Consent Decree and Final Judgment as originally entered, even if the Participating Manufacturers' obligations hereunder are greater than those imposed under current or future law (unless compliance with this Consent Decree and Final Judgment would violate such law). A change in law that results, directly or indirectly, in more favorable or beneficial treatment of any one or more of the Participating Manufacturers shall not support modification of this Consent Decree and Final Judgment.

D. In any proceeding which results in a finding that a Participating Manufacturer violated this Consent Decree and Final Judgment, the Participating Manufacturer or Participating Manufacturers found to be in violation shall pay the State's costs and attorneys' fees incurred by the State of [name of Settling State] in such proceeding.

E. The remedies in this Consent Decree and Final Judgment are cumulative and in addition to any other remedies the State of [name of Settling State] may have at law or equity, including but not limited to its rights under the Agreement. Nothing herein shall be construed to prevent the State from bringing an action with respect to conduct not released pursuant to the Agreement, even though that conduct may also violate this Consent Decree and Final Judgment. Nothing in this Consent Decree and Final Judgment is intended to create any right for [name of Settling State] to obtain any Cigarette product formula that it would not otherwise have under applicable law.

F. No party shall be considered the drafter of this Consent Decree and Final Judgment for the purpose of any statute, case law or rule of interpretation or construction that would or might cause any provision to be construed against the drafter. Nothing in this Consent Decree and Final Judgment shall be construed as approval by the State of [name of Settling State] of the Participating Manufacturers' business organizations, operations, acts or practices, and the Participating Manufacturers shall make no representation to the contrary.

G. The settlement negotiations resulting in this Consent Decree and Final Judgment have been undertaken in good faith and for settlement purposes only, and no evidence of negotiations or discussions underlying this Consent Decree and Final Judgment shall be offered or received in evidence in any action or proceeding for any purpose. Neither this Consent Decree and Final Judgment nor any public discussions, public statements or public comments with respect to this Consent Decree and Final Judgment by the State of [name of Settling State] or any Participating Manufacturer or its agents shall be offered or received in evidence in any action or proceeding for any purpose other than in an action or proceeding arising under or relating to this Consent Decree and Final Judgment.

H. All obligations of the Participating Manufacturers pursuant to this Consent Decree and Final Judgment (including, but not limited to, all payment obligations) are, and shall remain, several and not joint.

I. The provisions of this Consent Decree and Final Judgment are applicable only to actions taken (or omitted to be taken) within the States. Provided, however, that the preceding sentence shall not be construed as extending the territorial scope of any provision of this Consent Decree and Final Judgment whose scope is otherwise limited by the terms thereof.

J. Nothing in subsection V(A) or V(I) of this Consent Decree shall create a right to challenge the continuation, after the MSA Execution Date, of any advertising content, claim or slogan (other than use of a Cartoon) that was not unlawful prior to the MSA Execution Date.

K. If the Agreement terminates in this State for any reason, then this Consent Decree and Final Judgment shall be void and of no further effect.

VII. FINAL DISPOSITION

A. The Agreement, the settlement set forth therein, and the establishment of the escrow provided for therein are hereby approved in all respects, and all claims are hereby dismissed with prejudice as provided therein.

B. The Court finds that the person[s] signing the Agreement have full and complete authority to enter into the binding and fully effective settlement of this action as set forth in the Agreement. The Court further finds that entering into this settlement is in the best interests of the State of [name of Settling State].

LET JUDGMENT BE ENTERED ACCORDINGLY

DATED this ____ day of _____, 1998.

EXHIBIT M
LIST OF PARTICIPATING MANUFACTURERS' LAWSUITS AGAINST THE SETTLING STATES

1. Philip Morris, Inc., et al. v. Margery Bronster, Attorney General of the State of Hawaii, In Her Official Capacity, Civ. No. 96-00722HG, United States District Court for the District of Hawaii

2. Philip Morris, Inc., et al. v. Bruce Botelho, Attorney General of the State of Alaska, In His Official Capacity, Civ. No. A97-0003CV, United States District Court for the District of Alaska

3. Philip Morris, Inc., et al. v. Scott Harshbarger, Attorney General of the Commonwealth of Massachusetts, In His Official Capacity, Civ. No. 95-12574-GAO, United States District Court for the District of Massachusetts

4. Philip Morris, Inc., et al. v. Richard Blumenthal, Attorney General of the State of Connecticut, In His Official Capacity, Civ. No. 396CV01221 (PCD), United States District Court for the District of Connecticut

5. Philip Morris, et al. v. William H. Sorrell, et al., No. 1:98-ev-132, United States District Court for the District of Vermont

EXHIBIT N
LITIGATING POLITICAL SUBDIVISIONS

1. City of New York, et al. v. The Tobacco Institute, Inc. et al., Supreme Court of the State of New York, County of New York, Index No. 406225/96
2. County of Erie v. The Tobacco Institute, Inc. et al., Supreme Court of the State of New York, County of Erie, Index No. I 1997/359
3. County of Los Angeles v. R.J. Reynolds Tobacco Co. et al., San Diego Superior Court, No. 707651
4. The People v. Philip Morris, Inc. et al., San Francisco Superior Court, No. 980864
5. County of Cook v. Philip Morris, Inc. et al., Circuit Court of Cook County, Ill., No. 97-L-4550

EXHIBIT O
MODEL STATE FEE PAYMENT AGREEMENT

This STATE Fee Payment Agreement (the "STATE Fee Payment Agreement") is entered into as of _____, _____ between and among the Original Participating Manufacturers and STATE Outside Counsel (as defined herein), to provide for payment of attorneys' fees pursuant to Section XVII of the Master Settlement Agreement (the "Agreement").

WITNESSETH:

WHEREAS, the State of STATE and the Original Participating Manufacturers have entered into the Agreement to settle and resolve with finality all Released Claims against the Released Parties, including the Original Participating Manufacturers, as set forth in the Agreement; and

WHEREAS, Section XVII of the Agreement provides that the Original Participating Manufacturers shall pay reasonable attorneys' fees to those private outside counsel identified in Exhibit S to the Agreement, pursuant to the terms hereof;

NOW, THEREFORE, BE IT KNOWN THAT, in consideration of the mutual agreement of the State of STATE and the Original Participating Manufacturers to the terms of the Agreement and of the mutual agreement of STATE Outside Counsel and the Original Participating Manufacturers to the terms of this STATE Fee Payment Agreement, and such other consideration described herein, the Original Participating Manufacturers and STATE Outside Counsel agree as follows:

SECTION 1. *Definitions.*

All definitions contained in the Agreement are incorporated by reference herein, except as to terms specifically defined herein.

(a) "*Action*" means the lawsuit identified in Exhibit D, M or N to the Agreement that has been brought by or against the State of STATE [or Litigating Political Subdivision].

(b) "*Allocated Amount*" means the amount of any Applicable Quarterly Payment allocated to any Private Counsel (including STATE Outside Counsel) pursuant to section 17 hereof.

(c) "*Allocable Liquidated Share*" means, in the event that the sum of all Payable Liquidated Fees of Private Counsel as of any date specified in section 8 hereof exceeds the Applicable Liquidation Amount for any payment described therein, a percentage share of the Applicable Liquidation Amount equal to the proportion of (i) the amount of the Payable Liquidated Fee of STATE Outside Counsel to (ii) the sum of Payable Liquidated Fees of all Private Counsel.

(d) "*Applicable Liquidation Amount*" means, for purposes of the payments described in section 8 hereof —

(i) for the payment described in subsection (a) thereof, $125 million;

(ii) for the payment described in subsection (b) thereof, the difference between (A) $250 million and (B) the sum of all amounts paid in satisfaction of all Payable Liquidated Fees of Outside Counsel pursuant to subsection (a) thereof;

(iii) for the payment described in subsection (c) thereof, the difference between (A) $250 million and (B) the sum of all amounts paid in satisfaction of all Payable Liquidated Fees of Outside Counsel pursuant to subsections (a) and (b) thereof;

(iv) for the payment described in subsection (d) thereof, the difference between (A) $250 million and (B) the sum of all amounts paid in satisfaction of all Payable Liquidated Fees of Outside Counsel pursuant to subsections (a), (b) and (c) thereof;

(v) for the payment described in subsection (e) thereof, the difference between (A) $250 million and (B) the sum of all amounts paid in satisfaction of all Payable Liquidated Fees of Outside Counsel pursuant to subsections (a), (b), (c) and (d) thereof;

(vi) for each of the first, second and third quarterly payments for any calendar year described in subsection (f) thereof, $62.5 million; and

(vii) for each of the fourth calendar quarterly payments for any calendar year described in subsection (f) thereof, the difference between (A) $250 million and (B) the sum of all amounts paid in satisfaction of all Payable Liquidated Fees of Outside Counsel with respect to the preceding calendar quarters of the calendar year.

(e) "*Application*" means a written application for a Fee Award submitted to the Panel, as well as all supporting materials (which may include video recordings of interviews).

(f) "*Approved Cost Statement*" means both (i) a Cost Statement that has been accepted by the Original Participating Manufacturers; and (ii) in the event that a Cost Statement submitted by STATE Outside Counsel is disputed, the determination by arbitration pursuant to subsection (b) of section 19 hereof as to the amount of the reasonable costs and expenses of STATE Outside Counsel.

(g) "*Cost Statement*" means a signed and attested statement of reasonable costs and expenses of Outside Counsel for any action identified on Exhibit D, M or N to the Agreement that has been brought by or against a Settling State or Litigating Political Subdivision.

(h) "*Designated Representative*" means the person designated in writing, by each person or entity identified in Exhibit S to the Agreement [by the Attorney General of the State of STATE or as later certified in writing by the governmental prosecuting authority of the Litigating Political Subdivision], to act as their agent in receiving payments from the Original Participating Manufacturers for the benefit of STATE Outside Counsel pursuant to sections 8, 16 and 19 hereof, as applicable.

(i) "*Director*" means the Director of the Private Adjudication Center of the Duke University School of Law or such other person or entity as may be chosen by agreement of the Original Participating Manufacturers and the Committee described in the second sentence of paragraph (b)(ii) of section 11 hereof.

(j) "*Eligible Counsel*" means Private Counsel eligible to be allocated a part of a Quarterly Fee Amount pursuant to section 17 hereof.

(k) "*Federal Legislation*" means federal legislation that imposes an enforceable obligation on Participating Defendants to pay attorneys' fees with respect to Private Counsel.

(l) "*Fee Award*" means any award of attorneys' fees by the Panel in connection with a Tobacco Case.

(m) "*Liquidated Fee*" means an attorneys' fee for Outside Counsel for any action identified on Exhibit D, M or N to the Agreement that has been brought by or against a Settling State or Litigating Political Subdivision, in an amount agreed upon by the Original Participating Manufacturers and such Outside Counsel.

(n) "*Outside Counsel*" means all those Private Counsel identified in Exhibit S to the Agreement.

(o) "*Panel*" means the three-member arbitration panel described in section 11 hereof.

(p) "*Party*" means (i) STATE Outside Counsel and (ii) an Original Participating Manufacturer.

(q) "*Payable Cost Statement*" means the unpaid amount of a Cost Statement as to which all conditions precedent to payment have been satisfied.

(r) "*Payable Liquidated Fee*" means the unpaid amount of a Liquidated Fee as to which all conditions precedent to payment have been satisfied.

(s) "*Previously Settled States*" means the States of Mississippi, Florida and Texas.

(t) "*Private Counsel*" means all private counsel for all plaintiffs in a Tobacco Case (including STATE Outside Counsel).

(u) "*Quarterly Fee Amount*" means, for purposes of the quarterly payments described in sections 16, 17 and 18 hereof —

(i) for each of the first, second and third calendar quarters of any calendar year beginning with the first calendar quarter of 1999 and ending with the third calendar quarter of 2008, $125 million;

(ii) for each fourth calendar quarter of any calendar year beginning with the fourth calendar quarter of 1999 and ending with the fourth calendar quarter of 2003, the sum of (A) $125 million and (B) the difference, if any, between (*1*) $375 million and (*2*) the sum of all amounts paid in satisfaction of all Fee Awards of Private Counsel during such calendar year, if any;

(iii) for each fourth calendar quarter of any calendar year beginning with the fourth calendar quarter of 2004 and ending with the fourth calendar quarter of 2008, the sum of (A) $125 million; (B) the difference between (*1*) $375 million; and (*2*) the sum of all amounts paid in satisfaction of all Fee Awards of Private Counsel during such calendar year, if any; and (C) the difference, if any, between (*1*) $250 million and (*2*) the product of (*a*) .2 (two tenths) and (*b*) the sum of all amounts paid in satisfaction of all Liquidated Fees of Outside Counsel pursuant to section 8 hereof, if any;

(iv) for each of the first, second and third calendar quarters of any calendar year beginning with the first calendar quarter of 2009, $125 million; and

(v) for each fourth calendar quarter of any calendar year beginning with the fourth calendar quarter of 2009, the sum of (A) $125 million and (B) the difference, if any, between (*1*) $375 million and (*2*) the sum of all amounts paid in satisfaction of all Fee Awards of Private Counsel during such calendar year, if any.

(v) *"Related Persons"* means each Original Participating Manufacturer's past, present and future Affiliates, divisions, officers, directors, employees, representatives, insurers, lenders, underwriters, Tobacco-Related Organizations, trade associations, suppliers, agents, auditors, advertising agencies, public relations entities, attorneys, retailers and distributors (and the predecessors, heirs, executors, administrators, successors and assigns of each of the foregoing).

(w) "*State of STATE*" means the [applicable Settling State or the Litigating Political Subdivision], any of its past, present and future agents, officials acting in their official capacities, legal representatives, agencies, departments, commissions and subdivisions.

(x) "*STATE Outside Counsel*" means all persons or entities identified in Exhibit S to the Agreement by the Attorney General of State of STATE [or as later certified by the office of the governmental prosecuting authority for the Litigating Political Subdivision] as having been retained by and having represented the STATE in connection with the Action, acting collectively by unanimous decision of all such persons or entities.

(y) "*Tobacco Case*" means any tobacco and health case (other than a non-class action personal injury case brought directly by or on behalf of a single natural person or the survivor of such person or for wrongful death, or any non-class action consolidation of two or more such cases).

(z) *"Unpaid Fee"* means the unpaid portion of a Fee Award.

SECTION 2. *Agreement to Pay Fees.*

The Original Participating Manufacturers will pay reasonable attorneys' fees to STATE Outside Counsel for their representation of the State of STATE in connection with the Action, as provided herein and subject to the *Code of Professional Responsibility* of the American Bar Association. Nothing herein shall be construed to require the Original Participating Manufacturers to pay any attorneys' fees other than (i) a Liquidated Fee or a Fee Award and (ii) a Cost Statement, as provided herein, nor shall anything herein require the Original Participating Manufacturers to pay any Liquidated Fee, Fee Award or Cost Statement in connection with any litigation other than the Action.

SECTION 3. *Exclusive Obligation of the Original Participating Manufacturers.*

The provisions set forth herein constitute the entire obligation of the Original Participating Manufacturers with respect to payment of attorneys' fees of STATE Outside Counsel (including costs and expenses) in connection with the Action and the exclusive means by which STATE Outside Counsel or any other person or entity may seek payment of fees by the Original Participating Manufacturers or Related Persons in connection with the Action. The Original Participating Manufacturers shall have no obligation pursuant to Section XVII of the Agreement to pay attorneys' fees in connection with the Action to any counsel other than STATE Outside Counsel, and they shall have no other obligation to pay attorneys' fees to or otherwise to compensate STATE Outside Counsel, any other counsel or representative of the State of STATE or the State of STATE itself with respect to attorneys' fees in connection with the Action.

SECTION 4. *Release.*

(a) Each person or entity identified in Exhibit S to the Agreement by the Attorney General of the State of STATE [or as certified by the office of the governmental prosecuting authority for the Litigating Political Subdivision] hereby irrevocably releases the Original Participating Manufacturers and all Related Persons from any and all claims that such person or entity ever had, now has or hereafter can, shall or may have in any way related to the Action (including but not limited to any negotiations related to the settlement of the Action). Such release shall not be construed as a release of any person or entity as to any of the obligations undertaken herein in connection with a breach thereof.

(b) In the event that STATE Outside Counsel and the Original Participating Manufacturers agree upon a Liquidated Fee pursuant to section 7 hereof, it shall be a precondition to any payment by the Original Participating Manufacturers to the Designated Representative pursuant to section 8 hereof that each person or entity identified in Exhibit S to the Agreement by the Attorney General of the State of STATE [or as certified by the office of the governmental prosecuting authority for the Litigating Political Subdivision] shall have irrevocably released all entities represented by STATE Outside Counsel in the Action, as well as all persons acting by or on behalf of such entities (including the Attorney General [or the office of the governmental prosecuting authority] and each other person or entity identified on Exhibit S to the Agreement by the Attorney General [or the office of the governmental prosecuting authority]) from any and all claims that such person or entity ever had, now has or hereafter can, shall or may have in any way related to the Action (including but not limited to any negotiations related to the settlement of the Action). Such release shall not be construed as a release of any person or entity as to any of the obligations undertaken herein in connection with a breach thereof.

SECTION 5. *No Effect on STATE Outside Counsel's Fee Contract.*

The rights and obligations, if any, of the respective parties to any contract between the State of STATE and STATE Outside Counsel shall be unaffected by this STATE Fee Payment Agreement except (a) insofar as STATE Outside Counsel grant the release described in subsection (b) of section 4 hereof; and (b) to the extent that STATE Outside Counsel receive any payments in satisfaction of a Fee Award pursuant to section 16 hereof, any amounts so received shall be credited, on a dollar-for-dollar basis, against any amount payable to STATE Outside Counsel by the State of STATE [or the Litigating Political Subdivision] under any such contract.

SECTION 6. *Liquidated Fees.*

(a) In the event that the Original Participating Manufacturers and STATE Outside Counsel agree upon the amount of a Liquidated Fee, the Original Participating Manufacturers shall pay such Liquidated Fee, pursuant to the terms hereof.

(b) The Original Participating Manufacturers' payment of any Liquidated Fee pursuant to this STATE Fee Payment Agreement shall be subject to (i) satisfaction of the conditions precedent stated in section 4 and paragraph (c)(ii) of section 7 hereof; and (ii) the payment schedule and the annual and quarterly aggregate national caps specified in sections 8 and 9 hereof, which shall apply to all payments made with respect to Liquidated Fees of all Outside Counsel.

SECTION 7. *Negotiation of Liquidated Fees.*

(a) If STATE Outside Counsel seek to be paid a Liquidated Fee, the Designated Representative shall so notify the Original Participating Manufacturers. The Original Participating Manufacturers may at any time make an offer of a Liquidated Fee to the Designated Representative in an amount set by the unanimous agreement, and at the sole discretion, of the Original Participating Manufacturers and, in any event, shall collectively make such an offer to the Designated Representative no more than 60 Business Days after receipt of notice by the Designated Representative that STATE Outside

Counsel seek to be paid a Liquidated Fee. The Original Participating Manufacturers shall not be obligated to make an offer of a Liquidated Fee in any particular amount. Within ten Business Days after receiving such an offer, STATE Outside Counsel shall either accept the offer, reject the offer or make a counteroffer.

(b) The national aggregate of all Liquidated Fees to be agreed to by the Original Participating Manufacturers in connection with the settlement of those actions indicated on Exhibits D, M and N to the Agreement shall not exceed one billion two hundred fifty million dollars ($1,250,000,000).

(c) If the Original Participating Manufacturers and STATE Outside Counsel agree in writing upon a Liquidated Fee:

(i) STATE Outside Counsel shall not be eligible for a Fee Award;

(ii) such Liquidated Fee shall not become a Payable Liquidated Fee until such time as (A) State-Specific Finality has occurred in the State of STATE; (B) each person or entity identified in Exhibit S to the Agreement by the Attorney General of the State of STATE [or as certified by the office of the governmental prosecuting authority of the Litigating Political Subdivision] has granted the release described in subsection (b) of section 4 hereof; and (C) notice of the events described in subparagraphs (A) and (B) of this paragraph has been provided to the Original Participating Manufacturers.

(iii) payment of such Liquidated Fee pursuant to sections 8 and 9 hereof (together with payment of costs and expenses pursuant to section 19 hereof), shall be STATE Outside Counsel's total and sole compensation by the Original Participating Manufacturers in connection with the Action.

(d) If the Original Participating Manufacturers and STATE Outside Counsel do not agree in writing upon a Liquidated Fee, STATE Outside Counsel may submit an Application to the Panel for a Fee Award to be paid as provided in sections 16, 17 and 18 hereof.

SECTION 8. *Payment of Liquidated Fee.*

In the event that the Original Participating Manufacturers and STATE Outside Counsel agree in writing upon a Liquidated Fee, and until such time as the Designated Representative has received payments in full satisfaction of such Liquidated Fee —

(a) On February 1, 1999, if the Liquidated Fee of STATE Outside Counsel became a Payable Liquidated Fee before January 15, 1999, each Original Participating Manufacturer shall severally pay to the Designated Representative its Relative Market Share of the lesser of (i) the Payable Liquidated Fee of STATE Outside Counsel, (ii) $5 million or (iii) in the event that the sum of all Payable Liquidated Fees of all Outside Counsel as of January 15, 1999 exceeds the Applicable Liquidation Amount, the Allocable Liquidated Share of STATE Outside Counsel.

(b) On August 1, 1999, if the Liquidated Fee of STATE Outside Counsel became a Payable Liquidated Fee on or after January 15, 1999 and before July 15, 1999, each Original Participating Manufacturer shall severally pay to the Designated Representative its Relative Market Share of the lesser of (i) the Payable Liquidated Fee of STATE Outside Counsel, (ii) $5 million or (iii) in the event that the sum of all Payable Liquidated Fees of all Outside Counsel that became Payable Liquidated Fees on or after January 15, 1999 and before July 15, 1999 exceeds the Applicable Liquidation Amount, the Allocable Liquidated Share of STATE Outside Counsel.

(c) On December 15, 1999, if the Liquidated Fee of STATE Outside Counsel became a Payable Liquidated Fee on or after July 15, 1999 and before December 1, 1999, each Original Participating Manufacturer shall severally pay to the Designated Representative its Relative Market Share of the lesser of (i) the Payable Liquidated Fee of STATE Outside Counsel, (ii) $5 million or (iii) in the event that the sum of all Payable Liquidated Fees of all Outside Counsel that became Payable Liquidated Fees on or after July 15, 1999 and before December 1, 1999 exceeds the Applicable Liquidation Amount, the Allocable Liquidated Share of STATE Outside Counsel.

(d) On December 15, 1999, if the Liquidated Fee of STATE Outside Counsel became a Payable Liquidated Fee before December 1, 1999, each Original Participating Manufacturer shall severally pay to the Designated Representative its Relative Market Share of the lesser of (i) the Payable Liquidated Fee of STATE Outside Counsel, or (ii) $5 million or (iii) in the event that the sum of all Payable Liquidated Fees of all Outside Counsel that become Payable Liquidated Fees before December 1, 1999 exceeds the Applicable Liquidation Amount, the Allocable Liquidated Share of STATE Outside Counsel.

(e) On December 15, 1999, if the Liquidated Fee of STATE Outside Counsel became a Payable Liquidated Fee before December 1, 1999, each Original Participating Manufacturer shall severally pay to the Designated Representative its Relative Market Share of the lesser of (i) the Payable Liquidated Fee of STATE Outside Counsel or (ii) in the event that the sum of all Payable Liquidated Fees of all Outside Counsel that became Payable Liquidated Fees before December 1, 1999 exceeds the Applicable Liquidation Amount, the Allocable Liquidated Share of STATE Outside Counsel.

(f) On the last day of each calendar quarter, beginning with the first calendar quarter of 2000 and ending with the fourth calendar quarter of 2003, if the Liquidated Fee of STATE Outside Counsel became a Payable Liquidated Fee at least 15 Business Days prior to the last day of each such calendar quarter, each Original Participating Manufacturer shall severally pay to the Designated Representative its Relative Market Share of the lesser of (i) the Payable Liquidated Fee of STATE Outside Counsel or (ii) in the event that the sum of all Payable Liquidated Fees of all Outside Counsel as of the date 15 Business Days prior to the date of the payment in question exceeds the Applicable Liquidation Amount, the Allocable Liquidated Share of STATE Outside Counsel.

SECTION 9. *Limitations on Payments of Liquidated Fees.*

Notwithstanding any other provision hereof, all payments by the Original Participating Manufacturers with respect to Liquidated Fees shall be subject to the following:

(a) Under no circumstances shall the Original Participating Manufacturers be required to make any payment that would result in aggregate national payments of Liquidated Fees:

(i) during 1999, totaling more than $250 million;

(ii) with respect to any calendar quarter beginning with the first calendar quarter of 2000 and ending with the fourth calendar quarter of 2003, totaling more than $62.5 million, except to the extent that a payment with respect to any prior calendar quarter of any calendar year did not total $62.5 million; or

(iii) with respect to any calendar quarter after the fourth calendar quarter of 2003, totaling more than zero.

(b) The Original Participating Manufacturers' obligations with respect to the Liquidated Fee of STATE Outside Counsel, if any, shall be exclusively as provided in this STATE Fee Payment Agreement, and notwithstanding any other provision of law, such Liquidated Fee shall not be entered as or reduced to a judgment against the Original Participating Manufacturers or considered as a basis for requiring a bond or imposing a lien or any other encumbrance.

SECTION 10. *Fee Awards.*

(a) In the event that the Original Participating Manufacturers and STATE Outside Counsel do not agree in writing upon a Liquidated Fee as described in section 7 hereof, the Original Participating Manufacturers shall pay, pursuant to the terms hereof, the Fee Award awarded by the Panel to STATE Outside Counsel.

(b) The Original Participating Manufacturers' payment of any Fee Award pursuant to this STATE Fee Payment Agreement shall be subject to the payment schedule and the annual and quarterly aggregate national caps specified in sections 17 and 18 hereof, which shall apply to:

(i) all payments of Fee Awards in connection with an agreement to pay fees as part of the settlement of any Tobacco Case on terms that provide for payment by the Original Participating Manufacturers or other defendants acting in agreement with the Original Participating Manufacturers (collectively, "Participating Defendants") of fees with respect to any Private Counsel, subject to an annual cap on payment of all such fees; and

(ii) all payments of attorneys' fees (other than fees for attorneys of Participating Defendants) pursuant to Fee Awards for activities in connection with any Tobacco Case resolved by operation of Federal Legislation.

SECTION 11. *Composition of the Panel.*

(a) The first and the second members of the Panel shall both be permanent members of the Panel and, as such, will participate in the determination of all Fee Awards. The third Panel member shall not be a permanent Panel member, but instead shall be a state-specific member selected to determine Fee Awards on behalf of Private Counsel retained in connection with litigation within a single state. Accordingly, the third, state-specific member of the Panel for purposes of determining Fee Awards with respect to litigation in the State of STATE shall not participate in any determination as to any Fee Award with respect to litigation in any other state (unless selected to participate in such determinations by such persons as may be authorized to make such selections under other agreements).

(b) The members of the Panel shall be selected as follows:

(i) The first member shall be the natural person selected by Participating Defendants.

(ii) The second member shall be the person jointly selected by the agreement of Participating Defendants and a majority of the committee described in the fee payment agreements entered in connection with the settlements of the Tobacco Cases brought by the Previously Settled States. In the event that the person so selected is unable or unwilling to continue to serve, a replacement for such member shall be selected by agreement of the Original Participating Manufacturers and a majority of the members of a committee composed of the following members: Joseph F. Rice, Richard F. Scruggs, Steven W. Berman, Walter Umphrey, one additional representative, to be selected in the sole discretion of NAAG, and two representatives of Private Counsel in Tobacco Cases, to be selected at the sole discretion of the Original Participating Manufacturers.

(iii) The third, state-specific member for purposes of determining Fee Awards with respect to litigation in the State of STATE shall be a natural person selected by STATE Outside Counsel, who shall notify the Director and the Original Participating Manufacturers of the name of the person selected.

SECTION 12. *Application of STATE Outside Counsel.*

(a) STATE Outside Counsel shall make a collective Application for a single Fee Award, which shall be submitted to the Director. Within five Business Days after receipt of the Application by STATE Outside Counsel, the Director shall serve the Application upon the Original Participating Manufacturers and the STATE. The Original Participating Manufacturers shall submit all materials in response to the Application to the Director by the later of (i) 60 Business Days after service of the Application upon the Original Participating Manufacturers by the Director, (ii) five Business Days after the date of State-Specific Finality in the State of STATE or (iii) five Business Days after the date on which notice of the name of the third, state-specific panel member described in paragraph (b)(iii) of section 11 hereof has been provided to the Director and the Original Participating Manufacturers.

(b) The Original Participating Manufacturers may submit to the Director any materials that they wish and, notwithstanding any restrictions or representations made in any other agreements, the Original Participating Manufacturers shall be in no way constrained from contesting the amount of the Fee Award requested by STATE Outside Counsel. The Director, the Panel, the State of STATE, the Original Participating Manufacturers and STATE Outside Counsel shall preserve the confidentiality of any attorney work-product materials or other similar confidential information that may be submitted.

(c) The Director shall forward the Application of STATE Outside Counsel, as well as all written materials relating to such Application that have been submitted by the Original Participating Manufacturers pursuant to subsection (b) of this section, to the Panel within five Business Days after the later of (i) the expiration of the period for the Original Participating Manufacturers to submit such materials or (ii) the earlier of (A) the date on which the Panel issues a Fee Award with respect to any Application of other Private Counsel previously forwarded to the Panel by the Director or (B) 30 Business Days after the forwarding to the Panel of the Application of other Private Counsel most recently forwarded to the Panel by the Director. The Director shall notify the Parties upon forwarding the Application (and all written materials relating thereto) to the Panel.

(d) In the event that either Party seeks a hearing before the Panel, such Party may submit a request to the Director in writing within five Business Days after the forwarding of the Application of STATE Outside Counsel to the Panel by the Director, and the Director shall promptly forward the request to the Panel. If the Panel grants the request, it shall promptly set a date for hearing, such date to fall within 30 Business Days after the date of the Panel's receipt of the Application.

SECTION 13. *Panel Proceedings.*

The proceedings of the Panel shall be conducted subject to the terms of this Agreement and of the Protocol of Panel Procedures attached as an Appendix hereto.

SECTION 14. *Award of Fees to STATE Outside Counsel.*

The members of the Panel will consider all relevant information submitted to them in reaching a decision as to a Fee Award that fairly provides for full reasonable compensation of STATE Outside Counsel. In considering the amount of the Fee Award, the Panel shall not consider any Liquidated Fee agreed to by any other Outside Counsel, any offer of or negotiations relating to any proposed liquidated fee for STATE Outside Counsel or any Fee Award that already has been or yet may be awarded in connection with any other Tobacco Case. The Panel shall not be limited to an hourly-rate or lodestar analysis in determining the amount of the Fee Award of STATE Outside Counsel, but shall take into account the totality of the circumstances. The Panel's decisions as to the Fee Award of STATE Outside Counsel shall be in writing and shall report the amount of the fee awarded (with or without explanation or opinion, at the Panel's discretion). The Panel shall determine the amount of the Fee Award to be paid to STATE Outside Counsel within the later of 30 calendar days after receiving the Application (and all related materials) from the Director or 15 Business Days after the last date of any hearing held pursuant to subsection (d) of section 12 hereof. The Panel's decision as to the Fee Award of STATE Outside Counsel shall be final, binding and non-appealable.

SECTION 15. *Costs of Arbitration.*

All costs and expenses of the arbitration proceedings held by the Panel, including costs, expenses and compensation of the Director and of the Panel members (but not including any costs, expenses or compensation of counsel making applications to the Panel), shall be borne by the Original Participating Manufacturers in proportion to their Relative Market Shares.

SECTION 16. *Payment of Fee Award of STATE Outside Counsel.*

On or before the tenth Business Day after the last day of each calendar quarter beginning with the first calendar quarter of 1999, each Original Participating Manufacturer shall severally pay to the Designated Representative its Relative Market Share of the Allocated Amount for STATE Outside Counsel for the calendar quarter with respect to which such quarterly payment is being made (the "Applicable Quarter").

SECTION 17. *Allocated Amounts of Fee Awards.*

The Allocated Amount for each Private Counsel with respect to any payment to be made for any particular Applicable Quarter shall be determined as follows:

(a) The Quarterly Fee Amount shall be allocated equally among each of the three months of the Applicable Quarter. The amount for each such month shall be allocated among those Private Counsel retained in connection with Tobacco Cases settled before or during such month (each such Private Counsel being an "Eligible Counsel" with respect to such monthly amount), each of which shall be allocated a portion of each such monthly amount up to (or, in the event that the sum of all Eligible Counsel's respective Unpaid Fees exceeds such monthly amount, in proportion to) the amount of such Eligible Counsel's Unpaid Fees. The monthly amount for each month of the calendar quarter shall be allocated among those Eligible Counsel having Unpaid Fees, without regard to whether there may be Eligible Counsel that have not yet been granted or denied a Fee Award as of the last day of the Applicable Quarter. The allocation of subsequent Quarterly Fee Amounts for the calendar year, if any, shall be adjusted, as necessary, to account for any Eligible Counsel that are granted Fee Awards in a subsequent quarter of such calendar year, as provided in paragraph (b)(ii) of this section.

(b) In the event that the amount for a given month is less than the sum of the Unpaid Fees of all Eligible Counsel:

(i) in the case of the first quarterly allocation for any calendar year, such monthly amount shall be allocated among all Eligible Counsel for such month in proportion to the amounts of their respective Unpaid Fees.

(ii) in the case of a quarterly allocation after the first quarterly allocation, the Quarterly Fee Amount shall be allocated among only those Private Counsel, if any, that were Eligible Counsel with respect to any monthly amount for any prior quarter of the calendar year but were not allocated a proportionate share of such monthly amount (either because such Private Counsel's applications for Fee Awards were still under consideration as of the last day of the calendar quarter containing the month in question or for any other reason), until each such Eligible Counsel has been allocated a proportionate share of all such prior monthly payments for the calendar year (each such share of each such Eligible Counsel being a "Payable Proportionate Share"). In the event that the sum of all Payable Proportionate Shares exceeds the Quarterly Fee Amount, the Quarterly Fee Amount shall be allocated among such Eligible Counsel on a monthly basis in proportion to the amounts of their respective Unpaid Fees (without regard to whether there may be other Eligible Counsel with respect to such prior monthly amounts that have not yet been granted or denied a Fee Award as of the last day of the Applicable Quarter). In the event that the sum of all Payable Proportionate Shares is less than the Quarterly Fee Amount, the amount by which the Quarterly Fee Amount exceeds the sum of all such Payable Proportionate Shares shall be allocated among each month of the calendar quarter, each such monthly amount to be allocated among those Eligible Counsel having Unpaid Fees in proportion to the amounts of their respective Unpaid Fees (without regard to whether there may be Eligible Counsel that have not yet been granted or denied a Fee Award as of the last day of the Applicable Quarter).

(c) Adjustments pursuant to subsection (b)(ii) of this section 17 shall be made separately for each calendar year. No amounts paid in any calendar year shall be subject to refund, nor shall any payment in any given calendar year affect the allocation of payments to be made in any subsequent calendar year.

SECTION 18. *Credits to and Limitations on Payment of Fee Awards.*

Notwithstanding any other provision hereof, all payments by the Original Participating Manufacturers with respect to Fee Awards shall be subject to the following:

(a) Under no circumstances shall the Original Participating Manufacturers be required to make payments that would result in aggregate national payments and credits by Participating Defendants with respect to all Fee Awards of Private Counsel:

(i) during any year beginning with 1999, totaling more than the sum of the Quarterly Fee Amounts for each calendar quarter of the calendar year, excluding certain payments with respect to any Private Counsel for 1998 that are paid in 1999; and

(ii) during any calendar quarter beginning with the first calendar quarter of 1999, totaling more than the Quarterly Fee Amount for such quarter, excluding certain payments with respect to any Private Counsel for 1998 that are paid in 1999.

(b) The Original Participating Manufacturers' obligations with respect to the Fee Award of STATE Outside Counsel, if any, shall be exclusively as provided in this STATE Fee Payment Agreement, and notwithstanding any other provision of law, such Fee Award shall not be entered as or reduced to a judgment against the Original Participating Manufacturers or considered as a basis for requiring a bond or imposing a lien or any other encumbrance.

SECTION 19. *Reimbursement of Outside Counsel's Costs.*

(a) The Original Participating Manufacturers shall reimburse STATE Outside Counsel for reasonable costs and expenses incurred in connection with the Action, provided that such costs and expenses are of the same nature as costs and expenses for which the Original Participating Manufacturers ordinarily reimburse their own counsel or agents. Payment of any Approved Cost Statement pursuant to this STATE Fee Payment Agreement shall be subject to (i) the condition precedent of approval of the Agreement by the Court for the State of STATE and (ii) the payment schedule and the aggregate national caps specified in subsection (c) of this section, which shall apply to all payments made with respect to Cost Statements of all Outside Counsel.

(b) In the event that STATE Outside Counsel seek to be reimbursed for reasonable costs and expenses incurred in connection with the Action, the Designated Representative shall submit a Cost Statement to the Original Participating Manufacturers. Within 30 Business Days after receipt of any such Cost Statement, the Original Participating Manufacturers shall either accept the Cost Statement or dispute the Cost Statement, in which event the Cost Statement shall be subject to a full audit by examiners to be appointed by the Original Participating Manufacturers (in their sole discretion). Any such audit will be completed within 120 Business Days after the date the Cost Statement is received by the Original Participating Manufacturers. Upon completion of such audit, if the Original Participating Manufacturers and STATE Outside Counsel cannot agree as to the appropriate amount of STATE Outside Counsel's reasonable costs and expenses, the Cost Statement and the examiner's audit report shall be submitted to the Director for arbitration before the Panel or, in the event that STATE Outside Counsel and the Original Participating Manufacturers have agreed upon a Liquidated Fee pursuant to section 7 hereof, before a separate three-member panel of independent arbitrators, to be selected in a manner to be agreed to by STATE Outside Counsel and the Original Participating Manufacturers, which shall determine the amount of STATE Outside Counsel's reasonable costs and expenses for the Action. In determining such reasonable costs and expenses, the members of the arbitration panel shall be governed by the Protocol of Panel Procedures attached as an Appendix hereto. The amount of

STATE Outside Counsel's reasonable costs and expenses determined pursuant to arbitration as provided in the preceding sentence shall be final, binding and non-appealable.

(c) Any Approved Cost Statement of STATE Outside Counsel shall not become a Payable Cost Statement until approval of the Agreement by the Court for the State of STATE. Within five Business Days after receipt of notification thereof by the Designated Representative, each Original Participating Manufacturer shall severally pay to the Designated Representative its Relative Market Share of the Payable Cost Statement of STATE Outside Counsel, subject to the following:

(i) All Payable Cost Statements of Outside Counsel shall be paid in the order in which such Payable Cost Statements became Payable Cost Statements.

(ii) Under no circumstances shall the Original Participating Manufacturers be required to make payments that would result in aggregate national payments by Participating Defendants of all Payable Cost Statements of Private Counsel in connection with all of the actions identified in Exhibits D, M and N to the Agreement, totaling more than $75 million for any given year.

(iii) Any Payable Cost Statement of Outside Counsel not paid during the year in which it became a Payable Cost Statement as a result of paragraph (ii) of this subsection shall become payable in subsequent years, subject to paragraphs (i) and (ii), until paid in full.

(d) The Original Participating Manufacturers' obligations with respect to reasonable costs and expenses incurred by STATE Outside Counsel in connection with the Action shall be exclusively as provided in this STATE Fee Payment Agreement, and notwithstanding any other provision of law, any Approved Cost Statement determined pursuant to subsection (b) of this section (including any Approved Cost Statement determined pursuant to arbitration before the Panel or the separate three-member panel of independent arbitrators described therein) shall not be entered as or reduced to a judgment against the Original Participating Manufacturers or considered as a basis for requiring a bond or imposing a lien or any other incumbrance.

SECTION 20. *Distribution of Payments among STATE Outside Counsel.*

(a) All payments made to the Designated Representative pursuant to this STATE Fee Payment Agreement shall be for the benefit of each person or entity identified in Exhibit S to the Agreement by the Attorney General of the State of STATE [or as certified by the governmental prosecuting authority of the Litigating Political Subdivision], each of which shall receive from the Designated Representative a percentage of each such payment in accordance with the fee sharing agreement, if any, among STATE Outside Counsel (or any written amendment thereto).

(b) The Original Participating Manufacturers shall have no obligation, responsibility or liability with respect to the allocation among those persons or entities identified in Exhibit S to the Agreement by the Attorney General of the State of STATE [or as certified by the governmental prosecuting authority of the Litigating Political Subdivision], or with respect to any claim of misallocation, of any amounts paid to the Designated Representative pursuant to this STATE Fee Payment Agreement.

SECTION 21. *Calculations of Amounts.*

All calculations that may be required hereunder shall be performed by the Original Participating Manufacturers, with notice of the results thereof to be given promptly to the Designated Representative. Any disputes as to the correctness of calculations made by the Original Participating Manufacturers shall be resolved pursuant to the procedures described in Section XI(c) of the Agreement for resolving disputes as to calculations by the Independent Auditor.

SECTION 22. *Payment Responsibility.*

(a) Each Original Participating Manufacturer shall be severally liable for its share of all payments pursuant to this STATE Fee Payment Agreement. Under no circumstances shall any payment due hereunder or any portion thereof become the joint obligation of the Original Participating Manufacturers or the obligation of any person other than the Original Participating Manufacturer from which such payment is originally due, nor shall any Original Participating Manufacturer be required to pay a portion of any such payment greater than its Relative Market Share.

(b) Due to the particular corporate structures of R. J. Reynolds Tobacco Company ("Reynolds") and Brown & Williamson Tobacco Corporation ("Brown & Williamson") with respect to their non-domestic tobacco operations, Reynolds and Brown & Williamson shall each be severally liable for its respective share of each payment due pursuant to this STATE Fee Payment Agreement up to (and its liability hereunder shall not exceed) the full extent of its assets used in, and earnings and revenues derived from, its manufacture and sale in the United States of Tobacco Products intended for domestic consumption, and no recourse shall be had against any of its other assets or earnings to satisfy such obligations.

SECTION 23. *Termination.*

In the event that the Agreement is terminated with respect to the State of STATE pursuant to Section XVIII(u) of the Agreement (or for any other reason) the Designated Representative and each person or entity identified in Exhibit S to the Agreement by the Attorney General of the State of STATE [or as certified by the governmental prosecuting authority of the Litigating Political Subdivision] shall immediately refund to the Original Participating Manufacturers all amounts received under this STATE Fee Payment Agreement.

SECTION 24. *Intended Beneficiaries.*

No provision hereof creates any rights on the part of, or is enforceable by, any person or entity that is not a Party or a person covered by either of the releases described in section 4 hereof, except that sections 5 and 20 hereof create rights on the part of, and shall be enforceable by, the State of STATE. Nor shall any provision hereof bind any non-signatory or determine, limit or prejudice the rights of any such person or entity.

SECTION 25. *Representations of Parties.*

The Parties hereto hereby represent that this STATE Fee Payment Agreement has been duly authorized and, upon execution, will constitute a valid and binding contractual obligation, enforceable in accordance with its terms, of each of the Parties hereto.

SECTION 26. *No Admission.*

This STATE Fee Payment Agreement is not intended to be and shall not in any event be construed as, or deemed to be, an admission or concession or evidence of any liability or wrongdoing whatsoever on the part of any signatory hereto or any person covered by either of the releases provided under section 4 hereof. The Original Participating Manufacturers specifically disclaim and deny any liability or wrongdoing whatsoever with respect to the claims released under section 4 hereof and enter into this STATE Fee Payment Agreement for the sole purposes of memorializing the Original Participating Manufacturers' rights and obligations with respect to payment of attorneys' fees pursuant to the Agreement and avoiding the further expense, inconvenience, burden and uncertainty of potential litigation.

SECTION 27. *Non-admissibility.*

This STATE Fee Payment Agreement having been undertaken by the Parties hereto in good faith and for settlement purposes only, neither this STATE Fee Payment Agreement nor any evidence of negotiations relating hereto shall be offered or received in evidence in any action or proceeding other than an action or proceeding arising under this STATE Fee Payment Agreement.

SECTION 28. *Amendment and Waiver.*

This STATE Fee Payment Agreement may be amended only by a written instrument executed by the Parties. The waiver of any rights conferred hereunder shall be effective only if made by written instrument executed by the waiving Party. The waiver by any Party of any breach hereof shall not be deemed to be or construed as a waiver of any other breach, whether prior, subsequent or contemporaneous, of this STATE Fee Payment Agreement.

SECTION 29. *Notices.*

All notices or other communications to any party hereto shall be in writing (including but not limited to telex, facsimile or similar writing) and shall be given to the notice parties listed on Schedule A hereto at the addresses therein indicated. Any Party hereto may change the name and address of the person designated to receive notice on behalf of such Party by notice given as provided in this section including an updated list conformed to Schedule A hereto.

SECTION 30. *Governing Law.*

This STATE Fee Payment Agreement shall be governed by the laws of the State of STATE without regard to the conflict of law rules of such State.

SECTION 31. *Construction.*

None of the Parties hereto shall be considered to be the drafter hereof or of any provision hereof for the purpose of any statute, case law or rule of interpretation or construction that would or might cause any provision to be construed against the drafter hereof.

SECTION 32. *Captions.*

The captions of the sections hereof are included for convenience of reference only and shall be ignored in the construction and interpretation hereof.

SECTION 33. *Execution of STATE Fee Payment Agreement.*

This STATE Fee Payment Agreement may be executed in counterparts. Facsimile or photocopied signatures shall be considered valid signatures as of the date hereof, although the original signature pages shall thereafter be appended to this STATE Fee Payment Agreement.

SECTION 34. *Entire Agreement of Parties.*

This STATE Fee Payment Agreement contains an entire, complete and integrated statement of each and every term and provision agreed to by and among the Parties with respect to payment of attorneys' fees by the Original Participating Manufacturers in connection with the Action and is not subject to any condition or covenant, express or implied, not provided for herein.

IN WITNESS WHEREOF, the Parties hereto, through their fully authorized representatives, have agreed to this STATE Fee Payment Agreement as of this __th day of _____, 1998.

[SIGNATURE BLOCK]

APPENDIX
to MODEL FEE PAYMENT AGREEMENT

PROTOCOL OF PANEL PROCEEDINGS

This Protocol of procedures has been agreed to between the respective parties to the STATE Fee Payment Agreement, and shall govern the arbitration proceedings provided for therein.

SECTION 1. *Definitions.*

All definitions contained in the STATE Fee Payment Agreement are incorporated by reference herein.

SECTION 2. *Chairman.*

The person selected to serve as the permanent, neutral member of the Panel as described in paragraph (b)(ii) of section 11 of the STATE Fee Payment Agreement shall serve as the Chairman of the Panel.

SECTION 3. *Arbitration Pursuant to Agreement.*

The members of the Panel shall determine those matters committed to the decision of the Panel under the STATE Fee Payment Agreement, which shall govern as to all matters discussed therein.

SECTION 4. *ABA Code of Ethics.*

Each of the members of the Panel shall be governed by the *Code of Ethics for Arbitrators in Commercial Disputes* prepared by the American Arbitration Association and the American Bar Association (the "*Code of Ethics*") in conducting the arbitration proceedings pursuant to the STATE Fee Payment Agreement, subject to the terms of the STATE Fee Payment Agreement and this Protocol. Each of the party-appointed members of the Panel shall be governed by Canon VII of the *Code of Ethics*. No person may engage in any *ex parte* communications with the permanent, neutral member of the Panel selected pursuant to paragraph (b)(ii) of section 11, in keeping with Canons I, II and III of the *Code of Ethics.*

SECTION 5. *Additional Rules and Procedures*.

The Panel may adopt such rules and procedures as it deems necessary and appropriate for the discharge of its duties under the STATE Fee Payment Agreement and this Protocol, subject to the terms of the STATE Fee Payment Agreement and this Protocol.

SECTION 6. *Majority Rule*.

In the event that the members of the Panel are not unanimous in their views as to any matter to be determined by them pursuant to the STATE Fee Payment Agreement or this Protocol, the determination shall be decided by a vote of a majority of the three members of the Panel.

SECTION 7. *Application for Fee Award and Other Materials.*

(a) The Application of STATE Outside Counsel and any materials submitted to the Director relating thereto (collectively, "submissions") shall be forwarded by the Director to each of the members of the Panel in the manner and on the dates specified in the STATE Fee Payment Agreement.

(b) All materials submitted to the Director by either Party (or any other person) shall be served upon all Parties. All submissions required to be served on any Party shall be deemed to have been served as of the date on which such materials have been sent by either (i) hand delivery or (ii) facsimile and overnight courier for priority next-day delivery.

(c) To the extent that the Panel believes that information not submitted to the Panel may be relevant for purposes of determining those matters committed to the decision of the Panel under the terms of the STATE Fee Payment Agreement, the Panel shall request such information from the Parties.

SECTION 8. *Hearing*.

Any hearing held pursuant to section 12 of the STATE Fee Payment Agreement shall not take place other than in the presence of all three members of the Panel upon notice and an opportunity for the respective representatives of the Parties to attend.

SECTION 9. *Miscellaneous*.

(a) Each member of the Panel shall be compensated for his services by the Original Participating Manufacturers on a basis to be agreed to between such member and the Original Participating Manufacturers.

(b) The members of the Panel shall refer all media inquiries regarding the arbitration proceeding to the respective Parties to the STATE Fee Payment Agreement and shall refrain from any comment as to the arbitration proceedings to be conducted pursuant to the STATE Fee Payment Agreement during the pendency of such arbitration proceedings, in keeping with Canon IV(B) of the *Code of Ethics*.

EXHIBIT P
NOTICES

[Intentionally Omitted]

EXHIBIT Q
1996 AND 1997 DATA

(1) 1996 Operating Income

Original Participating Manufacturer	Operating Income
Brown & Williamson Tobacco Corp.	$801,640,000
Lorillard Tobacco Co.	$719,100,000
Philip Morris Inc.	$4,206,600,000
R.J. Reynolds Tobacco Co.	$1,468,000,000
Total (Base Operating Income)	$7,195,340,000

(2) 1997 volume (as measured by shipments of Cigarettes)

Original Participating Manufacturer	Number of Cigarettes
Brown & Williamson Tobacco Corp.*	78,911,000,000
Lorillard Tobacco Co.	42,288,000,000
Philip Morris Inc.	236,203,000,000
R.J. Reynolds Tobacco Co.	118,254,000,000
Total (Base Volume)	475,656,000,000

(3) 1997 volume (as measured by excise taxes)

Original Participating Manufacturer	Number of Cigarettes
Brown & Williamson Tobacco Corp.*	78,758,000,000
Lorillard Tobacco Co.	42,315,000,000
Philip Morris Inc.	236,326,000,000
R.J. Reynolds Tobacco Co.	119,099,000,000

* The volume includes 2,847,595 pounds of "roll your own" tobacco converted into the number of Cigarettes using 0.0325 ounces per Cigarette conversion factor.

EXHIBIT R
EXCLUSION OF CERTAIN BRAND NAMES

Brown & Williamson Tobacco Corporation
GPC
State Express 555
Riviera

Philip Morris Incorporated
Players
B&H
Belmont
Mark Ten
Viscount
Accord
L&M
Lark
Rothman's
Best Buy
Bronson
F&L
Genco
GPA
Gridlock
Money
No Frills
Generals
Premium Buy
Shenandoah
Top Choice

Lorillard Tobacco Company
None

R.J. Reynolds Tobacco Company
Best Choice
Cardinal
Director's Choice
Jacks
Rainbow
Scotch Buy
Slim Price
Smoker Friendly
Valu Time
Worth

EXHIBIT S
DESIGNATION OF OUTSIDE COUNSEL

[Intentionally Omitted]

EXHIBIT T
MODEL STATUTE

Section __. Findings and Purpose. [1]

(a) Cigarette smoking presents serious public health concerns to the State and to the citizens of the State. The Surgeon General has determined that smoking causes lung cancer, heart disease and other serious diseases, and that there are hundreds of thousands of tobacco-related deaths in the United States each year. These diseases most often do not appear until many years after the person in question begins smoking.

(b) Cigarette smoking also presents serious financial concerns for the State. Under certain health-care programs, the State may have a legal obligation to provide medical assistance to eligible persons for health conditions associated with cigarette smoking, and those persons may have a legal entitlement to receive such medical assistance.

(c) Under these programs, the State pays millions of dollars each year to provide medical assistance for these persons for health conditions associated with cigarette smoking.

(d) It is the policy of the State that financial burdens imposed on the State by cigarette smoking be borne by tobacco product manufacturers rather than by the State to the extent that such manufacturers either determine to enter into a settlement with the State or are found culpable by the courts.

(e) On _____, 1998, leading United States tobacco product manufacturers entered into a settlement agreement, entitled the "Master Settlement Agreement," with the State. The Master Settlement Agreement obligates these manufacturers, in return for a release of past, present and certain future claims against them as described therein, to pay substantial sums to the State (tied in part to their volume of sales); to fund a national foundation devoted to the interests of public health; and to make substantial changes in their advertising and marketing practices and corporate culture, with the intention of reducing underage smoking.

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

Section __. Definitions.

(a) "Adjusted for inflation" means increased in accordance with the formula for inflation adjustment set forth in Exhibit C to the Master Settlement Agreement.

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

(c) "Allocable share" means Allocable Share as that term is defined in the Master Settlement Agreement.

(d) "Cigarette" means any product that contains nicotine, is intended to be burned or heated under ordinary conditions of use, and consists of or contains (1) any roll of tobacco wrapped in paper or in any substance not containing tobacco; or (2) tobacco, in any form, that is functional in the product, which, because of its appearance, the type of tobacco used in the filler, or its packaging and labeling, is likely to be offered to, or purchased by, consumers as a cigarette; or (3) any roll of tobacco wrapped in any substance containing tobacco which, because of its appearance, the type of tobacco used in the filler, or its packaging and labeling, is likely to be offered to, or purchased by, consumers as a cigarette described in clause (1) of this definition. The term "cigarette" includes "roll-your-own" (i.e., any tobacco which, because of its appearance, type, packaging, or labeling is suitable for use and likely to be offered to, or purchased by, consumers as tobacco for making cigarettes). For purposes of this definition of "cigarette," 0.09 ounces of "roll-your-own" tobacco shall constitute one individual "cigarette."

(e) "Master Settlement Agreement" means the settlement agreement (and related documents) entered into on _____, 1998 by the State and leading United States tobacco product manufacturers.

(f) "Qualified escrow fund" means an escrow arrangement with a federally or State chartered financial institution having no affiliation with any tobacco product manufacturer and having assets of at least $1,000,000,000 where such arrangement requires that such financial institution hold the escrowed funds' principal for the benefit of releasing parties and prohibits the tobacco product manufacturer placing the funds into escrow from using, accessing or directing the use of the funds' principal except as consistent with section ___(b)-(c) of this Act.

(g) "Released claims" means Released Claims as that term is defined in the Master Settlement Agreement.

(h) "Releasing parties" means Releasing Parties as that term is defined in the Master Settlement Agreement.

[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 C

FORMS OF OPINIONS OF TRANSACTION COUNSEL AND CO-TRANSACTION COUNSEL

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March 4, 2020

Buckeye Tobacco Settlement Financing Authority
Columbus, Ohio

Buckeye Tobacco Settlement Financing Authority
Tobacco Settlement Asset-Backed Refunding Bonds, Series 2020
(Final Opinion)

Ladies and Gentlemen:

We have acted as transaction counsel to the Buckeye Tobacco Settlement Financing Authority (the "Issuer") in connection with the issuance of $5,352,196,396.50 aggregate principal amount of its Tobacco Settlement Asset-Backed Refunding Bonds, Series 2020 (the "Bonds"), issued under and pursuant to Section 2i of Article VIII of the Ohio Constitution, Sections 183.51 and 183.52 of the Ohio Revised Code (the "Act"), a resolution of the Issuer (the "Bond Resolution") and a Trust Indenture, dated as of March 1, 2020, between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"), as supplemented by the Series 2020 Supplement Authorizing the Issuance of $5,352,196,396.50 Tobacco Settlement Asset-Backed Refunding Bonds, Series 2020, dated as of March 1, 2020, between the Issuer and the Trustee (together, the "Trust Indenture"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Indenture.

In such connection, we have reviewed the Trust Indenture, the Bond Resolution, the Purchase and Sale Agreement, dated as of October 1, 2007, by and between the State of Ohio (the "State") and the Authority (the "Purchase and Sale Agreement"), the Tax Certificate and Agreement of the Issuer, dated the date hereof, and the Tax Certificate and Agreement of the State, dated the date hereof (together the "Tax Certificates"), relating to the Tax-Exempt Bonds, certificates of the Issuer, the Trustee and others, opinions of Squire Patton Boggs (US) LLP, co-transaction counsel, opinions of counsel to the Trustee and others, and such other documents, certificates, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after original delivery of the Bonds on the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after original delivery of the Bonds on the date hereof. We disclaim any obligation to update this letter. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Indenture, the Purchase and Sale Agreement and the Tax Certificates, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Tax-Exempt Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Trust Indenture, the Purchase and Sale Agreement and the Tax Certificates and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against entities such as the Issuer in the State. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute or having the effect of a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the

assets described in or as subject to the lien of the Trust Indenture, or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. We also express no opinion regarding the accreted value table or calculation set forth or referred to in any of the Bonds or in the Trust Indenture. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Offering Circular or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds have been duly and validly authorized and issued by the Issuer in accordance with the provisions of the Trust Indenture, and the Bonds, the Trust Indenture and the Purchase and Sale Agreement are each legal, valid and binding obligations, enforceable in accordance with their respective terms.

2. The Bonds constitute special obligations of the Issuer, and the principal of and interest on the Bonds (collectively, "debt service") are payable solely from Collateral, including the Pledged Tobacco Receipts, pledged under the Trust Indenture to secure that payment. The Bonds are not general obligations of the State and the full faith and credit, revenue, and taxing power of the State are not pledged to the payment of debt service on the Bonds or to any guarantee of the payment of that debt service.

3. The Trust Indenture creates the valid pledge of, and first-priority security interest in, the Collateral (including, without limitation, Pledged Tobacco Receipts) that it purports to create. Pursuant to the Act, the lien of such pledge and security interest is valid and binding against all parties having claims of any kind against the Issuer, irrespective of whether such parties have notice thereof.

4. Interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is not a specific preference item for purposes of the federal alternative minimum tax. Interest on, and any profit made on the sale, exchange or other disposition of, the Bonds are exempt from all Ohio state and local taxation, except the estate tax, the domestic insurance company tax, the dealers in intangibles tax, the tax levied on the basis of the total equity capital of financial institutions, and the net worth base of the corporate franchise tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

March 4, 2020

To: Buckeye Tobacco Settlement Financing Authority
Columbus, Ohio

- and -

Jefferies
New York, New York

Citigroup Global Markets Inc.
New York, New York

As Joint Book-Running Senior Managers and Representatives of the
Underwriters named in the Bond Purchase Contract for the Series 2020 Senior Bonds

- and -

The Other Addressees appearing on attached Schedule A

We have served as Co-Transaction Counsel to our client the Buckeye Tobacco Settlement Financing Authority (the "Authority") in connection with the issuance by the Authority of its $5,352,196,396.50 Tobacco Settlement Asset-Backed Bonds, Series 2020 Senior Bonds (the "Series 2020 Senior Bonds"), dated as of March 4, 2020. The Series 2020 Senior Bonds are issued under and pursuant to Section 2i of Article VIII of the Ohio Constitution, Sections 183.51 and 183.52 of the Ohio Revised Code (the "Act"), a resolution of the Authority (the "Bond Resolution") and the Trust Indenture. Capitalized words and terms used and not defined herein have the meanings assigned to them in that Trust Indenture.

In our capacity as Co-Transaction Counsel, we have examined the transcript of proceedings (the "Transcript") relating to the issuance by the Authority of the Series 2020 Senior Bonds. The documents in the Transcript examined include executed counterparts of the Amended and Restated Trust Indenture as supplemented by the Series 2020 Supplement (collectively, the "Trust Indenture"), both by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee") and dated as of March 1, 2020, and the Purchase and Sale Agreement dated as of October 1, 2007 (the "2007 Sale Agreement") between the State of Ohio (the "State") and the Authority. We have also examined an executed Series 2020 Senior Bond.

Based on such examination and subject to the limitations stated below, we are of the opinion that under existing law:

1. The Series 2020 Senior Bonds have been duly and validly authorized and issued by the Authority in accordance with the provisions of the Trust Indenture, and the Series 2020 Senior Bonds, the Trust Indenture and the 2007 Sale Agreement are each legal, valid and binding obligations, enforceable in accordance with their respective terms.

2. The Series 2020 Senior Bonds constitute special obligations of the Authority, and the principal of and interest on the Series 2020 Senior Bonds (collectively, "debt service") are payable solely from the Collateral, including the Pledged Tobacco Receipts, pledged under the Trust Indenture to secure that payment. The Series 2020 Senior Bonds are not general obligations of the State and the full faith and credit, revenue, and taxing power of the State are not pledged to the payment of debt service on the Series 2020 Senior Bonds or to any guarantee of the payment of that debt service.

3. Interest on, and any profit made on the sale, exchange or other disposition of, the Series 2020 Senior Bonds are exempt from all Ohio state and local taxation, except the estate tax, the domestic insurance

company tax, the dealers in intangibles tax, the tax levied on the basis of the total equity capital of financial institutions, and the net worth base of the corporate franchise tax. We express no opinion as to any other tax consequences regarding the Series 2020 Senior Bonds.

The opinions stated above are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. In rendering all such opinions, we assume, without independent verification, and rely upon (i) the accuracy of the factual matters represented, warranted or certified in the proceedings and documents we have examined and (ii) the due and legal authorization, execution and delivery of those documents by, and the valid, binding and enforceable nature of those documents upon, any parties other than the Authority.

We have also assumed for purposes of this opinion the enforceability of the 2007 Sale Agreement against the State and the enforceability of the Trust Indenture against the Trustee, each in accordance with its respective terms.

The rights of the owners of the Series 2020 Senior Bonds and the enforceability of the Series 2020 Senior Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or transfer, and other laws relating to or affecting the rights and remedies of creditors generally; to the application of equitable principles, whether considered in a proceeding at law or in equity; to the exercise of judicial discretion; and to limitations on legal remedies against public entities.

We undertake no responsibility for the accuracy, completeness or fairness of any Offering Circular or other offering material relating to the Series 2020 Senior Bonds and we express no opinion with respect thereto.

No opinions other than those expressly stated herein are implied or shall be inferred as a result of anything contained in or omitted from this letter. The opinions expressed in this letter are stated only as of the time of its delivery and we disclaim any obligation to revise or supplement this letter thereafter. Our engagement as Co-Transaction Counsel in connection with the original issuance and delivery of the Series 2020 Senior Bonds is concluded upon delivery of this letter.

Respectfully submitted,

SCHEDULE A

U.S. Bank National Association,
as Trustee
Columbus, Ohio

S&P Global Ratings
New York, New York

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APPENDIX D

SUMMARY OF TRUST INDENTURE

Set forth herein are definitions of certain terms and a summary of certain sections of the Trust Indenture pursuant to which the Series 2020 Senior Bonds will be issued. Definitions of certain terms and a summary of certain sections of the Trust Indenture and provisions of the Series 2020 Senior Bonds also appear in the forepart of the Offering Circular, including under the captions "SECURITY FOR THE BONDS" and "THE SERIES 2020 SENIOR BONDS". These summaries do not purport to be complete and are subject and qualified in their entirety by reference to the provisions of the Trust Indenture and the Series 2020 Senor Bonds. Reference is made to the Trust Indenture, a copy of which is on file with the Trustee and may be obtained upon written request to the Trustee, for a complete statement of the rights, duties and obligations of the parties thereto. The headings herein are not part of the respective documents but have been added for ease of reference only.

CERTAIN DEFINITIONS

"**2007 Sale Agreement**" means the Purchase and Sale Agreement, dated as of October 1, 2007, by and between the Authority and the State, as further amended, supplemented and in effect from time to time.

"**2007 Sold Tobacco Receipts**" means 100% of the following:

(i) Except as excluded pursuant to the last paragraph of this definition, all tobacco settlement payments that are required to be made by the tobacco manufacturers to or for the account of the State under the terms of the Master Settlement Agreement on and after the Delivery Date for the Series 2007 Bonds;

(ii) All lump sum or partial lump sum payments received on and after the Delivery Date for the Series 2007 Bonds that are allocable to, or in substitution for, payments required under the terms of the Master Settlement Agreement by tobacco manufacturers to or for the account of the State; and

(iii) The State's right under the Master Settlement Agreement to receive the tobacco settlement payments referred to in (i) and (ii) of this definition.

2007 Sold Tobacco Receipts (x) specifically include 100% of any amounts due to the State and withheld or deposited in the Disputed Payments Account on or after the Delivery Date for the Series 2007 Bonds by the tobacco manufacturers as a result of a dispute as to the amount of a payment required to be made by them under the MSA and that are subsequently paid by the tobacco manufacturers or released from the Disputed Payments Account, including all earnings thereon, but (y) specifically exclude any right to or interest in amounts withheld or deposited in the Disputed Payments Account before the Delivery Date for the Series 2007 Bonds, including all earnings thereon.

"**Accounts**" means the accounts established under the provisions of the Trust Indenture, including any subaccounts therein.

"**Accreted Value**" means, with respect to any Capital Appreciation Bond, an amount equal to the initial principal amount of such Bond, plus interest accrued thereon from its date, compounded on each Distribution Date, commencing on the first Distribution Date after its issuance (through and including the Maturity Date or earlier redemption date of such Bond) at the "accretion rate" for such Bond, as set forth in the related Series Supplement or in an exhibit thereto; provided, however, that the Authority shall calculate or cause to be calculated the Accreted Value on any date other than a Distribution Date set forth in the related Series Supplement or in an exhibit thereto as (i) the Accreted Value of such Bond on its Maturity Date times (ii) the result of dividing (a) the dollar price of such Bond calculated as of such date pursuant to standard industry convention using the accretion rate as the discount rate by (b) 100. In performing such calculation, the Authority shall be entitled to engage and rely upon a firm of accountants, consultants or financial advisors with appropriate knowledge and experience. The Trustee may conclusively rely upon such calculations. The term "accretion rate" means, with respect to any particular Bond, the

interest rate which when accreted and compounded on each Distribution Date from its issuance date, causes the initial principal amount to equal the Accreted Value on the Maturity Date of such Bond.

"**Act**" means Sections 183.51 and 183.52 of the Ohio Revised Code.

"**Additional Bonds**" means any Bond issued pursuant to the Trust Indenture that is not a Fully Subordinate Bond or a Refunding Bond.

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

"**Aggregate Bond Obligation**" means, as of any given date, the sum of (i) the principal amount of Current Interest Bonds Outstanding hereunder on such date, plus (ii) the Accreted Value of Capital Appreciation Bonds Outstanding hereunder on such date.

"**Authority**" means the Buckeye Tobacco Settlement Financing Authority created under the Act as a body, both corporate and politic, constituting a public body, agency, and instrumentality of the State and performing essential functions of the State.

"**Authorized Officer**" means: (i) in the case of the Authority, the Chair, the Secretary or the Treasurer or their lawful designees, and any other person authorized to act in such capacity hereunder by a resolution adopted by the Authority with appropriate Written Notice to the Trustee, and (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 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 Trust 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.

"**Bond Obligation**" means, as of any given date, (i) with respect to any Outstanding Current Interest Bond, its principal amount, (ii) with respect to any Outstanding Capital Appreciation Bond prior to its Maturity Date, the Accreted Value thereof as of such date, and (iii) with respect to any Outstanding Capital Appreciation Bond on and after its Maturity Date, its Accreted Value on its Maturity Date.

"**Bond Service Fund**" means the Fund so designated and established pursuant to the Trust Indenture, which includes the Senior Debt Service Account, Lump Sum Payment Account, Senior Liquidity Reserve Account, Senior Turbo Redemption Account, First Subordinate Turbo Redemption Account, Second Subordinate Turbo Redemption Account, and Fully Subordinate Turbo Redemption Account, and shall include all subaccounts contained therein.

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

"**Bondholders**," "**Holders**" and similar terms mean the registered owners of the Bonds, including the Series 2020 Senior Bonds, as shown on the books of the Authority, and the owners of Coupon Bonds. Unless and until the Bonds have been issued to Bondholders other than DTC, all references to "Bondholders" or "Holders" of the Bonds are qualified by reference to the applicable provisions of the Trust Indenture relating to the Securities Depositories.

"**Bonds**" means all bonds (or notes), including the Series 2020 Senior Bonds, issued pursuant to the Trust Indenture.

"**Business Day**" means any day other than (i) a Saturday or a Sunday or (ii) a day on which banking institutions in Columbus, Ohio or New York, New York, are required or authorized by law to be closed.

"**Capital Appreciation Bond**" means a Bond the interest on which shall be compounded periodically, shall be payable only at maturity or redemption or prepayment prior to maturity, and shall be determined by subtracting from the Accreted Value thereof the original principal amount thereof.

"**Cash Equivalent**" means a letter of credit, insurance policy, surety, guarantee or other security arrangement that is an Eligible Investment under paragraph (i) (as provided in a Supplemental Indenture) provided by an institution to represent the deposit in the Senior Liquidity Reserve Account of all or a portion of the Senior Liquidity Reserve Requirement.

"**Class 1 Senior Bonds**" means the Series 2020A Bonds and any Refunding Bonds and/or Additional Bonds identified as Class 1 Senior Bonds in a Series Supplement.

"**Class 1 Senior Liquidity Reserve Requirement**" means an amount equal to (i) from the date of issuance of the Series 2020A Bonds until June 1, 2029, $91,657,486.26 for so long as any Series 2020A Bonds are Outstanding, (ii) on and after June 1, 2029, $75,575,000.00 for so long as any Series 2020A Bonds are Outstanding and (iii) $0 when no Class 1 Senior Bonds are Outstanding, which amount may (but is not required to) be amended upon the issuance of Refunding Bonds and/or Additional Bonds that constitute Class 1 Senior Bonds in accordance with the applicable Series Supplement.

"**Class 1 Senior Liquidity Reserve Subaccount**" means the respective subaccount so named within the Senior Liquidity Reserve Account established by the Trustee pursuant to the Trust Indenture.

"**Class 2 Payment Default**" means a failure to pay when due interest or principal or Accreted Value at maturity on any Class 2 Senior Bonds.

"**Class 2 Senior Bonds**" means the Series 2020B-1 Bonds, Series 2020B-2 Bonds, Series 2020B-3 Bonds and any Refunding Bonds and/or Additional Bonds identified as Class 2 Senior Bonds in a Series Supplement.

"**Class 2 Senior Liquidity Reserve Requirement**" means an amount equal to $170,850,000.00 for so long as any Series 2020B-1 Bonds or Series 2020B-2 Bonds are Outstanding and an amount equal to $0 when no Series 2020B-1 Bonds or Series 2020B-2 Bonds are Outstanding, which amount may (but is not required to) be amended upon the issuance of Refunding Bonds and/or Additional Bonds that constitute Class 2 Senior Bonds in accordance with the applicable Series Supplement.

"**Class 2 Senior Liquidity Reserve Subaccount**" means the respective subaccount so named within the Senior Liquidity Reserve Account established by the Trustee pursuant to the Trust Indenture.

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

"**Collateral**" shall have the meaning ascribed thereto under the caption "Security and Pledge" below.

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

"**Collections**" means the Pledged Tobacco Receipts and investment earnings on amounts on deposit in or credited to the Pledged Accounts.

"**Consent Decree**" means the Consent Decree and Final Judgment entered November 25, 1998, in the Court of Common Pleas of Franklin County, Ohio, as the same may be corrected, amended or modified.

"**Corporate Trust Office**" means the office of the Trustee at which the corporate trust business of the Trustee related to the Trust Indenture shall, at any particular time, be principally administered, which office is, at the date of the Trust Indenture, located at 10 West Broad Street, 12th Floor, Columbus, Ohio 43215, Attention: Global Corporate Trust.

"**Costs of Issuance**" means the costs, expenses and fees directly related to the authorization and issuance of Bonds as follows: all costs, fees and expenses of procuring insurance, other credit enhancements, and other financing arrangements to fulfill the purposes of the Authority under the Act, including such arrangements, instruments, contracts and agreements as municipal bond insurance, liquidity facilities, interest rate agreements and letters of credit, financial advisory services, Bond underwriting services, auditors' or accountants' services, printing costs, costs of reproducing documents, filing and recording fees, escrow fees, initial fees, verification agent fees and expenses of the Trustee, legal fees and charges, professional consultants' fees, costs of credit ratings, fees and charges for execution, transportation and safekeeping of Bonds, governmental charges, and other costs or expenses and fees of issuance of any kind directly related to the authorization and the issuance of the Bonds by the Authority or, in accordance with the 2007 Sale Agreement, by the State. Costs of Issuance shall include any financing or refinancing cost referred to in the Act, except for capitalized interest.

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

"**Counsel**" means Orrick, Herrington & Sutcliffe LLP and Squire Patton Boggs (US) LLP, or another nationally recognized bond counsel or such other counsel as may be selected by the Authority for a specific purpose under the Trust Indenture.

"**Coupon Bonds**" means Bonds registered to bearer, with interest coupons.

"**Current Interest Bond**" means a Bond the interest on which is payable currently on each Distribution Date.

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

"**Default Rate**" means that rate of interest that accrues on a Capital Appreciation Bond from and after its Maturity Date as set forth in the Series Supplement authorizing the issuance of such Bonds.

"**Defeasance Collateral**" means money and any of the following, provided such investments are legal under the laws of the State:

(a) direct obligations of the United States government, which are not redeemable at the option of the issuer thereof;

(b) (i) obligations, the timely payment of the principal and interest on which are unconditionally guaranteed by the United States government; (ii) certificates of deposit of banks or trust companies secured by obligations of the United States of America of a market value equal at all times to the amount of the deposit; (iii) notes, bonds, debentures, mortgages and other evidences of indebtednesses, issued or guaranteed at the time of the investment by the United States Postal Service, Fannie Mae, FHLMC, FHLB, the Student Loan Marketing Association, the Federal Farm Credit System, Tennessee Valley Authority, or any other United States government sponsored agency; (iv) notes, bonds, debentures, mortgages and other evidences of indebtedness, issued or guaranteed at the time of investment by the Asian Development Bank, Bank Nederlandse Gemeenten, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank and International Bank for Reconstruction and Development; or (v) bonds or other obligations of any state of the United States of America or of any agency instrumentality or local governmental unit of any such state (x) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, and (y) timely payment of which is fully secured by a fund consisting only of cash or obligations of the character described in clause (i), (ii), (iii) or (iv) which fund may be applied only to the payment when due of such bonds or other obligations; provided that the above-listed investments are not redeemable at the option of the issuer thereof and which shall be rated at the time of the investment in the highest long term category by each Rating Agency; or

(c) any depository receipt issued by an Eligible Bank as custodian with respect to any Defeasance Collateral which is specified in clause (a) above and held by such Eligible Bank for the account of the holder of such

depositary receipt, or with respect to any specific payment of principal of or interest on any such Defeasance Collateral which is so specified and held, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the Defeasance Collateral or the specific payment of principal or interest evidenced by such depositary receipt.

"**Defeasance Redemption Schedule**" shall have the meaning ascribed thereto under the caption "Defeasance" below.

"**Defeased Turbo Term Bonds**" means Turbo Term Bonds for which a defeasance escrow has been established pursuant to the Trust Indenture.

"**Delivery Date**" means the date on which a Series of Bonds is delivered to the original purchasers thereof.

"**Deposit Date**" means the date of actual receipt by the Trustee of any Collections.

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

"**Distribution Date**" means, except to the extent otherwise set forth in a Series Supplement, each June 1 and December 1, or if such date is not a Business Day, the following Business Day, each additional Distribution Date selected by the Authority or the Trustee following a Payment Default, and 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 Bank**" means any (i) bank or trust company organized under the laws of any state of the United States of America (including the Trustee and any of its affiliates), (ii) national banking association, (iii) savings bank or savings and loan association chartered or organized under the laws of any state of the United States of America, or (iv) federal branch or agency established pursuant to the International Banking Act of 1978 or any successor provisions of law, or domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America.

"**Eligible Investments**" means, with respect to the Pledged Accounts:

(a) Defeasance Collateral;

(b) demand, trust and time deposits, money market deposit accounts or non-negotiable or negotiable certificates of deposit of, or bankers' acceptances issued by, any bank (including the Trustee and any of its affiliates) or trust company, savings and loan association, or savings bank, payable on demand or on a specified date no more than 365 days after the date of issuance thereof, if such deposits or instruments are rated at least "A" or "A-1" by S&P, or if none of the Outstanding Bonds are rated by S&P, at least "A-1" by S&P, "P-1" by Moody's or "F1" by Fitch;

(c) certificates, notes, warrants, bonds, obligations, or other evidences of indebtedness of a state or a political subdivision thereof rated by S&P in one of its three highest rating categories, or if none of the Outstanding Bonds are rated by S&P, in one of its three highest rating categories by S&P, Moody's or Fitch;

(d) commercial or finance company paper (including both noninterest-bearing discount obligations and interest bearing obligations payable on demand or on a specific date not more than 270 days after the date of issuance thereof) that is rated at least "A-1" by S&P, or if none of the Outstanding Bonds are rated by S&P, at least "A-1" by S&P, "P-1" by Moody's or "F1" by Fitch;

(e) repurchase obligations with respect to any security described in paragraphs (a) or (b)(i), (ii) or (iii) of the definition of Defeasance Collateral above entered into with a financial institution, corporation, registered broker/dealer, domestic commercial bank, primary dealer, depository institution, or trust company (acting as principal) rated at least "A-1" by S&P, or if none of the Outstanding Bonds are rated by S&P, at least "A-1" by S&P, "P-1" by Moody's or "F1" by Fitch (if payable on demand or on a specified date no more than three months after the date of issuance thereof), or rated by S&P in one of its three highest rating categories, or if none of the Outstanding Bonds are rated by S&P, in one of its three highest long term rating categories by S&P, Moody's or Fitch, provided that (1) a specific written agreement governs the transaction, (2) the securities are held, free and clear of any lien, by the Trustee or an independent third party acting solely as agent for the Trustee, and such third party is (a) a Federal Reserve Bank, or (b) a member of the Federal Deposit Insurance Corporation that has combined surplus and undivided profits of not less than $25 million, and the Trustee will have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee, (3) the agreement has a term of 30 days or less, or the Trustee or its agent will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within five Business Days of such valuation, and (4) the fair market value of the collateral securities in relation to the amount of the obligation, including principal and interest, is at least 102%;

(f) certificates, notes, bonds, or other securities bearing interest or sold at a discount (payable on demand or on a specified date no more than 365 days after the date of purchase thereof) that are issued by any corporation incorporated under the laws of the United States of America or any state thereof and rated at least "A" or "A-1" by S&P, or if none of the Outstanding Bonds are rated by S&P, at least "A" or "A-1" by S&P, "A2" or "P-1" by Moody's or "A" or "F1" by Fitch at the time such investment or contractual commitment providing for such investment; provided that securities issued by any such corporation will not be Eligible Investments to the extent that investment therein would cause the then-outstanding principal amount of securities issued by such corporation that are then held under the Trust Indenture to exceed 20% of the aggregate principal amount of all Eligible Investments then held;

(g) units of taxable or tax-exempt money market mutual funds which funds are regulated investment companies and seek to maintain a constant net asset value per share and have been rated by each Rating Agency in one of its three highest rating categories, including if so rated any such fund which the Trustee or an affiliate of the Trustee serves as an investment advisor, administrator, shareholder, servicing agent and/or custodian or sub-custodian, notwithstanding that (x) the Trustee or an affiliate of the Trustee charges and collects fees and expenses (not exceeding current income) from such funds for services rendered, (y) the Trustee charges and collects fees and expenses for services rendered pursuant to the Trust Indenture, and (z) services performed for such funds and pursuant to the Trust Indenture may converge at any time (the Authority specifically authorizes the Trustee or an affiliate of the Trustee to charge and collect all fees and expenses from such funds for services rendered to such funds, in addition to any fees and expenses the Trustee may charge and collect for services rendered pursuant to the Trust Indenture);

(h) investment agreements, forward purchase agreements or guaranteed investment contracts rated, or with any financial institution or corporation whose senior long-term debt obligations are rated, or guaranteed by a financial institution whose senior long-term debt obligations are rated, at the time such agreement or contract is entered into, by S&P in one of its three highest rating categories, or if the Outstanding Bonds are no longer rated by S&P, in one of its three highest rating categories by S&P, Moody's or Fitch, if the Authority has an option to terminate such agreement in the event that such rating is downgraded below the rating on the Bonds, or if not so rated, then collateralized by securities described in paragraphs (a) or (b)(i), (ii) or (iii) of the definition of Defeasance Collateral above with any registered broker/dealer or with any domestic commercial bank whose long-term debt obligations are rated in one of the three highest rating categories by each Rating Agency; provided that (1) a specific written agreement governs the transaction, (2) the securities are held, free and clear of any lien, by the Trustee or an independent third party acting solely as agent for the Trustee, and such third party is (a) a Federal Reserve Bank, or (b) a member of the Federal Deposit Insurance Corporation that has combined surplus and undivided profits of not less than $25 million, and the Trustee will have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee, (3) the agreement has a term of 30 days or less, or the Trustee or third party custodian will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not

restored within five Business Days of such valuation, and (4) the fair market value of the collateral securities in relation to the amount of the obligation, including principal and interest, is at least 102%;

(i) a surety, guaranty, letter of credit, liquidity agreement, agreement to purchase securities of the Authority or other similar agreement provided in lieu of or in substitution for amounts in the Senior Liquidity Reserve Account by an entity with a rating in the three highest rating categories by S&P in one of its three highest rating categories, or if the Outstanding Bonds are no longer rated by S&P, in one of its three highest rating categories by S&P, Moody's or Fitch; provided that any cost related to such an investment shall be paid either from funds released from the Senior Liquidity Reserve Account or other available funds and 15 days prior notice is given to each Rating Agency;

(j) the State Treasurer's pooled investment program under Section 135.45 of the Ohio Revised Code; and

(k) other obligations or securities that are non-callable and that are acceptable to each Rating Agency;

provided, that no Eligible Investments may (i) evidence the right to receive only interest with respect to prepayable obligations underlying such instrument, or (ii) except with as collateral for repurchase agreements described in clause (e) of this definition, be purchased at a price greater than par if such instrument may be prepaid or called at a price less than its purchase price prior to its stated maturity.

Any investment in Eligible Investments described above may be made in the form of an entry made on the records of the issuer of such Eligible Investments.

Ratings of Eligible Investments referred to in the Trust Indenture shall be determined at the time of purchase of such Eligible Investment.

"**Enforcement Expense Reserve Account**" means the Account so designated and established pursuant to the Trust Indenture.

"**Enforcement Expense Transfer Cap**" means the aggregate limitation, applicable to each Fiscal Year, on the transfer of amounts from the Collection Account pursuant to the Trust Indenture for payment or reimbursement of Enforcement Expenses, equal to $2,000,000 for each Fiscal Year less the amount disbursed in such Fiscal Year for such purpose from the Operating Account pursuant to the Trust Indenture. At the discretion of the Authority, the maximum amount determined in the preceding sentence may be decreased by any other amounts provided from any other sources for payment of Enforcement Expenses, and such adjustment shall be reflected in the Officer's Certificate provided to the Trustee.

"**Enforcement Expenses**" means, as certified to the Trustee by an Officer's Certificate, any amount designated in such Officer's Certificate as being requisitioned for payment or reimbursement to the Enforcement Expense Reserve Account in connection with the costs incurred or to be incurred (including reserves for the same) by the office of the Attorney General of the State with respect to enforcement of the Master Settlement Agreement, the Qualifying Statute, the Consent Decree and related legislation.

"**Event of Default**" means an event specified under the caption "SECURITY FOR THE BONDS—Events of Default; Remedies—*Events of Default Under the Trust Indenture*" in this Offering Circular.

"**Fannie Mae**" means the Federal National Mortgage Association.

"**FHLB**" means any Federal Home Loan Bank.

"**FHLMC**" means the Federal Home Loan Mortgage Corporation.

"**First Subordinate Bonds**" means any Bonds identified as such in the applicable Series Supplement.

"**First Subordinate Turbo Redemption Account**" means the Account established, held and maintained by the Trustee pursuant to the Trust Indenture.

"**Fiscal Year**" means the twelve (12) month period commencing July 1 of each year and ending on June 30 of the succeeding year, or such other twelve (12) month period as the Authority or the State may determine from time to time to be the Authority's Fiscal Year. In the event of a change in the Authority's Fiscal Year, the Authority shall deliver an Officer's Certificate to the Trustee stating such change.

"**Fitch**" means Fitch Inc.; references to Fitch are effective so long as Fitch is a Rating Agency.

"**Fixed Sinking Fund Installment**" means each respective payment of principal to be made on Term Bonds that are Class 1 Senior Bonds scheduled to be made as set forth in a Series Supplement.

"**Fully Paid**" has the meaning given to such term under the caption "Payment of Bonds; Satisfaction and Discharge of Indenture" below.

"**Fully Subordinate Turbo Redemption Account**" means the Account established, held and maintained by the Trustee pursuant to the Trust Indenture.

"**Funds**" means the funds established under the provisions of the Trust Indenture, including any Accounts therein.

"**Junior Payments**" means Junior Payments so identified in or by reference to the Trust Indenture or any Supplemental Indenture.

"**Lump Sum Payment**" means a payment from a PM that results in, or is due to, a release of that PM from all or a portion of its future payment obligations under the MSA. For the purposes of the Trust Indenture (and not for purposes of the 2007 Sale Agreement), the term "Lump Sum Payment" does not include any payments that are Total Lump Sum Payments, any non-scheduled prepayments other than a Lump Sum Payment or any payments made with respect to prior payment obligations.

"**Lump Sum Payment Account**" means the Account held by the Trustee pursuant to the Trust Indenture.

"**Majority in Interest**" means, as of any particular date of calculation, the Holders of a majority of the Aggregate Bond Obligation eligible to act on a matter.

"**Master Settlement Agreement**" or "**MSA**" means the master settlement agreement and related documents (including the related Escrow Agreement) entered into on November 23, 1998, by the State and leading United States tobacco product manufacturers, and incorporated with the Consent Decree.

"**Maturity Date**" means, with respect to any Bond, the final date on which all remaining Principal or Accreted Value is due and payable.

"**Maximum Rate**" means the highest rate payable on a Bond to Holders as specified by Series Supplement.

"**Moody's**" means Moody's Investors Service; references to Moody's are effective so long as Moody's is a Rating Agency.

"**Net Proceeds**" means the amount of proceeds remaining following the sale of Bonds which are not required by the Authority to pay Costs of Issuance or amounts required to fund reserve funds or capitalized interest, if any, Operating Expenses, if any, amounts deposited to an escrow fund and used to defease or refund Bonds, or debt service on Bonds and other reserve funds.

"**Officer's Certificate**" means a certificate signed by an Authorized Officer of the Authority or, if so specified, of the Trustee.

"**Operating Account**" means the account held by the Authority pursuant to the Trust Indenture.

"**Operating Cap**" means (i) $250,000 in the Fiscal Year ending June 30, 2020, inflated in each following Fiscal Year by the greater of 3% or 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, plus (ii) in each Fiscal Year, Tax Obligations, if any, specified in an Officer's Certificate.

"**Operating Expenses**" means the reasonable operating expenses of the Authority, including without limitation, the cost of preparation of accounting and other reports, costs of maintenance of the ratings on the Bonds, insurance premiums, and costs of Authority meetings or other required activity of the Authority, counsel fees, including the fees of the Attorney General, and fees and expenses incurred for consultants and fiduciaries, all costs and expenses incurred by the State and other amounts, if any, which are required to be reimbursed or borne by the Authority pursuant to the 2007 Sale Agreement, Enforcement Expenses, and all other costs authorized by the Act or all other Operating Expenses so identified in the Trust Indenture.

"**Original Indenture**" means the Trust Indenture, dated as of October 1, 2007, by and between the Authority and the Trustee, as originally executed.

"**Outstanding Bonds**" means Bonds issued under the Trust Indenture, excluding: (i) Bonds that have been exchanged or replaced, or delivered to the Trustee for credit against the Principal; (ii) Bonds that have been paid or Fully 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 Trust 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 provisions of the Trust 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 Trust 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 by contract, statute, governmental order or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"**Paying Agent**" means the Trustee and any other Paying Agent designated from time to time pursuant to the Trust Indenture.

"**Payment Default**" means an Event of Default described in paragraph (a) or (b) of the definition of "Event of Default" under the caption "SECURITY FOR THE BONDS—Events of Default; Remedies—*Events of Default Under the Trust Indenture*" in this Offering Circular.

"**Payment Priorities**" means payment of Bonds in the following order of priority:

(a) first, the Senior Bonds are Fully Paid pursuant to the Senior Bonds Payment Priorities;

(b) second, the First Subordinate Bonds are Fully Paid;

(c) third, the Second Subordinate Bonds are Fully Paid;

(d) fourth, any Fully Subordinate Bonds are Fully Paid in accordance with the provisions of the applicable Series Supplement.

Each clause above is referred to in the Trust Indenture as a "Payment Priority."

"**Pledged Accounts**" means the Collection Account and all accounts and subaccounts, if any, of the Bond Service Fund.

"**Pledged Tobacco Receipts**" means the right, title and interest to 100% of the 2007 Sold Tobacco Receipts, which are payable to the Authority or the Trustee pursuant to the 2007 Sale Agreement and are subject to the lien of the Trust Indenture. For the avoidance of doubt, the Pledged Tobacco Receipts include, without limitation, all Lump Sum Payments and all Total Lump Sum Payments.

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

"**Principal**" means the amount of the principal due on the Maturity Date for any Bonds.

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

"**Projected Turbo Redemption**" means, for a Series of Bonds, each respective Turbo Redemption projected to be made pursuant to the Trust Indenture, as such projections are set forth on the Projected Turbo Schedule.

"**Projected Turbo Schedule**" means, for a Series of Bonds that includes Turbo Term Bonds, the schedule of projected redemptions of such Turbo Term Bonds set forth in the related Series Supplement or in an exhibit thereto.

"**Qualifying Statute**" means Chapter 1346, Ohio Revised Code, as amended from time to time.

"**Rating Agency**" means upon the issuance of the Series 2020 Senior Bonds, S&P with respect to the Series 2020A Bonds and Series 2020B-1 Bonds, and each nationally recognized statistical rating organization that has issued, at the request of the Authority with notice to the Trustee, a rating in effect for a Series of Bonds, as set forth in the related Series Supplement.

"**Rating Confirmation**" means written evidence that no rating assigned to the Bonds by any Rating Agency, without regard to credit enhancement, if any, will be withdrawn, qualified or reduced solely as a result of an action to be taken under the Trust Indenture.

"**Rebate Account**" means the Account, if any, established and maintained by the Trustee pursuant to the Trust Indenture.

"**Record Date**" means the last Business Day of the calendar month preceding a Distribution Date, or such other date as may be specified by the Trust Indenture or an Officer's Certificate; 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 Trust Indenture, including giving consent or direction to the Trustee.

"**Refunding Bonds**" means any Bond issued pursuant to the Trust Indenture to pay or provide for the payment of all or a portion of any Outstanding Bond.

"**Residual Certificate**" means that certificate evidencing residual interests, substantially in the form of Appendix A to the 2007 Sale Agreement.

"**S&P**" means S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, a division of The McGraw-Hill Companies, Inc., its successors and assigns; references to S&P are effective so long as S&P is a Rating Agency.

"**Second Subordinate Bonds**" means any Bonds identified as such in an applicable Series Supplement.

"**Second Subordinate Turbo Redemption Account**" means the Account established, held and maintained by the Trustee pursuant to the Trust Indenture.

"**Securities Depository**" means DTC or another securities depository specified by 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 selected by Officer's Certificate of the Authority.

"**Senior Bonds**" means the Series 2020 Senior Bonds designated as Senior Bonds in the applicable Series Supplements relating thereto and any other Bonds designated as Senior Bonds in a Series Supplement.

"**Senior Bonds Payment Priorities**" means payment of Senior Bonds in the following order of priority:

(1) first, the Class 1 Senior Bonds are Fully Paid in chronological order of Serial Maturities, Fixed Sinking Fund Installments and Maturity Dates therefor; and

(2) second, the Class 2 Senior Bonds are Fully Paid in chronological order by Maturity Date and within a maturity, by lot in accordance with the Trust Indenture.

"**Senior Debt Service**" means interest, redemption premium and Bond Obligation due on Outstanding Senior Bonds.

"**Senior Debt Service Account**" means the Account within the Bond Service Fund so designated and established pursuant to the Trust Indenture.

"**Senior Liquidity Reserve Account**" means the Account within the Bond Service Fund so designated and established pursuant to the Trust Indenture.

"**Senior Liquidity Reserve Requirement**" means an amount equal to the sum of the Class 1 Senior Liquidity Reserve Requirement and the Class 2 Senior Liquidity Reserve Requirement.

"**Senior Turbo Redemption Account**" means the Account in the Bond Service Fund so designated and established pursuant to the Trust Indenture.

"**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 2007 Bonds**" means the Authority's $5,531,594,541 Tobacco Settlement Asset-Backed Bonds, Series 2007, initially dated October 29, 2007, including any Bonds issued in exchange or replacement therefor.

"**Series 2020 Senior Bonds**" means the Series 2020A Bonds and Series 2020B Bonds.

"**Series 2020 Supplement**" means the Series 2020 Supplement, dated as of March 1, 2020, by and between the Authority and the Trustee, relating to the Series 2020 Senior Bonds.

"**Series 2020A Bonds**" means the Series 2020A-1 Bonds and Series 2020A-2 Bonds.

"**Series 2020A-1 Bonds**" means the Authority's $328,400,000 Tobacco Settlement Asset-Backed Refunding Bonds, Series 2020 Senior Bonds, Series 2020A-1 Class 1 Senior Current Interest Bonds (Federally Taxable).

"**Series 2020A-2 Bonds**" means the Authority's $1,139,510,000 Tobacco Settlement Asset-Backed Refunding Bonds, Series 2020 Senior Bonds, Series 2020A-2 Class 1 Senior Current Interest Bonds.

"**Series 2020B Bonds**" means the Series 2020B-1 Bonds, Series 2020B-2 Bonds and Series 2020B-3 Bonds.

"**Series 2020B-1 Bonds**" means the Authority's $100,000,000 Tobacco Settlement Asset-Backed Refunding Bonds, Series 2020 Senior Bonds, Series 2020B-1 Class 2 Senior Current Interest Bonds (Federally Taxable).

"**Series 2020B-2 Bonds**" means the Authority's $3,380,000,000 Tobacco Settlement Asset-Backed Refunding Bonds, Series 2020 Senior Bonds, Series 2020B-2 Class 2 Senior Current Interest Bonds.

"**Series 2020B-3 Bonds**" means the Authority's $404,286,396.50 Tobacco Settlement Asset-Backed Refunding Bonds, Series 2020 Senior Bonds, Series 2020B-3 Class 2 Senior Capital Appreciation Bonds.

"**Series Supplement**" means the Series 2020 Supplement and any other Supplemental Indenture providing for the issuance of a Series of Refunding Bonds, Additional Bonds or Additional Subordinate Bonds in accordance with the Trust Indenture.

"**Special Funds**" shall have the meaning set forth therefor in the Act and shall include the Collection Account and Bond Service Fund established pursuant to the Trust Indenture and any additional Fund or Account so designated in a Series Indenture or Supplemental Indenture.

"**State**" means the State of Ohio.

"**State Treasurer**" means the State Treasurer of the State.

"**Subordinate Payment Default**" means that Principal of, premium or interest on any First Subordinate Bond or Second Subordinate Bond has not been paid when due.

"**Supplemental Indenture**" means a Series Supplement or supplement to the Trust Indenture adopted and becoming effective in accordance with the terms of the Trust 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 Trust Indenture.

"**Surplus Collections**" means all Collections that are in excess of the requirements of the Trust Indenture for the funding of Operating Expenses (including Enforcement Expenses), interest, Principal, Tax Obligations, Junior Payments and maintenance of the Senior Liquidity Reserve Account.

"**Taxable Bonds**" means all Bonds so identified in the Series Supplement relating to such Bonds.

"**Tax Certificate**" means, collectively, the Authority Tax Certificate and the Tax Certificate of the State of Ohio executed and delivered by the Authority and the State with respect to the Series 2020 Senior Bonds (other than the Series 2020A-1 Bonds and the Series 2020B-1 Bonds) and each subsequent Series of Bonds consisting in whole or in part of Tax-Exempt Bonds, as originally executed and as it may be amended or supplemented from time to time in accordance with the terms thereof.

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

"**Tax Obligations**" means, with respect to the issuance of Tax-Exempt Bonds, if any, the rebate requirement and any penalties, fines or other payments required to be made to the United States of America under the arbitrage or rebate provisions of the Code.

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

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

"**Trust Indenture**" means the Amended and Restated Trust Indenture, together with the Series 2020 Supplement, as amended, supplemented and in effect from time to time.

"**Trustee**" means U.S. Bank National Association, its successors in interest and any successor trustee under the Trust Indenture.

"**Turbo Redemptions**" means (i) with respect to Turbo Term Bonds that are Senior Bonds, the redemption of such Turbo Term Bonds from amounts on deposit in the Senior Turbo Redemption Account pursuant to the Trust Indenture, (ii) with respect to Turbo Term Bonds that are First Subordinate Bonds, the redemption of such Turbo Term Bonds from amounts on deposit in the First Subordinate Turbo Redemption Account pursuant to the Trust Indenture, (iii) with respect to Turbo Term Bonds that are Second Subordinate Bonds, the redemption of such Turbo Term Bonds from amounts on deposit in the Second Subordinate Turbo Redemption Account pursuant to the Trust Indenture, and (iv) with respect to Turbo Term Bonds that are Fully Subordinate Bonds, the redemption of such Turbo Term Bonds from amounts on deposit in the Fully Subordinate Turbo Redemption Account as provided in the applicable Series Supplement.

"**Turbo Term Bonds**" means such maturities of Bonds as are designated as Turbo Term Bonds in the applicable Series Supplement.

"**Turbo Term Bond Maturity**" means the payment of principal or Accreted Value required to be made upon the final maturity of any Turbo Term Bond.

"**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.

SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE

Members of the Authority and State Officials Not Liable on Bonds or Agreement; Obligations of the Bonds; Limited Liability

As provided in the Act, the individuals who are from time to time members of the Authority, or their designees acting pursuant to Section 183.52 of the Ohio Revised Code, or the Authority's officers, staff, agents, or employees, when acting within the scope of their employment or agency, shall not be liable in their personal capacities on any Bonds or otherwise under the Trust Indenture, or for otherwise exercising or carrying out any purposes or powers of the Authority.

All covenants, agreements and obligations of the State contained herein or in the 2007 Sale Agreement shall be deemed to be the covenants, agreements and obligations of the State and not of any officer or employee of the State in his or her individual capacity, and no recourse shall be had hereunder or under the 2007 Sale Agreement for any claim based thereon or on the 2007 Sale Agreement against any officer or employee of the State or any person executing the 2007 Sale Agreement, in his or her individual capacity. Without limiting the generality of the foregoing, Bondholders or any other persons shall have no recourse against any officer or employee of the State with respect to any covenant, agreement or obligation of the State contained herein or resulting from such person executing and delivering the 2007 Sale Agreement. Any proceeding or action instituted against the State under the 2007 Sale Agreement shall be limited to the remedies set forth in Section 3.02(c) of the 2007 Sale Agreement.

Pursuant to the Act, (i) the Bonds are not general obligations of the State and the full faith and credit, revenue, and taxing power of the State are not being pledged to the payment of debt service on them or to any guarantee of the payment of that debt service, (ii) the Holders of Bonds shall have no right to have any moneys obligated or pledged for the payment of debt service except as provided in the Trust Indenture in accordance with the Act, and (iii) the rights of the Holders of Bonds to payment of debt service are limited to all or that portion of the Pledged Tobacco Receipts, and the Special Funds, pledged to the payment of debt service pursuant to the Trust Indenture in accordance with the Act, and each Bond shall bear on its face a statement to that effect.

Any liability of the Authority, including liability for damages, awards, settlement amounts, legal fees, costs, expenses, interest or any other form of monetary recovery, arising out of any actions or proceedings brought by the Trustee or any Bondholder pursuant to the provisions of the Trust Indenture or the 2007 Sale Agreement or otherwise against the Authority with respect to any covenants, indemnities, obligations, representations, responsibilities, warranties, or events of default under the Trust Indenture or the 2007 Sale Agreement or otherwise shall be limited and payable solely and only from the Collections. Under no circumstances shall any person or entity have recourse to or against, or any right to receive payment (including for the purpose of paying or satisfying any judgment, debt, liability or other obligation of the Authority) from any moneys or assets of the State, including funds in the State's general fund or any special fund or other account of the State.

Security and Pledge

In order to secure the payment of Bonds, with the priorities specified in the Trust Indenture, the Authority, in accordance with the Act, pledges and assigns in the Trust Indenture, as security, to the Trustee in trust upon the terms of the Trust Indenture (i) the Collections, (ii) all rights to receive the Collections and the proceeds of such rights, (iii) the Pledged Accounts and money and investments on deposit in or credited to the Pledged Accounts, (iv) subject to the Trust Indenture and subject to the terms and provisions of the 2007 Sale Agreement, all rights and remedies with respect to any breach by the State of any of its covenants, obligations, representations, and warranties under the 2007 Sale Agreement or under the Act, (v) all interests in the Pledged Tobacco Receipts of the Authority under the 2007 Sale Agreement, to which the State has consented to an assignment pursuant to the 2007 Sale Agreement, subject to the terms and limitations of the 2007 Sale Agreement, and (vi) 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 Trust Indenture. The property described in the preceding sentence is referred to as the "Collateral."

The pledge of Collateral made by the Authority in the Trust Indenture described in the paragraph above shall, in accordance with the Act, be immediately subject to the lien of such pledge without any physical delivery thereof or further act, and shall not be subject to other court judgments. Pursuant to the Act, the lien of any such pledge shall be valid and binding as against all parties having claims of any kind against the Authority, irrespective of whether such parties have notice thereof, and shall constitute a perfected security interest for all purposes of Chapter 1309 of the Ohio Revised Code and a perfected lien for purposes of any other interest, all without the necessity for separation or delivery of funds or for the filing or recording of the Trust Indenture, or proceedings relating thereto, or any certificate, statement, or other document with respect thereto.

Except as specifically provided in the Trust Indenture, the assignment and pledge of Collateral does not include: (i) 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 Bondholders, or (ii) any other right or power reserved to the Authority pursuant to the Act or other law; nor does the Trust Indenture preclude the Authority's enforcement of its rights under and pursuant to the 2007 Sale Agreement for the benefit of the Bondholders. Unless otherwise specified in the Series Supplement applicable thereto, the proceeds of any Bonds, other than those deposited in the Senior Liquidity Reserve Account, do not constitute Collections, are not pledged to the holders of such Bonds and are not subject to the lien of the Trust Indenture.

The Authority will implement, protect and defend the pledge and assignment of the Collateral by all appropriate legal action, the cost thereof to be an Operating Expense. The pledge and assignment made by the Trust Indenture and the covenants and agreements to be performed by or on behalf of the Authority shall be for the equal and ratable benefit, protection and security of the Holders to secure payment of any and all of the Outstanding Bonds, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of such Bonds over any other Bonds except as expressly provided in the Trust Indenture or permitted by the Trust Indenture.

Defeasance

Total Defeasance. When (i) there is held by or for the account of the Trustee Defeasance Collateral in such principal amounts, bearing interest at such fixed rates and with such maturities, including any applicable redemption

premiums, as will provide sufficient funds to pay, or to redeem in accordance with the Trust Indenture, all obligations to Holders in whole (to be verified by a nationally recognized firm of independent verification agents), (ii) any required notice of the deposit of Defeasance Collateral and any required notice of redemption shall have been duly given in accordance with the Trust Indenture or irrevocable instructions to give notice shall have been given to the Trustee, (iii) all the rights under the Trust Indenture of Bondholders have been provided for and all incurred Operating Expenses have been satisfied in accordance with the Trust Indenture, and (iv) the Trustee shall have received an opinion of Counsel to the effect that such defeasance will not, in and of itself, cause interest on any Tax-Exempt Bond to be included in gross income for federal income tax purposes, then upon Written Notice from the Authority to the Trustee, the Bondholders under the Trust Indenture shall cease to be entitled to any benefit or security under the Trust Indenture, except the right to receive payment of the funds held in such defeasance escrow and other rights which by their nature cannot be satisfied prior to or simultaneously with termination of the lien of the Trust Indenture, the Trust Indenture, and the lien and rights created by the Trust Indenture (except in such funds and investments) shall terminate and become null and void, and the Authority and the Trustee shall execute and deliver such instruments as may be necessary to discharge the Trustee's lien and rights (except in such funds and investments) created under the Trust Indenture. Upon such defeasance, the funds and investments required to pay or redeem the Bonds shall be irrevocably set aside for that purpose, subject, however, to the terms of the Trust Indenture, and money held for defeasance shall be invested only as provided above in this paragraph and applied by the Trustee or other Paying Agents, if any, to the retirement of the Bonds. Any funds or other property held by the Trustee and not required for payment or redemption of the Bonds shall be distributed in accordance with the order of the Authority. Upon defeasance of all Outstanding Bonds, any funds or property held by the Trustee and not required for payment or redemption of such Bonds shall be distributed by the Trustee to the registered owner of the Residual Certificate.

Partial Defeasance. The Authority may create a defeasance escrow for the retirement and defeasance of any Bonds (or portions of Bonds) (the "Bonds to be Defeased") by so directing the Trustee in an Officer's Certificate. When (i) there is held by or for the account of the Trustee Defeasance Collateral in such principal amounts, bearing interest at such fixed rates and with such maturities, including any applicable redemption premiums, as will provide sufficient funds to pay, or to redeem in accordance with the Trust Indenture, the Bonds to be Defeased (to be verified by a nationally recognized firm of independent verification agents), (ii) any required notice of redemption shall have been duly given in accordance with the Trust Indenture or irrevocable instructions to give notice shall have been given to the Trustee, along with the list identifying such Bonds to be Defeased, (iii) all the rights under the Trust Indenture of the Agents and the Bondholders applicable to the Bonds to be Defeased have been provided for and (iv) the Trustee shall have received an opinion of Counsel to the effect that such defeasance will not, in and of itself, cause interest on any Tax- Exempt Bond to be included in gross income for federal income tax purposes, then upon Written Notice from the Authority to the Trustee, the Holders of the Bonds to be Defeased under the Trust Indenture shall cease to be entitled to any benefit or security under the Trust Indenture to the extent of such defeasance except the right to receive payment of the funds held in such defeasance escrow and other rights which by their nature cannot be satisfied prior to or simultaneously with the below-described termination of the lien and rights created by the Trust Indenture (except in such funds and investments) shall terminate with respect to such Bonds to be Defeased. Upon such defeasance, the funds and investments required to pay or redeem the Bonds to be Defeased shall be irrevocably set aside for that purpose, subject, however, to the terms of the Trust Indenture, and money held for defeasance shall be invested only as provided above in this paragraph, and applied by the Trustee and other Paying Agents, if any, to the retirement of such Bonds, and such Bonds or portions of Bonds shall no longer be Outstanding under the Trust Indenture.

Defeasance of Turbo Term Bonds. For each Defeased Turbo Term Bond of the same Maturity Date and Series, the Authority must determine a "Defeasance Redemption Schedule" as described in paragraphs (i) and (ii) below. In establishing the defeasance escrow, the Defeased Turbo Term Bonds may not be redeemed more slowly than the Defeasance Redemption Schedule.

(i) For a given Turbo Term Bond Maturity of a given Series, the Trustee shall determine the pro rata portion of each Projected Turbo Redemption (shown, with respect to each Series of Bonds, in an exhibit to the related Series Supplement) that is allocable to the Defeased Turbo Term Bonds and notify the Authority of such determination. The pro rata portion of each Projected Turbo Redemption shall be calculated as of the date of the defeasance by: (a) deducting the Turbo Redemptions which have already occurred from the earliest Projected Turbo Redemptions to arrive at a schedule of "Projected Turbo Redemptions Adjusted for Prior Payments"; (b) calculating

a ratio of the Bond Obligation to be defeased of each Turbo Term Bond Maturity divided by the then Outstanding Bond Obligation of the Turbo Term Bond Maturity; and (c) applying that ratio to the Projected Turbo Redemptions Adjusted for Prior Payments, resulting in a schedule for each Turbo Term Bond Maturity defined as the "Defeasance Redemption Schedule," and each such payment referred to as a "Defeasance Redemption."

(ii) For each Defeased Turbo Term Bond of the same Maturity Date and Series upon Written Notice from the Authority, and written direction to invest in Defeasance Collateral, the Trustee shall establish a defeasance escrow which: (a) redeems on the earliest possible date the Defeasance Redemptions which were originally projected to occur prior to the date of the defeasance, if any; and (b) thereafter, redeems the Defeasance Redemptions according to their Defeasance Redemption Schedule.

(iii) In order to establish the Projected Turbo Redemption Schedule in effect for each Turbo Term Bond Maturity of a given Series after each partial defeasance, the Trustee shall determine the schedule of Projected Turbo Redemptions Adjusted for Prior Payments then applicable, notify the Authority of such determination and permanently subtract the Defeasance Redemption Schedule from such schedule of Projected Turbo Redemptions Adjusted for Prior Payments.

(iv) The provisions described under this caption "Defeasance of Turbo Term Bonds" shall not be construed to limit the optional redemption of Bonds of a Series by the Authority pursuant to the applicable Series Supplement.

Payment of Bonds; Satisfaction and Discharge of Indenture

Whenever all Bonds have been Fully Paid and all incurred Operating Expenses shall have been satisfied, then, upon Written Notice from the Authority to the Trustee (and subject to the provisions of the Trust Indenture for Bonds that are deemed Fully Paid in accordance with paragraph (iv) below), the Trust Indenture and the lien and rights created by the Trust Indenture shall terminate and become null and void, and the Authority and the Trustee shall execute and deliver such instruments as may be necessary to discharge the Trustee's lien created under the Trust Indenture. Upon the discharge of the Trustee's lien created under the Trust Indenture, the Trustee and the Authority shall cooperate in delivering instructions to the State to instruct the Escrow Agent under the MSA to transfer 2007 Sold Tobacco Receipts to or upon the order of the owner of the Residual Certificate.

A Bond shall be deemed "Fully Paid" only if:

(i) such Bond has been canceled by the Trustee or delivered to the Trustee for cancellation, including but not limited to under the circumstances described in the provisions of the Trust Indenture relating to transfer, conversion and replacement of Bonds; or

(ii) such Bond shall have matured or been called for redemption and, on such Maturity Date or redemption date, money for the payment of the Bond Obligation, redemption premium, if any, and interest on such Bond is held by the Trustee in trust for the benefit of the person entitled thereto; or

(iii) such Bond is alleged to have been lost, stolen, destroyed, partially destroyed, or defaced and has been replaced as provided in the Trust Indenture; or

(iv) such Bond has been defeased as provided in the Trust Indenture (whether as part of a defeasance of all or less than all of the Bonds).

Bonds of the Authority

By Series Supplements complying with the Trust Indenture, the Authority may authorize, issue, sell and deliver the Series 2020 Senior Bonds and one or more Series of Refunding Bonds, Additional Bonds or Fully Subordinate Bonds from time to time in such principal amounts and Accreted Values at maturity as the Authority shall determine. The Bonds of each Series shall bear such dates, mature at such times, be subject to such terms of payment, bear interest at such rates, be in such form and denomination, carry such registration privileges, be

executed in such manner, and be payable in such medium of payment, at such place and subject to such terms of redemption, as the Authority may provide in the Trust Indenture and in the related Series Supplement. The proceeds of each Series of Bonds shall be applied as provided in the related Series Supplement.

Refunding Bonds may be issued to refund all Bonds in whole (including the funding of defeasance escrows and deposits to Accounts in connection with such issuance).

Refunding Bonds may be issued to refund Bonds in part (including the funding of defeasance escrows and deposits to Accounts in connection with such issuance) and Additional Bonds may be issued at the discretion of the Authority, but only if upon the issuance of such Refunding Bonds and/or Additional Bonds: (A) the amount on deposit in the applicable subaccounts in the Senior Liquidity Reserve Account immediately following the issuance of such Refunding Bonds and/or Additional Bonds will be at least equal to the Class 1 Senior Liquidity Reserve Requirement and the Class 2 Senior Liquidity Reserve Requirement, as applicable; (B) no Event of Default shall have occurred and be continuing after the date of issuance of such Bonds; (C) the expected weighted average life of each Turbo Term Bond that will remain Outstanding after the date of issuance of the Refunding Bonds and/or Additional Bonds as computed on the basis of new projections on the date of sale of the Refunding Bonds and/or Additional Bonds will not exceed (x) the remaining expected weighted average life of each such Turbo Term Bond as computed by the Authority on the basis of new projections assuming that no such Refunding Bonds and/or Additional Bonds are issued, plus (y) one year; and (D) a Rating Confirmation is received for any Bonds that will remain Outstanding after the date of issuance of the Refunding Bonds and/or Additional Bonds which are then rated by a Rating Agency.

Each Rating Agency shall be given notice of the issuance of any Refunding Bonds.

One or more Series of Bonds (the "Fully Subordinate Bonds") may be issued for any lawful purpose if there is no payment permitted for such bonds until all previously issued Bonds are Fully Paid. Fully Subordinate Bonds may be issued without satisfying the requirements described in the second above paragraph.

Funds and Accounts

The following Funds and Accounts are established under the Trust Indenture and shall be held and maintained by the Trustee, the Collection Account and the Bond Service Fund constituting "Special Funds" under the Act:

(a) the Collection Account;

(b) the Bond Service Fund, and within the Bond Service Fund:

(i) the Senior Debt Service Account;

(ii) the Senior Liquidity Reserve Account, and within the Senior Liquidity Reserve Account, the Class 1 Senior Liquidity Reserve Subaccount and the Class 2 Senior Liquidity Reserve Subaccount;

(iii) the Senior Turbo Redemption Account;

(iv) Lump Sum Payment Account; and

(v) the First Subordinate Turbo Redemption Account, Second Subordinate Turbo Redemption Account, and Fully Subordinate Turbo Redemption Account.

The following accounts shall be held and maintained by the Trustee on behalf of the Authority and are not Pledged Accounts nor are such accounts subject to the lien of the pledge and assignment described in the Trust Indenture:

(a) Costs of Issuance Account; and

(b) Operating Account.

The following account shall be held and maintained by the Authority and is not a Pledged Account nor is such account subject to the lien of the pledge and assignment described in the Trust Indenture:

(a) Enforcement Expense Reserve Account.

An Authorized Officer of the Authority may direct the Trustee to, and the Trustee shall establish a Rebate Account, which shall not be a Pledged Account, to account for and act as a repository for any penalties, fines or other payments (including, but not limited to, arbitrage and yield reduction payments) required to be made to the United States of America pursuant to the arbitrage or rebate provisions of the Code, relating to Tax-Exempt Bonds. Moneys in the Rebate Account shall be disbursed as directed by an Authorized Officer of the Authority, in accordance with the Tax Certificate. The Authority may by Supplemental Indenture establish additional Pledged Accounts under the Trust Indenture.

Moneys in the Pledged Accounts shall be invested in accordance with the Trust Indenture. In the event funds transfer instructions are given (other than in writing at the time of the execution of the Trust Indenture), whether in writing, by telecopier or otherwise, the Trustee is authorized to seek confirmation of such instructions by telephone call-back to the person or persons designated by an Authorized Officer of the Authority, and the Trustee may rely upon the confirmations of anyone purporting to be the person or persons so designated. The persons and telephone numbers of call-backs may be changed only in writing actually received and acknowledged by the Trustee.

Investments

Generally. Pending its use under the Trust Indenture, money in the Pledged Accounts held by the Trustee shall be invested by the Trustee in Eligible Investments pursuant to written direction of the Authority (which shall specify the particular investment to be made) if there is not then an Event of Default actually known to an Authorized Officer of the Trustee. Such Eligible Investments shall mature or be redeemable at the option of the Trustee on or before the Business Day preceding each next succeeding Distribution Date, except to the extent that other Eligible Investments timely mature or are so redeemable in an amount sufficient to make payments under the Trust Indenture on the next succeeding Distribution Date. Investments shall be held by the Trustee in the respective Pledged Accounts and shall be sold or redeemed to the extent necessary to make payments or transfers from each Pledged Account. The Trustee shall not be liable for any losses, fees, taxes or other charges on investments, reinvestments or liquidations of investments made in accordance with this paragraph unless such losses were caused by the Trustee's negligence, willful misconduct or negligent failure to follow instructions of the Authority properly given under the Trust Indenture. The Trustee may conclusively rely upon the Authority's written instructions as to both the suitability and legality of the directed investments and such written direction shall be deemed to be a certification that such directed investments constitute Eligible Investments. If the Authority shall have failed to give written investment directions to the Trustee, then the Trustee shall invest the funds in the Pledged Accounts in investments specified in subsection (a) of the definition of Defeasance Collateral maturing not later than prior to the next Distribution Date; provided, however, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee shall have received written investment directions of the Authority directing the Trustee to invest the funds in such investments and, if no such written order is so received, the Trustee shall notify the Authority and shall hold such moneys uninvested until receipt of such written directions.

Senior Liquidity Reserve Account. No later than May 15 of each year commencing May 15, 2008, the Trustee shall value the money and investments in the Senior Liquidity Reserve Account, and the subaccounts therein, according to the methods set forth in the Trust Indenture and shall promptly notify the Authority of such valuation. Any amounts in the applicable subaccount in the Senior Liquidity Reserve Account in excess of the Class 1 Senior Liquidity Reserve Requirement or the Class 2 Senior Liquidity Reserve Requirement, as applicable, shall be applied as provided in the Trust Indenture. If, after receipt of any Pledged Tobacco Receipts, the Trustee determines that a withdrawal from the Senior Liquidity Reserve Account will be required on a Distribution Date in any year, the Trustee shall as soon as practicable notify the provider under any Eligible Investment relating to the Senior Liquidity Reserve Account of the estimated amount of the withdrawal and the projected date of the withdrawal. In no event shall such notice be given later than ten (10) Business Days prior to the applicable

Distribution Date. In the event no Event of Default has occurred and an investment meeting the requirements of clause (i) of the definition of Eligible Investments is deposited into the applicable subaccount in the Senior Liquidity Reserve Account such that the cash and the value of such Eligible Investment exceed the Class 1 Senior Liquidity Reserve Requirement or the Class 2 Senior Liquidity Reserve Requirement, as applicable, such excess cash shall be applied as provided in the Trust Indenture.

Unclaimed Money

Except as may otherwise be required by applicable law, in case any money deposited with the Trustee or a Paying Agent for the payment of the Bond Obligation, or interest or premium, if any, on any Bond remain unclaimed for three (3) years after such Bond Obligation, interest or premium has become due and payable, the Agent may and upon receipt of a written request of the Authority will pay over to the Authority the amount so deposited and thereupon the Agent and the Authority shall be released from any further liability hereunder with respect to the payment of Bond Obligation, interest or premium and the owner of such Bond shall be entitled (subject to any applicable statute of limitations) to look only to the Authority as an unsecured creditor for the payment thereof.

Covenants and Representations of the Authority

Contract; Obligations to Bondholders. In consideration of the purchase of any or all of the Bonds by those who shall hold the same from time to time, the provisions of the Trust Indenture shall be a part of the contract of the Authority with Bondholders. The pledge of the Collateral made in the Trust Indenture and the covenant set forth in the Trust Indenture to be performed by the Authority shall be for the equal benefit, protection and security of the Bondholders as such rights are described in the Trust Indenture. All of the Bonds of the same priority, regardless of the time or times of their issuance or maturity, shall be of equal rank without preference, priority or distinction of any thereof over any other except as expressly provided pursuant to the Trust Indenture.

The Authority covenants to pay when due all sums payable on the Bonds, but only from the Collections and other moneys constituting Collateral designated in the Trust Indenture, subject only to (i) the Trust Indenture, and (ii) to the extent permitted by the Trust Indenture, agreements with Holders of Bonds pledging particular collateral for the payment thereof. The obligation of the Authority to pay the Bond Obligation, interest and redemption premium, if any, to the Holders of Bonds from the Collections and other moneys constituting Collateral described in the Trust Indenture, shall be absolute and unconditional, shall be binding and enforceable in all circumstances whatsoever, and shall not be subject to setoff, recoupment or counterclaim.

The Authority represents that it is duly authorized pursuant to the Act to create and issue the Bonds, to enter into the Trust Indenture and to pledge the Collateral as security in accordance with the Act. The Collateral so pledged is and will be free and clear of any pledge, lien, security interest, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Trust Indenture, and all action legally required on the part of the Authority to that end has been duly and validly taken. The Bonds and the provisions of the Trust Indenture are and will be the valid and binding obligations of the Authority in accordance with their terms.

Operating Expenses. The Authority shall pay its Operating Expenses to the parties entitled thereto, to the extent the funds are available therefor, but solely from funds available therefor in the Operating Account (and, with respect to Enforcement Expenses, also from the Collection Account in accordance with the Trust Indenture), and only to the extent provided in the Trust Indenture. In addition, the Authority shall also pay from funds available in the Operating Account all Tax Obligations.

Further Assurances. At any and all times the Authority shall, so far as it may be authorized or permitted by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning, confirming and effecting the security interest in the Collateral pledged or assigned by the Trust Indenture as security, or intended so to be, or which the Authority may hereafter become bound to pledge or assign as security.

Tax Covenants. The Authority shall, at or prior to the issuance thereof, execute the Tax Certificates and 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 § 103(a) of the Code; and no funds of the Authority shall 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, including but not limited to actions relating to the rebate of arbitrage earnings and the expenditure and investment of proceeds and moneys deemed to be proceeds of Tax-Exempt Bonds, as more fully set forth in the Tax Certificate. If and to the extent required by the Code, the Authority shall 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. Notwithstanding any other provisions of the Trust Indenture, the requirements described in this paragraph shall survive the defeasance or other payment of the Tax Exempt Bonds.

Accounts and Reports. The Authority shall:

(a) cause to be kept books of account in which complete and accurate entries shall be made of its transactions relating to all Funds and Accounts under the Trust Indenture, which books shall, at all reasonable times and at the expense of the Authority, be subject to the inspection of the Trustee and the Holders of an aggregate of not less than 25% in Aggregate Bond Obligation then Outstanding or their representatives duly authorized in writing;

(b) annually, within 180 days after the close of the Fiscal Year ending June 30, 2008 and of each Fiscal Year thereafter, deliver to the Trustee and each Rating Agency, a copy of its financial statements for such Fiscal Year, as audited by State auditors, if so provided by law, or, otherwise, by an independent certified public accountant or accountants;

(c) keep in effect at all times by Officer's Certificate an accurate and current schedule of all debt service to be payable during the life of then Outstanding Bonds, certifying for the purpose such estimates as may be necessary; and

(d) for each Distribution Date, direct the Trustee to provide to each Rating Agency a written statement indicating:

(i) the Outstanding Bonds of each Series;

(ii) the amount of Bond Obligation to be paid to the Holders of the Bonds of each Series on such Distribution Date;

(iii) the amount of interest to be paid to the Holders of the Bonds of each Series on such Distribution Date;

(iv) the Turbo Redemptions to be made for each Series as of that Distribution Date;

(v) the amount on deposit in each Fund and Account as of that Distribution Date;

(vi) the Class 1 Senior Liquidity Reserve Requirement and the Class 2 Senior Liquidity Reserve Requirement as of that Distribution Date; and

(vii) whether or not a Lump Sum Payment or Total Lump Sum Payment has been received.

(viii) The Authority is responsible for providing to the Trustee the information set forth above in subsection (vii). The Trustee's responsibility for delivering the information described in subsection (vii) is limited to the extent such information is provided by the Authority.

(ix) The Trustee shall have no duty to review, verify or analyze report delivered pursuant to paragraph (b) above and shall hold such report solely as a repository for the benefit of the Owners of the Bonds. The Trustee shall not be deemed to have notice of any information contained therein, or default or Event of Default which may be disclosed therein in any manner.

Ratings. Unless otherwise specified by Series Supplement, the Authority shall pay such reasonable fees and provide such available information as may be necessary to obtain and keep in effect on each Series of Bonds the number of ratings from nationally recognized statistical rating organizations, if any, originally assigned to each such Series.

Affirmative Covenants. The Authority covenants and agrees as follows under the Trust Indenture:

Protection of Collateral. The Authority shall 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 pledge and assignment (and the priority thereof) of the Trust Indenture; (ii) perfect, publish notice of or protect the validity of any pledge and assignment made or to be made by the Trust Indenture; (iii) preserve and defend title to the Collateral pledged under the Trust Indenture and the rights of the Trustee and the Bondholders in such Collateral against the claims of all persons and parties, including the challenge by any party to the validity or enforceability of the Trust Indenture or the Act; (iv) enforce the 2007 Sale Agreement; (v) pay any and all taxes lawfully levied or assessed upon all or any part of the Collateral pledged hereunder; or (vi) carry out more effectively the purposes of the Trust Indenture.

Performance of Obligations. The Authority (i) shall diligently pursue any and all actions to enforce its rights under each instrument or agreement included in the Collateral pledged hereunder and (ii) shall not take any action and will use its best efforts not to permit any action to be taken by others that would release the State from any of its covenants or obligations under the 2007 Sale Agreement, or the Authority from any of its obligations under the Trust Indenture or the 2007 Sale Agreement, or that would result in the amendment, hypothecation, subordination, termination or discharge of, or impair the validity or effectiveness of, the Trust Indenture or the 2007 Sale Agreement, except, in each case, as expressly provided in the Act, the Trust Indenture or the 2007 Sale Agreement.

Notice of Events of Default. The Authority shall give the Trustee and the Rating Agencies prompt written notice of each Default or Event of Default under the Trust Indenture.

Payment of Operating Expenses. The Authority covenants to pay its Operating Expenses to the parties entitled thereto, which covenant is solely for the benefit of the Bondholders and is not intended to be, and shall not be, for the benefit of any party to which the Authority may be obligated to make a payment as an Operating Expense.

Negative Covenants. The Authority covenants and agrees as follows under the Trust Indenture:

Maintenance of Existence. The Authority shall not take any action that shall impair its existence and rights as a body, both corporate and politic, constituting a public body, agency, and instrumentality of the State and performing essential functions of the State.

Sale of Assets. Except as expressly permitted by the Trust Indenture, the Authority shall not sell, transfer, exchange or otherwise dispose of any of the Collateral.

No Setoff. The Authority shall 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 assert any claim against any present or former Bondholder by reason of the payment of taxes levied or assessed upon any part of the Collateral.

Liquidation. The Authority shall not take any action with the intention of terminating its existence or dissolving or liquidating in whole or in part.

Limitation of Liens. The Authority shall not (i) permit the validity or effectiveness of the Trust Indenture or the 2007 Sale Agreement to be impaired, or permit the lien of the Trust Indenture to be amended, hypothecated, subordinated, terminated or discharged, or permit the Authority to be released from any covenants or obligations with respect to the Bonds under the Trust Indenture except as may be expressly permitted by the Trust Indenture, (ii) except as otherwise permitted by the Trust Indenture, permit, on a parity basis, any lien, charge, excise, claim, security interest, mortgage or other encumbrance (other than the lien of the Trust Indenture) to be created on or extend to or otherwise arise upon or burden the Collateral or any part thereof or any interest therein or the proceeds thereof or (iii) permit the lien of the Trust Indenture not to constitute a valid pledge in the Collateral.

Limitations on Consolidation, Merger, Sale of Assets, etc. Except as otherwise provided in the Trust Indenture, the Authority shall not affirmatively take action to consolidate or merge with or into any other person, or be succeeded by another entity, unless:

(i) the person surviving such consolidation or merger or succession (if other than the Authority) is organized or established and existing under the laws of the United States, the State or any state and expressly assumes the due and punctual payment of the Bond Obligation of and premium, if any, and interest on all Bonds and the performance or observance of every agreement and covenant of the Authority in the Trust Indenture;

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

(iii) the Authority has received a Rating Confirmation;

(iv) the Authority has received and delivered to the Trustee an opinion of Counsel to the effect that such transaction will not have material adverse tax consequence to the Authority and will not adversely affect the exclusion of interest on any Tax-Exempt Bond from gross income for federal income tax purposes;

(v) any action as is necessary to maintain the lien and pledge and assignment by the Trust Indenture has been taken; and

(vi) 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 Trust Indenture and that all conditions precedent to such transaction have been complied with.

Restricted Payments. The Authority shall not direct the Trustee to make payments to or distributions from the Collection Account except in accordance with the Trust Indenture.

Amendment of Agreement. The Authority covenants and agrees that it will not amend the 2007 Sale Agreement except as described in this paragraph. The Authority may amend the 2007 Sale Agreement without prior notice to or the consent of the Trustee or any of the Bondholders: (a) to amend Section 6.02 of the 2007 Sale Agreement; (b) to cure any ambiguity; (c) to correct or supplement any provisions in the 2007 Sale Agreement; (d) to correct or amplify the description of the 2007 Sold Tobacco Receipts; (e) to add additional covenants for the benefit of the Authority, the Trustee, the State or the Bondholders; or (f) for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions in the 2007 Sale Agreement that shall not, as evidenced by a Rating Confirmation delivered to the Trustee, adversely affect in any material respect the Bondholders. The Authority shall provide a copy of any such amendment to the Trustee.

Except as otherwise provided in the preceding paragraph, the 2007 Sale Agreement may also be amended from time to time by the Authority with the written consent of a Majority in Interest of the Holders of the Aggregate Bond Obligation of Senior Bonds, or of First Subordinate Bonds when there are no Senior Bonds Outstanding, or of Second Subordinate Bonds when there are no Senior Bonds and First Subordinate Bonds Outstanding.

It shall not be necessary for the consent of Holders as described above to approve the particular form of any proposed amendment or consent, but it shall be sufficient if such consent shall approve the substance thereof.

Without the prior written consent of the Trustee, no amendment, supplement or other modification of the 2007 Sale Agreement shall be entered into or be effective if such amendment, supplement or modification affects the Trustee's, as applicable, own rights, duties or immunities under the 2007 Sale Agreement or otherwise.

Limitation of Rights and Remedies

All of the provisions of the Trust Indenture described under the captions "Limitations of Rights and Remedies," "Acknowledgment by State in the 2007 Sale Agreement," "Pledges; Non-Impairment Covenants" and "Important Security Provisions" are subject in all respects to the provisions of the Trust Indenture described under the caption "Members of the Authority and State Officials Not Liable on Bonds or Agreement; Obligations of the Bonds; Limited Liability" and Sections 3.02, 6.04, 6.08 and 6.10 of the 2007 Sale Agreement. Such provisions of the Trust Indenture certain representations, acknowledgments, consents, warranties, covenants and other obligations made by the State in the 2007 Sale Agreement with the Authority. Nothing in the Trust Indenture is intended or shall be construed to make the State a party to the Trust Indenture or to otherwise create any contractual promise, liability or obligation of the State under the Trust Indenture; provided, however, that this shall not preclude the Trustee from pursuing certain rights and remedies of the Authority arising under the 2007 Sale Agreement against the State that have been assigned by the Authority to the Trustee under the Trust Indenture, subject to the limitations and provisions of the 2007 Sale Agreement and the Trust Indenture.

Acknowledgment by State in the 2007 Sale Agreement

The 2007 Sale Agreement provides that the State acknowledges and consents to any assignment and pledge by the Authority to the Trustee pursuant to the Trust Indenture for the benefit of the Bondholders of any or all right, title and interest of the Authority in, to and under the Pledged Tobacco Receipts or the assignment of any or all of the Authority's rights and obligations under the 2007 Sale Agreement to the Trustee.

Pledges; Non-Impairment Covenants

Under the 2007 Sale Agreement, the State has covenanted and agreed with the Authority that the Authority can include in the Trust Indenture the pledges made by the State that the State will: (i) maintain statutory authority for, and cause to be collected and paid directly to the Authority or its assignee, the Pledged Tobacco Receipts, (ii) enforce the rights of the Authority to receive the 2007 Sold Tobacco Receipts, (iii) not materially impair the rights of the Authority to fulfill the terms of its agreements with the Holders of Outstanding Bonds under the Trust Indenture, (iv) not materially impair the rights and remedies of the Holders of Outstanding Bonds or materially impair the security for those Outstanding Bonds, (v) enforce the MSA and the Consent Decree and diligently enforce the Qualifying Statute to effectuate the collection of the Pledged Tobacco Receipts, (vi) cause the Attorney General of the State to irrevocably instruct the escrow agent under the MSA to transfer all Pledged Tobacco Receipts directly to the Trustee as assignee of the Authority, and (vii) not amend the MSA, or amend or repeal the Qualifying Statute, in any manner that would materially impair the rights of the Bondholders, until the Bonds, together with the interest thereon, and all costs and expenses in connection with any action or proceeding by or on behalf of Bondholders, are fully paid and discharged pursuant to the terms of the Trust Indenture. As stated in Section 183.51 of the Ohio Revised Code, (a) nothing in said subsection or the bond proceedings shall preclude or limit, or be construed to preclude or limit, the State from regulating the sale of cigarettes or other tobacco products, or from defending or prosecuting cases or other actions relating to the sale or use of cigarettes or other tobacco products, and (b) except as otherwise may be agreed in writing by the State Attorney General, nothing in said subsection or the bond proceedings shall modify or limit, or be construed to modify or limit, the responsibility, power, judgment, and discretion of the State Attorney General to protect and discharge the duties, rights and obligations of the State under the MSA, the Consent Decree, or the Qualifying Statute.

Pursuant to the Act, the Authority covenants in the Trust Indenture that it shall not be authorized to and shall not file a voluntary petition under the Federal Bankruptcy Code or voluntarily commence any similar bankruptcy proceeding under State law including, without limitation, consenting to the appointment of a receiver or trustee or making a general or specific assignment for the benefit of creditors, and neither any public officer or any

organization, entity, or other person shall authorize the Authority to be or become a debtor under the Federal Bankruptcy Code or take any of those actions under the Federal Bankruptcy Code. Pursuant to the Act, the State covenants, and pursuant to the Act authorizes the Authority to include such covenant in the Trust Indenture, not to permit the Authority, or permit any public officer or organization, entity, or other person to authorize the Authority, prior to the date which is one year and one day after which the Authority no longer has any Bonds Outstanding, (1) to file a voluntary petition under the Federal Bankruptcy Code, or (2) to voluntarily commence any similar bankruptcy proceeding under state law including, without limitation, consenting to the appointment of a receiver or trustee or making a general or specific assignment for the benefit of creditors.

Important Security Provisions

The Authority acknowledges that the 2007 Sale Agreement constitutes an important security provision of the Bonds and waives any right to assert any claim to the contrary.

Trustee's Organization, Authorization, Capacity and Responsibility

The Trustee represents and warrants as of the Delivery Date for the Series 2020 Senior Bonds that it is duly organized and validly existing as a national banking association, with the capacity to exercise the powers and duties of the Trustee hereunder, and that by proper corporate action it has duly authorized the execution and delivery of the Trust Indenture.

The duties and responsibilities of the Trustee shall be as provided by law and as expressly set forth in the Trust Indenture and in any other agreement as may be entered into by the Authority and the Trustee. Notwithstanding the foregoing, no provision of the Trust Indenture shall require the Trustee to expend or risk its own funds in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, unless it receives indemnity satisfactory to it against any loss, liability or expense. Whether or not therein expressly so provided, every provision of the Trust Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the Agents provisions of the Indenture. The Trustee shall not be under any obligation to take any action at the request or direction of the Bondholders unless and until the requisite amount of Bondholders shall request or direct the Trustee to take such action in writing and furnish the Trustee reasonable security and indemnity against any expected expense or liability.

As Trustee under the Trust Indenture:

(i) the Trustee may conclusively rely and shall be fully protected in acting or refraining from acting upon any Officer's Certificate, Written Notice, opinion of counsel, resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document reasonably believed by it to be genuine and to have been signed or presented by an Authorized Officer of the proper person or persons. The Trustee need not investigate any fact or matter stated in any document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit;

(ii) before the Trustee acts or refrains from acting, it may require an Officer's Certificate and/or an opinion of counsel. The Trustee shall not be liable for any action it takes or omits to take in accordance with such certificate or opinion. Whenever in the administration of the trusts of the Trust Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering or omitting to take any action hereunder, such matter (unless other evidence in respect thereof be specifically prescribed in the Trust Indenture) may, in the absence of negligence or willful misconduct on the part of the Trustee, be deemed to be conclusively proved and established by an Officer's Certificate or Written Notice of the Authority delivered to the Trustee, and such certificate or Written Notice, in the absence of negligence or willful misconduct on the part of the Trustee, shall be full warrant to the Trustee for any action taken, suffered or omitted to be taken by it under the provisions of the Trust Indenture upon the faith thereof;

(iii) any request, direction, order or demand of the Authority mentioned in the Trust Indenture shall be sufficiently evidenced by an Officer's Certificate (unless other evidence in respect thereof be specifically prescribed in the Trust Indenture); and any Authority resolution may be evidenced to the Trustee by a copy thereof certified by the secretary or an assistant secretary of the Authority;

(iv) prior to the occurrence of an Event of Default hereunder and after the curing or waiving of all Events of Default, the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, Officer's Certificate, Written Notice, opinion of Counsel, Authority resolution, statement, instrument, opinion, report, notice, request, consent, order, approval, appraisal, bond, debenture, note, coupon, security, or other paper or document unless requested or directed in writing so to do by a Majority in Interest of the Senior Bonds affected and then Outstanding; and, that, if the payment within a reasonable time to the Trustee of the costs, expenses or liabilities likely to be incurred by it in the making of such investigation is, in the opinion of the Trustee, not reasonably assured to the Trustee by the security afforded to it by the terms of the Trust Indenture, the Trustee may require indemnity satisfactory to it against such expenses or liabilities as a condition to proceeding.

Rights and Duties of the Agents

All money and investments received by the Agents under the Trust Indenture shall be held in trust, in a segregated trust account in the trust department of such Agent, not commingled with any other funds, and applied solely pursuant to the provisions of the Trust Indenture.

The Agents shall keep accurate and complete books of account and records (separate from its other accounts), of all of their transactions hereunder, including with respect to all Funds and Accounts. The Agents shall permit the Authority and the State and their authorized representatives to access, examine, audit, excerpt and transcribe such books of accounts and other records relating to transactions hereunder. Such books and records shall be made available to the Authority, the State, and their representatives at reasonable times and at no cost during the time any Bonds are outstanding and for a period of three (3) years following the complete payment and satisfaction of the Bonds and all other obligations under the Trust Indenture.

The Agents shall not be required to monitor the financial condition of the Authority and, unless otherwise expressly provided, shall not have any responsibility with respect to reports, notices, certificates or other documents filed with them hereunder, except to make them available for inspection by the Bondholders.

Each Agent shall be entitled to the advice of counsel of its selection (who may be counsel for any party) and shall not be liable for any action taken or omitted in good faith in reliance on such advice. Each Agent may rely conclusively on any notice, certificate or other document furnished to it under the Trust Indenture and reasonably believed by it to be genuine. An Agent shall not be liable for any action taken or omitted to be taken by it in good faith and reasonably believed by it to be within the discretion or power conferred upon it, or taken by it pursuant to any direction or instruction by which it is governed under the Trust Indenture or omitted to be taken by it by reason of the lack of direction or instruction required for such action, or be responsible for the consequences of any error of judgment reasonably made by it. When any payment or consent or other action by an Agent is called for by the Trust Indenture, the Agent may defer such action pending receipt of such evidence, if any, as it may reasonably require in support thereof. A permissive right or power to act shall not be construed as a requirement to act.

The Agents shall in no event be liable for the application or misapplication of funds, or for other acts or failures to act, by any person, firm or corporation except by their respective members, directors, officers, agents, appointees and employees. No recourse shall be had for any claim based on the Trust Indenture or the Bonds against any director, officer, agent or employee of any Agent.

Nothing in the Trust Indenture shall obligate any Agent to pay any debt or meet any financial obligations to any person in relation to the Bonds except from money received for such purposes under the provisions of the Trust Indenture or from the exercise of the Trustee's rights hereunder.

The Agents may be or become the owner of or trade in the Bonds with the same rights as if they were not the Agents.

Unless otherwise specified by Series Supplement or required by State law, rules or regulations or procedures, the Agents shall not be required to furnish any bond or surety. The Authority covenants and agrees to pay, as and only as an Operating Expense, to the Agents from time to time, and the Agents shall be entitled to, the fees and expenses agreed in writing in a separate fee agreement, and will further pay or reimburse the Agents upon request for all reasonable expenses, disbursements and advances incurred or made by the Agents in accordance with any of the provisions of the separate fee agreement (including the reasonable compensation and the reasonable expenses and disbursements of their counsel and of all persons not regularly in their employ).

The Authority shall, only to the extent consistent with and permitted by applicable law, pay the Trustee's and Paying Agent's expenses, claims, obligations, losses, damages, injuries, actions, suits, judgments, reasonable costs and liabilities (including reasonable legal fees and expenses) that each may incur in the exercise of its duties hereunder and that are not due to its negligence, willful misconduct or bad faith; provided, however, that the Authority's obligations under this paragraph shall be payable solely as an Operating Expense and only from Pledged Tobacco Receipts available to pay Operating Expenses. The provisions of this paragraph shall survive the termination of the Trust Indenture or the earlier resignation or removal of any Agent.

The Agents may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, attorneys, custodians and nominees appointed with due care, and shall not be responsible for any negligence, willful misconduct and bad faith on the part of any agent, attorney, custodian or nominee appointed with due care hereunder.

Notwithstanding anything in the Trust Indenture to the contrary, each Agent shall be responsible for its negligence or willful misconduct. The Trustee shall have no responsibility with respect to any information in any offering circular or other disclosure material distributed with respect to the Bonds or for compliance with any securities laws in connection with the issuance, sale, or remarketing of the Bonds. Except to the extent and as may be required by an investment agreement or repurchase agreement to which the Trustee may be a party with respect to accounts or funds under the Trust Indenture, the Trustee makes no representations as to, and shall have no responsibility for, the value, condition, validity, adequacy or sufficiency of the Collateral, of any assets pledged or assigned by the Trust Indenture or the other transaction documents as security for the Bonds, or the right, title or interest of the Authority therein. The Trustee shall have no duty or obligation to record or file, and shall not be responsible for the validity, priority, recording, rerecording, filing or refiling of the Trust Indenture, any instrument or document of further assurance or collateral assignment, any financing statements, amendments or modifications thereto, or continuation statements, and shall have no duty to collect, preserve, exercise or enforce rights in the Collateral (against prior parties or otherwise), except as expressly provided in the Trust Indenture.

In no event shall the Trustee be responsible or liable for special, indirect, punitive or consequential loss or damage of any kind whatsoever (including, but not limited to, loss of profit) irrespective of whether the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

The Trustee shall have the right to accept and act upon instructions, including funds transfer instructions ("Instructions") given pursuant to the Trust Indenture and delivered using Electronic Means ("Electronic Means" shall mean the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Trustee, or another method or system specified by the Trustee as available for use in connection with its services hereunder); provided, however, that the Officer's Certificate shall provide to the Trustee an incumbency certificate listing the Authorized Officers with the authority to provide such Instructions and containing specimen signatures of such Authorized Officers, which incumbency certificate shall be amended by the Authority whenever a person is to be added or deleted from the listing. If the Authority elects to give the Trustee Instructions using Electronic Means and the Trustee in its discretion elects to act upon such Instructions, the Trustee's understanding of such Instructions shall be deemed controlling. The Authority understands and agrees that the Trustee cannot determine the identity of the actual sender of such Instructions and that the Trustee shall conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Trustee have been sent by such Authorized Officer. The Authority shall be responsible for ensuring that only Authorized Officers transmit

such Instructions to the Trustee and that the Authority and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the Authority. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such Instructions notwithstanding such directions conflict or are inconsistent with a subsequent written instruction. The Authority agrees: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Trustee and that there may be more secure methods of transmitting Instructions than the method(s) selected by the Authority; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Trustee immediately upon learning of any compromise or unauthorized use of the security procedures.

Paying Agents and Registrar

The Authority designates the Trustee a Paying Agent and as registrar for the Bonds. The Authority may appoint additional Paying Agents, generally or for specific purposes, may discharge a Paying Agent from time to time and may appoint a successor, in each case with written notice to each of the Rating Agencies. The Authority shall designate a successor if the Trustee ceases to serve as Paying Agent. Each Paying Agent shall be a bank or trust company eligible under the laws of the State, and unless otherwise provided by Series Supplement shall have a capital and surplus of not less than $50,000,000 and be registered as a transfer agent with the Securities and Exchange Commission. The Authority shall give notice of the appointment of a successor to the Trustee as Paying Agent in writing to each Bondholder shown on the books of the Trustee. A Paying Agent may but need not be the same person as the Trustee. Unless otherwise provided by the Authority, the Trustee as Paying Agent shall act as registrar and transfer agent, in accordance with the Trust Indenture.

Resignation or Removal of the Trustee

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 then rating the Bonds. 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 by the Trust Indenture. Upon receiving such notice of resignation, the Authority shall take action to appoint a successor and, upon the acceptance by the successor of such appointment, release the resigning Trustee from its obligations hereunder by written instrument, a copy of which instrument shall 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 Senior Bonds, upon written notice to the Trustee, if rated BBB- or below by S&P, or, if none of the Outstanding Bonds are rated by S&P, rated below investment grade by S&P, Moody's or Fitch. Each successor Trustee shall be rated BBB or above by S&P, or, if none of the Outstanding Bonds are rated by S&P, rated investment grade by S&P, Moody's or Fitch. The Trustee may also be removed by written notice from the Authority if no Default is then continuing or from a Majority in Interest of the Outstanding Senior Bonds to the Trustee and the Authority. No such resignation or removal shall take effect until a successor has been appointed and has accepted the duties of Trustee.

Successor Agents

Any corporation or association which succeeds to the municipal corporate trust business of an Agent as a whole or substantially as a whole, whether by sale, merger, consolidation or otherwise, shall thereby become vested with all the property, rights, powers and duties thereof under the Trust 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 Trust Indenture to the contrary notwithstanding.

In case an Agent resigns or is removed or becomes incapable of acting, or becomes bankrupt or insolvent, or if a receiver, liquidator or conservator of an Agent or of its property is appointed, or if a public officer takes charge or control of an Agent, or of its property or affairs, then such Agent (or receiver, liquidator, conservator or

officer) shall with due care terminate its activities hereunder and a successor may, or in the case of the Trustee shall, be appointed by the Authority. The Authority shall 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 Trust Indenture. If no appointment of a successor Trustee is made within 45 days after the giving of written notice in accordance with the Trust Indenture 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, at the expense of the Authority, 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 as described in this paragraph shall be a trust company or a bank having the powers of a trust company, located in the State, having a capital and surplus of not less than $50,000,000. Any such successor Trustee shall notify the Authority of its acceptance of the appointment and, upon giving such notice, shall become Trustee, vested with all the property, rights, powers and duties of the Trustee hereunder, without any further act or conveyance. Such successor Trustee shall execute, deliver, record and file such instruments as are required to confirm or perfect its succession hereunder and any predecessor Trustee shall from time to time execute, deliver, record and file such instruments as the incumbent Trustee may reasonably require to confirm or perfect any succession hereunder.

Agents for Bonds Other Than Senior Bonds

The Authority may by Series Supplement provide for the appointment of an Agent (which may be the Trustee) to represent the Holders of all Bonds other than Senior Bonds, having powers and duties not inconsistent with the Trust Indenture.

Reports by Trustee to Holders

The Trustee, on or prior to each Distribution Date for a Series of Bonds, shall deliver to the Holders of such Bonds and to each Rating Agency a statement prepared by the Trustee setting forth as of such Distribution Date or for the period since the preceding Distribution Date, as applicable, the following information and such other information as maybe specified in the Series Supplement relating to such Bonds:

(1) the Bond Obligation paid to Holders expressed in dollars per thousand;

(2) the interest paid to Holders expressed in dollars per thousand;

(3) the actual Turbo Redemptions paid on and prior to such Distribution Date versus the projected Turbo Redemptions;

(4) the amount on deposit in each Fund and Account, including the face value of investments described in subsections (c), (e), (f) and (h) of Eligible Investments;

(5) whether the amount on deposit in the Class 1 Liquidity Reserve Subaccount is sufficient to satisfy the Class 1 Liquidity Reserve Requirement as of such Distribution Date and, if not, the amount of the shortfall;

(6) whether the amount on deposit in the Class 2 Liquidity Reserve Subaccount is sufficient to satisfy the Class 2 Liquidity Reserve Requirement as of such Distribution Date and, if not, the amount of the shortfall; and

(7) whether or not a Lump Sum Payment or Total Lump Sum Payment has been received.

The Trustee's responsibility for delivering the information described in paragraph (6) above is limited to the availability, timeliness and accuracy of the information provided by the Authority pursuant to the Trust Indenture.

Nonpetition Covenant

Notwithstanding any prior termination of the Trust Indenture, no Agent shall, prior to the date which is one year and one day after the termination of the Trust Indenture, acquiesce, petition or otherwise invoke or cause the Authority to invoke the process of any court or 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.

Action by Holders

Any request, authorization, direction, notice, consent, waiver or other action provided by the Trust 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, shall be sufficient for any purpose of the Trust Indenture (except as otherwise in the Trust Indenture expressly provided) 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 corporation with a corporate seal affixed and attested by a person purporting to be its clerk or secretary or an assistant clerk or secretary. Any action of the owner of any Bond shall be irrevocable and bind all future record and beneficial owners thereof.

Registered Holders

The enumeration in the Trust Indenture of certain provisions applicable to DTC as Holder of immobilized Bonds shall not be construed in limitation of the rights of the Authority and each Agent 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 Trust Indenture. Notwithstanding any other provisions of the Trust Indenture, any payment to the registered owner of a Bond shall satisfy the Authority's obligations thereon to the extent of such payment.

Individual Remedies

Subject to the provisions of the next succeeding sentence, no one or more Holders shall by his or their action affect, disturb or prejudice the pledge and assignment created by the Trust Indenture, or enforce any right under the Trust Indenture, except in the manner provided in the Trust Indenture; and all proceedings at law or in equity to enforce any provision of the Trust Indenture shall be instituted, had and maintained solely by the Trustee in the manner provided in the Trust Indenture and for the equal and ratable benefit of all Holders of the same class. Nothing in the Trust Indenture shall affect or impair the right of any Holder of any Bond to enforce payment of the Accreted Value, Principal of, premium, if any, or interest thereon at and after the same comes due pursuant to the Trust 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 Trust Indenture and in the Bonds.

Venue

Except as otherwise provided in this paragraph, and unless otherwise provided in Article IV of the Ohio Constitution, any legal action against the Authority shall be brought in the Ohio Court of Claims under chapter 2743

of the Ohio Revised Code. Any special proceeding brought against the Authority or the State in which the Ohio Court of Appeals has original jurisdiction shall be filed and determined in the Court of Appeals of Franklin County. Pursuant to the Act, any such action or proceeding to which the Authority or the State is a party shall be preferred over all other civil causes of action or cases, except election causes of action or cases, irrespective of position on the calendar.

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 shall do so upon written instruction of the Holders of at least 25% of the Aggregate Bond Obligation of the Senior Bonds.

Remedies Cumulative

The rights and remedies under the Trust Indenture shall be cumulative and shall not exclude any other rights and remedies allowed by law, provided there is no duplication of recovery. The failure to insist upon a strict performance of any of the obligations of the State or the Authority or to exercise any remedy for any violation thereof shall not be taken as a waiver for the future of the right to insist upon strict performance by the State or the Authority or of the right to exercise any remedy for the violation.

Delay or Omission Not Waiver

No delay or omission of the Trustee or of any Holder to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given bv the Trust Indenture or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

Supplements and Amendments to the Trust Indenture

The Trust Indenture may be:

(i) supplemented by delivery to the Trustee of an instrument certified by an Authorized Officer of the Authority to (A) provide for earlier or greater deposits into the Bond Service Fund, (B) upon direction of an Authorized Officer of the Authority, accompanied by an opinion of Counsel as to the validity thereof under the Act, subject any property to the lien of the Trust Indenture subject to the consent of the State or as authorized by law, (C) add to the covenants and agreements of the Authority or surrender or limit any right or power of the Authority to the extent permitted by the Act or other applicable law, (D) identify particular Bonds for purposes not inconsistent herewith, including credit or liquidity support, remarketing, serialization and defeasance, (E) cure any ambiguity or defect, (F) 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 Trust Indenture under the Trust Indenture Act of 1939, as amended, (G) authorize Bonds of a Series and in connection therewith determine the matters referred to in the Trust Indenture, including the provisions of the Trust Indenture relating to the issuance of Bonds, and 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, (H) make any other changes to the Trust Indenture that, as evidenced by a Rating Confirmation, are not materially adverse to the Holders of Outstanding Bonds, or (I) provide for the issuance of the Series 2020 Senior Bonds, Refunding Bonds, Additional Bonds and Fully Subordinate Bonds in compliance with Article III of the Trust Indenture; or

(ii) amended in any other respect by the Authority and the Trustee, (A) to add provisions that are not materially adverse to the Holders, or (B) to adopt amendments that do not take effect unless and until (1) no Bonds Outstanding prior to the adoption of such amendment remain Outstanding or (2) such amendment is consented to by the Holders of such Bonds in accordance with the further provisions of the Trust Indenture; or

(iii) amended only with prior written notice to the Rating Agencies and the written consent of a Majority in Interest of the Aggregate Bond Obligation of Senior Bonds (or First Subordinate Bonds when there are no Senior Bonds Outstanding, or Second Subordinate Bonds when there are no Senior Bonds and no First Subordinate Bonds Outstanding); provided, however, the Trust Indenture shall not be amended so as to (A) extend the maturity of any Bond, (B) reduce the Principal amount or Accreted Value of any Bond, applicable premium or interest rate of any Bond, (C) make any Bond redeemable other than in accordance with its terms, (D) create a preference or priority of any Bond over any other Bond of the same class or (E) 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 thereby have consented thereto in writing.

Any amendment of the Trust Indenture shall be accompanied by a Counsel's opinion addressed to the Trustee to the effect that the amendment is permitted by law and by the Trust Indenture and, if there are Tax-Exempt Bonds Outstanding, 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 hereto or to the 2007 Sale Agreement which requires consents, it shall 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 Trust Indenture.

Supplements and Amendments to the 2007 Sale Agreement

In the event that the Trustee receives a request from the Authority for a consent or other action with respect to an amendment to the 2007 Sale Agreement pursuant to the Trust Indenture, the Trustee shall transmit a notice of such request to each Holder and request directions with respect thereto.

Governing Law

The Trust Indenture shall be governed by State law, without reference to its conflict of law provisions, and the obligations, rights and remedies of the parties under the Trust Indenture shall be determined in accordance with such laws. Any and all litigation or actions commenced in connection with the Trust Indenture and the Bonds shall be brought in the venues designated in the Trust Indenture.

Beneficiaries

The Trust Indenture is not intended for the benefit of and shall not be construed to create rights in parties other than the Authority, the Agents, the Holders of Senior Bonds, and the other Bondholders to the extent specified in the Trust Indenture.

Successors and Assigns

All covenants and agreements of the parties in the Trust Indenture shall bind the parties' successors and assigns, whether so expressed or not.

Legal Holidays

In any case where the date on which any payment is due shall not be a Business Day, then (notwithstanding any other provision of the Bonds or the Trust Indenture) payment need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the date on which nominally due, and no interest shall accrue for the period from and after any such nominal date.

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APPENDIX E

SUMMARY OF PURCHASE AND SALE AGREEMENT

The following summary describes certain terms of the Purchase and 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 Purchase and Sale Agreement. A copy of the Purchase and Sale Agreement may be obtained upon written request to the Trustee.

Conveyance of 2007 Sold Tobacco Receipts

The Purchase and Sale Agreement provides that the State has irrevocably sold and assigned to the Authority, without recourse (subject to the obligations in the Purchase and Sale Agreement), all right, title and interest of the State in and to the 2007 Sold Tobacco Receipts.

The purchase price paid by the Authority to the State under the Purchase and Sale Agreement consists of: (i) a payment from the Series 2007 Bond proceeds and (ii) a security representing the right to receive the residual interest in 2007 Sold Tobacco Receipts on and after the date on which all Bonds have been Fully Paid and all incurred Operating Expenses have been satisfied (the **"Residual Certificate"**). Initially, the State will own the sole beneficial interest in the Residual Certificate.

Treatment as True Sale

As provided in the Act, the transfer of the 2007 Sold Tobacco Receipts pursuant to the terms of the Purchase and Sale Agreement is an assignment and sale and shall be treated as an absolute transfer and true sale for all purposes, and not as a pledge or other security interest. On and after the delivery date of the Series 2007 Bonds, the State shall have no right, title, or interest in or to the 2007 Sold Tobacco Receipts and the 2007 Sold Tobacco Receipts shall be owned, received, held, and disbursed by the Authority and not the State. The State shall have no claim against the 2007 Sold Tobacco Receipts.

Notification of Transfer

Under the Purchase and Sale Agreement, the State was required to notify the MSA Escrow Agent on or before the delivery date of the Series 2007 Bonds that the State had sold the 2007 Sold Tobacco Receipts to the Authority and was also required to irrevocably instruct the MSA Escrow Agent to pay the 2007 Sold Tobacco Receipts directly to the Trustee.

Covenants of the State

Protection of MSA and Qualifying Statute. The State in the Purchase and Sale Agreement has covenanted and agreed to: (i) maintain statutory authority for, and cause to be collected and be paid directly to the Authority or its assignee, the 2007 Sold Tobacco Receipts; (ii) enforce the rights of the Authority to receive 2007 Sold Tobacco Receipts; (iii) diligently enforce the Qualifying Statute, the MSA and the Consent Decree to effectuate the collection of the 2007 Sold Tobacco Receipts; (iv) irrevocably instruct the MSA Escrow Agent under the MSA to transfer all 2007 Sold Tobacco Receipts directly to the Trustee as assignee of the Authority; and (v) not amend the MSA, or amend or repeal the Qualifying Statute, in any manner that would materially impair the rights of the Bondholders, until the Bonds, together with the interest thereon, and all costs and expenses in connection with any action or proceeding by or on behalf of Bondholders, are fully paid and discharged pursuant to the Trust Indenture.

Non-Impairment Covenant. In the Purchase and Sale Agreement, the State has agreed that it will not materially impair the rights of the Authority to fulfill the terms of its agreements with the Bondholders under the Trust Indenture and that it will not materially impair the rights and remedies of the Bondholders or materially impair the security for those Bonds.

State Not to Allow Bankruptcy of the Authority. As provided in the Act, the State has agreed in the Purchase and Sale Agreement, not to permit the Authority, or permit any public officer or organization, entity, or other person to authorize the Authority, prior to the date which is one year and one day after which the Authority no longer has any Bonds Outstanding, (i) to file a voluntary petition under the United States Bankruptcy Code, or (ii) to voluntarily commence any similar bankruptcy proceeding under state law including, without limitation, consenting to the appointment of a receiver or trustee or making a general or specific assignment for the benefit of creditors.

Tax Covenant. Under the terms of the Purchase and Sale Agreement, the State has agreed to perform all acts and things permitted by law and necessary or desirable to assure that interest paid by the Authority on the tax-exempt Bonds shall be excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Code.

Further Actions. Upon request of the Authority or the Trustee, the State has also agreed in the Purchase and Sale Agreement to execute and deliver such further instruments and to take such further action as may be reasonably necessary or proper to carry out more effectively the purposes of the Purchase and Sale Agreement. The State has also agreed to promptly pay over to the Trustee the proceeds of any 2007 Sold Tobacco Receipts received by the State in error.

No Limitation of Taxing or Regulating Power of the State. As provided in the Act, (i) nothing in Section 4.01(b) the Purchase and Sale Agreement, the Trust Indenture or the bond proceedings (as defined in the Act) shall preclude or limit, or be construed to preclude or limit, the State from taxing or regulating the sale of cigarettes or other tobacco products, or from defending or prosecuting cases or other actions relating to the sale or use of cigarettes or other tobacco products, and (ii) except as otherwise may be agreed in writing by the Attorney General, nothing in Section 4.01(b) of the Purchase and Sale Agreement, the Trust Indenture or the bond proceedings (as defined in the Act) shall modify or limit, or be construed to modify or limit, the responsibility, power, judgment, and discretion of the Attorney General to protect and discharge the duties, rights and obligations of the State under the MSA, the Consent Decree, or the Qualifying Statute.

Covenant of the Authority Regarding No Bankruptcy

Under the Act, the Authority is not authorized or permitted to file a voluntary petition under the United States Bankruptcy Code, or voluntarily commence any similar bankruptcy proceeding under state law including, without limitation, consenting to the appointment of a receiver or trustee or making a general or specific assignment for the benefit of creditors. In addition, as provided in the Purchase and Sale Agreement, the Authority covenants and agrees, that it is not and shall not be authorized to and shall not file a voluntary petition under the United States Bankruptcy Code, or voluntarily commence any similar bankruptcy proceeding under state law including, without limitation, consenting to the appointment of a receiver or trustee or making a general or specific assignment for the benefit of creditors. This covenant, as authorized by the Purchase and Sale Agreement and the Act, has also been included in the Trust Indenture.

Amendment

Subject to certain limitations set forth in the Trust Indenture and described in Appendix D –SUMMARY OF TRUST INDENTURE under "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE — Covenants and Representations of the Authority – Amendment of Agreement," the Purchase and Sale Agreement may be amended only by written agreement of the State and the Authority.

Assignment and Pledge by the Authority

As permitted under the Act, the State has authorized the Authority in the Purchase and Sale Agreement to include all of the covenants, pledges and agreements described above in the Trust Indenture. In addition, the State has consented to the pledge and assignment by the Authority to the Trustee for the benefit of the Bondholders of all right, title and interest of the Authority in, to and under the 2007 Sold Tobacco Receipts and the assignment of the Authority's rights and obligations under the Purchase and Sale Agreement to the Trustee.

Limitation on Remedies and Liabilities

All covenants, agreements and obligations of the State contained in the Purchase and Sale Agreement shall be deemed to be the covenants, agreements and obligations of the State and not of any officer or employee of the State in his or her individual capacity, and no recourse shall be had under the Purchase and Sale Agreement for any claim based thereon or on the Purchase and Sale Agreement against any officer or employee of the State or any person executing the Purchase and Sale Agreement, in his or her individual capacity. Without limiting the generality of the foregoing, holders of the Bonds shall have no recourse against any officer or employee of the State as a result of such person's executing and delivering the Purchase and Sale Agreement.

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APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix concerning DTC and DTC's book-entry system has been obtained from DTC, and the Authority and the Underwriters take no responsibility for the completeness or accuracy thereof. The Authority and the Underwriters cannot and do not give any assurances that DTC, Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of principal or Accreted Value of and interest on the Series 2020 Senior Bonds, (b) certificates representing ownership interest in or other confirmation of ownership interest in the Series 2020 Senior Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2020 Senior Bonds, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC participants are on file with DTC.

The Depository Trust Company ("**DTC**"), New York, NY, will act as securities depository for the Series 2020 Senior Bonds. The Series 2020 Senior 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 2020 Senior Bond certificate will be issued for each maturity and interest rate of the Series 2020 Senior Bonds of each series, each in the aggregate principal amount or final Accreted Value of such maturity and interest rate of such series, and will be deposited with or for the account of 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 issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("**Direct Participants**") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("**DTCC**"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**"). DTC is rated "AA+" by Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com; nothing contained in such website is incorporated into this Offering Circular.

Purchases of Series 2020 Senior Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2020 Senior Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2020 Senior Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2020 Senior Bonds, except in the event that use of the book-entry system for the Series 2020 Senior Bonds is discontinued.

To facilitate subsequent transfers, all Series 2020 Senior 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 2020 Senior Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2020 Senior Bonds; DTC's records reflect only the identity

of the Direct Participants to whose accounts such Series 2020 Senior Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2020 Senior Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2020 Senior Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2020 Senior Bond documents. For example, Beneficial Owners of Series 2020 Senior Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2020 Senior Bonds of any maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2020 Senior 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal or Accreted Value of, premium, if any, and interest on the Series 2020 Senior 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 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 Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal or Accreted Value of, premium, if any, and interest on the Series 2020 Senior Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of 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.

NONE OF THE AUTHORITY, THE STATE, THE UNDERWRITERS OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF SERIES 2020 SENIOR BONDS FOR PREPAYMENT OR REDEMPTION.

DTC may discontinue providing its services as depository with respect to the Series 2020 Senior Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2020 Senior Bond certificates are required to be printed and delivered. To the extent permitted by law, the Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered. In the event that the book-entry system is discontinued as described above, the requirements of the Trust Indenture relating, among other things, to payments on the Series 2020 Senior Bonds and their registration of transfer and exchange, will apply.

So long as Cede & Co. is the registered owner of the Series 2020 Senior Bonds, as nominee for DTC, references in the Offering Circular to Owners or registered owners of the Series 2020 Senior Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2020 Senior Bonds.

APPENDIX G

FORM OF CONTINUING DISCLOSURE UNDERTAKING

Upon the delivery of the Series 2020 Senior Bonds, the Authority expects to execute the Continuing Disclosure Undertaking in substantially the form appearing on the following pages.

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CONTINUING DISCLOSURE UNDERTAKING

THIS CONTINUING DISCLOSURE UNDERTAKING, dated as of March 4, 2020 (the "Undertaking"), is made, signed and delivered by the **BUCKEYE TOBACCO SETTLEMENT FINANCING AUTHORITY**, a body, both corporate and politic, constituting a public body, agency, and instrumentality of the State of Ohio (the "Authority"), for the benefit of the Holders and Beneficial Owners (as defined herein) from time to time of the Authority's $5,352,196,396.50 Tobacco Settlement Asset-Backed Refunding Bonds, Series 2020 Senior Bonds, consisting of Series 2020A-1 Class 1 Senior Current Interest Bonds (Federally Taxable) (the "Series 2020A-1 Senior Bonds"), Series 2020A-2 Class 1 Senior Current Interest Bonds (the "Series 2020A-2 Senior Bonds" and, together with the Series 2020A-1 Senior Bonds, the "Series 2020A Senior Bonds"), Series 2020B-1 Class 2 Senior Current Interest Bonds (Federally Taxable) (the "Series 2020B-1 Senior Bonds"), Series 2020B-2 Class 2 Senior Current Interest Bonds (the "Series 2020B-2 Senior Bonds") and Series 2020B-3 Class 2 Senior Capital Appreciation Bonds (the "Series 2020B-3 Senior Bonds" and, collectively with the Series 2020A Senior Bonds, the Series 2020B-1 Senior Bonds and the Series 2020B-2 Senior Bonds, the "Series 2020 Senior Bonds").

RECITAL

The Authority has determined to issue the Series 2020 Senior Bonds pursuant to an Amended and Restated Trust Indenture and a Series 2020 Supplement, each dated as of March 1, 2020, and each by and between the Authority and U.S. Bank National Association, as trustee (collectively, the "Indenture"), and the underwriters for the Series 2020 Senior Bonds (collectively, the "Participating Underwriters") have agreed to provide those funds to the Authority by purchasing the Series 2020 Senior Bonds. As a condition to the purchase of the Series 2020 Senior Bonds from the Authority and the sale of the Series 2020 Senior Bonds to Holders and Beneficial Owners, the Participating Underwriters are required to reasonably determine that the Authority has undertaken, in a written agreement for the benefit of Holders and Beneficial Owners of the Series 2020 Senior Bonds, to provide certain information in accordance with the Rule (as defined herein).

NOW, THEREFORE, the Authority covenants and agrees as set forth in this Continuing Disclosure Undertaking.

Section 1. Purpose of Continuing Disclosure Undertaking. This Undertaking is being entered into, signed and delivered for the benefit of the Holders and Beneficial Owners of the Series 2020 Senior Bonds and in order to assist the Participating Underwriters of the Series 2020 Senior Bonds in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission (the "SEC") pursuant to the Securities Exchange Act of 1934, as may be amended from time to time (the "Rule").

Section 2. Definitions. In addition to the definitions set forth above, the following capitalized terms shall have the following meanings in this Undertaking, unless the context clearly otherwise requires. Reference to "Sections" shall mean sections of this Undertaking.

"Annual Filing" means any annual information filing provided by the Authority pursuant to, and as described in, Sections 3 and 4.

"Audited Financial Statements" means the audited basic financial statements of the Authority, prepared in conformity with generally accepted accounting principles applicable to public entities.

"Beneficial Owner" means any person that (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2020 Senior Bonds (including persons holding Series 2020 Senior Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2020 Senior Bonds for federal income tax purposes.

"EMMA" means the Electronic Municipal Market Access system of the MSRB (or any successor system); information regarding submissions to EMMA is currently available at http://emma.msrb.org.

"Filing Date" means the day that is seven calendar months after the first day of the Authority's Fiscal Year (or the next succeeding business day if that day is not a business day), beginning with the Fiscal Year ending June 30, 2020.

"Financial Obligation" means a: (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (C) guarantee of a debt obligation or a derivative instrument described in (A) or (B) of this definition. The term "Financial Obligation" shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

"Fiscal Year" means the 12-month period beginning on July 1 of each year or such other 12-month period as the Authority shall adopt as its fiscal year.

"Holder" means, with respect to the Series 2020 Senior Bonds, the person in whose name a Bond is registered in accordance with the Indenture.

"MSRB" means the Municipal Securities Rulemaking Board, or successor entity.

"Obligated Person" means, any person, including the issuer of municipal securities (such as the Series 2020 Senior Bonds), who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all or part of the obligations on the municipal securities being sold in a primary offering of municipal securities (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities); the Authority is the only Obligated Person for the Series 2020 Senior Bonds.

"Offering Circular" means the Offering Circular for the Series 2020 Senior Bonds dated February 25, 2020.

"Participating Underwriters" means any of the original underwriters of the Series 2020 Senior Bonds required to comply with the Rule in connection with offering of the Series 2020 Senior Bonds.

"Specified Events" means any of the events with respect to the Series 2020 Senior Bonds as set forth in Section 5(a).

"State" means the State of Ohio.

Section 3. Provision of Annual Information.

(a) The Authority shall provide (or cause to be provided) not later than the Filing Date to the MSRB through EMMA an Annual Filing, which is consistent with the requirements of Section 4. The Annual Filing may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4; provided that the Audited Financial Statements of the Authority may be submitted separately from the balance of the Annual Filing and later than the Filing Date if they are not available by that date. If the Authority's Fiscal Year changes, it shall give notice of such change in the same manner as for a Specified Event under Section 5.

(b) If the Authority is unable to provide to the MSRB an Annual Filing by the Filing Date, the Authority shall, in a timely manner, send a notice of such failure to the MSRB.

Section 4. Content of Annual Filing. The Authority's Annual Filing shall contain or include by reference the following:

(a) Financial information and operating data as follows:

- for the Fiscal Year of the Annual Filing, an update of the operating data found in the column "Total Annual Payments to Indenture Trustee" of the table included in the Offering Circular section captioned "**PLEDGED TOBACCO RECEIPTS PROJECTIONS**

METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS – Projection of Pledged Tobacco Receipts to be Received by the Trustee," and

- for the calendar year that includes the final day of the Fiscal Year of the Annual Filing, the actual debt service coverage ratio for the Series 2020A Senior Bonds for such calendar year determined in substantially the manner set forth in the section of the Offering Circular captioned "**TABLES OF PROJECTED BOND DEBT SERVICE AND COVERAGE - Series 2020A Senior Bonds Debt Service and Projected Debt Service Coverage**."

- for the calendar year that includes the final day of the Fiscal Year of the Annual Filing, the total actual net debt service for the Series 2020 Senior Bonds for such calendar year determined in substantially the manner set forth in the section of the Offering Circular captioned "**TABLES OF PROJECTED BOND DEBT SERVICE AND COVERAGE - Projected Series 2020 Senior Bonds Debt Service Schedule Incorporating Turbo Redemptions of the Series 2020B Senior Bonds**."

(b) The Audited Financial Statements of the Authority, except as may be modified from time to time and described in such financial statements.

The foregoing shall not obligate the Authority to prepare or update projections of any financial information or operating data.

Any or all of the items listed above may be included by specific reference to other documents, including annual informational statements of the Authority or official statements of debt issues of the Authority or related public entities, which have been submitted to the MSRB or the SEC. The Authority shall clearly identify each such other document so included by reference.

Section 5. Reporting Specified Events.

(a) The Authority shall provide (or cause to be provided) to the MSRB, in a timely manner but not later than ten business days after the occurrence of the event, notice of any of the following events with respect to the Series 2020 Senior Bonds, as specified by the Rule:

(1) Principal and interest payment delinquencies;

(2) Non-payment-related defaults, if material;

(3) Unscheduled draws on debt service reserves reflecting financial difficulties;

(4) Unscheduled draws on credit enhancements reflecting financial difficulties;

(5) Substitution of credit or liquidity providers, or their failure to perform;

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security (*i.e.*, the Series 2020 Senior Bonds), or other material events affecting the tax status of the security;

(7) Modifications to rights of security holders, if material;

(8) Bond calls, if material, and tender offers;

(9) Defeasances;

(10) Release, substitution, or sale of property securing repayment of the securities, if material;

(11) Rating changes;

(12) Bankruptcy, insolvency, receivership or similar event of the Obligated Person; Note: For the purposes of the event identified in this subparagraph, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person;

(13) The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material;

(15) Incurrence of a Financial Obligation of the Obligated Person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Obligated Person, any of which affect Holders of the Series 2020 Senior Bonds, if material; and

(16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Obligated Person, any of which reflect financial difficulties.

Note:

(a) Any scheduled redemption of Series 2020 Senior Bonds pursuant to mandatory sinking fund redemption requirements does not constitute a specified event within the meaning of the Rule.

For the Specified Events described in Section 5(a)(2), (6, as applicable), (7), (8, as applicable), (10), (13), (14) and (15), the Authority acknowledges that it must make a determination whether such Specified Event is material under applicable federal securities laws in order to determine whether a filing is required.

Section 6. Format of Filings with MSRB. All documents provided to the MSRB pursuant to this Disclosure Certificate shall be submitted in electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

Section 7. Amendments. The Authority reserves the right to amend this Undertaking, and noncompliance with any provision of this Undertaking may be waived, as may be necessary or appropriate to achieve its compliance with any applicable federal securities law or rule, to cure any ambiguity, inconsistency or formal defect or omission, and to address any change in circumstances arising from a change in legal requirements, change in law, or change in the identity, nature, or status of the Authority, or type of business conducted by the Authority. Any such amendment or waiver shall not be effective unless the Authority shall have received a written opinion of qualified independent special counsel selected by the Authority that the Undertaking (as amended or taking into account such waiver) would

have materially complied with the requirements of the Rule at the time of the primary offering of the Series 2020 Senior Bonds, after taking into account any applicable amendments to or official interpretations of the Rule, as well as any change in circumstances. An Annual Filing containing any revised operating data or financial information shall explain, in narrative form, the reasons for any such amendment or waiver and the impact of the change on the type of operating data or financial information being provided. If the amendment relates to the accounting principles to be followed in preparing Audited Financial Statements, the Authority shall provide notice of such change in the same manner as for a Specified Event under Section 5.

Section 8. Additional Information. Nothing in this Undertaking shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Undertaking or providing any other means of communication, or including any other information in any Annual Filing or providing notice of the occurrence of an event, in addition to that which is required by this Undertaking. If the Authority chooses to include any information in any document or notice of occurrence of an event in addition to that which is specifically required by this Undertaking, the Authority shall have no obligation under this Undertaking to update such information or include it in any future Annual Filing or notice of occurrence of a Specified Event.

Section 9. Remedy for Breach. This Undertaking shall be solely for the benefit of the Holders and Beneficial Owners from time to time of the Series 2020 Senior Bonds. The exclusive remedy for any breach of the Undertaking by the Authority shall be limited, to the extent permitted by law, to a right of Holders and Beneficial Owners to institute and maintain, or to cause to be instituted and maintained, such proceedings as may be authorized at law or in equity to obtain the specific performance by the Authority of its obligations under this Undertaking in a court in Franklin County, Ohio. Any Holder or Beneficial Owner may exercise individually any such right to require the Authority to specifically perform its obligation to provide or cause to be provided a pertinent filing if such a filing is due and has not been made. Any Beneficial Owner seeking to require the Authority to comply with this Undertaking shall first provide at least 30 days' prior written notice to the Authority of the Authority's failure, giving reasonable detail of such failure, following which notice the Authority shall have 30 days to comply. A default under this Undertaking shall not be deemed a "Default" or an "Event of Default" under the Indenture, and the sole remedy under this Undertaking in the event of any failure of the Authority to comply with this Undertaking shall be an action to compel performance. No person or entity shall be entitled to recover monetary damages under this Undertaking.

Section 10. Appropriation. The performance by the Authority of its obligations under this Undertaking shall be subject to the availability of funds and their annual appropriation to meet costs that the Authority would be required to incur to perform those obligations. The Authority shall provide notice to the MSRB in the same manner as for a Specified Event under Section 5 of the failure to appropriate funds to meet costs to perform the obligations under this Undertaking. Costs and expenses under this Undertaking do not and shall not constitute general obligations of the State.

Section 11. Termination. The obligations of the Authority under the Undertaking shall remain in effect only for such period that the Series 2020 Senior Bonds are outstanding in accordance with their terms and with the Indenture and the Authority remains an Obligated Person with respect to the Series 2020 Senior Bonds within the meaning of the Rule. The obligation of the Authority to provide the information and notices of the events described above shall terminate, if and when the Authority no longer remains such an Obligated Person. If any person, other than the Authority, becomes an Obligated Person relating to the Series 2020 Senior Bonds, the Authority shall use its best efforts to require such Obligated Person to comply with all provisions of the Rule applicable to such Obligated Person.

Section 12. Dissemination Agent. The Authority may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Undertaking, and may discharge any such agent, with or without appointing a successor dissemination agent.

Section 13. Beneficiaries. This Undertaking shall inure solely to the benefit of the Authority, any dissemination agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Series 2020 Senior Bonds, and shall create no rights in any other person or entity.

Section 14. Recordkeeping. The Authority shall maintain records of all Annual Filings and notices of Specified Events and other events including the content of such disclosure, the names of the entities with whom such disclosures were filed and the date of filing such disclosure.

Section 15. Governing Law. This Undertaking shall be governed by the laws of the State.

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IN WITNESS WHEREOF, the Authority has caused this Continuing Disclosure Undertaking to be duly signed and delivered to the Participating Underwriters, as part of the Series 2020 Senior Bonds proceedings and in connection with the original delivery of the Series 2020 Senior Bonds to the Participating Underwriters, on its behalf by its official signing below, all as of the date set forth above, and the Holders and Beneficial Owners from time to time of the Series 2020 Senior Bonds shall be deemed to have accepted this Undertaking made in accordance with the Rule.

BUCKEYE TOBACCO SETTLEMENT FINANCING AUTHORITY

Name: _____

Title: Authorized Officer

STATEMENT OF DIRECTOR OF BUDGET AND MANAGEMENT

Pursuant to Section 126.11 of the Ohio Revised Code, I approve the Continuing Disclosure Undertaking. I certify that the Office of Budget and Management accepts responsibility for compliance by the Buckeye Tobacco Settlement Financing Authority with the provisions of the Continuing Disclosure Undertaking.

Dated: March 4, 2020

_____
Director of Budget and Management

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APPENDIX H

TABLE OF ACCRETED VALUES OF SERIES 2020B-3 SENIOR BONDS

(Accreted Values Shown Per $5,000 Maturity Amount)

Accretion Rate: 5.625%

Date	Accreted Value ($)
March 4, 2020†	633.50
June 1, 2020	642.05
December 1, 2020	660.10
June 1, 2021	678.65
December 1, 2021	697.75
June 1, 2022	717.35
December 1, 2022	737.55
June 1, 2023	758.30
December 1, 2023	779.60
June 1, 2024	801.55
December 1, 2024	824.10
June 1, 2025	847.25
December 1, 2025	871.10
June 1, 2026	895.60
December 1, 2026	920.80
June 1, 2027	946.70
December 1, 2027	973.30
June 1, 2028	1,000.70
December 1, 2028	1,028.85
June 1, 2029	1,057.75
December 1, 2029	1,087.50
June 1, 2030	1,118.10
December 1, 2030	1,149.55
June 1, 2031	1,181.90
December 1, 2031	1,215.10
June 1, 2032	1,249.30
December 1, 2032	1,284.45
June 1, 2033	1,320.55
December 1, 2033	1,357.70
June 1, 2034	1,395.90
December 1, 2034	1,435.15
June 1, 2035	1,475.50
December 1, 2035	1,517.00
June 1, 2036	1,559.70
December 1, 2036	1,603.55
June 1, 2037	1,648.65
December 1, 2037	1,695.00
June 1, 2038	1,742.70
December 1, 2038	1,791.70
June 1, 2039	1,842.10
December 1, 2039	1,893.90
June 1, 2040	1,947.15
December 1, 2040	2,001.95
June 1, 2041	2,058.25

† Closing Date.

Date	Accreted Value ($)
December 1, 2041	2,116.15
June 1, 2042	2,175.65
December 1, 2042	2,236.85
June 1, 2043	2,299.75
December 1, 2043	2,364.45
June 1, 2044	2,430.95
December 1, 2044	2,499.30
June 1, 2045	2,569.60
December 1, 2045	2,641.85
June 1, 2046	2,716.15
December 1, 2046	2,792.55
June 1, 2047	2,871.10
December 1, 2047	2,951.85
June 1, 2048	3,034.85
December 1, 2048	3,120.20
June 1, 2049	3,208.00
December 1, 2049	3,298.20
June 1, 2050	3,390.95
December 1, 2050	3,486.35
June 1, 2051	3,584.40
December 1, 2051	3,685.20
June 1, 2052	3,788.85
December 1, 2052	3,895.40
June 1, 2053	4,005.00
December 1, 2053	4,117.60
June 1, 2054	4,233.45
December 1, 2054	4,352.50
June 1, 2055	4,474.90
December 1, 2055	4,600.75
June 1, 2056	4,730.15
December 1, 2056	4,863.20
June 1, 2057	5,000.00

APPENDIX I

INDEX OF DEFINED TERMS

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Mixed Sources
Product group from well managed forests, controlled sources and recycled wood or fiber.

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