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

In the opinion of Kutak Rock LLP, Bond Counsel to NTSC, interest on the Series 2021 Bonds (A) under existing laws, regulations, rulings and judicial decisions, (i) is excluded from gross income for federal income tax purposes and (ii) is not a specific preference item for purposes of the alternative minimum tax imposed under the Internal Revenue Code of 1986, as amended, and (B) is free from taxation by the State of Alaska under existing law (except that no opinion is expressed as to such exemption from State estate and inheritance taxes and taxes of transfers by or in anticipation of death). Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2021 Bonds. See "TAX MATTERS."

$282,480,482.50

NORTHERN TOBACCO SECURITIZATION CORPORATION

Tobacco Settlement Asset-Backed Bonds, Series 2021 Senior Bonds

$152,825,000	$35,000,000	$94,655,482.50
Series 2021A Class 1 Senior Current Interest Bonds	Series 2021B-1 Class 2 Senior Current Interest Bonds	Series 2021B-2 Class 2 Senior Capital Appreciation Bonds

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

The Northern Tobacco Securitization Corporation ("**NTSC**") is a nonprofit corporation organized as a subsidiary of the Alaska Housing Finance Corporation ("**AHFC**"). As a subsidiary of AHFC, NTSC is a government instrumentality of, but separate and apart from, the State of Alaska (the "**State**"). NTSC was formed pursuant to the Alaska Nonprofit Corporation Act (AS 10.20) and provisions of the Alaska Housing Finance Corporation Act (AS 18.56) (collectively, the "**Act**"). See "NTSC" herein.

NTSC is issuing its Tobacco Settlement Asset-Backed Bonds, Series 2021 Senior Bonds, consisting of $152,825,000 Series 2021A Class 1 Senior Current Interest Bonds (the "**Series 2021A Bonds**") as Class 1 Senior Bonds, $35,000,000 Series 2021B-1 Class 2 Senior Current Interest Bonds (the "**Series 2021B-1 Bonds**") as Class 2 Senior Bonds, and $94,655,482.50 Series 2021B-2 Class 2 Senior Capital Appreciation Bonds (the "**Series 2021B-2 Bonds**" and, together with the Series 2021B-1 Bonds, the "**Series 2021B Bonds**;" the Series 2021B Bonds, collectively with the Series 2021A Bonds, the "**Series 2021 Bonds**") as Class 2 Senior Bonds, pursuant to an Amended and Restated Trust Indenture and a Series 2021 Supplement (together, the "**Indenture**"), each dated as of July 1, 2021, between NTSC and U.S. Bank National Association, as indenture trustee (the "**Trustee**"). NTSC will use the proceeds from the issuance of the Series 2021 Bonds, together with other available funds, to (i) refund on a current basis all of NTSC's Tobacco Settlement Asset-Backed Bonds Series 2006 (the "**Series 2006 Bonds**") through defeasance and redemption, (ii) fund a deposit to the Senior Liquidity Reserve Account held under the Indenture, (iii) fund one or more State capital projects and (iv) pay costs of issuance in connection with the issuance of the Series 2021 Bonds. The Series 2021 Bonds, collectively with any Refunding Bonds, Additional Bonds and Subordinate Bonds (each as defined herein) that may be issued by NTSC pursuant to the Indenture, are referred to herein as the "**Bonds**."

In accordance with the Act and pursuant to a Purchase and Sale Agreement dated October 12, 2000 (the "**2000 Purchase and Sale Agreement**") by and among the State, AHFC and NTSC, a Purchase and Sale Agreement dated August 1, 2001 (the "**2001 Purchase and Sale Agreement**") by and between the State and NTSC, an Amended and Consolidated Purchase and Sale Agreement dated August 17, 2006 by and among the State, AHFC and NTSC, amending certain provisions of the 2000 Purchase and Sale Agreement and the 2001 Purchase and Sale Agreement (the "**Amended and Consolidated Purchase and Sale Agreement**"), and the 2021 Amendments to the Amended and Consolidated Purchase and Sale Agreement dated as of July 1, 2021 by and between the State and NTSC (the "**2021 Purchase and Sale Amendments**" and, collectively with the 2000 Purchase and Sale Agreement, the 2001 Purchase and Sale Agreement and the Amended and Consolidated Purchase and Sale Agreement, the "**Purchase and Sale Agreement**"), NTSC owns the State's right, title and interest in 80% (in the aggregate) of the amounts payable to the State under 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 (collectively, the "**NTSC Tobacco Assets**"). Under applicable State statutes, the claim of NTSC to the NTSC Tobacco Assets is on a parity with the claim of the State to ownership of the remaining 20% of the amounts payable to the State under the MSA.

The Bonds are secured by and are payable solely from (i) the NTSC Tobacco Assets that were sold to NTSC pursuant to the Purchase and Sale Agreement and pledged to the Trustee under the Indenture (the "**Pledged TSRs**") and (ii) the other Collateral (as defined herein) pledged under the Indenture. None of the proceeds of the Series 2021 Bonds or any earnings therefrom, unless deposited into one of the Pledged Accounts (as defined herein), shall in any way be pledged to the payment of the Bonds. See "SECURITY FOR THE BONDS" herein.

The amount of Pledged TSRs 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, including a ban on menthol cigarettes. The FDA announced on April 29, 2021 that it is working to issue proposed product standards within the next year to ban menthol as a characterizing flavor in cigarettes. A Federal Trade Commission report estimated the 2019 domestic market share of menthol cigarettes at 37%. In addition, 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 was one of several jurisdictions to enter into settlements with the OPMs and certain SPMs (each as defined herein) regarding claims related to the 2004 through 2022 NPM Adjustments and the determination of subsequent NPM Adjustments. 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 2021 Bonds. The Series 2021B-2 Bonds are not rated and involve additional risks that may not be appropriate for certain investors. See "RISK FACTORS—Market for Series 2021B-2 Bonds; No Credit Rating on Series 2021B-2 Bonds." One or a combination of the risk factors discussed herein, and other risks, may materially adversely affect the ability of NTSC to pay debt service on all or a portion of the Series 2021 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 2021 Bonds.

The Series 2021A Bonds and Series 2021B-1 Bonds will be sold in denominations of $5,000 or any integral multiple thereof, and the Series 2021B-2 Bonds will be sold such that the Accreted Value thereof at the Maturity Date is in the denomination of $5,000 or any integral multiple of $5,000 in excess thereof. Interest on the Series 2021A Bonds and the Series 2021B-1 Bonds will be payable semi-annually on June 1 and December 1 of each year (each, a "**Distribution Date**"), commencing December 1, 2021. Interest on the Series 2021B-2 Bonds will not be paid currently but will accrete in value, compounded semiannually on each Distribution Date, commencing December 1, 2021 (to become part of Accreted Value as more fully described herein), from the initial principal amount on the date of delivery thereof to maturity or earlier redemption, at the rate of accretion specified on the inside front cover page hereof.

The Series 2021 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 within a maturity, by lot in accordance with the Indenture, 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 Indenture, as described further herein. The Series 2021A Bonds are on parity with any Refunding Bonds and Additional Bonds that are Class 1 Senior Bonds, and are senior in payment priority to the Series 2021B Bonds, any Refunding Bonds and Additional Bonds that are Class 2 Senior Bonds, and any Subordinate Bonds. The Series 2021B Bonds are subordinated in payment priority to the Series 2021A Bonds and any Refunding Bonds and Additional Bonds that are Class 1 Senior Bonds, are on parity with any Refunding Bonds that are Class 2 Senior Bonds, and are senior in payment priority to any Subordinate Bonds.

The Series 2021A Bonds are subject to optional redemption, mandatory tender, and optional clean-up call, and the Series 2021B Bonds are subject to optional redemption, mandatory tender, and mandatory clean-up call, each as described herein. The Series 2021A Bonds that are Term Bonds are subject to mandatory redemption by Fixed Sinking Fund Installments. The Series 2021B 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 2021B Bonds will be substantially earlier than the Turbo Term Bond Maturities therefor. Failure to pay any Turbo Redemptions on the Series 2021B Bonds will not constitute an Event of Default or a Class 2 Payment Default under the Indenture if such failure is due to the insufficiency of available Collections (as defined herein). The ratings for the Series 2021A Bonds and the Series 2021B-1 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 2021A Bonds that are Term Bonds, Fixed Sinking Fund Installment dates). The ratings do not address the payment of Turbo Redemptions on the Series 2021B-1 Bonds. The Series 2021B-2 Bonds are not rated. See "SECURITY FOR THE BONDS," "THE SERIES 2021 BONDS" and "RATINGS" herein.

See Inside Front Cover Page for Maturity Schedule,
Principal Amounts, Interest Rates, Prices or Yields, and Base Case Average Lives

The Series 2021 Bonds are limited obligations of NTSC, payable solely from certain funds held under the Indenture, including Collections. The Series 2021 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 2021A Bonds (and any other Class 1 Senior Bonds that may be issued) and the Class 2 Senior Liquidity Reserve Subaccount securing only the Series 2021B-1 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 2021B-2 Bonds or Subordinate Bonds. The Series 2021 Bonds do not constitute a charge against the general credit of NTSC and under no circumstances will NTSC be obligated to pay the interest on or principal or Accreted Value of or redemption premiums, if any, on the Series 2021 Bonds except from Collections and balances held under the Pledged Accounts (where applicable, and, to the extent available). The Series 2021 Bonds and other obligations of NTSC do not constitute a debt, liability or other obligation of AHFC or the State or any subdivision or instrumentality of the State or a pledge of the faith and credit or taxing power of AHFC or the State or of any political subdivision or instrumentality thereof. NTSC 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.

The Series 2021 Bonds are offered when, as and if issued by NTSC and accepted by the Underwriters, subject to the approval of validity by Kutak Rock LLP, Omaha, Nebraska, as Bond Counsel to NTSC. Certain legal matters with respect to the State will be passed upon by the Attorney General of the State of Alaska. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP. It is expected that the Series 2021 Bonds will be available for delivery in book-entry form only through DTC in New York, New York on or about July 1, 2021.

Jefferies

Citigroup **Ramirez & Co., Inc.**

BofA Securities **Wells Fargo Securities**

Date: June 24, 2021

MATURITY SCHEDULE

$282,480,482.50
NORTHERN TOBACCO SECURITIZATION CORPORATION
Tobacco Settlement Asset-Backed Bonds, Series 2021 Senior Bonds

$152,825,000 Series 2021A Class 1 Senior Current Interest Bonds

Series 2021A Serial Bonds

Maturity Date (June 1)	Principal Amount	Interest Rate	Yield	CUSIP† No. (Base CUSIP 66585V)	Maturity Date (June 1)	Principal Amount	Interest Rate	Yield	CUSIP† No. (Base CUSIP 66585V)
2022	$3,680,000	3.00%	0.18%	BC8	2032	$5,365,000	5.00%	1.41%[C]	BN4
2023	3,970,000	4.00	0.25	BD6	2033	5,390,000	5.00	1.49[C]	BP9
2024	4,680,000	5.00	0.36	BE4	2034	5,400,000	4.00	1.62[C]	BQ7
2025	4,415,000	5.00	0.51	BF1	2035	5,360,000	4.00	1.68[C]	BR5
2026	4,290,000	5.00	0.66	BG9	2036	5,600,000	4.00	1.73[C]	BS3
2027	4,950,000	5.00	0.79	BH7	2037	5,850,000	4.00	1.76[C]	BT1
2028	5,200,000	5.00	0.90	BJ3	2038	6,005,000	4.00	1.79[C]	BU8
2029	5,405,000	5.00	1.04	BK0	2039	6,115,000	4.00	1.82[C]	BV6
2030	5,375,000	5.00	1.17	BL8	2040	6,235,000	4.00	1.85[C]	BW4
2031	5,345,000	5.00	1.27	BM6	2041	6,440,000	4.00	1.88[C]	BX2

$47,755,000 4.00% Series 2021A Term Bonds due June 1, 2050, Yield 2.08%[C], CUSIP† No. 66585VBY0

$35,000,000 Series 2021B-1 Class 2 Senior Current Interest Bonds

$7,500,000 0.50% Series 2021B-1 Turbo Term Bonds due June 1, 2031 (Base Case Average Life[(1)]: 1.33 years)
Price 100%, CUSIP† No. 66585VBZ7

$27,500,000 4.00% Series 2021B-1 Turbo Term Bonds due June 1, 2050 (Base Case Average Life[(1)]: 4.31 years)
Yield 2.20%[C], CUSIP† No. 66585VCA1

$94,655,482.50 Series 2021B-2 Class 2 Senior Capital Appreciation Bonds[(2)]

$94,655,482.50 Series 2021B-2 Capital Appreciation Turbo Term Bonds

Maturity Date (June 1)	Initial Principal Amount	Rate of Accretion	Accreted Value at Maturity[(3)]	Initial Principal Amount per $5,000 Accreted Value at Maturity	Base Case Average Life[(1)]	CUSIP† No. (Base CUSIP 66585V)
2066	$94,655,482.50	3.40%	$430,350,000	$1,099.75	15.17 years	CB9

---

(1) Assumes Turbo Redemption payments are made in accordance with the Pledged TSRs Projection Methodology and Assumptions described herein under "PLEDGED TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS." See the table entitled "Projected Series 2021 Bonds Debt Service Schedule Incorporating Turbo Redemptions of the Series 2021B Bonds – Base Case" in "TABLES OF PROJECTED BOND DEBT SERVICE AND COVERAGE" herein. The Pledged TSRs Projection Methodology and Assumptions also set forth two alternative cases, each including a national menthol ban. See the tables entitled "Projected Series 2021 Bonds Debt Service Schedule Incorporating Turbo Redemptions of the Series 2021B Bonds – Alternative Case (Menthol Ban) 1" and "– Alternative Case (Menthol Ban) 2" in "TABLES OF PROJECTED BOND DEBT SERVICE AND COVERAGE" herein for the expected final turbo redemption dates of the Series 2021B Bonds under such alternative (menthol ban) cases. No assurance can be given that any of these structuring assumptions will be realized.

(2) The Series 2021B-2 Bonds are not rated and involve additional risks that may not be appropriate for certain investors. See "RISK FACTORS—Market for Series 2021B-2 Bonds; No Credit Rating on Series 2021B-2 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.

† 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 Owners only at the time of issuance of the Series 2021 Bonds, and NTSC, the Trustee 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 2021 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 that is applicable to all or a portion of the Series 2021 Bonds.

C Priced to first optional call on June 1, 2031.

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 NTSC 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 2021 Bonds. There can be no assurance that a secondary market for the Series 2021 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 2021 Bonds.

This Offering Circular contains information furnished by NTSC, 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 NTSC 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. NTSC has no 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 NTSC has not verified this information and cannot and do 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 NTSC has no 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 NTSC 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 2021 Bonds, NTSC 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 TSRs (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 NTSC, 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 Indenture, the Purchase and Sale Agreement and the Continuing Disclosure Undertaking do not purport to be complete. Refer to the Act, the Indenture, the Purchase and Sale Agreement and the Continuing Disclosure Undertaking for full and complete details of their provisions. Copies of the Act, the Indenture, the Purchase and Sale Agreement and the Continuing Disclosure Undertaking are on file with NTSC 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 NTSC. These forward-looking statements speak only as of the date of this Offering Circular. NTSC disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in NTSC's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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.

TABLE OF CONTENTS

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 2021 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 NTSC, the Underwriters and the Owners of the Series 2021 Bonds. Capitalized terms used in this Summary Statement and not otherwise defined shall have the meanings given such terms in the Indenture or the Purchase and Sale Agreement, as applicable. See APPENDIX E-1 – "FORM OF AMENDED AND RESTATED INDENTURE," APPENDIX E-2 – "PURCHASE AND SALE AGREEMENT AND FORM OF 2021 PURCHASE AND SALE AMENDMENTS" and APPENDIX I – "INDEX OF DEFINED TERMS" attached hereto.

Overview

The Northern Tobacco Securitization Corporation ("**NTSC**") is issuing its Tobacco Settlement Asset-Backed Bonds, Series 2021 Senior Bonds, consisting of $152,825,000 Series 2021A Class 1 Senior Current Interest Bonds (the "**Series 2021A Bonds**"), $35,000,000 Series 2021B-1 Class 2 Senior Current Interest Bonds (the "**Series 2021B-1 Bonds**"), and $94,655,482.50 Series 2021B-2 Class 2 Senior Capital Appreciation Bonds (the "**Series 2021B-2 Bonds**" and, together with the Series 2021B-1 Bonds, the "**Series 2021B Bonds**;" the Series 2021B Bonds, collectively with the Series 2021A Bonds, the "**Series 2021 Bonds**"), pursuant to an Amended and Restated Trust Indenture and a Series 2021 Supplement (together, the "**Indenture**"), each dated as of July 1, 2021, between NTSC and U.S. Bank National Association, as indenture trustee (the "**Trustee**"). NTSC will use the proceeds from the issuance of the Series 2021 Bonds, together with other available funds, to (i) refund on a current basis all of NTSC's Tobacco Settlement Asset-Backed Bonds Series 2006 (the "**Series 2006 Bonds**") through defeasance and redemption, (ii) fund a deposit to the Senior Liquidity Reserve Account held under the Indenture, (iii) fund one or more State capital projects and (iv) pay costs of issuance in connection with the issuance of the Series 2021 Bonds. See "PLAN OF REFUNDING," "ESTIMATED SOURCES AND USES OF FUNDS."

The Series 2021 Bonds, collectively with any Refunding Bonds, Additional Bonds and Subordinate Bonds (each as defined herein) that may be issued by NTSC pursuant to the Indenture, are referred to herein as the "**Bonds**."

In accordance with the Act and pursuant to a Purchase and Sale Agreement dated October 12, 2000 (the "**2000 Purchase and Sale Agreement**,") by and among the State, AHFC and NTSC, a Purchase and Sale Agreement dated August 1, 2001 (the "**2001 Purchase and Sale Agreement**") by and between the State and NTSC, an Amended and Consolidated Purchase and Sale Agreement dated August 17, 2006 by and among the State, AHFC and NTSC, amending certain provisions of the 2000 Purchase and Sale Agreement and the 2001 Purchase and Sale Agreement (the "**Amended and Consolidated Purchase and Sale Agreement**"), and the 2021 Amendments to the Amended and Consolidated Purchase and Sale Agreement dated as of July 1, 2021 by and between the State and NTSC (the "**2021 Purchase and Sale Amendments**" and, collectively with the 2000 Purchase and Sale Agreement, the 2001 Purchase and Sale Agreement and the Amended and Consolidated Purchase and Sale Agreement, the "**Purchase and Sale Agreement**"), NTSC owns the State's right, title and interest in 80% (in the aggregate) of the amounts payable to the State under 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 (collectively, the "**NTSC Tobacco Assets**"). Under applicable State statutes, the claim of NTSC to the NTSC Tobacco Assets is on a parity with the claim of the State to ownership of the remaining 20% of the amounts payable to the State under the MSA.

The Bonds are secured by and are payable solely from (i) the NTSC Tobacco Assets that were sold to NTSC pursuant to the Purchase and Sale Agreement and pledged to the Trustee under the Indenture (the "**Pledged TSRs**") and (ii) the other Collateral (as defined herein) pledged under the Indenture. None of the proceeds of the Series 2021 Bonds or any earnings therefrom, unless deposited into one of the Pledged Accounts (as defined herein), shall in any way be pledged to the payment of the Bonds. See "SECURITY FOR THE BONDS."

NTSC	NTSC is a nonprofit corporation organized as a subsidiary of the Alaska Housing Finance Corporation ("**AHFC**"). As a subsidiary of AHFC, NTSC is a government instrumentality of, but separate and apart from, the State. NTSC was formed pursuant to the Alaska Nonprofit Corporation Act (AS 10.20) and provisions of the Alaska Housing Finance Corporation Act (AS 18.56) (collectively, the "**Act**"). See "NTSC" herein.
Securities Offered	The Series 2021 Bonds are Refunding Bonds and Senior Bonds under the Indenture; the Series 2021A Bonds are Class 1 Senior Bonds, and the Series 2021B Bonds are Class 2 Senior Bonds, as described further herein. The Series 2021A Bonds are on parity with any Refunding Bonds and Additional Bonds that are Class 1 Senior Bonds, and are senior in payment priority to the Series 2021B Bonds, any Refunding Bonds and Additional Bonds that are Class 2 Senior Bonds, and any Subordinate Bonds. The Series 2021B Bonds are subordinated in payment priority to the Series 2021A Bonds and any Refunding Bonds and Additional Bonds that are Class 1 Senior Bonds, are on parity with any Refunding Bonds that are Class 2 Senior Bonds, and are senior in payment priority to any Subordinate Bonds. The Series 2021B Bonds are Turbo Term Bonds. The Series 2021A Bonds and the Series 2021B-1 Bonds are Current Interest Bonds, and the Series 2021B-2 Bonds are Capital Appreciation Bonds. See "THE SERIES 2021 BONDS" herein. The Series 2021A Bonds and Series 2021B-1 Bonds will be sold in denominations of $5,000 or any integral multiple thereof, and the Series 2021B-2 Bonds will be sold such that the Accreted Value thereof at the Maturity Date is in the denomination of $5,000 or any integral multiple of $5,000 in excess thereof. The Series 2021B-2 Bonds are <u>not</u> rated and involve additional risks that may not be appropriate for certain investors. See "RISK FACTORS—Market for Series 2021B-2 Bonds; No Credit Rating on Series 2021B-2 Bonds." It is expected that the Series 2021 Bonds will be delivered in book-entry form through the facilities of The Depository Trust Company, New York, New York ("**DTC**"), on or about July 1, 2021 (the "**Closing Date**"). Beneficial owners of the Series 2021 Bonds will not receive physical delivery of the Series 2021 Bonds. See APPENDIX F – "BOOK-ENTRY ONLY SYSTEM" attached hereto.
Collateral	The Series 2021 Bonds will be secured, subject to the Payment Priorities described below, by the "**Collateral**," which is a first priority lien and security interest in, all of NTSC's right, title, and interest, whether now owned or hereafter acquired, in, to, and under: (i) the Pledged TSRs; (ii) the Pledged Accounts, all money, instruments, investment property, and other property credited to or on deposit in the Pledged Accounts, and all investment earnings thereon; (iii) any payment received by NTSC pursuant to a Swap Contract (in accordance with the Indenture, NTSC will not enter into a Swap Contract as long as the Series 2021 Bonds are Outstanding); (iv) all present

and future claims, demands, causes and things in action in respect of any or all of the foregoing and all payments on or under and all proceeds of every kind and nature whatsoever in respect of any or all of the foregoing, including all proceeds of the conversion, voluntary or involuntary, into cash or other liquid property, all cash proceeds, accounts, general intangibles, notes, drafts, acceptances, chattel paper, checks, deposit accounts, insurance proceeds, condemnation awards, rights to payment of any and every kind, and other forms of obligations and receivables, instruments, payment intangibles and other property that at any time constitute all or part of or are included in the proceeds of any of the foregoing; and (v) all proceeds of the foregoing. The Collateral does not include the rights of NTSC pursuant to provisions for consent or other action by NTSC, notice to NTSC, indemnity or the filing of documents with NTSC, or otherwise for its benefit and not for that of the Owners. None of the proceeds of the Bonds or any earnings therefrom, unless deposited into one of the Pledged Accounts, shall in any way be pledged to the payment of the Bonds, and such amounts shall not be part of the Collateral.

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 within a maturity, by lot in accordance with the Indenture; 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 Indenture; and

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

Limited Obligations

The Series 2021 Bonds are limited obligations of NTSC, payable solely from certain funds held under the Indenture, including Collections. The Series 2021 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 2021A Bonds (and any other Class 1 Senior Bonds that may be issued) and the Class 2 Senior Liquidity Reserve Subaccount securing only the Series 2021B-1 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 2021B-2 Bonds or Subordinate Bonds. The Series 2021 Bonds do not constitute a charge against the general credit of NTSC and under no circumstances will NTSC be obligated to pay the interest on or principal or Accreted Value of or redemption premiums, if any, on the Series 2021 Bonds except from Collections and balances held under the Pledged Accounts (where applicable, and, to the extent available). The Series 2021 Bonds and other obligations of NTSC do not constitute a debt, liability or other obligation of AHFC or the State or any subdivision or instrumentality of the State or a pledge of the faith and credit or taxing power of AHFC or the State or of any political subdivision or instrumentality thereof. NTSC has no taxing power.

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. NTSC 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." All of the OPMs and most of the SPMs have made their required Annual Payments due in 2000 through, and including, 2021, 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 "**Market Share Loss**" (as defined in the MSA) 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 was one of several jurisdictions to enter into settlements with the OPMs and certain SPMs regarding claims related to the 2004 through 2022 NPM Adjustments and the determination of subsequent NPM Adjustments. See "RISK FACTORS—Payment Decreases Under the Terms of the MSA," "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Adjustments to Payments" and "—NPM Adjustment Claims and NPM Adjustment Settlement," APPENDIX C-1 — "NPM ADJUSTMENT SETTLEMENT AGREEMENT," APPENDIX C-2 — "ALASKA JOINDER TO NPM ADJUSTMENT SETTLEMENT AGREEMENT" and APPENDIX C-3 — "2018 THROUGH 2022 NPM ADJUSTMENTS SETTLEMENT AGREEMENT."

Other adjustments to payments due under the MSA include increases related to inflation of not less than 3% each year (the "**Inflation Adjustment**" as defined in the MSA), reductions for decreased domestic cigarette shipments (the "**Volume Adjustment**" as defined in the MSA), reductions for amounts paid by OPMs to four states which had previously settled their claims against the PMs independently of the MSA (the "**Previously Settled States Reduction**" as defined in the MSA), 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**" (as defined in the MSA) 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 defined in the MSA). 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 22, 2021 to the Settling States.

Under the MSA, the State is entitled to 0.3414187% of the Annual Payments made by PMs under the MSA and distributed through the National Escrow Agreement, entered into on December 23, 1998 (the "**National Escrow Agreement**"), among the Settling States, the OPMs and the MSA Escrow Agent. See "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT" herein.

Alaska Consent Decree

On February 9, 1999, the Consent Decree and Final Judgment (the "**Consent Decree**") that governs the class action portion of the State's action against the tobacco companies was entered in the Superior Court for the State of Alaska, First Judicial District at Juneau. The Consent Decree, which is final and non-appealable, settled the class action litigation brought by the State against the OPMs and resulted in the achievement of Alaska State-Specific Finality under the MSA. See "ALASKA CONSENT DECREE" herein.

Industry Overview

Philip Morris and Reynolds Tobacco (both OPMs) are the largest manufacturers of cigarettes in the United States (based on 2020 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 79.97%* of the U.S. domestic cigarette market in payment year 2021 (sales year 2020), 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 10.62%* of the U.S. domestic cigarette market in payment year 2021 (sales year 2020), measuring roll-your-own cigarettes at 0.09 ounces per cigarette conversion rate.

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, 2000s and 2010s, falling to less than 400 billion cigarettes in 2003 and 264.5 billion cigarettes in 2014, before increasing slightly to 269.6 billion cigarettes in 2015 and then decreasing to 258.9 billion cigarettes in 2016, 247.5 billion cigarettes in 2017, 235.9 billion cigarettes in 2018 and 224.2 billion cigarettes in 2019. 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.

On April 29, 2021, the FDA announced it is working to issue proposed product standards within the next year to ban menthol as a characterizing flavor in cigarettes. A Federal Trade Commission report estimated the 2019 domestic market share of menthol cigarettes at 37%. Based on the first of two alternative forecasts that includes a national menthol ban, the Tobacco Consumption Report projects U.S. cigarette consumption decline to accelerate from a 4.6% decline in 2023 to an 8.7% decline in 2024 (the Tobacco Consumption Report projects the ban to be effective by the middle of 2024), followed by an 8.4% decline in 2025 (the first full year that the Tobacco Consumption Report projects the ban to be effective), and projects U.S. cigarette consumption decline to decelerate to a 3.4% decline in 2026. Based on the second of two alternative forecasts that includes a national menthol ban, the Tobacco Consumption Report projects U.S. cigarette consumption decline to accelerate from a 4.6% decline in 2023 to an 11.2% decline in 2024 (the Tobacco Consumption Report projects the ban to be effective by the middle of 2024), followed by an 11.0% decline in 2025 (the first full year that the Tobacco Consumption Report projects the ban to be effective), and projects U.S. cigarette consumption decline to decelerate to a 3.4% decline in 2026. A May 2021 report by Moody's Investors Service estimates that a menthol ban will accelerate the decline of U.S. cigarette volumes to the low double-digit level over the next three to five years. See "RISK FACTORS—A Ban On Menthol Cigarettes Could Materially Adversely Affect the Volume of Cigarettes Sold in the U.S. and Thus Payments Under the MSA," "RISK FACTORS—Risks Relating to the Tobacco Consumption Report," "PLEDGED TSRs PROJECTION METHODOLOGY AND

---

* 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 TSRs Projection Methodology and Assumptions may differ materially in the future from the market share information used by the MSA Auditor in calculating the adjustments to MSA payments in future years. See "PLEDGED TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" and "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Adjustments to Payments."

BOND STRUCTURING ASSUMPTIONS" and APPENDIX A – "TOBACCO CONSUMPTION REPORT."

Tobacco Consumption Report	IHS Global Inc. ("**IHS Global**") has prepared a report dated June 24, 2021 on the consumption of cigarettes in the United States from 2021 through 2066 entitled, "*A Forecast of U.S. Cigarette Consumption (2021-2066) for the Northern Tobacco Securitization Corporation*" (the "**Tobacco Consumption Report**"). IHS Global's cigarette consumption model is based on historical United States data between 1965 and 2020. In the Tobacco Consumption Report, IHS Global's base case forecast projects the average annual rate of decline in U.S. cigarette consumption from 2021 through 2066 to be approximately 3.37%, resulting in a forecast of total U.S. cigarette consumption in 2066 to be 47.5 billion cigarettes, including a roll-your-own equivalent of 0.0325 ounces per cigarette (a 79% decline from the 2020 level). Also in the Tobacco Consumption Report, IHS Global's first alternative case (menthol ban) forecast projects the average annual rate of decline in U.S. cigarette consumption from 2021 through 2066 to be approximately 3.59%, resulting in a forecast of total U.S. cigarette consumption in 2066 to be 42.9 billion cigarettes, including a roll-your-own equivalent of 0.0325 ounces per cigarette (an 81% decline from the 2020 level). IHS Global's second alternative case (menthol ban) forecast projects the average annual rate of decline in U.S. cigarette consumption from 2021 through 2066 to be approximately 3.71%, resulting in a forecast of total U.S. cigarette consumption in 2066 to be 40.4 billion cigarettes, including a roll-your-own equivalent of 0.0325 ounces per cigarette (an 82% decline from the 2020 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 TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS."
Interest and Principal or Accreted Value	The Series 2021 Bonds will bear or accrete interest at the respective rates per annum as described on the inside front cover page of this Offering Circular and as further described herein. Interest on the Series 2021A Bonds and the Series 2021B-1 Bonds will be payable semi-annually on June 1 and December 1 of each year (each, a "**Distribution Date**"), commencing December 1, 2021. Interest on the Series 2021B-2 Bonds will not be paid currently but will accrete in value, compounded semiannually on each Distribution Date, commencing December 1, 2021 (to become part of Accreted Value as more fully described herein), from the initial principal amount on the date of delivery thereof to maturity or earlier redemption, at the rate of accretion specified on the inside front cover page hereof. See APPENDIX H — "TABLE OF ACCRETED VALUES OF SERIES 2021B-2 BONDS." In the event that a Series 2021B-2 Bond remains outstanding after its Maturity Date, such Bond will accrue and pay interest at its Default Rate (as defined herein) from its Maturity Date. Interest on the Series 2021 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 2021 Bonds on their respective scheduled Maturity Dates as set forth on the inside front cover page hereof (and, with respect to the Series 2021A 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 2021B Bonds by Turbo Redemptions in accordance with the Payment Priorities, as described below.

Turbo Redemption of Series 2021B Bonds	Under the Indenture, 100% of all Collections in excess of the requirements for, among other things, the periodic funding of Operating 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 Turbo Term Bonds (including the Series 2021B Bonds) at the principal amount or Accreted Value thereof on each Distribution Date (or special redemption date under the 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 not 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 Indenture and if the Trustee is instructed to do so by NTSC in an Officer's Certificate. Failure by NTSC to make any Turbo Redemptions will not constitute an Event of Default, a Class 2 Payment Default or a Subordinate Payment Default under the Indenture if such failure is due to the insufficiency of available Collections to make such Turbo Redemptions. The ratings on the Series 2021B-1 Bonds do not address the payment of Turbo Redemptions on such Bonds. The Series 2021B-2 Bonds are not rated. See "THE SERIES 2021 BONDS – Turbo Redemption of Series 2021B Bonds."
	For schedules of projected Turbo Redemptions, see the tables entitled "Projected Series 2021 Bonds Debt Service Schedule Incorporating Turbo Redemptions of the Series 2021B Bonds – Base Case," "– Alternative Case (Menthol Ban) 1" and "– Alternative Case (Menthol Ban) 2" and the respective column headings "Series 2021B Bonds — Total Projected Principal Payments" in "TABLES OF PROJECTED BOND DEBT SERVICE AND COVERAGE" herein ("**Projected Turbo Redemption**").
	In accordance with the Indenture, moneys in any Pledged Account shall not be used to make open market purchases of Turbo Term Bonds. Moneys in the Surplus Account may be used to make open market purchases of Class 1 Senior Bonds. Any Class 1 Senior Bonds so purchased shall be delivered to the Trustee for cancellation.
Mandatory Redemption of Series 2021A Term Bonds by Fixed Sinking Fund Installments	The Series 2021A Bonds maturing on June 1, 2050 are Term Bonds that are subject to mandatory redemption in part by Fixed Sinking Fund Installments as described herein under "THE SERIES 2021 BONDS — Mandatory Redemption of Series 2021A Term Bonds by Fixed Sinking Fund Installments." Failure to pay Fixed Sinking Fund Installments on the Series 2021A Bonds is an Event of Default under the Indenture. See "SECURITY FOR THE BONDS — Events of Default; Remedies."
Optional Redemption and Mandatory Tender and Purchase	*Optional Redemption and Mandatory Tender and Purchase of Series 2021 Bonds.* The Series 2021 Bonds are subject to redemption or mandatory tender and purchase from any source other than amounts in the Pledged Accounts that are required to secure any Bonds that will remain Outstanding after such redemption or purchase, as applicable, at the option of NTSC (x) in the case of the Series 2021A Bonds and the Series 2021B-1 Bonds, at a redemption price or purchase price, as applicable, equal to one hundred percent (100%) of the principal amount being redeemed or purchased, as applicable, plus interest accrued to the redemption date or purchase date, as applicable, and (y) in the case of the Series 2021B-2 Bonds, at a redemption price or purchase price, as applicable, equal to one hundred percent (100%) of the Accreted Value being redeemed or purchased, as applicable, on the redemption date or purchase date, as applicable, in each case in whole or in part on any date on or after June 1, 2031, and if in part, from any Maturity Date selected by NTSC in its discretion. Notwithstanding the foregoing, if the Series 2021 Bonds to be tendered for purchase are Tax-Exempt Bonds (as defined in the Indenture) and are to be remarketed as Tax-Exempt Bonds, an Opinion of Counsel (as defined in the Indenture) that the mandatory tender and remarketing of

such Series 2021 Bonds will not, in and of themselves, adversely affect the exclusion of interest on such Series 2021 Bonds from gross income for federal income tax purposes, addressed to NTSC and the Trustee, will be required for the mandatory tender for purchase and remarketing of such Series 2021 Bonds. Any such Series 2021 Bonds purchased by NTSC pursuant to a mandatory tender for purchase shall be cancelled by the Trustee, unless NTSC otherwise so directs in writing. Additional provisions regarding mandatory tender for purchase and remarketing of the Series 2021 Bonds are set forth in the Indenture and Series 2021 Supplement. See APPENDIX E-1 – "FORM OF AMENDED AND RESTATED INDENTURE" attached hereto.

Catch-Up Optional Redemption and Mandatory Tender and Purchase of Series 2021B Bonds. The Series 2021B-1 Bonds and the Series 2021B-2 Bonds are each subject to redemption or mandatory tender and purchase, from any source other than amounts in the Pledged Accounts that are required to secure any Bonds that will remain Outstanding after such redemption or purchase, as applicable, at the option of NTSC, (x) in the case of the Series 2021B-1 Bonds, at a redemption price or purchase price, as applicable, equal to one hundred percent (100%) of the principal amount being redeemed or purchased, as applicable, plus interest accrued to the redemption date or purchase date, as applicable, and (y) in the case of the Series 2021B-2 Bonds, at a redemption price or purchase price, as applicable, equal to one hundred percent (100%) of the Accreted Value being redeemed on the redemption date or purchase date, as applicable, in each case 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 as set forth in the Base Case Projected Turbo Redemption schedule but, as of the date of such redemption or purchase, as applicable, have not been paid with respect to such Series 2021B-1 Bonds or Series 2021B-2 Bonds, as applicable. Notwithstanding the foregoing, if the Series 2021 Bonds to be tendered for purchase are Tax-Exempt Bonds (as defined in the Indenture) and are to be remarketed as Tax-Exempt Bonds, an Opinion of Counsel (as defined in the Indenture) that the mandatory tender and remarketing of such Series 2021 Bonds will not, in and of themselves, adversely affect the exclusion of interest on such Series 2021 Bonds from gross income for federal income tax purposes, addressed to NTSC and the Trustee, will be required for the mandatory tender for purchase and remarketing of such Series 2021 Bonds. Any such Series 2021 Bonds purchased by NTSC pursuant to a mandatory tender for purchase shall be cancelled by the Trustee, unless NTSC otherwise so directs in writing. Additional provisions regarding mandatory tender for purchase and remarketing of the Series 2021 Bonds are set forth in the Indenture and Series 2021 Supplement. See APPENDIX E-1 – "FORM OF AMENDED AND RESTATED INDENTURE" attached hereto.

Clean-Up Call Redemptions

Optional Clean-Up Call of Class 1 Senior Bonds. The Class 1 Senior Bonds (including the Series 2021A Bonds) and any Bonds secured on parity with the Class 1 Senior Bonds are subject to optional redemption 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 from the available amounts on deposit in the Pledged Accounts allocable to the Class 1 Senior Bonds at any time that such amounts 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 2021B-1 Bonds) and any 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 from the available amounts on deposit in the Pledged Accounts allocable to the Class 2 Senior Bonds at any time that such amounts exceed the aggregate principal amount of, and accrued interest on, all such Outstanding Class 2 Senior Bonds.

Mandatory Redemption of Defeased Series 2021B Bonds	The Series 2021B Bonds that are defeased in accordance with the 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 Pro Rata 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 Indenture, use all such amounts on deposit in the Lump Sum Payment 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.
Bond Structuring Assumptions and Methodology	The Series 2021 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 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 2021B 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 2021 Bonds. See "PLEDGED TSRs 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 2021A Bonds (and any other Class 1 Senior Bonds that may be issued) and the Class 2 Senior Liquidity Reserve Subaccount secures only the Series 2021B-1 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 <u>not</u> secure the Series 2021B-2 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, for as long as any Series 2021A Bonds are Outstanding, an amount equal to $10,874,150, and otherwise $0; provided, however, that at the option of NTSC, with a Rating Confirmation for any Bonds which are then rated by a Rating Agency, the Class 1 Senior Liquidity Reserve Requirement applicable on and after June 1, 2031 may be changed to an amount equal to Maximum Annual Class 1 Senior Bond Debt Service each year for as long as any Class 1 Senior Bonds are Outstanding, and otherwise $0. "**Maximum Annual Class 1 Senior Bond Debt Service**" means, as of any date, the greatest aggregate amount payable in the then-current calendar year or any future calendar year in respect of principal, Fixed Sinking Fund Installments and interest on Class 1 Senior Bonds. 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 $1,137,500 for so long as any Series 2021B-1 Bonds are Outstanding and an amount equal to $0 when no Series 2021B-1 Bonds are Outstanding, which amount may (but is not required to)

be amended upon the issuance of Refunding 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 2021A Bonds and Series 2021B-1 Bonds, as applicable, but will not be available for Turbo Redemptions. The Senior Liquidity Reserve Account does not secure the Series 2021B-2 Bonds or Subordinate 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

"**Collections**" are all funds collected with respect to the Pledged TSRs. All Collections received by the Trustee shall be promptly deposited by the Trustee into the Collections 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 relating to the Pledged TSRs ("**Deposit Date**"), or (y) two Business Days prior to each Distribution Date, and in either case after the transfer of amounts from the Senior Liquidity Reserve Account to the Senior Debt Service Account pursuant to the Indenture, the Trustee shall withdraw the funds on deposit in the Collections Account and transfer such amounts as described herein under "SECURITY FOR THE BONDS – Flow of Funds."

Events of Default

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

(a) failure to pay when due interest on any Class 1 Senior Bonds;

(b) failure to pay when due any Serial Maturity, Fixed Sinking Fund Installment or Term Bond Maturity for Class 1 Senior Bonds; or

(c) failure of NTSC to observe or perform any other covenant, condition, agreement, or provision contained in the Senior Bonds or in the Indenture relating to Senior Bonds, which breach is not remedied within 60 days after Written Notice, specifying such default and requiring the same to be remedied, shall have been given to NTSC by the Trustee or by the Owners of at least 25% in Bond Obligation of the Senior Bonds then Outstanding. In the case of a default specified in this clause, if the default be such that it cannot be corrected within the said 60-day period, it shall not constitute an Event of Default if corrective action is instituted by NTSC within said 60-day period and diligently pursued until the default is corrected.

Except as specified in clauses (a) and (b) above, failure to make any payment or to make provision therefor, including any Projected Turbo Redemption, does not constitute an Event of Default to the extent that such failure results from the insufficiency of available Collateral to make such payment or provision therefor.

Notwithstanding anything in the Indenture to the contrary, neither a Class 2 Payment Default nor a Subordinate Payment Default is an Event of Default under the Indenture, provided that in the event of a Class 2 Payment Default or a Subordinate Payment Default, so long as no Series 2021B-1 Bonds or Class 1 Senior Bonds are Outstanding, Owners of Class 2 Senior Bonds (in the event of a Class 2 Payment Default) and Owners of Subordinate Bonds (in the event of a Subordinate Payment Default) shall have the respective specified remedies set forth in the Indenture.

Upon the occurrence of any Event of Default and continuing on each succeeding Distribution Date commencing with the Distribution Date following the Event of Default, the Bonds shall be paid as described herein under "SECURITY FOR THE BONDS—Flow of Funds—*Payment Upon an Event of Default*."

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 Subordinate Bonds

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 NTSC, 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 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 Class 2 Senior Liquidity Reserve Requirement, as applicable; (B) no Event of Default shall have occurred and be continuing; (C) the 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 issuance of the Refunding Bonds and/or Additional Bonds will not exceed (x) the remaining weighted average life of each such Turbo Term Bond as computed by NTSC 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 "**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. Subordinate Bonds may be issued to refund all or a portion of the Bonds without satisfying the requirements described above.

See "SECURITY FOR THE BONDS – Refunding Bonds and Subordinate Bonds" herein.

Covenants

NTSC and the State have made certain covenants for the benefit of the Owners. See APPENDIX E-1 – "FORM OF AMENDED AND RESTATED INDENTURE" attached hereto for the covenants made by NTSC, APPENDIX E-2 – "PURCHASE AND SALE AGREEMENT" attached hereto for the covenants made by the State in the Purchase and Sale Agreement and APPENDIX E-1 – "FORM OF AMENDED AND RESTATED INDENTURE" attached hereto for the State's covenants that NTSC is authorized to include in the 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 Agreement (the "**Continuing Disclosure Undertaking**"), NTSC 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 for the Series 2021A Bonds and Series 2021B-1 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 2021A Bonds that are Term Bonds, Fixed Sinking Fund Installment dates). The payment of Turbo Redemptions on the Series 2021B-1 Bonds has not been rated by S&P Global Ratings ("**S&P**"). The Series 2021B-2 Bonds are not rated and involve additional risks that may not be appropriate for certain investors. See "RISK FACTORS—Market for Series 2021B-2 Bonds; No Credit Rating on Series 2021B-2 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 2021 Bonds.
Tax Matters	In the opinion of Kutak Rock LLP, Bond Counsel to NTSC, interest on the Series 2021 Bonds (A) under existing laws, regulations, rulings and judicial decisions, (i) is excluded from gross income for federal income tax purposes and (ii) is not a specific preference item for purposes of the alternative minimum tax imposed under the Internal Revenue Code of 1986, as amended, and (B) is free from taxation by the State of Alaska under existing law (except that no opinion is expressed as to such exemption from State estate and inheritance taxes and taxes of transfers by or in anticipation of death). Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2021 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 Indenture and the Purchase and Sale Agreement may be obtained upon request from the Trustee at: U.S. Bank National Association, 1420 Fifth Avenue, 7th Floor, Seattle, Washington 98101, Attention: Global Corporate Trust Services.

THIS PAGE INTENTIONALLY LEFT BLANK

INTRODUCTORY STATEMENT

The Northern Tobacco Securitization Corporation ("**NTSC**") is issuing its Tobacco Settlement Asset-Backed Bonds, Series 2021 Senior Bonds, consisting of $152,825,000 Series 2021A Class 1 Senior Current Interest Bonds (the "**Series 2021A Bonds**") as Class 1 Senior Bonds, $35,000,000 Series 2021B-1 Class 2 Senior Current Interest Bonds (the "**Series 2021B-1 Bonds**") as Class 2 Senior Bonds, and $94,655,482.50 Series 2021B-2 Class 2 Senior Capital Appreciation Bonds (the "**Series 2021B-2 Bonds**" and, together with the Series 2021B-1 Bonds, the "**Series 2021B Bonds**;" the Series 2021B Bonds, collectively with the Series 2021A Bonds, the "**Series 2021 Bonds**") as Class 2 Senior Bonds, pursuant to an Amended and Restated Trust Indenture and a Series 2021 Supplement (together, the "**Indenture**"), each dated as of July 1, 2021, between NTSC and U.S. Bank National Association, as indenture trustee (the "**Trustee**"). NTSC will use the proceeds from the issuance of the Series 2021 Bonds, together with other available funds, to (i) refund on a current basis all of NTSC's Tobacco Settlement Asset-Backed Bonds Series 2006 (the "**Series 2006 Bonds**") through defeasance and redemption, (ii) fund a deposit to the Senior Liquidity Reserve Account held under the Indenture, (iii) fund one or more State capital projects and (iv) pay costs of issuance in connection with the issuance of the Series 2021 Bonds. The Series 2021 Bonds, collectively with any Refunding Bonds, Additional Bonds and Subordinate Bonds (each as defined herein) that may be issued by NTSC pursuant to the Indenture, are referred to herein as the "**Bonds**." See "PLAN OF REFUNDING," "ESTIMATED SOURCES AND USES OF FUNDS."

NTSC is a nonprofit corporation organized as a subsidiary of the Alaska Housing Finance Corporation ("**AHFC**"). As a subsidiary of AHFC, NTSC is a government instrumentality of, but separate and apart from, the State of Alaska (the "**State**"). NTSC was formed pursuant to the Alaska Nonprofit Corporation Act (AS 10.20) and provisions of the Alaska Housing Finance Corporation Act (AS 18.56) (collectively, the "**Act**").

In accordance with the Act and pursuant to a Purchase and Sale Agreement dated October 12, 2000 (the "**2000 Purchase and Sale Agreement**,") by and among the State, AHFC and NTSC, a Purchase and Sale Agreement dated August 1, 2001 (the "**2001 Purchase and Sale Agreement**") by and between the State and NTSC, an Amended and Consolidated Purchase and Sale Agreement dated August 17, 2006 by and among the State, AHFC and NTSC, amending certain provisions of the 2000 Purchase and Sale Agreement and the 2001 Purchase and Sale Agreement (the "**Amended and Consolidated Purchase and Sale Agreement**") and the 2021 Amendments to the Amended and Consolidated Purchase and Sale Agreement dated as of July 1, 2021 by and between the State and NTSC (the "**2021 Purchase and Sale Amendments**" and, collectively with the 2000 Purchase and Sale Agreement, the 2001 Purchase and Sale Agreement and the Amended and Consolidated Purchase and Sale Agreement, the "**Purchase and Sale Agreement**"), NTSC owns the State's right, title and interest in 80% (in the aggregate) of the amounts payable to the State under the MSA (defined herein) (collectively, the "**NTSC Tobacco Assets**"). Under applicable State statutes, the claim of NTSC to the NTSC Tobacco Assets is on a parity with the claim of the State to ownership of the remaining 20% of the amounts payable to the State under the MSA. See "SECURITY FOR THE BONDS — Purchase and Sale Agreement."

The Bonds are secured by and are payable solely from (i) the NTSC Tobacco Assets that were sold to NTSC pursuant to the Purchase and Sale Agreement and pledged to the Trustee under the Indenture (the "**Pledged TSRs**") and (ii) the other Collateral (as defined herein) pledged under the Indenture. None of the proceeds of the Series 2021 Bonds or any earnings therefrom, unless deposited into one of the Pledged Accounts (as defined herein), shall in any way be pledged to the payment of the Bonds. See "SECURITY FOR THE BONDS" herein.

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.

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 a Market Share Loss (as defined in the MSA) 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 was one of several jurisdictions to enter into settlements with the OPMs and certain SPMs regarding claims related to the 2004 through 2022 NPM Adjustments and the determination of subsequent NPM Adjustments. See “RISK FACTORS—Payment Decreases Under the Terms of the MSA,” “SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Adjustments to Payments” and “— NPM Adjustment Claims and NPM Adjustment Settlement,” APPENDIX C-1 — “NPM ADJUSTMENT SETTLEMENT AGREEMENT,” APPENDIX C-2 — “ALASKA JOINDER TO NPM ADJUSTMENT SETTLEMENT AGREEMENT” and APPENDIX C-3 — “2018 THROUGH 2022 NPM ADJUSTMENTS SETTLEMENT AGREEMENT.”

The amount of Pledged TSRs 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, including a ban on menthol cigarettes. On April 29, 2021, the FDA announced it is working to issue proposed product standards within the next year to ban menthol as a characterizing flavor in cigarettes. A Federal Trade Commission report estimated the 2019 domestic market share of menthol cigarettes at 37%. Based on the first of two alternative forecasts that includes a national menthol ban, the Tobacco Consumption Report projects U.S. cigarette consumption decline to accelerate from a 4.6% decline in 2023 to an 8.7% decline in 2024 (the Tobacco Consumption Report projects the ban to be effective by the middle of 2024), followed by an 8.4% decline in 2025 (the first full year that the Tobacco Consumption Report projects the ban to be effective), and projects U.S. cigarette consumption decline to decelerate to a 3.4% decline in 2026. Based on the second of two alternative forecasts that includes a national menthol ban, the Tobacco Consumption Report projects U.S. cigarette consumption decline to accelerate from a 4.6% decline in 2023 to an 11.2% decline in 2024 (the Tobacco Consumption Report projects the ban to be effective by the middle of 2024), followed by an 11.0% decline in 2025 (the first full year that the Tobacco Consumption Report projects the ban to be effective), and projects U.S. cigarette consumption decline to decelerate to a 3.4% decline in 2026. A May 2021 report by Moody’s Investors Service estimates that a menthol ban will accelerate the decline of U.S. cigarette volumes to the low double-digit level over the next three to five years. See “RISK FACTORS—A Ban On Menthol Cigarettes Could Materially Adversely Affect the Volume of Cigarettes Sold in the U.S. and Thus Payments Under the MSA,” “PLEDGED TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS” and APPENDIX A – “TOBACCO CONSUMPTION REPORT.” See also “CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY” for a discussion of certain information relating to the PMs and the domestic tobacco industry.

The Series 2021 Bonds are limited obligations of NTSC, payable solely from certain funds held under the Indenture, including Collections. The Series 2021 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 2021A Bonds (and any other Class 1 Senior Bonds that may be issued) and the Class 2 Senior Liquidity Reserve Subaccount securing only the Series 2021B-1 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 2021B-2 Bonds or Subordinate Bonds. The Series 2021 Bonds do not constitute a charge against the general credit of NTSC and under no circumstances will NTSC be obligated to pay the interest on or principal or Accreted Value of or redemption premiums, if any, on the Series 2021 Bonds except from Collections and balances held under the Pledged Accounts (where applicable, and, to the extent available). The Series 2021 Bonds and other obligations of NTSC do not constitute a debt, liability or other obligation of AHFC or the State or any subdivision or instrumentality of the State or a pledge of the faith and credit or taxing power of AHFC or the State or of any political subdivision or instrumentality thereof. NTSC has no taxing power.

The Series 2021 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 within a maturity, by lot in accordance with the Indenture, 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 Indenture, as described further herein. The Series 2021A Bonds are on parity with any Refunding Bonds and Additional Bonds that are Class 1 Senior Bonds, and are senior in payment priority to the Series 2021B Bonds, any Refunding Bonds and Additional Bonds that are Class 2 Senior Bonds, and any Subordinate Bonds. The Series 2021B Bonds are subordinated in payment priority to the Series 2021A Bonds and any Refunding Bonds and Additional Bonds that are Class 1 Senior Bonds, are on parity with any Refunding Bonds that are Class 2 Senior Bonds, and are senior in payment priority to any Subordinate Bonds.

Interest on the Series 2021A Bonds and the Series 2021B-1 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 defined in APPENDIX E-1 – "FORM OF AMENDED AND RESTATED INDENTURE"), commencing December 1, 2021. Interest on the Series 2021B-2 Bonds will not be paid currently but will accrete in value, compounded semiannually on each Distribution Date, commencing December 1, 2021 (to become part of Accreted Value as more fully described herein), from the initial principal amount on the date of delivery thereof to maturity or earlier redemption, at the rate of accretion specified on the inside front cover page hereof. See APPENDIX H — "TABLE OF ACCRETED VALUES OF SERIES 2021B-2 BONDS." Principal or Accreted Value is payable on the Series 2021 Bonds on their respective scheduled Maturity Dates as set forth on the inside front cover page hereof (and, with respect to the Series 2021A Bonds that are Term Bonds, on the Fixed Sinking Fund Installment dates). Principal or Accreted Value is also payable on the Series 2021B Bonds by Turbo Redemptions in accordance with the Payment Priorities, as described herein. Failure to pay any Turbo Redemptions on the Series 2021B Bonds will not constitute an Event of Default or a Class 2 Payment Default under the Indenture if such failure is due to the insufficiency of available Collections (as defined herein). The Series 2021A Bonds are subject to optional redemption and optional clean-up call, and the Series 2021B Bonds are subject to optional redemption and mandatory clean-up call, each as described herein. See "SECURITY FOR THE BONDS" and "THE SERIES 2021 BONDS".

Certain methodologies and assumptions were used to establish the amounts and scheduled Maturity Dates of the Series 2021 Bonds and the Projected Turbo Redemptions of the Series 2021B Bonds. See "TABLES OF PROJECTED BOND DEBT SERVICE AND COVERAGE" and "PLEDGED TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS." In addition, the amount and timing of payments on the Series 2021 Bonds may be affected by various factors. See "RISK FACTORS" and "LEGAL CONSIDERATIONS." The Series 2021B-2 Bonds are not rated and involve additional risks that may not be appropriate for certain investors.

SECURITY FOR THE BONDS

Purchase and Sale Agreement

Pursuant to the Purchase and Sale Agreement, NTSC owns the NTSC Tobacco Assets, which are the State's right, title and interest in 80% (in the aggregate) of the tobacco settlement revenues payable to the State under the MSA (which were then pledged to the Trustee under the Indenture and constitute the Pledged TSRs). Such percentage of the tobacco settlement revenues payable to the State under the MSA was sold by the State in two increments: first, pursuant to the 2000 Purchase and Sale Agreement, the State sold to AHFC 40% of the tobacco settlement revenues payable to the State under the MSA and then AHFC sold such revenues to NTSC (the "**2000 Tobacco Asset**"); and second, pursuant to the 2001 Purchase and Sale Agreement, the State sold to NTSC an additional 40% of the tobacco settlement revenues payable to the State under the MSA (the "**2001 Tobacco Asset**").

The remaining 20% of the tobacco settlement revenues payable to the State under the MSA are not subject to the lien of the Indenture. Under applicable State statutes, the claim of NTSC to the NTSC Tobacco Assets is on a parity with the claim of the State to ownership of the remaining 20% of the tobacco settlement revenues payable to the State under the MSA. See APPENDIX E-2 – "PURCHASE AND SALE AGREEMENT" attached hereto.

The purpose of the 2021 Purchase and Sale Amendments is for the State and NTSC to make certain clarifications and amendments to the Amended and Consolidated Purchase and Sale Agreement and to confirm NTSC's pledge of the NTSC Tobacco Assets as security for the Series 2021 Bonds and any other Bonds.

Collateral under the Indenture

The Bonds (including the Series 2021 Bonds) are secured, subject to the Payment Priorities described herein, by a first priority lien and security interest in all of NTSC's right, title, and interest, whether now owned or hereafter acquired, in, to, and under the Collateral. "**Collateral**" is defined under the Indenture as: (i) the Pledged TSRs; (ii) the Pledged Accounts, all money, instruments, investment property, and other property credited to or on deposit in the Pledged Accounts, and all investment earnings thereon; (iii) any payment received by NTSC pursuant to a Swap Contract (in accordance with the Indenture, NTSC will not enter into a Swap Contract as long as the Series 2021 Bonds are Outstanding); (iv) all present and future claims, demands, causes and things in action in respect of any or all of the foregoing and all payments on or under and all proceeds of every kind and nature whatsoever in respect of any or all of the foregoing, including all proceeds of the conversion, voluntary or involuntary, into cash or other liquid property, all cash proceeds, accounts, general intangibles, notes, drafts, acceptances, chattel paper, checks, deposit accounts, insurance proceeds, condemnation awards, rights to payment of any and every kind, and other forms of obligations and receivables, instruments, payment intangibles and other property that at any time constitute all or part of or are included in the proceeds of any of the foregoing; and (v) all proceeds of the foregoing. The Collateral does not include the rights of NTSC pursuant to provisions for consent or other action by NTSC, notice to NTSC, indemnity or the filing of documents with NTSC, or otherwise for its benefit and not for that of the Owners. None of the proceeds of the Bonds or any earnings therefrom, unless deposited into one of the Pledged Accounts, shall in any way be pledged to the payment of the Bonds, and such amounts shall not be part of the Collateral. See APPENDIX E-1 – "FORM OF AMENDED AND RESTATED INDENTURE" attached hereto.

The "**Pledged Accounts**" are the Collections Account (except to the extent that money therein is allocable to the Operating Account, the Operating Contingency Account or the Rebate Account), the Senior Debt Service Account, the Lump Sum Payment Account, the Senior Liquidity Reserve Account, the Senior Turbo Redemption Account and the Subordinate Turbo Redemption Account, including all subaccounts contained in the named accounts, but does not include the Surplus Account.

Payment Priorities

Under the 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 within a maturity, by lot in accordance with the Indenture; 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 Indenture; and

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

"**Class 1 Senior Bonds**" means the Series 2021A Bonds and any Additional Bonds or Refunding Bonds identified as Class 1 Senior Bonds in a Series Supplement.

"**Class 2 Senior Bonds**" means the Series 2021B-1 Bonds, the Series 2021B-2 Bonds and any Additional Bonds or Refunding Bonds identified as Class 2 Senior Bonds in a 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 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 Indenture; or (iv) such Bond has been defeased as provided in the 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 of such Bond is due and payable.

"**Maturity Value**" means, with respect to any Capital Appreciation Bond, its Accreted Value on its Maturity Date and with respect to any Convertible Bond, its Accreted Value on its Conversion Date.

"**Senior Bonds**" means the Series 2021 Bonds and Additional Bonds and Refunding Bonds identified 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.

"**Subordinate Bonds**" means any Bonds and Additional Bonds, in each case identified as such in the applicable 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 2021A Bonds (and any other Class 1 Senior Bonds that may be issued) and the "**Class 2 Senior Liquidity Reserve Subaccount**" secures only the Series 2021B-1 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 <u>not</u> secure the Series 2021B-2 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, for as long as any Series 2021A Bonds are Outstanding, an amount equal to $10,874,150, and otherwise $0; provided, however, that at the option of NTSC, with a Rating Confirmation for any Bonds which are then rated by a Rating Agency, the Class 1 Senior Liquidity Reserve Requirement applicable on and after June 1, 2031 may be changed to an amount equal to Maximum Annual Class 1 Senior Bond Debt Service each year for as long as any Class 1 Senior Bonds are Outstanding, and otherwise $0. "**Maximum Annual Class 1 Senior Bond Debt Service**" means, as of any date, the greatest aggregate amount payable in the then-current calendar year or any future calendar year in respect of principal, Fixed Sinking Fund Installments and interest on Class 1 Senior Bonds. 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 $1,137,500 for so long as any Series 2021B-1 Bonds are Outstanding and an amount equal to $0 when no Series 2021B-1 Bonds are Outstanding, which amount may (but is not required to) be amended upon the issuance of Refunding 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, which amount may (but is not required to) be amended upon the issuance of Additional Bonds that constitute 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 2021A Bonds and the Series 2021B-1 Bonds, as applicable, but will <u>not</u> be available for Turbo Redemptions. The Senior Liquidity Reserve Account does <u>not</u> secure the Series 2021B-2 Bonds or Subordinate 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.

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 Indenture, all obligations to Owners in whole (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 Indenture or irrevocable instructions to give notice shall have been given to the Trustee, (iii) all Operating Expenses have been satisfied in accordance with the 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 NTSC to the Trustee, such Owners shall cease to be entitled to any benefit or security under the Indenture except the right to receive payment of the funds held in such defeasance escrow and other rights which by their nature cannot be satisfied prior to or simultaneously with termination of the lien of the Indenture, the Indenture and the lien, rights and security interests created by the Indenture (except in such funds and investments) shall terminate and become null and void, and NTSC and the Trustee shall execute and deliver such instruments as may be necessary to discharge the Trustee's lien, rights and security interests (except in such funds and investments) created under the 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 Indenture, and money held for defeasance shall be invested only as provided in the 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 NTSC. Upon the discharge of the Trustee's lien and security interests created under the Indenture, the Trustee and NTSC shall cooperate in transferring the Pledged TSRs to or upon the order of the registered owner of the Residual Certificate (as defined in the Indenture).

Partial Defeasance. Subject to the requirements of the Indenture, NTSC may create a defeasance escrow for the retirement and defeasance of any Bonds subject to and in accordance with the Indenture. Thereafter, the Owners of such defeased bonds shall cease to be entitled to any benefit or security under the Indenture except the right to receive payment of the funds held in such defeasance escrow and other rights which by their nature cannot be satisfied prior to or simultaneously with termination of the lien of the Indenture.

Defeasance of Turbo Term Bonds. For each Defeased Turbo Term Bond of the same Maturity Date and Series, NTSC must determine a Pro Rata Defeasance Redemption Schedule as described below. In establishing the defeasance escrow, the defeased turbo term bonds may not be redeemed more slowly than the Pro Rata 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 the Series 2021B Bonds, in the table entitled "Projected Series 2021 Bonds Debt Service Schedule Incorporating Turbo Redemptions of the Series 2021B Bonds – Base Case" and the column heading "Series 2021B Bonds — Total Projected Principal Payments" in "TABLES OF PROJECTED BOND DEBT SERVICE AND COVERAGE" herein) that is allocable to the Defeased Turbo Term Bonds. 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 "**Pro Rata Defeasance Redemption Schedule**," and each such payment referred to as a pro rata "**Defeasance Redemption**."

For each Defeased Turbo Term Bond of the same Maturity Date and Series, the Trustee shall establish a defeasance escrow which: (a) redeems on the earliest possible date the Pro Rata Defeasance Redemptions (as defined in the Indenture) which were originally projected to occur prior to the date of the defeasance, if any; and (b) thereafter, redeems the Pro Rata Defeasance Redemptions according to their 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 and permanently subtract the Pro Rata 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 pursuant to the applicable Series Supplement.

Limited Obligations

The Series 2021 Bonds are limited obligations of NTSC, payable solely from certain funds held under the Indenture, including Collections. The Series 2021 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 2021A Bonds (and any other Class 1 Senior Bonds that may be issued) and the Class 2 Senior Liquidity Reserve Subaccount securing only the Series 2021B-1 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 2021B-2 Bonds or Subordinate Bonds. The Series 2021 Bonds do not constitute a charge against the general credit of NTSC and under no circumstances will NTSC be obligated to pay the interest on or principal or Accreted Value of or redemption premiums, if any, on the Series 2021 Bonds except from Collections and balances held under the Pledged Accounts (where applicable, and, to the extent available). The Series 2021 Bonds and other obligations of NTSC do not constitute a debt, liability or other obligation of AHFC or the State or any subdivision or instrumentality of the State or a pledge of the faith and credit or taxing power of AHFC or the State or of any political subdivision or instrumentality thereof. NTSC has no taxing power.

Flow of Funds

"**Collections**" are all funds collected with respect to the Pledged TSRs. Pursuant to the Indenture, all Collections received by the Trustee shall be promptly deposited by the Trustee into the Collections Account. All Collections that have been identified by an Officer's Certificate as consisting of Lump Sum Payments or Total Lump Sum Payments received by the Trustee shall be transferred promptly (and in any event, no later than the Business Day immediately preceding the next Distribution Date) to the Lump Sum Payment Account and applied as described below, in accordance with the instructions received by the Trustee pursuant to an Officer's Certificate.

A "**Lump Sum Payment**" is 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 Indenture (and not for purposes of the Purchase and 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. A "**Total Lump Sum Payment**" is 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.

Transfers to Accounts

Not later than five Business Days prior to each Distribution Date, 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 Indenture. Except as provided in the Indenture, any amounts in the Class 1 Senior Liquidity Reserve Subaccount and the Class 2 Senior Liquidity Reserve Subaccount in excess of the Class 1 Senior Liquidity Reserve Requirement and the Class 2 Senior Liquidity Reserve Requirement, respectively, shall be transferred to the Senior Debt Service Account.

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, and in either case after the transfer of amounts from the Senior Liquidity Reserve Account to the Senior Debt Service Account pursuant to the Indenture as described above, the Trustee shall withdraw the funds on deposit in the Collections Account and transfer such amounts as follows:

(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 Indenture in order to pay, for the twelve-month period applicable to such Officer's Certificate, (x) the Operating Expenses (excluding any Termination Payments) to the extent that the amount thereof does not exceed clause (i) of the definition of Operating Cap, and (y) the Tax Obligations; "**Operating Cap**" means (i) $202,694.03 for the Fiscal Year ending June 30, 2023, inflated in each following Fiscal Year by the percentage representing the fraction "1+x" over "1+y," where "x" equals the Inflation Adjustment Percentage (as defined in the MSA) applicable to MSA payments due in the calendar year ending in such Fiscal Year, and "y" equals the Inflation Adjustment Percentage applicable to MSA payments due in the preceding Fiscal Year, plus (ii) in each Fiscal Year, Tax Obligations specified in an Officer's Certificate;

(ii) to the Senior Debt Service Account, an amount sufficient to cause the amount therein (taking into account earnings on such amount scheduled to be received prior to the applicable Distribution Date if such amount is invested in fixed rate Eligible Investments as well as any amounts on deposit therefor in the Capitalized Interest Subaccount) to equal the sum of (x) interest on the Outstanding 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 Class 1 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 Bonds will have been paid as described in clauses (ii) and (iii) of "—*Distribution Date Transfers*" below;

(iii) to the Senior Debt Service Account, an amount sufficient to cause the amount therein (taking into account earnings on such amount scheduled to be received prior to the applicable Distribution Date if such amount is invested in fixed rate Eligible Investments) 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 Maturity, Fixed Sinking Fund Installment, or Term Bond Maturity due for Class 1 Senior Bonds in or scheduled for the next succeeding Bond Year, plus (b) any such Serial Maturities, Fixed Sinking Fund Installments or Term Bond Maturities unpaid from prior Distribution Dates, provided that the amount of each Term Bond Maturity shall first be adjusted as described in the Indenture;

(iv) unless an Event of Default has occurred, 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 on deposit 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, including a Termination Payment) equals or exceeds the principal or Accreted Value of and interest on all Outstanding Class 1 Senior Bonds, the amount on deposit in the Class 1 Senior Liquidity Reserve Subaccount first may, at the direction of NTSC, be applied to the optional clean-up call for the Class 1 Senior Bonds, and second shall be transferred to the Collections Account;

(v) to the Senior Debt Service Account, an amount sufficient to cause the amount therein (taking into account earnings on such amount scheduled to be received prior to the applicable Distribution Date if such amount is invested in fixed rate Eligible Investments as well as any amounts on deposit therefor in the Capitalized Interest Subaccount) 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 Bonds will have been paid as described in clauses (ii) and (iii) of "—*Distribution Date Transfers*" below;

(vi) to the Senior Debt Service Account, an amount sufficient to cause the amount therein (taking into account earnings on such amount scheduled to be received prior to the applicable Distribution Date if such amount is invested in fixed rate Eligible Investments) 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 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 Indenture;

(vii) unless a Class 2 Payment Default has occurred, 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, including a Termination Payment) 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 Collections Account;

(viii) to the Operating Contingency 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 Indenture in order to pay, for the twelve-month period applicable to such Officer's Certificate, the Operating Expenses in excess of the Operating Cap;

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

(x) provided that there are no Outstanding Class 2 Senior Bonds or Subordinate Bonds, to the Surplus Account, all amounts remaining in the Collections Account, which, pursuant to the written direction of NTSC, may either (i) be applied to redeem or purchase Class 1 Senior Bonds, which may include the open market purchases of Class 1 Senior Bonds pursuant to the Indenture to the extent that Class 1 Senior Bonds are then Outstanding or (ii) be transferred into other Accounts under the Indenture. Any moneys deposited in the Surplus Account not so used within one year shall be paid to the holder of the Residual Certificate (as defined in the Indenture).

Distribution Date Transfers

Unless an Event of Default has occurred, 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 (including amounts in the Capitalized Interest Subaccount held therefor) 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 and the Class 2 Senior Liquidity Reserve Subaccount (only with respect to Class 2 Senior Bonds secured thereby), in that order, 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 and the Senior Turbo Redemption 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 Capital Appreciation Bond will accrue interest payable at a rate per annum equal to the Default Rate therefor set forth in the applicable Series Supplement;

(iv) from the Senior Debt Service Account (including amounts in the Capitalized Interest Subaccount held therefor) and the Class 2 Senior Liquidity Reserve Subaccount (only with respect to Class 2 Senior Bonds secured thereby), 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 (only with respect to Class 2 Senior Bonds secured thereby), 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, including by reason of Fixed Sinking Fund Installment, 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 pursuant to the Indenture) in accordance with clause (1) of the Payment Priorities; and

(vii) from the Lump Sum Payment Account, but only as directed in an Officer's Certificate delivered by NTSC and accompanied by Rating Confirmation with respect to any Senior Bonds which are then rated by a Rating Agency, to redeem Turbo Term Bonds on such Distribution Date (or a special redemption date pursuant to the Indenture) in accordance with the Indenture, provided that any redemptions shall redeem Bonds in accordance with the Payment Priorities.

Payment Upon an Event of Default

Upon the occurrence of any Event of Default, as set forth in "—Events of Default; Remedies" below, and continuing on each succeeding Distribution Date commencing with the Distribution Date following the Event of Default:

(i) (A) until the Class 1 Senior Bonds are no longer Outstanding, the Trustee shall apply all funds in the Senior Debt Service Account, the Class 1 Senior Liquidity Reserve Subaccount and the Lump Sum Payment Account to pay Pro Rata, first, the accrued and unpaid interest on the Class 1 Senior Bonds (including Senior Convertible Bonds after the Conversion Date) (including interest at the stated rate on any unpaid interest, to the extent legally permissible) and, second, the due and past due principal or Accreted Value on all Class 1 Senior Bonds;

(B) until the Class 2 Senior Bonds are no longer Outstanding, the Trustee shall apply all funds in the Senior Debt Service Account, the Class 2 Senior Liquidity Reserve Subaccount (only with respect to Class 2 Senior Bonds secured thereby), the Lump Sum Payment Account and the Senior Turbo Redemption Account to pay Pro Rata, first, the accrued and unpaid interest on the Class 2 Senior Bonds (including Senior Convertible Bonds after the Conversion Date) (including, in each case, interest at the stated rate on any unpaid interest, to the extent legally permissible) and, second, the Bond Obligation on all Class 2 Senior Bonds without regard to their order of maturity. For this purpose and for the avoidance of doubt, "total amount due" to all Owners of Class 2 Senior Bonds described in part (b) of the definition of Pro Rata (as set forth below) is equal to the Bond Obligation of such Class 2 Senior Bonds as of such Distribution Date; and

(ii) the application of funds with respect to Subordinate Bonds shall be in accordance with the provisions of the applicable Series Supplement.

For the avoidance of doubt, in the event a Current Interest Bond remains Outstanding after its Maturity Date, such Bond will continue to accrue and pay interest at its stated interest rate, and in the event a Capital Appreciation Bond remains Outstanding after its Maturity Date, such Bond will accrue and pay interest at its Default Rate from its Maturity Date.

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

"**Default Rate**" means (i) with respect to the Series 2021 Bonds, that rate of interest per annum that accrues and is payable on a Capital Appreciation Bond from and after its Maturity Date as set forth in the Series 2021 Supplement and (ii) with respect to any Additional Bonds, Refunding Bonds or Subordinate Bonds that constitute

Capital Appreciation Bonds, the rate of interest per annum set forth in a Series Supplement authorizing the issuance of such Bonds. The Default Rate with respect to the Series 2021B-2 Bonds is 3.40%.

"**Pro Rata**" means, for an allocation of available amounts to any payment of interest, Accreted Value or principal to be made under the Indenture, the application of a fraction to such available amounts (a) the numerator of which is equal to the amount due to the respective Owners and (b) the denominator of which is equal to the total amount due to all Owners.

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 or Accreted Value 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; and

(vii) to pay 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, 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 or Accreted Value 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; and

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

Other Applications

Notwithstanding anything in the Indenture to the contrary, after making all deposits and payments set forth above, and provided that there are no Outstanding Class 2 Senior Bonds or Subordinate Bonds, the Trustee shall, upon receipt of an Officer's Certificate, deliver any amounts remaining in a Fund or Account to the Surplus Account to be applied in accordance with the Indenture.

After making all deposits and payments set forth above, and provided that there are no Outstanding Bonds, the Trustee shall deliver any amounts remaining in a Fund or Account in accordance with the order of NTSC and in accordance with the Residual Certificate (as defined in the Indenture).

Funds in the Operating Account shall be applied by the Trustee at any time, in accordance with directions in an Officer's Certificate pursuant to the Indenture, to pay Operating Expenses (other than Termination Payments), or to fund an account of NTSC free and clear of the Indenture for purposes of paying such Operating Expenses.

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

Events of Default; Remedies

Capitalized terms used under this subheading and not otherwise defined shall have the meanings given such terms in the Indenture.

Events of Default Under the Indenture

"**Event of Default**" in the Indenture means any one of the events set forth below:

(a) failure to pay when due interest on any Class 1 Senior Bonds;

(b) failure to pay when due any Serial Maturity, Fixed Sinking Fund Installment or Term Bond Maturity for Class 1 Senior Bonds; or

(c) failure of NTSC to observe or perform any other covenant, condition, agreement, or provision contained in the Senior Bonds or in the Indenture relating to Senior Bonds, which breach is not remedied within 60 days after Written Notice, specifying such default and requiring the same to be remedied, shall have been given to NTSC by the Trustee or by the Owners of at least 25% in Bond Obligation of the Senior Bonds then Outstanding. In the case of a default specified in this clause, if the default be such that it cannot be corrected within the said 60-day period, it shall not constitute an Event of Default if corrective action is instituted by NTSC within said 60-day period and diligently pursued until the default is corrected.

Except as specified in clauses (a) and (b) above, failure to make any payment or to make provision therefor, including any Projected Turbo Redemption, does <u>not</u> constitute an Event of Default to the extent that such failure results from the insufficiency of available Collateral to make such payment or provision therefor.

Notwithstanding anything in the Indenture to the contrary, neither a Class 2 Payment Default nor a Subordinate Payment Default is an Event of Default under the Indenture, provided that in the event of a Class 2 Payment Default or a Subordinate Payment Default, so long as no Series 2021B-1 Bonds or Class 1 Senior Bonds are Outstanding, Owners of Class 2 Senior Bonds (in the event of a Class 2 Payment Default) and Owners of Subordinate Bonds (in the event of a Subordinate Payment Default) shall have the respective specified remedies described in "*Remedies Available to the Trustee*" below.

"**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.

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

Remedies Available to the Trustee

If an Event of Default occurs, the Trustee may, and upon written request of the Owners of at least 25% in Bond Obligation of the Senior Bonds Outstanding shall, in its own name by action or proceeding in accordance with State law:

(A) enforce all rights of the Owners and require NTSC to carry out its agreements under the Bonds or the Indenture;

(B) sue upon such Bonds;

(C) require NTSC to account as if it were the trustee of an express trust for such Owners; and

(D) enjoin any acts or things which may be unlawful or in violation of the rights of such Owners.

If an Event of Default occurs, the Trustee shall, in addition to the other provisions described herein, have and possess all of the powers necessary or appropriate for the exercise of any functions incident to the general representation of Owners in the enforcement and protection of their rights.

Upon an Event of Default described in clause (a) or (b) of the definition of Event of Default, or a failure to make any other payment required under the Indenture within 7 days after the same becomes due and payable, the Trustee shall give Written Notice thereof to NTSC. The Trustee shall give notice under clause (c) of the definition of Event of Default when instructed to do so by the written direction of another fiduciary or the Owners of at least 25% in Bond Obligation of the Outstanding Senior Bonds. Upon the occurrence of an Event of Default, the Trustee shall proceed under the Indenture for the benefit of the Owners 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 Indenture or any such remedies (not contrary to any such direction) as it deems appropriate for the protection of the Owners, and shall act for the protection of the Owners 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 an Event of Default, the Bonds shall be paid as described in "—Flow of Funds—*Payment Upon an Event of Default*" above.

Remedies for Class 2 Senior Bonds and Subordinate Bonds. Only if the Class 1 Senior Bonds are no longer Outstanding, the Owners of Class 2 Senior Bonds may enforce the provisions of the Indenture for their benefit by appropriate legal proceedings in accordance with clause (1) of the definition of Payment Priorities. Only if the Senior Bonds are no longer Outstanding, the Owners of Subordinate Bonds may enforce the provisions of the Indenture for their benefit by appropriate legal proceedings in accordance with clause (2) of the definition of Payment Priorities.

The principal or Accreted Value, premium, if any, and interest on Subordinate Bonds will be subordinated in right of payment to principal or Accreted Value, premium, if any, and interest payments on the Senior Bonds. In any Event of Default, Owners of Senior Bonds will be entitled to receive payment thereof in full before the Owners of the Subordinate Bonds are entitled to receive payment thereof; and any payment or distribution of assets otherwise payable to Owners of the Subordinate Bonds will be paid to Owners of Senior Bonds until all Senior Bonds have been paid in full, and the Owners of the Subordinate Bonds will be subrogated to the rights of such Owners of Senior Bonds to receive payments or distributions of assets with respect thereto.

No Sale of Rights or Foreclosure. The Indenture does not provide the Trustee or the Owners any right to sell or foreclose on the Collateral.

Individual Remedies. No one or more Owners shall by its or their action affect, disturb, or prejudice the pledge created by the Indenture, or enforce any right under the Indenture, except in the manner therein provided, and all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had, and maintained in the manner provided therein and for the equal benefit of all Owners of the same class, but nothing in the Indenture shall affect or impair the right of any Owner to enforce payment of the principal or Accreted Value of, premium, if any, or interest thereon at and after the same comes due pursuant to the Indenture, or the obligation of NTSC to pay such principal or Accreted Value, premium, if any, and interest on each of the Series 2021 Bonds to the respective Owners thereof at the time, place, from the source, and in the manner expressed in the Indenture and in the Series 2021 Bonds.

Waiver. If the Trustee determines that any 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 NTSC, and shall do so upon written instruction of the Owners of at least 25% in Bond Obligation of the Outstanding Senior Bonds.

Remedies Cumulative. The rights and remedies under the 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 NTSC 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 NTSC 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 Owner 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 by the Indenture or by law to the Trustee or to the Owners may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Owners, as the case may be.

Refunding Bonds and Subordinate Bonds

"**Refunding Bonds**" are Bonds issued pursuant to the Indenture for the purposes of refunding any Outstanding Bonds.

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). Nothing in the Indenture is intended to limit the ability of NTSC to issue Refunding Bonds to refund all Bonds in whole pursuant to the Indenture or a new indenture. Refunding Bonds include Bonds purchased by NTSC pursuant to the Indenture which are not simultaneously presented to the Trustee for cancellation. Such Refunding Bonds may be remarketed and bear or accrete at fixed rates of interest and have Maturity Dates, redemption dates and other repayment terms that differ from the Bonds so purchased pursuant to the terms of a supplemental indenture.

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 NTSC, but only if upon the issuance of such Bonds and/or Additional Bonds: (A) the amount on deposit in the applicable subaccounts in the Senior Liquidity Reserve Account will be at least equal to (i) with respect to Bonds that are Class 1 Senior Bonds, the Class 1 Senior Liquidity Reserve Requirement and (ii) with respect to Bonds that are Class 2 Senior Bonds, the Class 2 Senior Liquidity Reserve Requirement, as applicable; (B) no Event of Default shall have occurred and be continuing; (C) the 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 issuance of the Refunding Bonds and/or Additional Bonds will not exceed (x) the remaining weighted average life of each such Turbo Term Bond as computed by NTSC 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 Additional Bonds or Refunding Bonds which are then rated by a Rating Agency.

One or more Series of 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. Subordinate Bonds may be issued to refund all or a portion of the Bonds without satisfying the requirements described above.

Non-Impairment Covenants

Pursuant to the Indenture, NTSC shall from time to time authorize, execute or authenticate, deliver and file all documents and instruments, and will take such other action, as is necessary or advisable to (1) maintain or preserve the lien, pledge and security interest of the Indenture; (2) perfect or protect the validity of any grant made or to be made by the Indenture; (3) preserve and defend title to the Collateral and the rights of the Trustee in the Collateral against the claims of all Persons and parties, including the challenge by any party to the validity or enforceability of the Basic Documents (as defined in the Indenture) or the performance by any party thereunder; (4) enforce the Purchase and Sale Agreement; (5) pay any and all taxes levied or assessed upon all or any part of the Collateral; or (6) carry out more effectively the purposes of the Indenture.

Pursuant to the Indenture, NTSC (1) shall diligently pursue any and all actions to enforce its rights in the Collateral and under each instrument or agreement included therein, and (2) shall not take any action and will use its best efforts not to permit any action to be taken by others that would release any Person from any of such Person's covenants or obligations under any such instrument or agreement or that would result in the amendment, hypothecation, subordination, termination, or discharge of, or impair the validity or effectiveness of, any such instrument or agreement, except, in each case, as expressly provided in the Basic Documents.

Pursuant to the Indenture, NTSC shall not (1) permit the validity or effectiveness of the Indenture to be impaired, or permit the security interest created by the Indenture to be amended, hypothecated, subordinated, terminated, or discharged, or permit any Person to be released from any covenants or obligations with respect to the Bonds under the Indenture except as may be expressly permitted hereby, (2) permit any lien, charge, excise, claim, security interest, mortgage, or other encumbrance (other than the security interest created by the Indenture) to be created on or extend to or otherwise arise upon or burden the Collateral or any part thereof or any interest therein or the proceeds thereof or (3) permit the security interest created by the Indenture not to constitute a valid first priority security interest in the Collateral.

Pursuant to the Purchase and Sale Agreement and as described in the Indenture, the State has pledged to and agreed with NTSC that the State shall take all actions as may be required by law fully to preserve, maintain, defend, protect and confirm the interest of NTSC in the NTSC Tobacco Assets and in the proceeds thereof and that the State will not take any action that will adversely affect NTSC's legal right to receive the NTSC Tobacco Assets.

Pursuant to the Purchase and Sale Agreement and as described in the Indenture, the State has pledged to and agreed with NTSC that the State will not limit or alter the rights of NTSC to fulfill the terms of its agreements with bondholders, or in any way impair the rights and remedies of bondholders or the security for the bonds thereunder until all such 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 Purchase and Sale Agreement and as described in the Indenture, the State has promised to honor the pledge of NTSC described in the Indenture.

THE SERIES 2021 BONDS

The following summary describes certain terms of the Series 2021 Bonds. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture and the Series 2021 Bonds. Terms used herein and not previously defined have the meanings given to them in the Indenture, the form of which is attached hereto as APPENDIX E-1 – "FORM OF AMENDED AND RESTATED INDENTURE". Copies of the Indenture and the Purchase and Sale Agreement may be obtained upon written request to the Trustee.

General

The Series 2021 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 front cover page of this Offering Circular. The Series 2021 Bonds are Refunding Bonds and Senior Bonds under the Indenture; the Series 2021A Bonds are Class 1 Senior Bonds, and the Series 2021B Bonds are Class 2 Senior Bonds. The Series 2021B Bonds are Turbo Term Bonds. The Series 2021A Bonds and the Series 2021B-1 Bonds are Current Interest Bonds, and the Series 2021B-2 Bonds are Capital Appreciation Bonds. The Series 2021 Bonds are payable in accordance with the Payment Priorities described under "SECURITY FOR THE BONDS — Payment Priorities."

The Series 2021 Bonds will initially be represented by one certificate for each maturity and interest rate of each Series of the Series 2021 Bonds, registered in the name of DTC, New York, New York, or its nominee. DTC will act as securities depository for the Series 2021 Bonds. Beneficial owners of the Series 2021 Bonds will not receive physical delivery of the Series 2021 Bonds. See APPENDIX F – "BOOK-ENTRY ONLY SYSTEM" attached hereto. The Series 2021A Bonds and the Series 2021B-1 Bonds will be sold in denominations of $5,000 or any integral multiple thereof, and the Series 2021B-2 Bonds will be sold such that the Accreted Value thereof at the Maturity Date is in the denomination of $5,000 or any integral multiple of $5,000 in excess thereof (each, as applicable, an "**Authorized Denomination**").

"**Current Interest Bond**" means a Bond (including, as the context requires, a Convertible Bond on and after the applicable Conversion Date), the interest on which is payable currently on each Distribution Date (or, for a Convertible Bond, each Distribution Date after the applicable Conversion Date). "**Capital Appreciation Bond**" means a Bond (including, as the context requires, a Convertible Bond prior to the applicable Conversion Date), the interest on which is compounded on each Distribution Date, commencing on the first Distribution Date after its issuance to and excluding the Maturity Date or earlier redemption date of such Bond in the case of a Capital Appreciation Bond which is not a Convertible Bond, or to and excluding the Conversion Date or earlier redemption date in the case of a Convertible Bond.

Payments on the Series 2021 Bonds

Interest

Interest will be calculated on the basis of a year of 360 days and twelve 30-day months. Interest on the Series 2021A Bonds and the Series 2021B-1 Bonds will accrue from their dated date and shall be payable currently on each Distribution Date, commencing December 1, 2021, through and including their respective Maturity Dates or earlier redemption dates of such Bonds. Interest on the Series 2021B-2 Bonds will not be paid currently but will accrete in value, compounded semiannually on each Distribution Date, commencing December 1, 2021 (to become part of Accreted Value as more fully described herein), from the initial principal amount on the date of delivery thereof to maturity or earlier redemption, at the rate of accretion specified on the inside front cover page hereof. See APPENDIX H — "TABLE OF ACCRETED VALUES OF SERIES 2021B-2 BONDS". In the event that a Series 2021B-2 Bond remains Outstanding after its Maturity Date, such Bond will accrue and pay interest at its Default Rate from its Maturity Date.

For each Distribution Date, payments will be made to the registered owners of the Series 2021 Bonds (the "**Owners**") as of the 15th day of the calendar month immediately preceding the calendar month in which a Distribution Date occurs whether or not such day is a Business Day (the "**Record Date**"). NTSC or the Trustee may in its discretion establish special record dates for the determination of the Owners for various purposes of the Indenture, including giving consent or direction to the Trustee.

Principal or Accreted Value

The principal or Accreted Value of the Series 2021 Bonds shall be paid by their respective Maturity Dates as set forth on the inside front cover page 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 (to and excluding the Maturity Date or earlier redemption date of such Bond, or in the case of a Convertible Bond, to and excluding the applicable Conversion Date or earlier redemption date of such Bond) at the “original issue yield” for such Bond, as set forth in the related Series Supplement or in an exhibit thereto; provided, however, that NTSC 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 by straight line interpolation of the Accreted Values as of the immediately preceding and succeeding Distribution Dates. In performing such calculation, NTSC 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 “original issue yield” means, with respect to any particular Bond, the yield to the applicable Maturity Date of such Bond from the initial date of delivery thereof calculated on the basis of semiannual compounding on each Distribution Date. See APPENDIX H – “TABLE OF ACCRETED VALUES OF SERIES 2021B-2 BONDS.”

Redemption Price

In accordance with the Indenture, when Series 2021 Bonds are called for redemption (as described below), the accrued interest thereon or Accreted Value thereof, as applicable, shall be due on the date fixed for redemption. If notice of redemption has been duly given as provided in the 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 accrete, and the Owners of such Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof, which payment shall be secured by the lien of the Indenture.

Mandatory Redemption of Series 2021A Term Bonds by Fixed Sinking Fund Installments

The Series 2021A Bonds maturing on June 1, 2050 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.

$47,755,000 Series 2021A Bonds due June 1, 2050

June 1	Fixed Sinking Fund Installment	June 1	Fixed Sinking Fund Installment
2042	$5,505,000	2047	$5,260,000
2043	5,460,000	2048	5,205,000
2044	5,415,000	2049	5,145,000
2045	5,365,000	2050†	5,085,000
2046	5,315,000		

† Stated Maturity.

Turbo Redemption of Series 2021B Bonds

Under the Indenture, 100% of all Collections in excess of the requirements for, among other things, the periodic funding of Operating 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 Indenture) in accordance with the Payment Priorities (“**Turbo Redemptions**”). Accordingly, the Series 2021B 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 Indenture), following notice of such redemption in accordance with the 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 (for more information on the selection of Bonds within a maturity, see “— Selection of Bonds for Redemption” below). The Trustee may specify a special redemption date for purposes of redeeming Turbo Term Bonds if amounts are available therefor pursuant to the Indenture and if the Trustee is instructed to do so by NTSC in an Officer's Certificate.

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.

In accordance with the Indenture, moneys in any Pledged Account shall not be used to make open market purchases of Turbo Term Bonds. Moneys in the Surplus Account may be used to make open market purchases of Class 1 Senior Bonds. Any Class 1 Senior Bonds so purchased shall be delivered to the Trustee for cancellation.

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

For schedules of projected Turbo Redemptions ("**Projected Turbo Redemptions**"), see the tables entitled "Projected Series 2021 Bonds Debt Service Schedule Incorporating Turbo Redemptions of the Series 2021B Bonds – Base Case," "– Alternative Case (Menthol Ban) 1" and "– Alternative Case (Menthol Ban) 2" and the respective column headings "Series 2021B Bonds — Total Projected Principal Payments" in "TABLES OF PROJECTED BOND DEBT SERVICE AND COVERAGE" herein.

When Series 2021B Bonds are to be defeased, they are to be defeased pursuant to the Pro Rata Defeasance Redemption Schedule described in "SECURITY FOR THE BONDS—Defeasance." The provisions of the 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 2021B Bonds

The Series 2021B Bonds that are defeased in accordance with the 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 Pro Rata Defeasance Redemption Schedule described in "SECURITY FOR THE BONDS — Defeasance."

Optional Redemption and Mandatory Tender and Purchase

The Series 2021 Bonds are subject to redemption or mandatory tender and purchase from any source other than amounts in the Pledged Accounts that are required to secure any Bonds that will remain Outstanding after such redemption or purchase, at the option of NTSC (x) in the case of the Series 2021A Bonds and the Series 2021B-1 Bonds, at a redemption price or purchase price, as applicable, equal to one hundred percent (100%) of the principal amount being redeemed or purchased, plus interest accrued to the redemption date or purchase date, as applicable, and (y) in the case of the Series 2021B-2 Bonds, at a redemption price or purchase price, as applicable, equal to one hundred percent (100%) of the Accreted Value being redeemed or purchased on the redemption date or purchase date, as applicable, in each case in whole or in part on any date on or after June 1, 2031, and if in part, from any Maturity Date selected by NTSC in its discretion.

In addition, the Series 2021B-1 Bonds and the Series 2021B-2 Bonds are each subject to redemption or mandatory tender and purchase, from any source other than amounts in the Pledged Accounts that are required to secure any Bonds that will remain Outstanding after such redemption or purchase, as applicable, at the option of NTSC, (x) in the case of the Series 2021B-1 Bonds, at a redemption price or purchase price, as applicable, equal to one hundred percent (100%) of the principal amount being redeemed or purchased, as applicable, as applicable, plus interest accrued to the redemption date or purchase date, as applicable, and (y) in the case of the Series 2021B-2 Bonds, at a redemption price or purchase price, as applicable, equal to one hundred percent (100%) of the Accreted Value being redeemed on the redemption date or purchase date, as applicable, in each case 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 as set forth in the Base Case Projected Turbo Redemption schedule but, as of the date of such redemption or purchase, as applicable, have not been paid with respect to such Series 2021B-1 Bonds or Series 2021B-2 Bonds, as applicable.

Notwithstanding the foregoing two paragraphs, if the Series 2021 Bonds to be tendered for purchase are Tax-Exempt Bonds (as defined in the Indenture) and are to be remarketed as Tax-Exempt Bonds, an Opinion of Counsel (as defined in the Indenture) that the mandatory tender and remarketing of such Series 2021 Bonds will not, in and of themselves, adversely affect the exclusion of interest on such Series 2021 Bonds from gross income for federal income tax purposes, addressed to NTSC and the Trustee, will be required for the mandatory tender for purchase and remarketing of such Series 2021 Bonds. Any such Series 2021 Bonds purchased by NTSC pursuant to a mandatory tender for purchase shall be cancelled by the Trustee, unless NTSC otherwise so directs in writing. Additional provisions regarding mandatory tender for purchase and remarketing of the Series 2021 Bonds are set forth in the Indenture and Series 2021 Supplement. See APPENDIX E-1 – "FORM OF AMENDED AND RESTATED INDENTURE" attached hereto.

Notice of Redemption or Mandatory Tender

When a Bond is to be redeemed prior to its Maturity Date, the Trustee will give notice to the Owner thereof in the name of NTSC, which notice will identify the Bond to be redeemed, state the date fixed for redemption, and state that such Bond will be redeemed at the Corporate Trust Office of the Trustee or a Paying Agent. The notice will further state that on such date there will become due and payable upon each Bond to be redeemed the redemption price thereof, together with interest accrued or accreted to the redemption date, and that money therefor having been deposited with the Trustee or Paying Agent, from and after such date, interest thereon will cease to accrue or accrete. The Trustee will give at least 20 days' notice by mail, or otherwise transmit the redemption notice in accordance with any appropriate provisions under the Indenture, to the Owners of any Bonds which are to be redeemed, at their addresses shown on the registration books of NTSC. Such notice may be waived by any Owners holding Bonds to be redeemed. Failure by a particular Owner to receive notice, or any defect in the notice to such Owner, will not affect the redemption of any Bond. Any notice of redemption given pursuant to the Indenture may be rescinded by Written Notice to the Trustee by NTSC no later than five days prior to the date specified for redemption. The Trustee will give notice of such rescission as soon thereafter as practicable in the same manner and to the same persons, as notice of such redemption was given as described above. In making the determination as to how much money will be available in the Senior Turbo Redemption Account or Subordinate Turbo Redemption Account on any Distribution Date for the purpose of giving notice of redemption, the Trustee will take into account investment earnings and amounts to be transferred from the respective subaccount of the Senior Liquidity Reserve Account (as and if applicable under the Indenture) to the Senior Debt Service Account, which it reasonably expects to be available for application pursuant to the Indenture.

In connection with any mandatory tender of a Series of Series 2021 Bonds upon a mandatory tender date, the Trustee must deliver a notice of mandatory tender, which may be a conditional notice, to Owners at least 15 days prior to the mandatory tender date, subject to the provisions of the Indenture with respect to such Series 2021 Bonds, stating that all Owners subject to the mandatory tender will be deemed to have tendered their Series 2021 Bonds upon that date and stating: (i) the proposed mandatory tender date; (ii) that the applicable Series 2021 Bonds will be subject to mandatory tender (subject to the provisions of the Indenture) on the mandatory tender date; and (iii) that NTSC may elect to cancel the mandatory tender, notice of which must be given to Owners at least seven calendar days prior to the proposed mandatory tender date. The Trustee shall also give notice of any mandatory tender date to each Rating Agency then rating the Series 2021 Bonds.

Selection of Bonds for Redemption or Mandatory Tender

Unless otherwise specified in the Indenture or by Series Supplement, if less than all the Outstanding Bonds of like Series, interest rate and Maturity Date are to be redeemed or tendered and purchased, the particular Bonds to be redeemed or purchased shall be selected by the Trustee by such method as it shall deem fair and appropriate, including by lot, and which may provide for the selection for redemption or purchase of portions (equal to any Authorized Denominations) of the principal or Maturity Value of Bonds of a denomination larger than the minimum Authorized Denomination.

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

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

(i) 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, as set forth in the applicable Series Supplement;

(ii) the amount of any Fixed Sinking Fund Installments made under the 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 or purchase of Term Bonds in part shall be credited against any Fixed Sinking Fund Installment, if any, as directed by NTSC.

Clean-Up Call Redemptions

Optional Clean-Up Call of Class 1 Senior Bonds. The Class 1 Senior Bonds (including the Series 2021A Bonds) and any Bonds secured on parity with the Class 1 Senior Bonds are subject to optional redemption 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 from the available amounts on deposit in the Pledged Accounts allocable to the Class 1 Senior Bonds at any time that such amounts 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 2021B-1 Bonds) and any 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 from the available amounts on deposit in the Pledged Accounts allocable to the Class 2 Senior Bonds at any time that such amounts exceed the aggregate principal amount of, and accrued interest on, all such Outstanding Class 2 Senior Bonds.

Payment Upon an Event of Default

Upon the occurrence of any Event of Default and continuing on each succeeding Distribution Date commencing with the Distribution Date following the Event of Default, the Bonds (including the Series 2021 Bonds) shall be paid as described herein under "SECURITY FOR THE BONDS—Flow of Funds—*Payment Upon an Event of Default*."

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 Indenture, use all such amounts on deposit in the Lump Sum Payments Account to make payments on the Bonds (including the Series 2021 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.

NTSC

NTSC is a nonprofit corporation organized as a subsidiary of AHFC, which is the sole member of NTSC. As a subsidiary of AHFC, NTSC is a government instrumentality of, but separate and apart from, the State. NTSC was formed pursuant to the Act.

NTSC's articles of incorporation, filed for record with the State, provide for a five-person board of directors. The articles provide that, at all times, two of the director positions shall be allocated to individuals who meet special independence qualifications (each an "**Independent Director**"), including that each such person, during the period of five years prior to his or her appointment as an Independent Director, shall not have been (i) a customer, supplier or advisor of the State, except for a city or borough of the State, or AHFC, or any of their respective affiliates other than NTSC (the State, except for a city or borough of the State, AHFC and their respective affiliates, collectively the "**Affiliated Group**"), (ii) an elected official, member, shareholder, director, officer, employee, agent or affiliated member of the Affiliated Group, or an appointed official of a member of the Affiliated Group who has a pecuniary interest in a member of the Affiliated Group materially different from the pecuniary interest of residents of the State generally, (iii) a person related to anyone described in (i) and (ii) herein and who has a pecuniary interest in a member of the Affiliated Group materially different from the pecuniary interest of residents of the State generally, or (iv) a trustee, conservator or receiver for any member of the Affiliated Group.

At all times, a position on the board, other than an Independent Director position, must be allocated ex officio to each commissioner of a department of the State designated as a member of AHFC's board of directors, or the commissioner's designee, or as otherwise provided in NTSC's articles (each an "**Ex Officio Director**"). As of the date of this Offering Circular, the Ex Officio Directors of NTSC are the commissioners of the Alaska Department of Commerce, Community and Economic Development, the Alaska Department of Health and Social Services, and the Alaska Department of Revenue.

NTSC's articles of incorporation also provide, among other things, that NTSC may issue bonds and shall have all powers as possessed by AHFC by statute, including the power to include pledges with respect to bonds and bondholders of NTSC as provided by State law.

The articles of incorporation restrict the activities of NTSC. Without the affirmative vote of all members of the NTSC board (which must include the affirmative vote of the two Independent Directors and all Ex Officio Directors), NTSC may not (a) dissolve or liquidate, in whole or in part, (b) institute or consent to the institution of bankruptcy, insolvency or similar proceedings, (c) file or consent to the filing of a petition to reorganize, insolvency petitions or other similar relief, (d) consent to the appointment of a receiver, liquidator, assignee, trustee, sequestrator or other similar official of NTSC for a similar part of its property, (e) make a general assignment for the benefit of creditors, (f) admit in writing its inability to pay its debts generally as they become due, (g) take any corporate action in furtherance of (a) through (f) herein, or (h) amend or replace the articles or bylaws or merge or consolidate with any other corporation (except as expressly provided in the articles) sell all or substantially all of its assets, or acquire all or substantially all of the assets or capital stock of another corporation. Without the affirmative vote of at least a majority of the board (which must include the affirmative vote of at least a majority of the Ex Officio Directors), NTSC may not approve the issuance of obligations of NTSC.

Pursuant to authority in the articles of incorporation, the NTSC board of directors has adopted a resolution to indemnify its officers and directors with respect to any action or proceeding, with limited exceptions, made or threatened to be made against any such person.

The mailing address for NTSC is P.O. Box 102245, Anchorage, Alaska 99510. Its offices represent a sublease of office space from AHFC with attendant office support services.

The current members of NTSC's board are:

Name	Principal Occupation
Julie Anderson	Commissioner, Department of Commerce, Community and Economic Development
Adam Crum	Commissioner, Department of Health and Social Services
Lucinda Mahoney	Commissioner, Department of Revenue

In addition to the issuance of the Series 2021 Bonds and any additional Bonds issued as permitted under the Indenture, NTSC has other responsibilities and is involved in other functions and operations for which it manages various assets. Such other responsibilities do not affect the security for the Series 2021 Bonds or any Bonds issued pursuant to the Indenture nor are the assets relating to any other responsibilities of NTSC pledged as security for the Series 2021 Bonds or any Bonds issued pursuant to the Indenture.

PLAN OF REFUNDING

A portion of the proceeds of the Series 2021 Bonds, together with other available funds, will be used to refund, through defeasance and redemption, on a current basis, all of the Series 2006 Bonds of NTSC, as described below. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

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 Rate of Accretion	Redemption Date	Type of Redemption
2023	2006A	Senior Current Interest Turbo Term Bonds	$ 2,855,000	$ 2,855,000	4.625%	July 9, 2021	Optional Redemption
2032	2006A	Senior Current Interest Turbo Term Bonds	70,105,000	70,105,000	5.000%	July 9, 2021	Optional Redemption
2046	2006A	Senior Current Interest Turbo Term Bonds	212,270,000	212,270,000	5.000%	July 9, 2021	Optional Redemption
2046	2006B	First Subordinate Turbo Term Capital Appreciation Bonds	95,600,000	95,600,000	6.125%	July 9, 2021	Optional Redemption
2046	2006C	Second Subordinate Turbo Term Capital Appreciation Bonds	41,720,000	41,720,000	6.375%	July 9, 2021	Optional Redemption

On the date of delivery of the Series 2021 Bonds, NTSC will enter into an Escrow Deposit Agreement, dated as of July 1, 2021 (the "**Escrow Agreement**"), between NTSC and the Trustee, as escrow agent, to provide for the refunding of the Series 2006 Bonds described above. 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 2006 Bonds to be refunded. NTSC will deposit a portion of the proceeds from the sale of the Series 2021 Bonds, together with other available funds, into the trust fund in amounts that will be retained as cash or invested, at the direction of NTSC, in Defeasance Collateral, in accordance with the Indenture as then in effect with respect to the Series 2006 Bonds, 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 such Series 2006 Bonds on their redemption date at their redemption price and (ii) to pay the interest on such Series 2006 Bonds to the redemption date.

Upon issuance of the Series 2021 Bonds, the Series 2006 Bonds to be refunded 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 such Series 2006 Bonds shall not be redeemed other than as described above.

By virtue of the provision for payment of the Series 2006 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 2006 Bonds to be refunded will be deemed to be no longer outstanding under the 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 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 the Series 2021 Bonds	$282,480,482.50
Original Issue Premium	36,087,198.35
Funds Held Under the Indenture for the Series 2006 Bonds	34,770,893.73
Total Sources	$353,338,574.58
Uses of Funds:	
Defeasance of Series 2006 Bonds	$316,773,707.09
State Capital Project Funding	18,985,000.00
Deposit to Class 1 Senior Liquidity Reserve Subaccount	10,874,150.00
Deposit to Class 2 Senior Liquidity Reserve Subaccount	1,137,500.00
Deposit to Senior Debt Service Account	3,215,770.83
Costs of Issuance (1)	2,352,446.66
Total Uses	$353,338,574.58

(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 2021 Bonds.

TABLES OF PROJECTED BOND DEBT SERVICE AND COVERAGE

The following tables set forth the projected debt service coverage for the Series 2021A Bonds and projected debt service requirements for the Series 2021 Bonds based on the application of the Pledged TSRs Projection Methodology and Assumptions and the Bond Structuring Methodology and Assumptions described herein under "PLEDGED TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS".

No assurance can be given that actual cigarette consumption in the U.S. will be as assumed, that actual County population during the term of the Series 2021 Bonds will be as assumed, or that the other assumptions underlying the Pledged TSRs Projection Methodology and Assumptions, including the market shares of the OPMs and the SPMs 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 TSRs Projection Methodology and Assumptions and the Bond Structuring Methodology and Assumptions, the amount of funds available to NTSC to pay the principal or Accreted Value of and interest on the Series 2021 Bonds and to make Turbo Redemptions on the Series 2021B Bonds could be adversely affected. See "RISK FACTORS" herein.

Series 2021A Bonds Debt Service and Projected Debt Service Coverage – Base Case

				Series 2021A Bonds					
Year	Projected Pledged TSRs[(1)]	Operating 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)]
2022	$15,923,208	($202,694)	$15,720,514	$3,680,000	$6,525,150	$10,205,150	($38,513)	$10,166,637	1.55x
2023	17,466,055	(208,775)	17,257,280	3,970,000	6,390,550	10,360,550	(27,185)	10,333,365	1.67x
2024	17,031,939	(215,038)	16,816,901	4,680,000	6,194,150	10,874,150	(27,185)	10,846,965	1.55x
2025	16,967,067	(221,489)	16,745,578	4,415,000	5,966,775	10,381,775	(27,185)	10,354,590	1.62x
2026	16,892,506	(228,134)	16,664,373	4,290,000	5,749,150	10,039,150	(27,185)	10,011,965	1.66x
2027	17,786,576	(234,978)	17,551,598	4,950,000	5,518,150	10,468,150	(27,185)	10,440,965	1.68x
2028	17,772,507	(242,027)	17,530,479	5,200,000	5,264,400	10,464,400	(27,185)	10,437,215	1.68x
2029	17,783,604	(249,288)	17,534,316	5,405,000	4,999,275	10,404,275	(27,185)	10,377,090	1.69x
2030	17,796,223	(256,767)	17,539,456	5,375,000	4,729,775	10,104,775	(27,185)	10,077,590	1.74x
2031	17,807,519	(264,470)	17,543,049	5,345,000	4,461,775	9,806,775	(27,185)	9,779,590	1.79x
2032	17,818,888	(272,404)	17,546,484	5,365,000	4,194,025	9,559,025	(27,185)	9,531,840	1.84x
2033	17,831,826	(280,576)	17,551,250	5,390,000	3,925,150	9,315,150	(27,185)	9,287,965	1.89x
2034	17,846,246	(288,993)	17,557,253	5,400,000	3,682,400	9,082,400	(27,185)	9,055,215	1.94x
2035	17,850,142	(297,663)	17,552,479	5,360,000	3,467,200	8,827,200	(27,185)	8,800,015	1.99x
2036	17,852,005	(306,593)	17,545,412	5,600,000	3,248,000	8,848,000	(27,185)	8,820,815	1.99x
2037	17,854,022	(315,791)	17,538,231	5,850,000	3,019,000	8,869,000	(27,185)	8,841,815	1.98x
2038	17,853,159	(325,264)	17,527,895	6,005,000	2,781,900	8,786,900	(27,185)	8,759,715	2.00x
2039	17,850,920	(335,022)	17,515,898	6,115,000	2,539,500	8,654,500	(27,185)	8,627,315	2.03x
2040	17,847,470	(345,073)	17,502,397	6,235,000	2,292,500	8,527,500	(27,185)	8,500,315	2.06x
2041	17,836,162	(355,425)	17,480,736	6,440,000	2,039,000	8,479,000	(27,185)	8,451,815	2.07x
2042	17,822,628	(366,088)	17,456,540	5,505,000	1,800,100	7,305,100	(27,185)	7,277,915	2.40x
2043	17,822,746	(377,071)	17,445,675	5,460,000	1,580,800	7,040,800	(27,185)	7,013,615	2.49x
2044	17,818,179	(388,383)	17,429,797	5,415,000	1,363,300	6,778,300	(27,185)	6,751,115	2.58x
2045	17,810,669	(400,034)	17,410,635	5,365,000	1,147,700	6,512,700	(27,185)	6,485,515	2.68x
2046	17,801,583	(412,035)	17,389,547	5,315,000	934,100	6,249,100	(27,185)	6,221,915	2.79x
2047	17,791,196	(424,396)	17,366,800	5,260,000	722,600	5,982,600	(27,185)	5,955,415	2.92x
2048	17,782,032	(437,128)	17,344,904	5,205,000	513,300	5,718,300	(27,185)	5,691,115	3.05x
2049	17,774,152	(450,242)	17,323,910	5,145,000	306,300	5,451,300	(27,185)	5,424,115	3.19x
2050	17,767,620	(463,749)	17,303,870	5,085,000	101,700	5,186,700	(13,593)	5,173,107	3.34x
Total	$511,858,847	($9,165,591)	$502,693,256	$152,825,000	$95,457,725	$248,282,725	($786,110)	$247,496,615	

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

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

(3) Series 2021A Bonds Debt Service Coverage equals Net Revenues Available for Debt Service divided by Series 2021A Bonds Net Debt Service.

Series 2021A Bonds Debt Service and Projected Debt Service Coverage – Alternative Case (Menthol Ban) 1

				Series 2021A Bonds					
Year	Projected Pledged TSRs(1)	Operating 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)
2022	$15,923,208	($202,694)	$15,720,514	$3,680,000	$6,525,150	$10,205,150	($38,513)	$10,166,637	1.55x
2023	17,466,055	(208,775)	17,257,280	3,970,000	6,390,550	10,360,550	(27,185)	10,333,365	1.67x
2024	17,031,939	(215,038)	16,816,901	4,680,000	6,194,150	10,874,150	(27,185)	10,846,965	1.55x
2025	16,141,884	(221,489)	15,920,394	4,415,000	5,966,775	10,381,775	(27,185)	10,354,590	1.54x
2026	15,295,277	(228,134)	15,067,143	4,290,000	5,749,150	10,039,150	(27,185)	10,011,965	1.50x
2027	16,196,723	(234,978)	15,961,745	4,950,000	5,518,150	10,468,150	(27,185)	10,440,965	1.53x
2028	16,187,212	(242,027)	15,945,185	5,200,000	5,264,400	10,464,400	(27,185)	10,437,215	1.53x
2029	16,200,563	(249,288)	15,951,274	5,405,000	4,999,275	10,404,275	(27,185)	10,377,090	1.54x
2030	16,215,389	(256,767)	15,958,622	5,375,000	4,729,775	10,104,775	(27,185)	10,077,590	1.58x
2031	16,229,121	(264,470)	15,964,651	5,345,000	4,461,775	9,806,775	(27,185)	9,779,590	1.63x
2032	16,243,025	(272,404)	15,970,621	5,365,000	4,194,025	9,559,025	(27,185)	9,531,840	1.68x
2033	16,258,456	(280,576)	15,977,880	5,390,000	3,925,150	9,315,150	(27,185)	9,287,965	1.72x
2034	16,275,341	(288,993)	15,986,347	5,400,000	3,682,400	9,082,400	(27,185)	9,055,215	1.77x
2035	16,282,820	(297,663)	15,985,156	5,360,000	3,467,200	8,827,200	(27,185)	8,800,015	1.82x
2036	16,288,579	(306,593)	15,981,986	5,600,000	3,248,000	8,848,000	(27,185)	8,820,815	1.81x
2037	16,294,599	(315,791)	15,978,808	5,850,000	3,019,000	8,869,000	(27,185)	8,841,815	1.81x
2038	16,298,140	(325,264)	15,972,876	6,005,000	2,781,900	8,786,900	(27,185)	8,759,715	1.82x
2039	16,300,566	(335,022)	15,965,544	6,115,000	2,539,500	8,654,500	(27,185)	8,627,315	1.85x
2040	16,302,030	(345,073)	15,956,957	6,235,000	2,292,500	8,527,500	(27,185)	8,500,315	1.88x
2041	16,296,523	(355,425)	15,941,098	6,440,000	2,039,000	8,479,000	(27,185)	8,451,815	1.89x
2042	16,289,145	(366,088)	15,923,057	5,505,000	1,800,100	7,305,100	(27,185)	7,277,915	2.19x
2043	16,294,262	(377,071)	15,917,191	5,460,000	1,580,800	7,040,800	(27,185)	7,013,615	2.27x
2044	16,295,291	(388,383)	15,906,908	5,415,000	1,363,300	6,778,300	(27,185)	6,751,115	2.36x
2045	16,293,812	(400,034)	15,893,778	5,365,000	1,147,700	6,512,700	(27,185)	6,485,515	2.45x
2046	16,291,067	(412,035)	15,879,032	5,315,000	934,100	6,249,100	(27,185)	6,221,915	2.55x
2047	16,287,310	(424,396)	15,862,914	5,260,000	722,600	5,982,600	(27,185)	5,955,415	2.66x
2048	16,284,829	(437,128)	15,847,701	5,205,000	513,300	5,718,300	(27,185)	5,691,115	2.78x
2049	16,283,683	(450,242)	15,833,441	5,145,000	306,300	5,451,300	(27,185)	5,424,115	2.92x
2050	16,283,935	(463,749)	15,820,186	5,085,000	101,700	5,186,700	(13,593)	5,173,107	3.06x
Total	$472,330,783	($9,165,591)	$463,165,192	$152,825,000	$95,457,725	$248,282,725	($786,110)	$247,496,615	

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

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

(3) Series 2021A Bonds Debt Service Coverage equals Net Revenues Available for Debt Service divided by Series 2021A Bonds Net Debt Service.

Series 2021A Bonds Debt Service and Projected Debt Service Coverage – Alternative Case (Menthol Ban) 2

				Series 2021A Bonds					
Year	Projected Pledged TSRs[(1)]	Operating 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)]
2022	$15,923,208	($202,694)	$15,720,514	$3,680,000	$6,525,150	$10,205,150	($38,513)	$10,166,637	1.55x
2023	17,466,055	(208,775)	17,257,280	3,970,000	6,390,550	10,360,550	(27,185)	10,333,365	1.67x
2024	17,031,939	(215,038)	16,816,901	4,680,000	6,194,150	10,874,150	(27,185)	10,846,965	1.55x
2025	15,670,600	(221,489)	15,449,111	4,415,000	5,966,775	10,381,775	(27,185)	10,354,590	1.49x
2026	14,418,980	(228,134)	14,190,846	4,290,000	5,749,150	10,039,150	(27,185)	10,011,965	1.42x
2027	15,324,474	(234,978)	15,089,496	4,950,000	5,518,150	10,468,150	(27,185)	10,440,965	1.45x
2028	15,317,463	(242,027)	15,075,436	5,200,000	5,264,400	10,464,400	(27,185)	10,437,215	1.44x
2029	15,332,050	(249,288)	15,082,762	5,405,000	4,999,275	10,404,275	(27,185)	10,377,090	1.45x
2030	15,348,088	(256,767)	15,091,321	5,375,000	4,729,775	10,104,775	(27,185)	10,077,590	1.50x
2031	15,363,156	(264,470)	15,098,687	5,345,000	4,461,775	9,806,775	(27,185)	9,779,590	1.54x
2032	15,378,451	(272,404)	15,106,047	5,365,000	4,194,025	9,559,025	(27,185)	9,531,840	1.58x
2033	15,395,250	(280,576)	15,114,674	5,390,000	3,925,150	9,315,150	(27,185)	9,287,965	1.63x
2034	15,413,486	(288,993)	15,124,493	5,400,000	3,682,400	9,082,400	(27,185)	9,055,215	1.67x
2035	15,422,931	(297,663)	15,125,268	5,360,000	3,467,200	8,827,200	(27,185)	8,800,015	1.72x
2036	15,430,827	(306,593)	15,124,234	5,600,000	3,248,000	8,848,000	(27,185)	8,820,815	1.71x
2037	15,439,044	(315,791)	15,123,254	5,850,000	3,019,000	8,869,000	(27,185)	8,841,815	1.71x
2038	15,445,001	(325,264)	15,119,737	6,005,000	2,781,900	8,786,900	(27,185)	8,759,715	1.73x
2039	15,449,987	(335,022)	15,114,964	6,115,000	2,539,500	8,654,500	(27,185)	8,627,315	1.75x
2040	15,454,146	(345,073)	15,109,073	6,235,000	2,292,500	8,527,500	(27,185)	8,500,315	1.78x
2041	15,451,823	(355,425)	15,096,397	6,440,000	2,039,000	8,479,000	(27,185)	8,451,815	1.79x
2042	15,447,821	(366,088)	15,081,733	5,505,000	1,800,100	7,305,100	(27,185)	7,277,915	2.07x
2043	15,455,681	(377,071)	15,078,610	5,460,000	1,580,800	7,040,800	(27,185)	7,013,615	2.15x
2044	15,459,780	(388,383)	15,071,397	5,415,000	1,363,300	6,778,300	(27,185)	6,751,115	2.23x
2045	15,461,611	(400,034)	15,061,577	5,365,000	1,147,700	6,512,700	(27,185)	6,485,515	2.32x
2046	15,462,345	(412,035)	15,050,310	5,315,000	934,100	6,249,100	(27,185)	6,221,915	2.42x
2047	15,462,225	(424,396)	15,037,829	5,260,000	722,600	5,982,600	(27,185)	5,955,415	2.53x
2048	15,463,410	(437,128)	15,026,282	5,205,000	513,300	5,718,300	(27,185)	5,691,115	2.64x
2049	15,465,958	(450,242)	15,015,716	5,145,000	306,300	5,451,300	(27,185)	5,424,115	2.77x
2050	15,469,933	(463,749)	15,006,184	5,085,000	101,700	5,186,700	(13,593)	5,173,107	2.90x
Total	$450,625,723	($9,165,591)	$441,460,132	$152,825,000	$95,457,725	$248,282,725	($786,110)	$247,496,615	

____

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

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

(3) Series 2021A Bonds Debt Service Coverage equals Net Revenues Available for Debt Service divided by Series 2021A Bonds Net Debt Service.

Projected Series 2021 Bonds Debt Service Schedule Incorporating Turbo Redemptions of the Series 2021B Bonds – Base Case

		Series 2021A Bonds				Series 2021B Bonds								
Year	Projected Net Revenues Available for Debt Service [1]	Principal / Fixed Sinking Fund Installments	Interest	Pledged Account Earnings / Class 1 Senior Debt Service Reserve Subaccount Release[2]	Series 2021A Senior Bonds Net Debt Service	Series 2021B-1 Bonds 2031 Term	Series 2021B-1 Bonds 2050 Term	Series 2021B-2 Bonds 2066 Term [3]	Total Projected Principal Payments [4]	Interest	Pledged Account Earnings / Class 2 Senior Debt Service Reserve Subaccount Release [2]	Series 2021B Bonds Net Debt Service	Total Net Debt Service [5]	Amounts to Surplus Fund / Residual to State
2022	$15,720,514	$3,680,000	$6,525,150	($38,513)	$10,166,637	$4,430,000	-	-	$4,430,000	$1,126,425	($4,029)	$5,552,396	$15,719,034	-
2023	17,257,280	3,970,000	6,390,550	(27,185)	10,333,365	3,070,000	$2,805,000	-	5,875,000	1,051,575	(2,844)	6,923,731	17,257,096	-
2024	16,816,901	4,680,000	6,194,150	(27,185)	10,846,965	-	5,085,000	-	5,085,000	886,100	(2,844)	5,968,256	16,815,221	-
2025	16,745,578	4,415,000	5,966,775	(27,185)	10,354,590	-	5,725,000	-	5,725,000	669,900	(2,844)	6,392,056	16,746,646	-
2026	16,664,373	4,290,000	5,749,150	(27,185)	10,011,965	-	6,225,000	-	6,225,000	430,900	(2,844)	6,653,056	16,665,021	-
2027	17,551,598	4,950,000	5,518,150	(27,185)	10,440,965	-	7,660,000 (2)	$1,630,000	8,097,671	153,200	(1,138,922)	7,111,949	17,552,914	-
2028	17,530,479	5,200,000	5,264,400	(27,185)	10,437,215	-	-	25,540,000	7,092,969	-	-	7,092,969	17,530,183	-
2029	17,534,316	5,405,000	4,999,275	(27,185)	10,377,090	-	-	24,915,000	7,156,585	-	-	7,156,585	17,533,674	-
2030	17,539,456	5,375,000	4,729,775	(27,185)	10,077,590	-	-	25,120,000	7,462,901	-	-	7,462,901	17,540,490	-
2031	17,543,049	5,345,000	4,461,775	(27,185)	9,779,590	-	-	25,265,000	7,763,177	-	-	7,763,177	17,542,766	-
2032	17,546,484	5,365,000	4,194,025	(27,185)	9,531,840	-	-	25,215,000	8,013,579	-	-	8,013,579	17,545,419	-
2033	17,551,250	5,390,000	3,925,150	(27,185)	9,287,965	-	-	25,140,000	8,263,769	-	-	8,263,769	17,551,734	-
2034	17,557,253	5,400,000	3,682,400	(27,185)	9,055,215	-	-	25,010,000	8,502,900	-	-	8,502,900	17,558,114	-
2035	17,552,479	5,360,000	3,467,200	(27,185)	8,800,015	-	-	24,890,000	8,752,320	-	-	8,752,320	17,552,334	-
2036	17,545,412	5,600,000	3,248,000	(27,185)	8,820,815	-	-	23,990,000	8,724,923	-	-	8,724,923	17,545,738	-
2037	17,538,231	5,850,000	3,019,000	(27,185)	8,841,815	-	-	23,115,000	8,695,170	-	-	8,695,170	17,536,984	-
2038	17,527,895	6,005,000	2,781,900	(27,185)	8,759,715	-	-	22,540,000	8,769,412	-	-	8,769,412	17,529,127	-
2039	17,515,898	6,115,000	2,539,500	(27,185)	8,627,315	-	-	22,085,000	8,887,004	-	-	8,887,004	17,514,319	-
2040	17,502,397	6,235,000	2,292,500	(27,185)	8,500,315	-	-	21,630,000	9,002,406	-	-	9,002,406	17,502,721	-
2041	17,480,736	6,440,000	2,039,000	(27,185)	8,451,815	-	-	20,975,000	9,029,108	-	-	9,029,108	17,480,923	-
2042	17,456,540	5,505,000	1,800,100	(27,185)	7,277,915	-	-	22,860,000	10,178,186	-	-	10,178,186	17,456,101	-
2043	17,445,675	5,460,000	1,580,800	(27,185)	7,013,615	-	-	22,655,000	10,432,628	-	-	10,432,628	17,446,242	-
2044	17,429,797	5,415,000	1,363,300	(27,185)	6,751,115	-	-	22,420,000	10,678,422	-	-	10,678,422	17,429,536	-
2045	17,410,635	5,365,000	1,147,700	(27,185)	6,485,515	-	-	22,180,000	10,926,312	-	-	10,926,312	17,411,826	-
2046	17,389,547	26,010,000 (2)	520,200	(10,887,743)	15,642,457	-	-	3,175,000	1,617,726	-	-	1,617,726	17,260,183	$129,425
2047	17,791,196	-	-	-	-	-	-	-	-	-	-	-	-	17,791,196
2048	17,782,032	-	-	-	-	-	-	-	-	-	-	-	-	17,782,032
2049	17,774,152	-	-	-	-	-	-	-	-	-	-	-	-	17,774,152
2050	17,767,620	-	-	-	-	-	-	-	-	-	-	-	-	17,767,620
2051	17,762,500	-	-	-	-	-	-	-	-	-	-	-	-	17,762,500
2052	17,758,859	-	-	-	-	-	-	-	-	-	-	-	-	17,758,859
2053	17,756,767	-	-	-	-	-	-	-	-	-	-	-	-	17,756,767
2054	17,756,293	-	-	-	-	-	-	-	-	-	-	-	-	17,756,293
2055	17,757,510	-	-	-	-	-	-	-	-	-	-	-	-	17,757,510
2056	17,760,491	-	-	-	-	-	-	-	-	-	-	-	-	17,760,491
2057	17,765,892	-	-	-	-	-	-	-	-	-	-	-	-	17,765,892
2058	17,773,875	-	-	-	-	-	-	-	-	-	-	-	-	17,773,875
2059	17,782,605	-	-	-	-	-	-	-	-	-	-	-	-	17,782,605
2060	17,793,418	-	-	-	-	-	-	-	-	-	-	-	-	17,793,418
2061	17,806,397	-	-	-	-	-	-	-	-	-	-	-	-	17,806,397
2062	17,822,027	-	-	-	-	-	-	-	-	-	-	-	-	17,822,027
2063	17,840,391	-	-	-	-	-	-	-	-	-	-	-	-	17,840,391
2064	17,861,577	-	-	-	-	-	-	-	-	-	-	-	-	17,861,577
2065	17,885,675	-	-	-	-	-	-	-	-	-	-	-	-	17,885,675
2066	17,912,778	-	-	-	-	-	-	-	-	-	-	-	-	17,912,778
Total	$789,265,824	$152,825,000	$93,399,925	($11,551,519)	$234,673,406	$7,500,000	$27,500,000	$430,350,000	$195,387,167	$4,318,100	($1,154,326)	$198,550,941	$433,224,347	$356,041,477

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

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

(3) Reflects Accreted Value at maturity of Series 2021B-2 Bonds.

(4) Reflects Turbo Redemption of Series 2021B-2 Bonds at their then Accreted Value.

(5) Includes all Interest, Series 2021A Bonds principal and Fixed Sinking Fund Installments, Series 2021B Bonds Projected Turbo Redemptions, less assumed earnings and releases on the Senior Liquidity Reserve Account.

Projected Series 2021 Bonds Debt Service Schedule Incorporating Turbo Redemptions of the Series 2021B Bonds – Alternative Case (Menthol Ban) 1

		Series 2021A Bonds				Series 2021B Bonds								
Year	Projected Net Revenues Available for Debt Service (1)	Principal / Fixed Sinking Fund Installments	Interest	Pledged Account Earnings / Class 1 Senior Debt Service Reserve Subaccount Release(2)	Series 2021A Senior Bonds Net Debt Service	Series 2021B-1 Bonds 2031 Term	Series 2021B-1 Bonds 2050 Term	Series 2021B-2 Bonds 2066 Term (3)	Total Projected Principal Payments (4)	Interest	Pledged Account Earnings / Class 2 Senior Debt Service Reserve Subaccount Release (2)	Series 2021B Bonds Net Debt Service	Total Net Debt Service (5)	Amounts to Surplus Fund / Residual to State
2022	$15,720,514	$3,680,000	$6,525,150	($38,513)	$10,166,637	$4,430,000	-	-	$4,430,000	$1,126,425	($4,029)	$5,552,396	$15,719,034	-
2023	17,257,280	3,970,000	6,390,550	(27,185)	10,333,365	3,070,000	$2,805,000	-	5,875,000	1,051,575	(2,844)	6,923,731	17,257,096	-
2024	16,816,901	4,680,000	6,194,150	(27,185)	10,846,965	-	5,085,000	-	5,085,000	886,100	(2,844)	5,968,256	16,815,221	-
2025	15,920,394	4,415,000	5,966,775	(27,185)	10,354,590	-	4,885,000	-	4,885,000	686,700	(2,844)	5,568,856	15,923,446	-
2026	15,067,143	4,290,000	5,749,150	(27,185)	10,011,965	-	4,560,000	-	4,560,000	497,800	(2,844)	5,054,956	15,066,921	-
2027	15,961,745	4,950,000	5,518,150	(27,185)	10,440,965	-	5,220,000	-	5,220,000	302,200	(2,844)	5,519,356	15,960,321	-
2028	15,945,185	5,200,000	5,264,400	(27,185)	10,437,215	-	4,945,000 (2)	$5,775,000	6,548,833	98,900	(1,138,922)	5,508,811	15,946,026	-
2029	15,951,274	5,405,000	4,999,275	(27,185)	10,377,090	-	-	19,405,000	5,573,892	-	-	5,573,892	15,950,982	-
2030	15,958,622	5,375,000	4,729,775	(27,185)	10,077,590	-	-	19,800,000	5,882,382	-	-	5,882,382	15,959,972	-
2031	15,964,651	5,345,000	4,461,775	(27,185)	9,779,590	-	-	20,125,000	6,183,809	-	-	6,183,809	15,963,398	-
2032	15,970,621	5,365,000	4,194,025	(27,185)	9,531,840	-	-	20,260,000	6,438,831	-	-	6,438,831	15,970,670	-
2033	15,977,880	5,390,000	3,925,150	(27,185)	9,287,965	-	-	20,355,000	6,690,892	-	-	6,690,892	15,978,857	-
2034	15,986,347	5,400,000	3,682,400	(27,185)	9,055,215	-	-	20,385,000	6,930,492	-	-	6,930,492	15,985,707	-
2035	15,985,156	5,360,000	3,467,200	(27,185)	8,800,015	-	-	20,435,000	7,185,763	-	-	7,185,763	15,985,778	-
2036	15,981,986	5,600,000	3,248,000	(27,185)	8,820,815	-	-	19,690,000	7,161,056	-	-	7,161,056	15,981,871	-
2037	15,978,808	5,850,000	3,019,000	(27,185)	8,841,815	-	-	18,970,000	7,135,945	-	-	7,135,945	15,977,760	-
2038	15,972,876	6,005,000	2,781,900	(27,185)	8,759,715	-	-	18,540,000	7,213,172	-	-	7,213,172	15,972,887	-
2039	15,965,544	6,115,000	2,539,500	(27,185)	8,627,315	-	-	18,235,000	7,337,764	-	-	7,337,764	15,965,079	-
2040	15,956,957	6,235,000	2,292,500	(27,185)	8,500,315	-	-	17,920,000	7,458,304	-	-	7,458,304	15,958,619	-
2041	15,941,098	6,440,000	2,039,000	(27,185)	8,451,815	-	-	17,395,000	7,488,026	-	-	7,488,026	15,939,840	-
2042	15,923,057	5,505,000	1,800,100	(27,185)	7,277,915	-	-	19,420,000	8,646,561	-	-	8,646,561	15,924,475	-
2043	15,917,191	5,460,000	1,580,800	(27,185)	7,013,615	-	-	19,330,000	8,901,465	-	-	8,901,465	15,915,080	-
2044	15,906,908	5,415,000	1,363,300	(27,185)	6,751,115	-	-	19,225,000	9,156,675	-	-	9,156,675	15,907,790	-
2045	15,893,778	5,365,000	1,147,700	(27,185)	6,485,515	-	-	19,100,000	9,409,042	-	-	9,409,042	15,894,557	-
2046	15,879,032	5,315,000	934,100	(27,185)	6,221,915	-	-	18,950,000	9,655,404	-	-	9,655,404	15,877,319	-
2047	15,862,914	5,260,000	722,600	(27,185)	5,955,415	-	-	18,800,000	9,907,412	-	-	9,907,412	15,862,827	-
2048	15,847,701	15,435,000 (2)	308,700	(10,887,743)	4,855,957	-	-	20,170,000	10,993,860	-	-	10,993,860	15,849,818	-
2049	15,833,441	-	-	-	-	-	-	28,085,000	15,832,919	-	-	15,832,919	15,832,919	-
2050	15,820,186	-	-	-	-	-	-	9,980,000	5,819,138	-	-	5,819,138	5,819,138	$10,001,788
2051	16,285,650	-	-	-	-	-	-	-	-	-	-	-	-	16,285,650
2052	16,288,894	-	-	-	-	-	-	-	-	-	-	-	-	16,288,894
2053	16,293,734	-	-	-	-	-	-	-	-	-	-	-	-	16,293,734
2054	16,300,241	-	-	-	-	-	-	-	-	-	-	-	-	16,300,241
2055	16,308,485	-	-	-	-	-	-	-	-	-	-	-	-	16,308,485
2056	16,318,538	-	-	-	-	-	-	-	-	-	-	-	-	16,318,538
2057	16,331,003	-	-	-	-	-	-	-	-	-	-	-	-	16,331,003
2058	16,346,029	-	-	-	-	-	-	-	-	-	-	-	-	16,346,029
2059	16,361,966	-	-	-	-	-	-	-	-	-	-	-	-	16,361,966
2060	16,380,028	-	-	-	-	-	-	-	-	-	-	-	-	16,380,028
2061	16,400,298	-	-	-	-	-	-	-	-	-	-	-	-	16,400,298
2062	16,423,222	-	-	-	-	-	-	-	-	-	-	-	-	16,423,222
2063	16,448,882	-	-	-	-	-	-	-	-	-	-	-	-	16,448,882
2064	16,477,367	-	-	-	-	-	-	-	-	-	-	-	-	16,477,367
2065	16,508,765	-	-	-	-	-	-	-	-	-	-	-	-	16,508,765
2066	16,543,170	-	-	-	-	-	-	-	-	-	-	-	-	16,543,170
Total	$725,181,464	$152,825,000	$94,845,125	($11,605,890)	$236,064,235	$7,500,000	$27,500,000	$430,350,000	$213,606,638	$4,649,700	($1,157,169)	$217,099,168	$453,163,404	$272,018,060

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

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

(3) Reflects Accreted Value at maturity of Series 2021B-2 Bonds.

(4) Reflects Turbo Redemption of Series 2021B-2 Bonds at their then Accreted Value.

(5) Includes all Interest, Series 2021A Bonds principal and Fixed Sinking Fund Installments, Series 2021B Bonds Projected Turbo Redemptions, less assumed earnings and releases on the Senior Liquidity Reserve Account.

Projected Series 2021 Bonds Debt Service Schedule Incorporating Turbo Redemptions of the Series 2021B Bonds – Alternative Case (Menthol Ban) 2

		Series 2021A Bonds				Series 2021B Bonds								
Year	Projected Net Revenues Available for Debt Service (1)	Principal / Fixed Sinking Fund Installments	Interest	Pledged Account Earnings / Class 1 Senior Debt Service Reserve Subaccount Release (2)	Series 2021A Senior Bonds Net Debt Service	Series 2021B-1 Bonds 2031 Term	Series 2021B-1 Bonds 2050 Term	Series 2021B-2 Bonds 2066 Term (3)	Total Projected Principal Payments (4)	Interest	Pledged Account Earnings / Class 2 Senior Debt Service Reserve Subaccount Release (2)	Series 2021B Bonds Net Debt Service	Total Net Debt Service (5)	Amounts to Surplus Fund / Residual to State
2022	$15,720,514	$3,680,000	$6,525,150	($38,513)	$10,166,637	$4,430,000	-	-	$4,430,000	$1,126,425	($4,029)	$5,552,396	$15,719,034	-
2023	17,257,280	3,970,000	6,390,550	(27,185)	10,333,365	3,070,000	$2,805,000	-	5,875,000	1,051,575	(2,844)	6,923,731	17,257,096	-
2024	16,816,901	4,680,000	6,194,150	(27,185)	10,846,965	-	5,085,000	-	5,085,000	886,100	(2,844)	5,968,256	16,815,221	-
2025	15,449,111	4,415,000	5,966,775	(27,185)	10,354,590	-	4,400,000	-	4,400,000	696,400	(2,844)	5,093,556	15,448,146	-
2026	14,190,846	4,290,000	5,749,150	(27,185)	10,011,965	-	3,650,000	-	3,650,000	535,400	(2,844)	4,182,556	14,194,521	-
2027	15,089,496	4,950,000	5,518,150	(27,185)	10,440,965	-	4,275,000	-	4,275,000	376,900	(2,844)	4,649,056	15,090,021	-
2028	15,075,436	5,200,000	5,264,400	(27,185)	10,437,215	-	4,435,000	-	4,435,000	202,700	(2,844)	4,634,856	15,072,071	-
2029	15,082,762	5,405,000	4,999,275	(27,185)	10,377,090	-	2,850,000 (2)	$10,235,000	5,789,901	57,000	(1,138,922)	4,707,980	15,085,069	-
2030	15,091,321	5,375,000	4,729,775	(27,185)	10,077,590	-	-	16,880,000	5,014,879	-	-	5,014,879	15,092,469	-
2031	15,098,687	5,345,000	4,461,775	(27,185)	9,779,590	-	-	17,310,000	5,318,844	-	-	5,318,844	15,098,433	-
2032	15,106,047	5,365,000	4,194,025	(27,185)	9,531,840	-	-	17,540,000	5,574,387	-	-	5,574,387	15,106,227	-
2033	15,114,674	5,390,000	3,925,150	(27,185)	9,287,965	-	-	17,725,000	5,826,385	-	-	5,826,385	15,114,349	-
2034	15,124,493	5,400,000	3,682,400	(27,185)	9,055,215	-	-	17,850,000	6,068,643	-	-	6,068,643	15,123,858	-
2035	15,125,268	5,360,000	3,467,200	(27,185)	8,800,015	-	-	17,990,000	6,326,004	-	-	6,326,004	15,126,018	-
2036	15,124,234	5,600,000	3,248,000	(27,185)	8,820,815	-	-	17,330,000	6,302,748	-	-	6,302,748	15,123,562	-
2037	15,123,254	5,850,000	3,019,000	(27,185)	8,841,815	-	-	16,700,000	6,282,039	-	-	6,282,039	15,123,854	-
2038	15,119,737	6,005,000	2,781,900	(27,185)	8,759,715	-	-	16,345,000	6,359,186	-	-	6,359,186	15,118,900	-
2039	15,114,964	6,115,000	2,539,500	(27,185)	8,627,315	-	-	16,125,000	6,488,700	-	-	6,488,700	15,116,015	-
2040	15,109,073	6,235,000	2,292,500	(27,185)	8,500,315	-	-	15,875,000	6,607,175	-	-	6,607,175	15,107,490	-
2041	15,096,397	6,440,000	2,039,000	(27,185)	8,451,815	-	-	15,435,000	6,644,304	-	-	6,644,304	15,096,119	-
2042	15,081,733	5,505,000	1,800,100	(27,185)	7,277,915	-	-	17,530,000	7,805,057	-	-	7,805,057	15,082,972	-
2043	15,078,610	5,460,000	1,580,800	(27,185)	7,013,615	-	-	17,515,000	8,065,658	-	-	8,065,658	15,079,272	-
2044	15,071,397	5,415,000	1,363,300	(27,185)	6,751,115	-	-	17,465,000	8,318,405	-	-	8,318,405	15,069,519	-
2045	15,061,577	5,365,000	1,147,700	(27,185)	6,485,515	-	-	17,410,000	8,576,514	-	-	8,576,514	15,062,029	-
2046	15,050,310	5,315,000	934,100	(27,185)	6,221,915	-	-	17,325,000	8,827,434	-	-	8,827,434	15,049,349	-
2047	15,037,829	5,260,000	722,600	(27,185)	5,955,415	-	-	17,235,000	9,082,673	-	-	9,082,673	15,038,087	-
2048	15,026,282	15,435,000 (2)	308,700	(10,887,743)	4,855,957	-	-	18,660,000	10,170,820	-	-	10,170,820	15,026,777	-
2049	15,015,716	-	-	-	-	-	-	26,635,000	15,015,481	-	-	15,015,481	15,015,481	-
2050	15,006,184	-	-	-	-	-	-	25,735,000	15,005,564	-	-	15,005,564	15,005,564	-
2051	14,997,737	-	-	-	-	-	-	24,870,000	14,998,351	-	-	14,998,351	14,998,351	-
2052	14,990,428	-	-	-	-	-	-	16,630,000	10,372,963	-	-	10,372,963	10,372,963	$4,619,461
2053	15,491,063	-	-	-	-	-	-	-	-	-	-	-	-	15,491,063
2054	15,501,399	-	-	-	-	-	-	-	-	-	-	-	-	15,501,399
2055	15,513,498	-	-	-	-	-	-	-	-	-	-	-	-	15,513,498
2056	15,527,432	-	-	-	-	-	-	-	-	-	-	-	-	15,527,432
2057	15,543,772	-	-	-	-	-	-	-	-	-	-	-	-	15,543,772
2058	15,562,662	-	-	-	-	-	-	-	-	-	-	-	-	15,562,662
2059	15,582,553	-	-	-	-	-	-	-	-	-	-	-	-	15,582,553
2060	15,604,592	-	-	-	-	-	-	-	-	-	-	-	-	15,604,592
2061	15,628,862	-	-	-	-	-	-	-	-	-	-	-	-	15,628,862
2062	15,655,787	-	-	-	-	-	-	-	-	-	-	-	-	15,655,787
2063	15,685,451	-	-	-	-	-	-	-	-	-	-	-	-	15,685,451
2064	15,717,940	-	-	-	-	-	-	-	-	-	-	-	-	15,717,940
2065	15,753,344	-	-	-	-	-	-	-	-	-	-	-	-	15,753,344
2066	15,791,754	-	-	-	-	-	-	-	-	-	-	-	-	15,791,754
Total	$690,008,405	$152,825,000	$94,845,125	($11,605,890)	$236,064,235	$7,500,000	$27,500,000	$430,350,000	$226,992,113	$4,932,500	($1,160,013)	$230,764,600	$466,828,836	$223,179,569

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

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

(3) Reflects Accreted Value at maturity of Series 2021B-2 Bonds.

(4) Reflects Turbo Redemption of Series 2021B-2 Bonds at their then Accreted Value.

(5) Includes all Interest, Series 2021A Bonds principal and Fixed Sinking Fund Installments, Series 2021B Bonds Projected Turbo Redemptions, less assumed earnings and releases on the Senior Liquidity Reserve Account.

SERIES 2021B BONDS PROJECTED TURBO REDEMPTION UNDER VARIOUS CONSUMPTION DECLINE SCENARIOS

Series 2021B 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 2021B Bonds would be paid in full based on the following cigarette consumption decline projections:

- IHS Global forecast – Base Case;
- IHS Global forecast – Alternative Case 1;
- IHS Global forecast – Alternative Case 2;
- –5.56% constant annual decline beginning in 2021;
- –7.00% constant annual decline beginning in 2021 (for the Series 2021B-1 Bonds only);
- –7.80% constant annual decline beginning in 2021 (for the Series 2021B-1 Bonds maturing in 2050 only); and
- –12.12% constant annual decline beginning in 2021 (for the Series 2021B-1 Bonds maturing in 2031 only).

The –5.56%, –7.80% and –12.12% constant annual declines represent the "breakeven" consumption decline rates at which debt service on the Series 2021B Bonds maturing in 2066, 2050 and 2031, respectively, would be paid in full at legal final maturity. The tables below further assume the Series 2021B Bonds bear or accrete interest at the rates described on the inside front cover page hereof and the Pledged TSRs are received in accordance with the Pledged TSRs Projection Methodology and Assumptions and the Bond Structuring Methodology and Assumptions described herein under "PLEDGED TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" and applied as set forth in the 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, that actual County population during the term of the Series 2021 Bonds will be as assumed, or that the other assumptions underlying the Pledged TSRs Projection Methodology and Assumptions, including the market shares of the OPMs and the SPMs 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 TSRs Projection Methodology and Assumptions and the Bond Structuring Methodology and Assumptions, the amount of funds available to NTSC to pay the principal or Accreted Value of and interest on the Series 2021 Bonds and to make Turbo Redemptions on the Series 2021B Bonds could be adversely affected. See "RISK FACTORS" herein.

(Remainder of Page Intentionally Left Blank)

Projected Principal Repayment Dates for Series 2021B Bonds
Under Various Consumption Decline Scenarios

Series 2021B-1 Bonds - 2031 Maturity

		IHS Global Forecast - Base Case(1)		IHS Global Forecast - Alternative Case 1(1)		IHS Global Forecast - Alternative Case 2(1)		5.56% Annual Decline(2)		7.00% Annual Decline (2)		12.12% Annual Decline (Breakeven)(2)	
Maturity	Principal	Final Redemption	Avg. Life	Final Redemption	Avg. Life	Final Redemption	Avg. Life	Final Redemption	Avg. Life	Final Redemption	Avg. Life	Final Redemption	Avg. Life
6/1/2031	$7,500,000	6/1/2023	1.33	6/1/2023	1.33	6/1/2023	1.33	6/1/2023	1.35	6/1/2023	1.39	6/1/2025	1.76

Series 2021B-1 Bonds - 2050 Maturity

		IHS Global Forecast - Base Case(1)		IHS Global Forecast - Alternative Case 1(1)		IHS Global Forecast - Alternative Case 2(1)		5.56% Annual Decline(2)		7.00% Annual Decline (2)		7.80% Annual Decline (Breakeven)(2)	
Maturity	Principal	Final Redemption	Avg. Life	Final Redemption	Avg. Life	Final Redemption	Avg. Life	Final Redemption	Avg. Life	Final Redemption	Avg. Life	Final Redemption	Avg. Life
6/1/2050	$27,500,000	6/1/2027	4.31	6/1/2028	4.61	6/1/2029	4.87	6/1/2029	4.91	6/1/2031	6.00	6/1/2049	9.05

Series 2021B-2 Bonds - 2066 Maturity

		IHS Global Forecast - Base Case(1)		IHS Global Forecast - Alternative Case 1(1)		IHS Global Forecast - Alternative Case 2(1)		5.56% Annual Decline (Breakeven)(2)	
Maturity	Accreted Value at Maturity	Final Redemption	Avg. Life	Final Redemption	Avg. Life	Final Redemption	Avg. Life	Final Redemption	Avg. Life
6/1/2066	$430,350,000	6/1/2046	15.17	6/1/2050	18.14	6/1/2052	20.16	6/1/2066	25.63

____

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

(2) Based on application of the Pledged TSRs Projection Methodology and Assumptions described under "PLEDGED TSRs 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 2021.

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 2021 Bonds would be paid in full at maturity.

The table below assumes that Pledged TSRs are received based on the application of the Pledged TSRs Projection Methodology and Assumptions and the Bond Structuring Methodology and Assumptions described herein under "PLEDGED TSRs 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, that actual County population during the term of the Series 2021 Bonds will be as assumed, or that the other assumptions underlying the Pledged TSRs Projection Methodology and Assumptions, including the market shares of the OPMs and the SPMs 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 TSRs Projection Methodology and Assumptions, the amount of Pledged TSRs available to NTSC to pay the principal or Accreted Value of and interest on the Series 2021 Bonds could be adversely affected. See "RISK FACTORS" herein.

(Remainder of Page Intentionally Left Blank)

Series 2021 Bonds Consumption Decline Rates By Maturity[(1)(2)]

Series		Maturity	Principal	Type	Maximum Constant Consumption Declines
Series 2021A Senior Bonds:		6/1/2022	$3,680,000	Serial	-100.00%
		6/1/2023	3,970,000	Serial	-66.28%
		6/1/2024	4,680,000	Serial	-44.14%
		6/1/2025	4,415,000	Serial	-33.62%
		6/1/2026	4,290,000	Serial	-26.81%
		6/1/2027	4,950,000	Serial	-22.10%
		6/1/2028	5,200,000	Serial	-19.08%
		6/1/2029	5,405,000	Serial	-17.01%
		6/1/2030	5,375,000	Serial	-15.39%
		6/1/2031	5,345,000	Serial	-14.13%
		6/1/2032	5,365,000	Serial	-13.14%
		6/1/2033	5,390,000	Serial	-12.36%
		6/1/2034	5,400,000	Serial	-11.70%
		6/1/2035	5,360,000	Serial	-11.21%
		6/1/2036	5,600,000	Serial	-10.74%
		6/1/2037	5,850,000	Serial	-10.34%
		6/1/2038	6,005,000	Serial	-9.97%
		6/1/2039	6,115,000	Serial	-9.65%
		6/1/2040	6,235,000	Serial	-9.35%
		6/1/2041	6,440,000	Serial	-9.08%
		6/1/2050	47,755,000	Term	-8.43%
		TOTAL	$152,825,000		
Series 2021B Senior Bonds:	2021B-1:	6/1/2031	$7,500,000	Turbo Term	-12.12%
	2021B-1:	6/1/2050	27,500,000	Turbo Term	-7.80%
	2021B-2:	6/1/2066	430,350,000	Turbo Term	-5.56%
		TOTAL	$465,350,000		

(1) Assumes the applicable subaccounts of the Senior Liquidity Reserve Account are used to pay debt service on each respective series of Series 2021 Bonds, as applicable, on or prior to the final maturity of such series without a payment default.

(2) Based on application of the Pledged TSRs Projection Methodology and Assumptions described in "PLEDGED TSRs 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 2021.

Projected Series 2021 Bonds Debt Service Under a –5.56% Constant Annual Cigarette Shipment Decline

Set forth below is a schedule showing the projected debt service on the Series 2021A Bonds and the Series 2021B Bonds calculated based on a –5.56% constant annual “breakeven” consumption decline rate for the Series 2021B-2 Bonds.

		Series 2021A Bonds				Series 2021B Bonds								
Year	Projected Net Revenues Available for Debt Service (1)	Principal / Fixed Sinking Fund Installments	Interest	Pledged Account Earnings / Class 1 Senior Debt Service Reserve Subaccount Release (2)	Series 2021A Senior Bonds Net Debt Service	Series 2021B-1 Bonds 2031 Term	Series 2021B-1 Bonds 2050 Term	Series 2021B-2 Bonds 2066 Term (3)	Total Projected Principal Payments (4)	Interest	Pledged Account Earnings / Class 2 Senior Debt Service Reserve Subaccount Release (2)	Series 2021B Bonds Net Debt Service	Total Net Debt Service (5)	Amounts to Surplus Fund / Residual to State
2022	$15,506,040	$3,680,000	$6,525,150	($38,513)	$10,166,637	$4,215,000	-	-	$4,215,000	$1,126,963	($4,029)	$5,337,934	$15,504,571	-
2023	16,740,012	3,970,000	6,390,550	(27,185)	10,333,365	3,285,000	$2,055,000	-	5,340,000	1,067,113	(2,844)	6,404,269	16,737,633	-
2024	16,140,507	4,680,000	6,194,150	(27,185)	10,846,965	-	4,365,000	-	4,365,000	930,500	(2,844)	5,292,656	16,139,621	-
2025	15,790,470	4,415,000	5,966,775	(27,185)	10,354,590	-	4,690,000	-	4,690,000	749,400	(2,844)	5,436,556	15,791,146	-
2026	15,405,011	4,290,000	5,749,150	(27,185)	10,011,965	-	4,840,000	-	4,840,000	558,800	(2,844)	5,395,956	15,407,921	-
2027	15,921,615	4,950,000	5,518,150	(27,185)	10,440,965	-	5,125,000	-	5,125,000	359,500	(2,844)	5,481,656	15,922,621	-
2028	15,538,346	5,200,000	5,264,400	(27,185)	10,437,215	-	4,945,000	-	4,945,000	158,100	(2,844)	5,100,256	15,537,471	-
2029	15,167,054	5,405,000	4,999,275	(27,185)	10,377,090	-	1,480,000 (2)	$15,385,000	5,899,187	29,600	(1,138,922)	4,789,866	15,166,955	-
2030	14,807,459	5,375,000	4,729,775	(27,185)	10,077,590	-	-	15,920,000	4,729,673	-	-	4,729,673	14,807,262	-
2031	14,459,289	5,345,000	4,461,775	(27,185)	9,779,590	-	-	15,230,000	4,679,722	-	-	4,679,722	14,459,312	-
2032	14,122,280	5,365,000	4,194,025	(27,185)	9,531,840	-	-	14,445,000	4,590,765	-	-	4,590,765	14,122,605	-
2033	13,796,180	5,390,000	3,925,150	(27,185)	9,287,965	-	-	13,715,000	4,508,258	-	-	4,508,258	13,796,222	-
2034	13,480,741	5,400,000	3,682,400	(27,185)	9,055,215	-	-	13,015,000	4,424,840	-	-	4,424,840	13,480,054	-
2035	13,175,726	5,360,000	3,467,200	(27,185)	8,800,015	-	-	12,445,000	4,376,160	-	-	4,376,160	13,176,174	-
2036	12,880,906	5,600,000	3,248,000	(27,185)	8,820,815	-	-	11,165,000	4,060,599	-	-	4,060,599	12,881,413	-
2037	12,596,058	5,850,000	3,019,000	(27,185)	8,841,815	-	-	9,980,000	3,754,177	-	-	3,754,177	12,595,991	-
2038	12,320,970	6,005,000	2,781,900	(27,185)	8,759,715	-	-	9,155,000	3,561,844	-	-	3,561,844	12,321,559	-
2039	12,055,433	6,115,000	2,539,500	(27,185)	8,627,315	-	-	8,515,000	3,426,436	-	-	3,426,436	12,053,751	-
2040	11,799,251	6,235,000	2,292,500	(27,185)	8,500,315	-	-	7,930,000	3,300,466	-	-	3,300,466	11,800,781	-
2041	11,552,230	6,440,000	2,039,000	(27,185)	8,451,815	-	-	7,200,000	3,099,384	-	-	3,099,384	11,551,199	-
2042	11,314,187	5,505,000	1,800,100	(27,185)	7,277,915	-	-	9,065,000	4,036,101	-	-	4,036,101	11,314,015	-
2043	11,084,944	5,460,000	1,580,800	(27,185)	7,013,615	-	-	8,840,000	4,070,820	-	-	4,070,820	11,084,435	-
2044	10,864,330	5,415,000	1,363,300	(27,185)	6,751,115	-	-	8,640,000	4,115,146	-	-	4,115,146	10,866,260	-
2045	10,652,181	5,365,000	1,147,700	(27,185)	6,485,515	-	-	8,455,000	4,165,102	-	-	4,165,102	10,650,617	-
2046	10,448,340	5,315,000	934,100	(27,185)	6,221,915	-	-	8,295,000	4,226,468	-	-	4,226,468	10,448,383	-
2047	10,252,655	5,260,000	722,600	(27,185)	5,955,415	-	-	8,155,000	4,297,603	-	-	4,297,603	10,253,018	-
2048	10,064,984	15,435,000 (2)	308,700	(10,887,743)	4,855,957	-	-	9,555,000	5,208,048	-	-	5,208,048	10,064,006	-
2049	9,885,187	-	-	-	-	-	-	17,535,000	9,885,356	-	-	9,885,356	9,885,356	-
2050	9,713,132	-	-	-	-	-	-	16,660,000	9,714,113	-	-	9,714,113	9,714,113	-
2051	9,548,694	-	-	-	-	-	-	15,835,000	9,549,613	-	-	9,549,613	9,549,613	-
2052	9,391,752	-	-	-	-	-	-	15,055,000	9,390,556	-	-	9,390,556	9,390,556	-
2053	9,242,192	-	-	-	-	-	-	14,325,000	9,241,631	-	-	9,241,631	9,241,631	-
2054	9,099,907	-	-	-	-	-	-	13,640,000	9,101,426	-	-	9,101,426	9,101,426	-
2055	8,964,793	-	-	-	-	-	-	12,990,000	8,964,919	-	-	8,964,919	8,964,919	-
2056	8,836,755	-	-	-	-	-	-	12,380,000	8,836,844	-	-	8,836,844	8,836,844	-
2057	8,715,700	-	-	-	-	-	-	11,805,000	8,715,395	-	-	8,715,395	8,715,395	-
2058	8,601,543	-	-	-	-	-	-	11,265,000	8,601,841	-	-	8,601,841	8,601,841	-
2059	8,494,205	-	-	-	-	-	-	10,755,000	8,494,084	-	-	8,494,084	8,494,084	-
2060	8,393,609	-	-	-	-	-	-	10,275,000	8,393,237	-	-	8,393,237	8,393,237	-
2061	8,299,687	-	-	-	-	-	-	9,820,000	8,296,623	-	-	8,296,623	8,296,623	-
2062	8,212,375	-	-	-	-	-	-	9,400,000	8,214,096	-	-	8,214,096	8,214,096	-
2063	8,131,614	-	-	-	-	-	-	8,995,000	8,129,681	-	-	8,129,681	8,129,681	-
2064	8,057,350	-	-	-	-	-	-	8,620,000	8,057,890	-	-	8,057,890	8,057,890	-
2065	7,989,535	-	-	-	-	-	-	8,265,000	7,990,933	-	-	7,990,933	7,990,933	-
2066	7,928,127	-	-	-	-	-	-	7,625,000	7,625,000	-	-	7,625,000	7,625,000	$305,119
Total	$515,443,353	$152,825,000	$94,845,125	($11,605,890)	$236,064,235	$7,500,000	$27,500,000	$430,350,000	$275,254,037	$4,979,975	($1,160,013)	$279,073,999	$515,138,235	$305,119

(1) Based on application of the Pledged TSRs Projection Methodology and Assumptions described in “PLEDGED TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS” herein with the exception of the Volume Adjustment, which utilizes –5.56% annual declines in cigarette consumption in the U.S. beginning in 2021.
(2) Includes application of the Clean-Up Call.
(3) Reflects Accreted Value at maturity of Series 2021B-2 Bonds.
(4) Reflects Turbo Redemption of Series 2021B-2 Bonds at their then Accreted Value.
(5) Includes all Interest, Series 2021A Bonds principal and Fixed Sinking Fund Installments, Series 2021B Bonds Projected Turbo Redemptions, less assumed earnings and releases on the Senior Liquidity Reserve Account.

PLEDGED TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS

Introduction

The following discussion describes the methodology and assumptions used to project the amount of Pledged TSRs to be received by NTSC (the "**Pledged TSRs 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 2021B 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 TSRs. See "RISK FACTORS" herein. The discussions are followed by a table of projected Pledged TSRs to be received by the Trustee.

In projecting the amount of Pledged TSRs to be received by the Trustee, (a) 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 (b) 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 as adjusted by the NPM Adjustment Settlement.

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 79.69564%, based on the NAAG-reported OPM shipments as a percentage of total net market shipments in sales year 2020 (measuring roll-your-own shipments at 0.0325 ounces per cigarette conversion rate), and
- the aggregate Market Share of the SPMs remains constant at 10.62053%, based on the NAAG-reported market share for SPMs in sales year 2020 (measuring roll-your-own shipments at 0.09 ounces per cigarette conversion rate).

Pledged TSRs 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."

Based on the first of two alternative forecasts that includes a national menthol ban, the Tobacco Consumption Report projects U.S. cigarette consumption decline to accelerate from a 4.6% decline in 2023 to an 8.7% decline in

2024 (the Tobacco Consumption Report projects the ban to be effective by the middle of 2024), followed by an 8.4% decline in 2025 (the first full year that the Tobacco Consumption Report projects the ban to be effective), and projects U.S. cigarette consumption decline to decelerate to a 3.4% decline in 2026. Based on the second of two alternative forecasts that includes a national menthol ban, the Tobacco Consumption Report projects U.S. cigarette consumption decline to accelerate from a 4.6% decline in 2023 to an 11.2% decline in 2024 (the Tobacco Consumption Report projects the ban to be effective by the middle of 2024), followed by an 11.0% decline in 2025 (the first full year that the Tobacco Consumption Report projects the ban to be effective), and projects U.S. cigarette consumption decline to decelerate to a 3.4% decline in 2026. A May 2021 report by Moody's Investors Service estimates that a menthol ban will accelerate the decline of U.S. cigarette volumes to the low double-digit level over the next three to five years.

Annual Payments

In accordance with the Pledged TSRs Projection Methodology and Assumptions, the anticipated amounts of Annual Payments for the years 2022-2066 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 2022-2066 to be made by the SPMs were calculated by (i) multiplying the base amounts of Annual Payments by the Adjusted SPM Market Share (as described below) and (ii) then applying the adjustments applicable to the Annual Payments for SPMs set out in the MSA, in order, as described below.

Inflation Adjustment. First, the Inflation Adjustment was applied to the schedule of base amounts for the Annual Payments set forth in the MSA. The inflation adjustment rate is compounded annually at the greater of 3.0% or the percentage increase in the actual Consumer Price Index for all Urban Consumers ("**CPI-U**") in the prior calendar year as published by the Bureau of Labor Statistics (released each January). The calculations of Annual Payments 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 (79.69564% 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 TSRs Projection Methodology and Assumptions include an assumption that the State will remain a party to the MSA.

NPM Adjustment. The Pledged TSRs 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, and, except as described in the immediately following sentences, the NPM Adjustment is assumed not to reduce Annual Payments. In accordance with the NPM Adjustment Settlement Agreement and the State's Joinder (as defined herein), the State agreed to a percentage reduction to the Initial OPMs' payments due April 15, 2018-2022. Accordingly, the Initial OPMs' payments due April 15, 2022 will be reduced by 12.5% of the State's Allocable Share of the settlement amount due to the Initial OPMs for sales years 2004-2014, together with interest at the Prime Rate from April 15, 2018. Additionally, in accordance with the 2018-2022 NPM Adjustments Settlement Agreement, the State has agreed to transition year payment adjustments relating to sales years 2018-2022 equal to 25% of the State's

Allocable Share of the Potential Maximum NPM Adjustment (as defined in the NPM Adjustment Settlement Agreement) for such years, which will result in credits against each PM's annual MSA payment due in 2022-2026, respectively. It is assumed that the Potential Maximum NPM Adjustment for sales year 2018 is 14.45% of the Annual Payment due in such year, and for sales year 2019 is 18.31% percentage of the Annual Payment due in such year. It is further assumed that the Potential Maximum NPM Adjustment for sales year 2020-2022 is equal to 20.51% of the Annual Payment due in such year. For a discussion of the NPM Adjustment Settlement Agreement, see "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—NPM Adjustment Claims and NPM Adjustment Settlement—*NPM Adjustment Settlement*" (see also APPENDIX C-1 — "NPM ADJUSTMENT SETTLEMENT AGREEMENT," APPENDIX C-2 — "ALASKA JOINDER TO NPM ADJUSTMENT SETTLEMENT AGREEMENT" and APPENDIX C-3 — "2018 THROUGH 2022 NPM ADJUSTMENTS SETTLEMENT AGREEMENT" for a copy of the NPM Adjustment Settlement Agreement and related extension settlements), and for a discussion of the State's Qualifying Statute, see "STATE LAWS RELATED TO THE MSA—Alaska Qualifying Statute."

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

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

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

Subsequent Participating Manufacturers. The Pledged TSRs Projection Methodology and Assumptions treat the SPMs as a single manufacturer having executed the MSA on or prior to February 22, 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 10.62053% (measuring roll your own cigarettes at 0.09 ounces per cigarette conversion rate) as described above. Because the 10.62053% 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 10.62053%) less the Base Share (assumed at 3.491977%) divided by (z) the aggregate Market Share of the OPMs at 80.11600% (measuring roll your own cigarettes at 0.09 ounces per cigarette conversion rate), or 8.89779%.

Allocation Percentage for the State of Alaska Under the MSA. 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 (0.3414187%) 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 TSRs. It is assumed that the Trustee will receive Pledged TSRs ten days after April 15 in each year, commencing in 2022, and will apply receipts, together with interest earnings in the Accounts held by the Trustee, as provided in the Indenture. See "SECURITY FOR THE BONDS—Flow of Funds."

Projection of Pledged TSRs to be Received by the Trustee

The following tables show the projection of Pledged TSRs to be received by the Trustee in each year through 2066, calculated in accordance with the Pledged TSRs Projection Methodology and Assumptions and using the forecasts contained within the Tobacco Consumption Report. The forecasts contained within the Tobacco Consumption Report for U.S. cigarette consumption are 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."

Projection of Pledged TSRs to be Received by the Trustee – Base Case

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	Percentage Pledged	OPM Annual Payments	SPM Annual Payments	NPM Adjustment Settlement Agreement Cashflows	Total Annual Payments to Trustee
2021	2022	-4.387%	219,652,908,402	175,053,792,114	$9,000,000,000	$9,133,736,400	($11,230,848,292)	($763,919,620)	$6,138,968,489	0.341419%	80.000000%	$16,767,669	$1,677,607	($2,522,068)	$15,923,208
2022	2023	-3.845%	211,206,460,401	168,322,341,285	9,000,000,000	9,677,748,600	(11,826,813,490)	(758,170,154)	6,092,764,955	0.341419%	80.000000%	16,641,471	1,664,981	(840,397)	17,466,055
2023	2024	-4.588%	201,515,689,986	160,599,219,738	9,000,000,000	10,238,081,400	(12,487,735,306)	(747,038,303)	6,003,307,791	0.341419%	80.000000%	16,397,132	1,640,535	(1,005,728)	17,031,939
2024	2025	-3.801%	193,855,857,314	154,494,667,033	9,000,000,000	10,815,223,500	(13,111,588,880)	(741,868,900)	5,961,765,720	0.341419%	80.000000%	16,283,666	1,629,183	(945,782)	16,967,067
2025	2026	-3.566%	186,942,682,202	148,985,167,852	9,000,000,000	11,409,679,800	(13,736,612,473)	(738,486,120)	5,934,581,207	0.341419%	80.000000%	16,209,416	1,621,754	(938,663)	16,892,506
2026	2027	-3.361%	180,659,496,189	143,977,742,518	9,000,000,000	12,021,970,500	(14,365,591,800)	(736,639,245)	5,919,739,455	0.341419%	80.000000%	16,168,878	1,617,698		17,786,576
2027	2028	-3.191%	174,894,708,552	139,383,458,091	9,000,000,000	12,652,629,300	(15,001,515,801)	(736,056,563)	5,915,056,936	0.341419%	80.000000%	16,156,088	1,616,418		17,772,507
2028	2029	-3.051%	169,559,325,546	135,131,390,434	9,000,000,000	13,302,207,900	(15,646,941,539)	(736,516,146)	5,918,750,214	0.341419%	80.000000%	16,166,176	1,617,428		17,783,604
2029	2030	-3.048%	164,391,138,689	131,012,570,818	9,000,000,000	13,971,274,200	(16,311,285,338)	(737,038,770)	5,922,950,092	0.341419%	80.000000%	16,177,647	1,618,575		17,796,223
2030	2031	-3.062%	159,357,089,875	127,000,653,376	9,000,000,000	14,660,412,300	(16,996,196,131)	(737,506,592)	5,926,709,578	0.341419%	80.000000%	16,187,916	1,619,603		17,807,519
2031	2032	-3.069%	154,467,183,770	123,103,611,388	9,000,000,000	15,370,224,300	(17,701,753,310)	(737,977,458)	5,930,493,532	0.341419%	80.000000%	16,198,251	1,620,637		17,818,888
2032	2033	-3.066%	149,730,842,207	119,328,953,646	9,000,000,000	16,101,331,200	(18,428,018,446)	(738,513,280)	5,934,799,474	0.341419%	80.000000%	16,210,012	1,621,813		17,831,826
2033	2034	-3.065%	145,142,102,341	115,671,928,021	9,000,000,000	16,854,371,100	(19,175,661,720)	(739,110,507)	5,939,598,873	0.341419%	80.000000%	16,223,121	1,623,125		17,846,246
2034	2035	-3.134%	140,593,236,674	112,046,680,394	9,000,000,000	17,630,001,900	(19,949,834,617)	(739,271,848)	5,940,895,435	0.341419%	80.000000%	16,226,662	1,623,479		17,850,142
2035	2036	-3.154%	136,159,000,143	108,512,787,192	9,000,000,000	18,428,902,200	(20,748,037,599)	(739,349,018)	5,941,515,583	0.341419%	80.000000%	16,228,356	1,623,649		17,852,005
2036	2037	-3.161%	131,854,706,715	105,082,452,978	9,000,000,000	19,251,769,500	(21,570,149,992)	(739,432,561)	5,942,186,947	0.341419%	80.000000%	16,230,190	1,623,832		17,854,022
2037	2038	-3.187%	127,652,747,222	101,733,674,449	9,000,000,000	20,099,322,900	(22,418,026,391)	(739,396,816)	5,941,899,693	0.341419%	80.000000%	16,229,405	1,623,754		17,853,159
2038	2039	-3.204%	123,562,911,248	98,474,253,476	9,000,000,000	20,972,302,200	(23,291,843,654)	(739,304,081)	5,941,154,464	0.341419%	80.000000%	16,227,370	1,623,550		17,850,920
2039	2040	-3.220%	119,583,749,218	95,303,034,811	9,000,000,000	21,871,471,500	(24,192,304,124)	(739,161,192)	5,940,006,184	0.341419%	80.000000%	16,224,234	1,623,236		17,847,470
2040	2041	-3.277%	115,664,904,186	92,179,886,165	9,000,000,000	22,797,615,600	(25,122,680,127)	(738,692,861)	5,936,242,612	0.341419%	80.000000%	16,213,954	1,622,208		17,836,162
2041	2042	-3.301%	111,847,072,935	89,137,241,099	9,000,000,000	23,751,544,500	(26,081,673,742)	(738,132,366)	5,931,738,392	0.341419%	80.000000%	16,201,651	1,620,977		17,822,628
2042	2043	-3.229%	108,235,418,299	86,258,909,805	9,000,000,000	24,734,090,700	(27,064,175,841)	(738,137,247)	5,931,777,612	0.341419%	80.000000%	16,201,758	1,620,988		17,822,746
2043	2044	-3.268%	104,698,204,497	83,439,904,612	9,000,000,000	25,746,113,700	(28,077,907,867)	(737,948,114)	5,930,257,719	0.341419%	80.000000%	16,197,607	1,620,572		17,818,179
2044	2045	-3.297%	101,246,144,906	80,688,763,612	9,000,000,000	26,788,497,300	(29,123,101,980)	(737,637,084)	5,927,758,235	0.341419%	80.000000%	16,190,780	1,619,889		17,810,669
2045	2046	-3.319%	97,886,275,166	78,011,093,904	9,000,000,000	27,862,152,300	(30,200,157,568)	(737,260,753)	5,924,733,980	0.341419%	80.000000%	16,182,520	1,619,063		17,801,583
2046	2047	-3.339%	94,618,099,863	75,406,500,666	9,000,000,000	28,968,016,500	(31,309,908,848)	(736,830,582)	5,921,277,070	0.341419%	80.000000%	16,173,078	1,618,118		17,791,196
2047	2048	-3.344%	91,454,054,215	72,884,894,223	9,000,000,000	30,107,057,400	(32,452,379,235)	(736,451,052)	5,918,227,112	0.341419%	80.000000%	16,164,747	1,617,285		17,782,032
2048	2049	-3.349%	88,390,986,634	70,443,762,897	9,000,000,000	31,280,269,500	(33,628,540,275)	(736,124,703)	5,915,604,522	0.341419%	80.000000%	16,157,584	1,616,568		17,774,152
2049	2050	-3.355%	85,425,835,626	68,080,666,811	9,000,000,000	32,488,677,900	(34,839,393,352)	(735,854,159)	5,913,430,389	0.341419%	80.000000%	16,151,646	1,615,974		17,767,620
2050	2051	-3.360%	82,555,627,377	65,793,235,965	9,000,000,000	33,733,338,300	(36,085,969,838)	(735,642,112)	5,911,726,350	0.341419%	80.000000%	16,146,991	1,615,508		17,762,500
2051	2052	-3.365%	79,777,473,397	63,579,168,358	9,000,000,000	35,015,338,800	(37,369,332,730)	(735,491,341)	5,910,514,729	0.341419%	80.000000%	16,143,682	1,615,177		17,758,859
2052	2053	-3.371%	77,088,568,224	61,436,228,158	9,000,000,000	36,335,799,000	(38,690,576,029)	(735,404,678)	5,909,818,293	0.341419%	80.000000%	16,141,780	1,614,987		17,756,767
2053	2054	-3.376%	74,486,187,183	59,362,243,921	9,000,000,000	37,695,872,700	(40,050,827,142)	(735,385,044)	5,909,660,514	0.341419%	80.000000%	16,141,349	1,614,944		17,756,293
2054	2055	-3.381%	71,967,684,209	57,355,106,846	9,000,000,000	39,096,748,800	(41,451,247,795)	(735,435,447)	5,910,065,558	0.341419%	80.000000%	16,142,455	1,615,054		17,757,510
2055	2056	-3.387%	69,530,482,963	55,412,763,704	9,000,000,000	40,539,651,300	(42,893,034,713)	(735,558,904)	5,911,057,682	0.341419%	80.000000%	16,145,165	1,615,325		17,760,491
2056	2057	-3.388%	67,174,682,100	53,535,293,119	9,000,000,000	42,025,841,100	(44,377,202,920)	(735,782,627)	5,912,855,553	0.341419%	80.000000%	16,150,076	1,615,817		17,765,892
2057	2058	-3.389%	64,897,984,921	51,720,864,721	9,000,000,000	43,556,616,000	(45,904,990,564)	(736,113,217)	5,915,512,219	0.341419%	80.000000%	16,157,332	1,616,543		17,773,875
2058	2059	-3.403%	62,689,740,217	49,960,989,961	9,000,000,000	45,133,314,300	(47,478,421,672)	(736,474,786)	5,918,417,841	0.341419%	80.000000%	16,165,268	1,617,337		17,782,605
2059	2060	-3.408%	60,553,254,156	48,258,303,712	9,000,000,000	46,757,313,900	(49,098,374,796)	(736,922,596)	5,922,016,508	0.341419%	80.000000%	16,175,097	1,618,320		17,793,418
2060	2061	-3.413%	58,486,309,701	46,611,039,091	9,000,000,000	48,430,033,200	(50,766,236,571)	(737,460,163)	5,926,336,467	0.341419%	80.000000%	16,186,897	1,619,501		17,806,397
2061	2062	-3.416%	56,488,276,109	45,018,693,423	9,000,000,000	50,152,933,800	(52,483,288,103)	(738,107,459)	5,931,538,237	0.341419%	80.000000%	16,201,105	1,620,922		17,822,027
2062	2063	-3.419%	54,556,913,402	43,479,481,544	9,000,000,000	51,927,521,400	(54,251,003,236)	(738,868,012)	5,937,650,152	0.341419%	80.000000%	16,217,798	1,622,592		17,840,391
2063	2064	-3.422%	52,690,052,447	41,991,674,750	9,000,000,000	53,755,346,700	(56,070,899,938)	(739,745,444)	5,944,701,318	0.341419%	80.000000%	16,237,058	1,624,519		17,861,577
2064	2065	-3.425%	50,885,592,778	40,553,599,061	9,000,000,000	55,638,007,200	(57,944,542,027)	(740,743,481)	5,952,721,692	0.341419%	80.000000%	16,258,964	1,626,711		17,885,675
2065	2066	-3.427%	49,141,500,486	39,163,633,538	9,000,000,000	57,577,147,200	(59,873,539,287)	(741,865,945)	5,961,741,969	0.341419%	80.000000%	16,283,602	1,629,176		17,912,778

Projection of Pledged TSRs to be Received by the Trustee – Alternative Case (Menthol Ban) 1

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	Percentage Pledged	OPM Annual Payments	SPM Annual Payments	NPM Adjustment Settlement Agreement Cashflows	Total Annual Payments to Trustee
2021	2022	-4.387%	219,652,908,402	175,053,792,114	$9,000,000,000	$9,133,736,400	($11,230,848,292)	($763,919,620)	$6,138,968,489	0.341419%	80.000000%	$16,767,669	$1,677,607	($2,522,068)	$15,923,208
2022	2023	-3.845%	211,206,460,401	168,322,341,285	9,000,000,000	9,677,748,600	(11,826,813,490)	(758,170,154)	6,092,764,955	0.341419%	80.000000%	16,641,471	1,664,981	(840,397)	17,466,055
2023	2024	-4.588%	201,515,689,986	160,599,219,738	9,000,000,000	10,238,081,400	(12,487,735,306)	(747,038,303)	6,003,307,791	0.341419%	80.000000%	16,397,132	1,640,535	(1,005,728)	17,031,939
2024	2025	-8.511%	184,364,468,316	146,930,443,784	9,000,000,000	10,815,223,500	(13,420,402,474)	(707,693,529)	5,687,127,497	0.341419%	80.000000%	15,533,533	1,554,132	(945,782)	16,141,884
2025	2026	-8.276%	169,106,203,154	134,770,271,641	9,000,000,000	11,409,679,800	(14,334,353,383)	(672,336,125)	5,402,990,291	0.341419%	80.000000%	14,757,455	1,476,485	(938,663)	15,295,277
2026	2027	-3.361%	163,422,505,253	130,240,612,198	9,000,000,000	12,021,970,500	(14,960,572,033)	(670,794,766)	5,390,603,702	0.341419%	80.000000%	14,723,623	1,473,100		16,196,723
2027	2028	-3.191%	158,207,744,569	126,084,675,273	9,000,000,000	12,652,629,300	(15,594,790,231)	(670,400,859)	5,387,438,210	0.341419%	80.000000%	14,714,977	1,472,235		16,187,212
2028	2029	-3.051%	153,381,418,383	122,238,303,709	9,000,000,000	13,302,207,900	(16,239,372,655)	(670,953,769)	5,391,881,476	0.341419%	80.000000%	14,727,113	1,473,449		16,200,563
2029	2030	-3.048%	148,706,335,912	118,512,466,792	9,000,000,000	13,971,274,200	(16,902,890,302)	(671,567,820)	5,396,816,078	0.341419%	80.000000%	14,740,591	1,474,798		16,215,389
2030	2031	-3.062%	144,152,593,174	114,883,332,353	9,000,000,000	14,660,412,300	(17,586,889,394)	(672,136,537)	5,401,386,369	0.341419%	80.000000%	14,753,074	1,476,047		16,229,121
2031	2032	-3.069%	139,729,240,276	111,358,112,931	9,000,000,000	15,370,224,300	(18,291,498,048)	(672,712,374)	5,406,013,878	0.341419%	80.000000%	14,765,714	1,477,311		16,243,025
2032	2033	-3.066%	135,444,800,098	107,943,600,892	9,000,000,000	16,101,331,200	(19,016,830,024)	(673,351,465)	5,411,149,710	0.341419%	80.000000%	14,779,742	1,478,715		16,258,456
2033	2034	-3.065%	131,293,878,720	104,635,497,516	9,000,000,000	16,854,371,100	(19,763,551,226)	(674,050,735)	5,416,769,140	0.341419%	80.000000%	14,795,090	1,480,250		16,275,341
2034	2035	-3.134%	127,179,027,084	101,356,140,151	9,000,000,000	17,630,001,900	(20,536,383,141)	(674,360,478)	5,419,258,281	0.341419%	80.000000%	14,801,889	1,480,931		16,282,820
2035	2036	-3.154%	123,167,867,649	98,159,420,949	9,000,000,000	18,428,902,200	(21,333,128,170)	(674,598,995)	5,421,175,036	0.341419%	80.000000%	14,807,124	1,481,454		16,288,579
2036	2037	-3.161%	119,274,253,252	95,056,380,019	9,000,000,000	19,251,769,500	(22,153,742,370)	(674,848,338)	5,423,178,792	0.341419%	80.000000%	14,812,597	1,482,002		16,294,599
2037	2038	-3.187%	115,473,208,957	92,027,113,424	9,000,000,000	20,099,322,900	(22,999,970,624)	(674,994,987)	5,424,357,288	0.341419%	80.000000%	14,815,816	1,482,324		16,298,140
2038	2039	-3.204%	111,773,590,310	89,078,678,649	9,000,000,000	20,972,302,200	(23,872,042,092)	(675,095,454)	5,425,164,654	0.341419%	80.000000%	14,818,021	1,482,545		16,300,566
2039	2040	-3.220%	108,174,086,040	86,210,030,669	9,000,000,000	21,871,471,500	(24,770,663,547)	(675,156,082)	5,425,651,871	0.341419%	80.000000%	14,819,352	1,482,678		16,302,030
2040	2041	-3.277%	104,629,143,835	83,384,866,275	9,000,000,000	22,797,615,600	(25,698,868,482)	(674,928,016)	5,423,819,101	0.341419%	80.000000%	14,814,346	1,482,177		16,296,523
2041	2042	-3.301%	101,175,577,536	80,632,524,495	9,000,000,000	23,751,544,500	(26,655,558,550)	(674,622,447)	5,421,363,503	0.341419%	80.000000%	14,807,639	1,481,506		16,289,145
2042	2043	-3.229%	97,908,516,234	78,028,819,066	9,000,000,000	24,734,090,700	(27,636,189,933)	(674,834,354)	5,423,066,414	0.341419%	80.000000%	14,812,290	1,481,971		16,294,262
2043	2044	-3.268%	94,708,793,257	75,478,779,347	9,000,000,000	25,746,113,700	(28,647,827,726)	(674,876,983)	5,423,408,991	0.341419%	80.000000%	14,813,226	1,482,065		16,295,291
2044	2045	-3.297%	91,586,099,799	72,990,128,797	9,000,000,000	26,788,497,300	(29,690,764,577)	(674,815,757)	5,422,916,967	0.341419%	80.000000%	14,811,882	1,481,930		16,293,812
2045	2046	-3.319%	88,546,800,223	70,567,939,534	9,000,000,000	27,862,152,300	(30,765,446,928)	(674,702,063)	5,422,003,308	0.341419%	80.000000%	14,809,387	1,481,681		16,291,067
2046	2047	-3.339%	85,590,446,382	68,211,854,407	9,000,000,000	28,968,016,500	(31,872,717,094)	(674,546,470)	5,420,752,937	0.341419%	80.000000%	14,805,971	1,481,339		16,287,310
2047	2048	-3.344%	82,728,287,030	65,930,838,181	9,000,000,000	30,107,057,400	(33,012,686,717)	(674,443,691)	5,419,926,992	0.341419%	80.000000%	14,803,715	1,481,113		16,284,829
2048	2049	-3.349%	79,957,471,278	63,722,618,821	9,000,000,000	31,280,269,500	(34,186,327,635)	(674,396,235)	5,419,545,630	0.341419%	80.000000%	14,802,674	1,481,009		16,283,683
2049	2050	-3.355%	77,275,229,733	61,584,989,243	9,000,000,000	32,488,677,900	(35,394,641,542)	(674,406,692)	5,419,629,666	0.341419%	80.000000%	14,802,903	1,481,032		16,283,935
2050	2051	-3.360%	74,678,872,317	59,515,805,573	9,000,000,000	33,733,338,300	(36,638,660,113)	(674,477,721)	5,420,200,466	0.341419%	80.000000%	14,804,462	1,481,188		16,285,650
2051	2052	-3.365%	72,165,786,136	57,512,985,445	9,000,000,000	35,015,338,800	(37,919,446,666)	(674,612,065)	5,421,280,069	0.341419%	80.000000%	14,807,411	1,481,483		16,288,894
2052	2053	-3.371%	69,733,433,399	55,574,506,354	9,000,000,000	36,335,799,000	(39,238,095,507)	(674,812,522)	5,422,890,971	0.341419%	80.000000%	14,811,811	1,481,923		16,293,734
2053	2054	-3.376%	67,379,349,400	53,698,404,034	9,000,000,000	37,695,872,700	(40,595,734,359)	(675,081,978)	5,425,056,363	0.341419%	80.000000%	14,817,726	1,482,515		16,300,241
2054	2055	-3.381%	65,101,140,536	51,882,770,890	9,000,000,000	39,096,748,800	(41,993,525,274)	(675,423,406)	5,427,800,120	0.341419%	80.000000%	14,825,220	1,483,265		16,308,484
2055	2056	-3.387%	62,896,476,282	50,125,749,593	9,000,000,000	40,539,651,300	(43,432,665,242)	(675,839,792)	5,431,146,266	0.341419%	80.000000%	14,834,359	1,484,179		16,318,538
2056	2057	-3.388%	60,765,445,880	48,427,411,265	9,000,000,000	42,025,841,100	(44,914,190,340)	(676,356,019)	5,435,294,740	0.341419%	80.000000%	14,845,690	1,485,313		16,331,003
2057	2058	-3.389%	58,705,971,761	46,786,100,177	9,000,000,000	43,556,616,000	(46,439,341,932)	(676,978,332)	5,440,295,735	0.341419%	80.000000%	14,859,350	1,486,680		16,346,029
2058	2059	-3.403%	56,708,418,965	45,194,137,682	9,000,000,000	45,133,314,300	(48,010,076,066)	(677,638,367)	5,445,599,867	0.341419%	80.000000%	14,873,837	1,488,129		16,361,966
2059	2060	-3.408%	54,775,778,213	43,653,907,258	9,000,000,000	46,757,313,900	(49,627,316,306)	(678,386,402)	5,451,611,192	0.341419%	80.000000%	14,890,256	1,489,772		16,380,028
2060	2061	-3.413%	52,906,044,000	42,163,810,602	9,000,000,000	48,430,033,200	(51,292,449,612)	(679,225,919)	5,458,357,669	0.341419%	80.000000%	14,908,683	1,491,615		16,400,298
2061	2062	-3.416%	51,098,645,761	40,723,393,000	9,000,000,000	50,152,933,800	(53,006,771,522)	(680,175,294)	5,465,986,984	0.341419%	80.000000%	14,929,521	1,493,700		16,423,222
2062	2063	-3.419%	49,351,557,239	39,331,039,613	9,000,000,000	51,927,521,400	(54,771,756,047)	(681,238,034)	5,474,527,319	0.341419%	80.000000%	14,952,848	1,496,034		16,448,882
2063	2064	-3.422%	47,662,816,262	37,985,186,676	9,000,000,000	53,755,346,700	(56,588,921,317)	(682,417,744)	5,484,007,638	0.341419%	80.000000%	14,978,742	1,498,625		16,477,367
2064	2065	-3.425%	46,030,522,771	36,684,319,924	9,000,000,000	55,638,007,200	(58,459,831,317)	(683,718,133)	5,494,457,750	0.341419%	80.000000%	15,007,285	1,501,480		16,508,765
2065	2066	-3.427%	44,452,836,916	35,426,973,077	9,000,000,000	57,577,147,200	(60,386,095,987)	(685,143,003)	5,505,908,210	0.341419%	80.000000%	15,038,560	1,504,610		16,543,170

Projection of Pledged TSRs to be Received by the Trustee – Alternative Case (Menthol Ban) 2

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	Percentage Pledged	OPM Annual Payments	SPM Annual Payments	NPM Adjustment Settlement Agreement Cashflows	Total Annual Payments to Trustee
2021	2022	-4.387%	219,652,908,402	175,053,792,114	$9,000,000,000	$9,133,736,400	($11,230,848,292)	($763,919,620)	$6,138,968,489	0.341419%	80.000000%	$16,767,669	$1,677,607	($2,522,068)	$15,923,208
2022	2023	-3.845%	211,206,460,401	168,322,341,285	9,000,000,000	9,677,748,600	(11,826,813,490)	(758,170,154)	6,092,764,955	0.341419%	80.000000%	16,641,471	1,664,981	(840,397)	17,466,055
2023	2024	-4.588%	201,515,689,986	160,599,219,738	9,000,000,000	10,238,081,400	(12,487,735,306)	(747,038,303)	6,003,307,791	0.341419%	80.000000%	16,397,132	1,640,535	(1,005,728)	17,031,939
2024	2025	-11.201%	178,943,696,255	142,610,324,773	9,000,000,000	10,815,223,500	(13,596,773,720)	(688,175,111)	5,530,274,669	0.341419%	80.000000%	15,105,114	1,511,268	(945,782)	15,670,600
2025	2026	-10.966%	159,320,476,456	126,971,474,077	9,000,000,000	11,409,679,800	(14,662,295,303)	(636,043,886)	5,111,340,610	0.341419%	80.000000%	13,960,858	1,396,785	(938,663)	14,418,980
2026	2027	-3.361%	153,965,679,052	122,703,933,992	9,000,000,000	12,021,970,500	(15,286,999,346)	(634,670,143)	5,100,301,011	0.341419%	80.000000%	13,930,705	1,393,769		15,324,474
2027	2028	-3.191%	149,052,682,715	118,788,490,095	9,000,000,000	12,652,629,300	(15,920,281,681)	(634,379,805)	5,097,967,814	0.341419%	80.000000%	13,924,332	1,393,131		15,317,463
2028	2029	-3.051%	144,505,643,202	115,164,697,834	9,000,000,000	13,302,207,900	(16,564,401,432)	(634,983,918)	5,102,822,550	0.341419%	80.000000%	13,937,592	1,394,458		15,332,050
2029	2030	-3.048%	140,101,095,333	111,654,465,201	9,000,000,000	13,971,274,200	(17,227,465,824)	(635,648,129)	5,108,160,248	0.341419%	80.000000%	13,952,171	1,395,916		15,348,088
2030	2031	-3.062%	135,810,865,590	108,235,339,130	9,000,000,000	14,660,412,300	(17,910,964,725)	(636,272,200)	5,113,175,375	0.341419%	80.000000%	13,965,870	1,397,287		15,363,156
2031	2032	-3.069%	131,643,480,371	104,914,114,791	9,000,000,000	15,370,224,300	(18,615,052,984)	(636,905,628)	5,118,265,689	0.341419%	80.000000%	13,979,773	1,398,678		15,378,451
2032	2033	-3.066%	127,606,969,364	101,697,191,492	9,000,000,000	16,101,331,200	(19,339,872,995)	(637,601,377)	5,123,856,828	0.341419%	80.000000%	13,995,044	1,400,206		15,395,250
2033	2034	-3.065%	123,696,250,778	98,580,519,269	9,000,000,000	16,854,371,100	(20,086,088,314)	(638,356,630)	5,129,926,155	0.341419%	80.000000%	14,011,622	1,401,864		15,413,486
2034	2035	-3.134%	119,819,514,674	95,490,929,602	9,000,000,000	17,630,001,900	(20,858,184,520)	(638,747,792)	5,133,069,588	0.341419%	80.000000%	14,020,208	1,402,723		15,422,931
2035	2036	-3.154%	116,040,470,379	92,479,196,047	9,000,000,000	18,428,902,200	(21,654,129,664)	(639,074,829)	5,135,697,707	0.341419%	80.000000%	14,027,386	1,403,441		15,430,827
2036	2037	-3.161%	112,372,169,102	89,555,719,852	9,000,000,000	19,251,769,500	(22,473,921,902)	(639,415,136)	5,138,432,462	0.341419%	80.000000%	14,034,855	1,404,189		15,439,044
2037	2038	-3.187%	108,791,081,142	86,701,748,867	9,000,000,000	20,099,322,900	(23,319,245,926)	(639,661,854)	5,140,415,120	0.341419%	80.000000%	14,040,271	1,404,731		15,445,001
2038	2039	-3.204%	105,305,549,597	83,923,932,179	9,000,000,000	20,972,302,200	(24,190,359,587)	(639,868,318)	5,142,074,295	0.341419%	80.000000%	14,044,803	1,405,184		15,449,987
2039	2040	-3.220%	101,914,339,077	81,221,285,236	9,000,000,000	21,871,471,500	(25,087,972,094)	(640,040,603)	5,143,458,803	0.341419%	80.000000%	14,048,584	1,405,562		15,454,146
2040	2041	-3.277%	98,574,533,259	78,559,605,600	9,000,000,000	22,797,615,600	(26,014,985,904)	(639,944,355)	5,142,685,341	0.341419%	80.000000%	14,046,472	1,405,351		15,451,823
2041	2042	-3.301%	95,320,815,666	75,966,534,526	9,000,000,000	23,751,544,500	(26,970,412,164)	(639,778,647)	5,141,353,689	0.341419%	80.000000%	14,042,834	1,404,987		15,447,821
2042	2043	-3.229%	92,242,810,522	73,513,498,613	9,000,000,000	24,734,090,700	(27,950,017,205)	(640,104,135)	5,143,969,359	0.341419%	80.000000%	14,049,979	1,405,702		15,455,681
2043	2044	-3.268%	89,228,247,012	71,111,022,917	9,000,000,000	25,746,113,700	(28,960,506,028)	(640,273,918)	5,145,333,755	0.341419%	80.000000%	14,053,705	1,406,075		15,459,780
2044	2045	-3.297%	86,286,255,529	68,766,383,962	9,000,000,000	26,788,497,300	(30,002,204,464)	(640,349,742)	5,145,943,094	0.341419%	80.000000%	14,055,370	1,406,241		15,461,611
2045	2046	-3.319%	83,422,832,144	66,484,360,357	9,000,000,000	27,862,152,300	(31,075,584,774)	(640,380,141)	5,146,187,384	0.341419%	80.000000%	14,056,037	1,406,308		15,462,345
2046	2047	-3.339%	80,637,554,645	64,264,615,616	9,000,000,000	28,968,016,500	(32,181,493,711)	(640,375,191)	5,146,147,598	0.341419%	80.000000%	14,055,928	1,406,297		15,462,225
2047	2048	-3.344%	77,941,020,851	62,115,595,739	9,000,000,000	30,107,057,400	(33,320,091,327)	(640,424,247)	5,146,541,826	0.341419%	80.000000%	14,057,005	1,406,405		15,463,410
2048	2049	-3.349%	75,330,544,845	60,035,160,167	9,000,000,000	31,280,269,500	(34,492,349,617)	(640,529,802)	5,147,390,081	0.341419%	80.000000%	14,059,322	1,406,637		15,465,958
2049	2050	-3.355%	72,803,517,492	58,021,229,534	9,000,000,000	32,488,677,900	(35,699,270,444)	(640,694,427)	5,148,713,029	0.341419%	80.000000%	14,062,935	1,406,998		15,469,933
2050	2051	-3.360%	70,357,404,382	56,071,784,025	9,000,000,000	33,733,338,300	(36,941,885,652)	(640,920,762)	5,150,531,886	0.341419%	80.000000%	14,067,903	1,407,495		15,475,398
2051	2052	-3.365%	67,989,743,821	54,184,861,777	9,000,000,000	35,015,338,800	(38,221,258,734)	(641,211,529)	5,152,868,537	0.341419%	80.000000%	14,074,285	1,408,134		15,482,419
2052	2053	-3.371%	65,698,144,875	52,358,557,321	9,000,000,000	36,335,799,000	(39,538,484,163)	(641,569,511)	5,155,745,327	0.341419%	80.000000%	14,082,143	1,408,920		15,491,063
2053	2054	-3.376%	63,480,285,463	50,591,020,058	9,000,000,000	37,695,872,700	(40,894,689,836)	(641,997,572)	5,159,185,292	0.341419%	80.000000%	14,091,539	1,409,860		15,501,399
2054	2055	-3.381%	61,333,910,493	48,880,452,780	9,000,000,000	39,096,748,800	(42,291,037,983)	(642,498,666)	5,163,212,151	0.341419%	80.000000%	14,102,537	1,410,960		15,513,498
2055	2056	-3.387%	59,256,824,302	47,225,105,637	9,000,000,000	40,539,651,300	(43,728,725,740)	(643,075,764)	5,167,849,796	0.341419%	80.000000%	14,115,204	1,412,228		15,527,432
2056	2057	-3.388%	57,249,110,968	45,625,045,637	9,000,000,000	42,025,841,100	(45,208,800,735)	(643,752,469)	5,173,287,896	0.341419%	80.000000%	14,130,058	1,413,714		15,543,772
2057	2058	-3.389%	55,308,813,145	44,078,712,860	9,000,000,000	43,556,616,000	(46,732,506,096)	(644,534,831)	5,179,575,073	0.341419%	80.000000%	14,147,230	1,415,432		15,562,662
2058	2059	-3.403%	53,426,853,422	42,578,873,006	9,000,000,000	45,133,314,300	(48,301,760,573)	(645,358,614)	5,186,195,113	0.341419%	80.000000%	14,165,312	1,417,241		15,582,553
2059	2060	-3.408%	51,606,049,455	41,127,771,624	9,000,000,000	46,757,313,900	(49,917,512,428)	(646,271,365)	5,193,530,107	0.341419%	80.000000%	14,185,346	1,419,245		15,604,592
2060	2061	-3.413%	49,844,511,794	39,723,902,902	9,000,000,000	48,430,033,200	(51,581,148,799)	(647,276,542)	5,201,607,859	0.341419%	80.000000%	14,207,410	1,421,453		15,628,862
2061	2062	-3.416%	48,141,702,889	38,366,838,440	9,000,000,000	50,152,933,800	(53,293,973,142)	(648,391,648)	5,210,569,010	0.341419%	80.000000%	14,231,886	1,423,902		15,655,787
2062	2063	-3.419%	46,495,713,738	37,055,056,845	9,000,000,000	51,927,521,400	(55,057,459,557)	(649,620,179)	5,220,441,664	0.341419%	80.000000%	14,258,851	1,426,600		15,685,451
2063	2064	-3.422%	44,904,695,715	35,787,084,841	9,000,000,000	53,755,346,700	(56,873,126,267)	(650,965,730)	5,231,254,703	0.341419%	80.000000%	14,288,385	1,429,554		15,717,940
2064	2065	-3.425%	43,366,858,711	34,561,495,792	9,000,000,000	55,638,007,200	(58,742,537,346)	(652,431,999)	5,243,037,854	0.341419%	80.000000%	14,320,569	1,432,774		15,753,344
2065	2066	-3.427%	41,880,469,345	33,376,908,267	9,000,000,000	57,577,147,200	(60,667,302,819)	(654,022,780)	5,255,821,600	0.341419%	80.000000%	14,355,486	1,436,268		15,791,754

Bond Structuring Methodology and Assumptions

The Bond Structuring Methodology and Assumptions of the Series 2021 Bonds and the forecast contained within the Tobacco Consumption Report were applied to the projections of Pledged TSRs described above. See "SUMMARY OF THE TOBACCO CONSUMPTION REPORT" and APPENDIX A—"TOBACCO CONSUMPTION REPORT."

The Bond Structuring Methodology and Assumptions are as follows:

Delivery Date

The Series 2021 Bonds are assumed to be delivered on July 1, 2021.

Issue Size

The objective in issuing the Series 2021 Bonds is to provide proceeds in an amount, together with other available funds, sufficient to: (1) refund all of the Series 2006 Bonds by establishing an irrevocable escrow for the defeasance and redemption of such Series 2006 Bonds, (2) fund the Class 1 Senior Liquidity Reserve Subaccount for the Series 2021A Bonds and the Class 2 Senior Liquidity Reserve Subaccount for the Series 2021B-1 Bonds, (3) fund one or more State capital projects, and (4) pay the costs of issuance of the Series 2021 Bonds.

Maturity Dates

The stated maturity dates of the Series 2021 Bonds are set forth on the inside front cover page hereof.

Mandatory Redemptions of Outstanding Bonds

All mandatory redemptions of the Series 2021 Bonds, including Turbo Redemptions of the Series 2021B Bonds and the mandatory clean-up call redemption of the Series 2021B 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 2021 Bonds bear or accrete interest at the rates shown on the inside front 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 $10,874,150. The Class 2 Senior Liquidity Reserve Subaccount will be fully funded on the Closing Date at the Class 2 Senior Liquidity Reserve Requirement of $1,137,500.

Operating Expense Assumptions

Annual Operating Expenses of NTSC have been assumed at $202,694.03 through the Fiscal Year ending June 30, 2023 (the Operating Cap for such year) and are assumed to be inflated in each year thereafter by 3%. No Operating Expenses are assumed in excess of the annual Operating Cap, 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 2021 Bonds will not exceed the arbitrage yield on the Series 2021 Bonds. Further, it is assumed that NTSC will have sufficient funds on deposit in the Operating Account as of the Closing Date to fund its Operating Expenses through Fiscal Year 2022.

Senior Debt Service Account

As of the Closing Date, the Senior Debt Service Account will be funded from amounts currently on deposit in the debt service account held for the Series 2006 Bonds in amounts sufficient to pay interest on the Series 2021 Bonds on December 1, 2021.

Interest Earnings

Amounts on deposit in the Senior Liquidity Reserve Account are assumed to be invested at a rate of 0.25% per annum with earnings distributed semi-annually on each June 1 and December 1. Amounts in all other Accounts under the 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 TSRs Projection Methodology and Assumptions assume that there is no optional redemption of the Series 2021 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 2021 Bonds will be as assumed, that actual County population during the term of the Series 2021 Bonds will be as assumed, or that the other assumptions underlying the Pledged TSRs 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 TSRs Projection Methodology and Assumptions and Bond Structuring Methodology and Assumptions, the amount of funds available to NTSC to pay the principal or Accreted Value of and interest on the Series 2021 Bonds and to make Turbo Redemptions on the Series 2021B Bonds could be adversely affected. See "RISK FACTORS" and "LEGAL CONSIDERATIONS" herein.

RISK FACTORS

The Series 2021 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 2021 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 NTSC to pay debt service on all or a portion of the Series 2021 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 2021 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, NTSC 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 TSRs, nor does the order of presentation necessarily reflect the relative importance of the various and separate risks. Certain general categories of risks discussed below include, among others, payment decreases under the terms of the MSA and the NPM Adjustment Settlement, 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," APPENDIX A – "TOBACCO CONSUMPTION REPORT," APPENDIX C-1 — "NPM ADJUSTMENT SETTLEMENT AGREEMENT," APPENDIX C-2 — "ALASKA JOINDER TO NPM ADJUSTMENT SETTLEMENT AGREEMENT" and APPENDIX C-3 — "2018 THROUGH 2022 NPM ADJUSTMENTS SETTLEMENT AGREEMENT." 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 a settlement that the State and certain other Settling States entered into regarding the NPM Adjustment. Any such adjustments, offsets and recalculations could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of NTSC to pay debt service on all or a portion of the Series 2021 Bonds on a timely basis or in full. See "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—Adjustments to Payments—PSS Credit Amendment" for a discussion of the PSS Credit Amendment and its potential effect on the amount of Pledged TSRs available to NTSC to pay debt service on the Series 2021 Bonds.

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

Disputes concerning Annual Payments (as well as Strategic Contribution Payments) and their calculations may be raised up to four years after the respective Payment Due Date (as defined in the MSA). The resolution of disputed payments that arise in prior years may result in the application of offsets against subsequent payments. Disputes could result in the future diversion of disputed payments to the Disputed Payments Account under the MSA (the "**DPA**"), the withholding of all or a portion of any disputed amounts, or the application of offsets against future payments. Any such disputes or the resolution thereof could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of NTSC to pay debt service on all or a portion of the Series 2021 Bonds on a timely basis or in full.

Miscalculations or recalculations by the MSA Auditor or disputed calculations by any of the parties to the MSA have resulted and could in the future result in offsets to, or delays in disbursements of, payments to the Settling States pending resolution of the disputed item in accordance with the provisions of the MSA, which could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of NTSC to pay debt service on all or a portion of the Series 2021 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 do not factor in an offset for miscalculated or disputed payments or any release of funds currently held in the DPA and include and include an assumption that there will not be an NPM Adjustment except in the payment years 2022-2026. See "PLEDGED TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" and "APPENDIX C-1—NPM ADJUSTMENT SETTLEMENT AGREEMENT." Adjustments in future Pledged TSRs, including adjustments pursuant to the NPM Adjustment Settlement described below, could be different from those projected. See "PLEDGED TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS," "APPENDIX C-1 — NPM ADJUSTMENT SETTLEMENT AGREEMENT," "APPENDIX C-2 — "ALASKA JOINDER TO NPM ADJUSTMENT SETTLEMENT AGREEMENT" and "APPENDIX C-3 — 2018 THROUGH 2022 NPM ADJUSTMENTS SETTLEMENT AGREEMENT."

NPM Adjustment

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; (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 was one of several jurisdictions to enter into settlements with the OPMs and certain SPMs regarding claims related to the 2004 through 2022 NPM Adjustments and the determination of subsequent NPM Adjustments (as described further herein, the "NPM Adjustment Settlement"). While sales years through and including 2022 were settled, as described herein, the State will be subject to arbitration for subsequent sales years and there is no assurance that the State would be found to have diligently enforced its Qualifying Statute for any such sales years. If the State were found to be non-diligent for any sales year, the State would be subject to the application of the NPM Adjustment as set forth in the NPM Adjustment Settlement. For a discussion of the terms of the NPM Adjustment Settlement and related matters, see "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—NPM Adjustment Claims and NPM Adjustment Settlement—NPM Adjustment Settlement and Award." See "APPENDIX C-1—NPM ADJUSTMENT SETTLEMENT AGREEMENT," APPENDIX C-2 — "ALASKA JOINDER TO NPM ADJUSTMENT SETTLEMENT AGREEMENT" and APPENDIX C-3 —"2018 THROUGH 2022 NPM ADJUSTMENTS SETTLEMENT AGREEMENT" for a copy of the NPM Adjustment Settlement Agreement and related extension settlements. See also "STATE LAWS RELATED TO THE MSA—State Statutory Enforcement Framework."

No assurance can be given as to the implementation in future years of the NPM Adjustment Settlement by the MSA Auditor with regard to the State, or as to whether or not the NPM Adjustment Settlement will be revised and any consequences thereto. Any such development could have an adverse effect on the amount and/or timing of Pledged TSRs available to NTSC to pay debt service on the Series 2021 Bonds on a timely basis or in full.

Furthermore, no assurance can be given that a court would not hold that the NPM Adjustment Settlement constitutes an amendment to the MSA that would require the consent of any non-signatory jurisdiction. See "—Other Risks Relating to the MSA and Related Statutes—Amendments, Waivers and Termination" and "—Reliance on State Enforcement of the MSA; State Impairment." In addition, no assurance can be given that challenges to the NPM Adjustment Settlement will not be commenced in MSA courts or that the NPM Adjustment Settlement Non-Signatories' (as defined herein) pending arbitrations relating to the 2004 NPM Adjustment and future arbitrations relating to subsequent sales years' NPM Adjustments will not have an adverse effect on NPM Adjustment Settlement Signatories (as defined herein) such as the State. If any such challenge is successful, there could be an adverse effect on the amount and/or timing of Pledged TSRs available to NTSC to pay debt service on the Series 2021 Bonds on a timely basis or in full.

The Pledged TSRs 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, and that there will not be an NPM Adjustment, except with respect to sales years 2018-2022 in payment years 2022-2026. Adjustments pursuant to the NPM Adjustment Settlement could be different from those projected and could have an adverse effect on the amount and/or timing of Pledged TSRs available to NTSC to pay debt service on the Series 2021 Bonds on a timely basis or in full. See "PLEDGED TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS."

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 2020 reported that approximately 34 million American adults were current smokers in 2019, representing approximately 14% of the population age 18 and older, an increase from 13.7% in 2018, but a decline from 15.5% in 2016 and 19.4% in 2010. NAAG reported that total industry domestic shipment volume was 229.7 billion cigarettes in 2020, 225.2 billion cigarettes in 2019, 236.6 billion cigarettes in sales year 2018, 248.9 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 391.3 billion cigarettes in 2006. NAAG reported an industry volume increase for 2020 of 2.0%, and an industry volume decline for 2019 of 4.8% (which followed declines of 4.3% in 2017 and 5.0% in 2018), an acceleration in the industry decline rate that coincided with the extraordinary growth of the e-cigarette JUUL, as discussed below. In its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, Altria stated that adult smokers continue to convert from cigarettes to exclusive use of non-combustible tobacco product alternatives, and that the significant growth of the e-vapor category in recent years negatively impacted consumption levels and sales volume of cigarettes. Altria estimates that the full-year domestic cigarette industry adjusted volume for 2020 was unchanged versus the prior year, resulting from stay-at-home practices due to the COVID-19 pandemic and higher tobacco discretionary spending, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021. In the first quarter of 2021, it is estimated that adjusted domestic cigarette industry volume declined by 2%, and Altria expects 2021 cigarette industry volume trends to be most influenced by (i) adult smoker stay-at-home practices, (ii) unemployment rates, (iii) fiscal stimulus, (iv) cross-category movement, (v) the timing and breadth of COVID-19 vaccine administration and (vi) adult smoker purchasing behavior of those who receive the vaccine, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021. 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 TSRs and the ability of NTSC to pay debt service on all or a portion of the Series 2021 Bonds on a timely basis or in full. The following factors, among others, may negatively impact cigarette consumption in the U.S.

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

The Family Smoking Prevention and Tobacco Control Act (the "**FSPTCA**"), signed into law 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, including requiring or permitting, as applicable, certain product bans. Since the passage of the FSPTCA, the FDA, among other things, has prohibited fruit, candy and clove flavored cigarettes as required by the FSPTCA, prohibited misleading marketing terms ("Light," "Low," and "Mild") for tobacco products, rejected applications for the introduction of new tobacco products into the market, issued its final rule subjecting e-cigarettes and certain other tobacco products to FDA regulations, and issued its final rule on graphic warnings.

On April 29, 2021, the FDA announced it is working to issue proposed product standards within the next year to ban menthol as a characterizing flavor in cigarettes. The FSPTCA permits the FDA to ban menthol in cigarettes upon a finding that such a ban would be appropriate for the public health. See "—A Ban On Menthol Cigarettes Could Materially Adversely Affect the Volume of Cigarettes Sold in the U.S. and Thus Payments Under the MSA" below.

As part of the comprehensive plan for tobacco and nicotine regulation released by the FDA in July 2017, the FDA announced on March 15, 2018 an Advance Notice of Proposed Rulemaking ("**ANPRM**") to explore and seek comment on lowering the nicotine in cigarettes to minimally or non-addictive levels, and the FDA is currently considering requiring tobacco companies to reduce nicotine levels to non-addictive levels in all cigarettes sold in the United States, according to news reports in April 2021. 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 March 15, 2018 announcement, the FDA stated that it was 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 March 17, 2020, the FDA issued a final rule to require new health warnings on cigarette packages and in cigarette advertisements. The warnings feature textual statements with photo-realistic color images depicting some of the lesser-known but serious health risks of cigarette smoking. Beginning April 14, 2022, the new cigarette health warnings will be required to appear prominently on cigarette packages and in advertisements, and must be randomly and equally displayed and distributed on cigarette packages and rotated quarterly in cigarette advertisements. The final cigarette health warnings each consist of one of 11 textual warning statements paired with an accompanying photo-realistic image depicting the negative health consequences of smoking. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—Regulatory Issues" for a discussion of these cases and several other cases.

Altria reported in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021 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.

The FDA has yet to issue final guidance with respect to many provisions of the FSPTCA. It is likely that future regulations promulgated under the FSPTCA, including a ban on menthol, for which the FDA announced its plans on April 29, 2021 to issue proposed product standards, or decreasing the permitted level of nicotine (though not to zero), which the FDA is currently considering, could result in a decrease in cigarette sales in the U.S., and an increase in costs to PMs, potentially resulting in a material adverse effect on the PMs' financial condition, results of operations and cash flows.

The 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 TSRs and the ability of NTSC to pay debt service on all or a portion of the Series 2021 Bonds on a timely basis or in full.

A Ban on Menthol Cigarettes Could Materially Adversely Affect the Volume of Cigarettes Sold in the U.S. and Thus Payments Under the MSA

On April 29, 2021, the FDA announced it is working to issue proposed product standards within the next year to ban menthol as a characterizing flavor in cigarettes. According to research published in *Nicotine and Tobacco Research* in 2018, the menthol cigarette domestic market share increased from 30.2% in 2011 to 32.5% in 2015, and a Federal Trade Commission report estimated the 2019 domestic market share of menthol cigarettes at 37%. Based on the first of two alternative forecasts that includes a national menthol ban, the Tobacco Consumption Report projects U.S. cigarette consumption decline to accelerate from a 4.6% decline in 2023 to an 8.7% decline in 2024 (the Tobacco Consumption Report projects the ban to be effective by the middle of 2024), followed by an 8.4% decline in 2025 (the first full year that the Tobacco Consumption Report projects the ban to be effective), and projects U.S. cigarette consumption decline to decelerate to a 3.4% decline in 2026. Based on the second of two alternative forecasts that includes a national menthol ban, the Tobacco Consumption Report projects U.S. cigarette consumption decline to accelerate from a 4.6% decline in 2023 to an 11.2% decline in 2024 (the Tobacco Consumption Report projects the ban to be effective by the middle of 2024), followed by an 11.0% decline in 2025 (the first full year that the Tobacco Consumption Report projects the ban to be effective), and projects U.S. cigarette consumption decline to decelerate to a 3.4% decline in 2026. A May 2021 report by Moody's Investors Service estimates that a menthol ban will accelerate the decline of U.S. cigarette volumes to the low double-digit level over the next three to five years. See "PLEDGED TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" and APPENDIX A – "TOBACCO CONSUMPTION REPORT."

The FDA has been considering the issue of menthol in cigarettes for over a decade. The FSPTCA, enacted in 2009, established the Tobacco Products Scientific Advisory Committee ("**TPSAC**") and directed the TPSAC to evaluate issues surrounding the use of menthol as a flavoring or ingredient in cigarettes. 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." 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. 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 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. 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. 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 June 2020, the African American Tobacco Control Leadership Council, the Action on Smoking and Health, the American Medical Association and the National Medical Association filed a complaint against the FDA, seeking to compel the FDA to fulfill its mandate to take action on the FDA's conclusions that it would benefit the public health to add menthol to the list of prohibited characterizing flavors and therefore ban it from sale. On January 22, 2021 a coalition of 23 Attorneys General sent a letter to the FDA urging the FDA to ban menthol cigarettes, citing evidence that such a ban would benefit public health, reduce youth smoking initiation and improve smoking cessation outcomes. In connection with this litigation, the FDA made its April 29, 2021 announcement regarding a menthol ban, as described above.

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. Los Angeles County banned the sale of all flavored tobacco products, including menthol cigarettes, effective May 1, 2020. In November 2019, Massachusetts banned the sale of all flavored tobacco products, effective June 1, 2020 for menthol cigarettes. On August 28, 2020, California banned the retail sale of all flavored tobacco products, including menthol-flavored cigarettes (and allowed local ordinances to be more restrictive). A referendum against the ban was filed by the tobacco industry, and the requisite number of signatures was collected to place the issue on the November 2022 ballot, which resulted in a suspension of the effective date of the ban pending action by voters in the November 2022 election. In 2021, legislation has been introduced in Connecticut, Maryland, Vermont and Washington to regulate or ban the sale of mentholated cigarettes, according to the Tobacco Consumption Report. Also according to the Tobacco Consumption Report, over twenty local jurisdictions in California, Minnesota, Illinois, and Massachusetts have implemented a ban on menthol cigarettes.

A ban of menthol as a characterizing flavor 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 BAT through its subsidiary Reynolds Tobacco, a significant portion of whose sales, after the merger with Lorillard, are dependent on the Newport brand of mentholated cigarettes), and could materially adversely affect the overall sales volume of cigarettes by the PMs, thereby reducing payments under the MSA, which could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of NTSC to pay debt service on all or a portion of the Series 2021 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. In 2019, a bill was introduced in the U.S. Senate that would have doubled the federal excise tax per pack of cigarettes (and would have applied the same tax level to all tobacco products), and it is possible that similar legislation will be enacted in order to help fund the President's climate-related and other initiatives. In April 2021, the Tobacco Tax Equity Act of 2021 was introduced into both the Senate and House of Representatives. The bill seeks to (i) double the federal tax rate on cigarettes, pegging the resulting tax rate to inflation and (ii) set the federal tax rate for all other tobacco products at this same level. Numerous advocacy groups, including the American Cancer Society Cancer Action Network and American Lung Association, support increasing the federal cigarette excise tax and raising federal tax rates on other tobacco products. According to the Centers for Disease Control and Prevention, increasing the price of tobacco products is one of the most effective methods to prevent or reduce tobacco use.

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 December 7, 2020. In recent years, almost every state has increased tobacco taxes, according to the Campaign for Tobacco-Free Kids. In particular, in California, a $2.00 per pack increase in such state's cigarette excise tax (in addition to such 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-Q filed with the SEC for the three-month period ended March 31, 2021, between the end of 1998 (the year that the MSA was executed) and April 26, 2021, the weighted average state cigarette excise tax increased from $0.36 to $1.89 per pack. During 2018, Kentucky, Oklahoma and Washington, D.C. enacted cigarette excise tax increases, and during 2019, New Mexico and Illinois increased their cigarette excise taxes. During 2020, a cigarette excise tax increase went into effect in Virginia, and voters in Oregon and Colorado approved cigarette excise tax increases effective January 1, 2021 — an increase of $2.00 in Oregon, from $1.33 to $3.33 per pack, and incremental increases in Colorado, from $0.84 to $2.64 per pack by July 2027. As of April 26, 2021, one state (Maryland) has enacted new legislation increasing cigarette excise taxes in 2021, 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 the federal government and state and local governments will continue to raise excise taxes on cigarettes in future years (including as a result of the COVID-19 pandemic, discussed herein, as a way for governments to address potential budget shortfalls). Increased excise taxes are likely to result in declines in overall sales volume and shifts by consumers to less expensive brands, deep discount brands, untaxed cigarettes sold on certain Native American reservations and duty-free shops, counterfeit brands or pipe tobacco for roll-your-own consumers. Such trends and reductions in consumption will lead to reductions of payments under the MSA, which could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of NTSC to pay debt service on all or a portion of the Series 2021 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 TSRs and the ability of NTSC to pay debt service on all or a portion of the Series 2021 Bonds on a timely basis or in full.

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

In recent years, federal, state and many local and municipal governments and agencies, as well as private businesses, have adopted legislation, regulations, insurance provisions or policies which prohibit, restrict, or discourage smoking generally, smoking in public buildings and facilities, public housing, stores, restaurants and bars, and smoking on airline flights and in the workplace. Other similar laws and regulations are currently under consideration and may be enacted by state and local governments in the future. Restrictions on smoking in public and other places may lead to a decrease in the number of people who smoke or a decrease in the number of cigarettes smoked or both. Smoking bans have recently been extended by many state and local governments to outdoor public areas, such as beaches, parks and space outside restaurants, and others may do so in the future. Increased restrictions on smoking in public and other places have caused a decrease, and may continue to cause a decrease, in the volume of cigarettes that would otherwise be sold in the U.S. absent such restrictions, which could lead to reductions of payments under the MSA and could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of NTSC to pay debt service on all or a portion of the Series 2021 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. On April 29, 2021, the FDA announced it is working to issue proposed product standards within the next year to ban menthol as a characterizing flavor in cigarettes. The FDA's announcement did not mention whether the forthcoming ban of menthol flavoring would be applicable to e-cigarettes and other vapor products. 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, in 2019 the CDC reported that 10.9 million people in the U.S. used electronic cigarettes, representing 4.5% of the adult population, and in 2018 sales of electronic cigarettes in the U.S. were estimated at over $7 billion. 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. According to the Tobacco Consumption Report, growth of e-cigarette use increased dramatically in 2017 and 2018, led by sales of the JUUL brand. During 2016-2017, Juul Labs, Inc.'s sales increased 641 percent — from 2.2 million JUUL devices (e-cigarettes that are shaped like a USB flash drive) sold in 2016 to 16.2 million devices sold in 2017. 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 the Tobacco Consumption Report, JUUL currently accounts for approximately three-fourths of the e-cigarette market. Sales of e-cigarettes have been projected to reach $9 billion for 2019, according to the Campaign for Tobacco-Free Kids.

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, 2.4% of U.S. adults were current users of smokeless tobacco (defined as chewing tobacco, snuff, dip, snus, or dissolvable tobacco) in 2019.

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-Q filed with the SEC for the three-month period ended March 31, 2021 that up until the second half of 2019 the e-vapor category had experienced significant growth in recent years, and the number of adults who exclusively use e-vapor products also increased during that time which, along with growth in oral nicotine pouches, negatively impacted consumption levels and sales volume of cigarettes. Altria noted in such SEC filing that growth in the e-vapor category (i) has been negatively impacted by legislative and regulatory activities, (ii) is increasingly competitive and (iii) is now experiencing a moderate rate of growth.

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. In its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, Altria disclosed a vision to responsibly lead the transition of adult smokers to a non-combustible future. In March 2020, BAT announced the evolution of its "A Better Tomorrow" strategy, including plans to reduce the health impact of its business by offering a greater choice of less risky products, and to increase the number of consumers of its non-combustible products.

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 has been legalized in a growing number of states, 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 TSRs and the ability of NTSC to pay debt service on all or a portion of the Series 2021A Bonds on a timely basis or in full. See "CERTAIN INFORMATION RELATING TO THE DOMESTIC TOBACCO INDUSTRY—E-Cigarettes and Vapor Products," "—Heat-Not-Burn Tobacco Products" and "—Smokeless Tobacco Products."

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

Television and radio advertisements of tobacco products have been prohibited since 1971. U.S. tobacco companies generally cannot use billboard advertising, cartoon characters, sponsorship of concerts, non-tobacco merchandise bearing brand names and various other advertising and marketing techniques. In addition, the MSA prohibits the targeting of youth in advertising, promotion or marketing of tobacco products. Accordingly, the tobacco companies have determined not to advertise cigarettes in magazines with large readership among underage people. 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 March 2020 the FDA issued a final 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 TSRs and the ability of NTSC to pay debt service on all or a portion of the Series 2021 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 TSRs and the ability of NTSC to pay debt service on all or a portion of the Series 2021 Bonds on a timely basis or in full.

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

Certain stores have ceased the sale of tobacco products. The retail chain store Target reportedly stopped selling tobacco products in 1996. In September 2014 the national pharmacy chain CVS reportedly stopped selling all cigarettes and other tobacco products in all its stores (following a February 2014 announcement), citing that such sales were inconsistent with its mission. A group of state attorneys general 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. Costco reportedly reduced the number of locations that sell cigarettes because of slowing demand, according to news reports in March 2016. According to the American Nonsmokers' Rights Foundation ("**ANRF**"), as of April 1, 2021, two states (Massachusetts and New York) and 246 cities and counties, located principally in California and Massachusetts, have tobacco-free pharmacy laws.

Beverly Hills and Manhattan Beach, California became the first jurisdictions in the U.S. to ban retail sales of all tobacco products, effective January 1, 2021 (with limited, temporary hardship exemptions). 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 TSRs and the ability of NTSC to pay debt service on all or a portion of the Series 2021 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 TSRs and the ability of NTSC to pay debt service on all or a portion of the Series 2021 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 TSRs available to NTSC to pay debt service on the Series 2021 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.

Price Increases of Branded Cigarettes and the Availability of Counterfeit Cigarettes Could Adversely Affect Payments by the PMs Under the MSA

Price increases of cigarettes manufactured by PMs could result in a decline in consumption of PM cigarette brands. In addition, 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 coupled with substantial increases in excise taxes and other price increases of branded products could result in increased demand for counterfeit products and decreased demand for branded products. Such a dynamic could have a material adverse effect on the sales volume of the PMs, resulting in lower payments under the MSA, which could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of NTSC to pay debt service on all or a portion of the Series 2021 Bonds on a timely basis or in full.

General Economic and Other Conditions, Including the COVID-19 Pandemic, 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, such as the current national economic contraction resulting from the COVID-19 pandemic caused by the outbreak of novel coronavirus in late 2019 and the subsequent spread of the virus to the United States and around the world beginning in early 2020. The economic, social, and health disruptions and dislocations resulting from the COVID-19 pandemic may result in reduced consumption of cigarettes or increased cessation of smoking. In times of economic hardship, consumers may also become more price-sensitive, which may result in some consumers switching from PM brands to lower priced, deep discount NPM brands, or counterfeit brands, or travelling to purchase untaxed NPM cigarettes on Native American reservations. In addition, according to the Tobacco Consumption Report, there is a correlation between an increase in the price of gasoline and a reduction in tobacco consumption. Reductions in cigarette consumption or changes in consumption habits to NPM cigarettes could lead to reductions of payments under the MSA, which could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of NTSC to pay debt service on all or a portion of the Series 2021 Bonds on a timely basis or in full.

Altria stated in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021 that although Altria's tobacco businesses have not been materially impacted to date by COVID-19, there is continued uncertainty as to how COVID-19 may impact adult tobacco consumers in the future, and Altria continues to monitor the macro-economic risks of COVID-19 (including the availability of vaccines) and their effect on adult tobacco consumers, including unemployment rates and disposable income (which may be impacted by potential future changes in government stimulus and federal unemployment benefit payments), as well as adult tobacco consumers' purchasing behaviors, including overall tobacco product expenditures, mix between premium and discount brand purchases and interest in non-combustible products. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, prior economic downturns have resulted in adult tobacco consumers choosing discount products and other lower-priced tobacco products. Although the current economic downturn resulting from the COVID-19 pandemic has not meaningfully increased the growth of discount and lower priced tobacco products, in part due to stimulus payments, adult tobacco consumers may still increasingly choose these products as economic conditions remain unfavorable.

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 affected by, among other things, their production facilities, shifts in crops, government mandated prices, economic trade sanctions, geopolitical instability, production control programs and access to raw materials. Increased costs or an extended disruption in operations experienced by a PM or in the supply or distribution of raw materials, goods or services by one or more key suppliers, distributors or distribution chain service providers could have a material adverse effect on the PM's business, consolidated results of operations, cash flows or financial position. Altria stated in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021 that the COVID-19 pandemic may limit access to and increase the cost of raw materials, component parts and personal protective equipment as U.S. and global suppliers temporarily shut down facilities in order to address exposure to the virus or as a result of a government mandate.

In March 2020, Altria's tobacco businesses temporarily suspended operations at several of their manufacturing facilities, including Philip Morris's manufacturing facility in Richmond, Virginia (the primary facility for manufacturing Philip Morris cigarettes), as a result of the COVID-19 pandemic. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, all of its manufacturing facilities are currently operational under enhanced safety protocols, and Altria's critical information technology systems have remained operational. According to Altria, operations of Altria's subsidiaries, suppliers, distributors and distribution chain service providers and those of its investees could be suspended temporarily once or multiple times, or closed permanently, depending on various factors, including how long the COVID-19 pandemic persists and the extent to which state, local and federal governments, as well as foreign countries, impose restrictions on the operation of facilities or otherwise place limits on the supply and distribution chains. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, the majority of retail stores in which Altria's tobacco products are sold, including convenience stores, have been deemed to be essential businesses by authorities and have remained open, and Altria continues to monitor the risk that one or more suppliers, distributors or any other entities within its supply and distribution chain closes temporarily or permanently. Altria stated in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021 that although much uncertainty still surrounds the pandemic, including its duration and ultimate overall impact on U.S and global economies and on Altria's subsidiaries' operations and those of Altria's investees, Altria continues to monitor the macroeconomic risks of COVID-19 and to carefully evaluate potential outcomes and work to mitigate risks, and remains focused on any potential impact to its liquidity, operations, supply and distribution chains and on economic conditions. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, Altria has implemented remote working for many employees and aligned with the social distancing protocols recommended by public health authorities, and to date, Altria believes its tobacco businesses have not experienced any material adverse effects associated with governmental actions to restrict consumer movement or business operations, but continues to monitor these factors. Altria also stated in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021 that it continues to believe that remote working due to the COVID-19 pandemic has had minimal impact on productivity, and it continues to monitor the risks associated with facility disruptions and workforce availability as a result of COVID-19 uncertainty. Altria recorded net pre-tax charges totaling $50 million, for the calendar year ended December 31, 2020, directly related to disruptions caused by or efforts to mitigate the impact of the COVID-19 pandemic, according to Altria in its Form 10-K filed with the SEC for the calendar year ended December 31, 2020.

To the extent that overall economic or other conditions or constrained capital access including (but not limited to) as a result of the COVID-19 pandemic materially adversely affects their operations, the PMs may manufacture and sell fewer cigarettes, potentially resulting in reduced payments under the MSA and reduced Pledged TSRs available to NTSC to pay debt service on the Series 2021 Bonds.

Furthermore, the effects of the COVID-19 pandemic on cigarette consumption and the PMs' operations may heighten the risk of bankruptcy of a PM. See "—Bankruptcy of a PM May Delay, Reduce or Eliminate Payments Under the MSA" below.

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 Ninth Circuit, in *Sanders v. Brown*; the Second Circuit in *Freedom Holdings v. Cuomo* and *Grand River Enterprises Six Nations, Ltd. v. King*; the Tenth Circuit in *KT & G Corp. v. Edmondson*, and *Hise v. Philip Morris Inc.*; the Eighth Circuit in *Grand River Enterprises v. Beebe*; 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.*; 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 NPM Adjustment Settlement, the Qualifying Statutes or related state legislation is void or unenforceable could have a material adverse effect on the payments by the PMs under the MSA, which could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of NTSC to pay debt service on all or a portion of the Series 2021 Bonds on a timely basis or in full. No assurance can be given that a court will not find the MSA, a Qualifying Statute, the NPM Adjustment Settlement, or related legislation to be unenforceable, unconstitutional, or void.

Although a determination that a Qualifying Statute is unconstitutional would have no effect on the enforceability of the MSA, such a determination could have a material adverse effect on payments to be made under the MSA and Pledged TSRs available to NTSC 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 Impact the Ability of the PMs to Continue to Make Payments Under the MSA

The tobacco industry has been the target of litigation for many years. Numerous legal actions, proceedings and claims arising out of the sale, distribution, manufacture, development, advertising, marketing and claimed health effects of cigarettes are pending against the PMs, and it is likely that similar claims will continue to be filed for the foreseeable future. Both individual and class action lawsuits have been brought by or on behalf of smokers alleging various theories of recovery including that smoking has been injurious to their health, by non-smokers alleging harm from environmental tobacco smoke ("**ETS**"), also known as "secondhand smoke," and by the federal, state and local governments seeking recovery of expenditures relating to the adverse effects on the public health caused by smoking. The claimants have sought recovery on a variety of legal theories, including, among others, negligence, fraud, misrepresentation, strict liability in tort, design defect, breach of warranty, enterprise liability (including claims asserted under the Racketeer Influenced and Corrupt Organizations Act ("**RICO**")), civil conspiracy, intentional infliction of harm, injunctive relief, indemnity, restitution, unjust enrichment, public nuisance, unfair trade practices, claims based on antitrust laws and state consumer protection acts, and claims based on failure to warn of the harmful or addictive nature of tobacco products. Various forms of relief are sought, including compensatory and, where available, punitive damages in amounts ranging in some cases into the hundreds of millions or even billions of dollars. Claimants in some of the cases have sought treble damages, statutory damages, disgorgement of rights, equitable and injunctive relief and medical monitoring and smoking cessation programs, among other damages. It is possible that the outcome of these and similar cases, individually or in the aggregate, could result in bankruptcy or cessation of operations by one or more of the PMs. It is also possible that the PMs may be unable to post a surety bond in an amount sufficient to stay execution of a judgment in jurisdictions that require such bond pending an appeal on the merits of the case. Furthermore, even if the PMs are successful in defending some or all of the tobacco-related lawsuits against them, these types of cases are expensive to defend. The ultimate outcome of pending or future lawsuits is uncertain. Verdicts of substantial magnitude that are enforceable as to one or more PMs, if they occur, could encourage commencement of additional litigation, or 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 TSRs and the ability of NTSC to pay debt service on all or a portion of the Series 2021 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-Q filed with the SEC for the three-month period ended March 31, 2021, as of April 26, 2021, approximately 1,214 state court *Engle* Progeny Cases were pending against Philip Morris or Altria asserting individual claims by or on behalf of approximately 1,500 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 TSRs available to NTSC to pay debt service on the Series 2021 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-Q filed with the SEC for the three-month period ended March 31, 2021, the requirements related to corrective statements at point-of-sale remain outstanding, and a hearing on the point-of-sale signage issue is currently scheduled for July 2021. 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-Q filed with the SEC for the three-month period ended March 31, 2021, 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 TSRs and the ability of NTSC to pay debt service on all or a portion of the Series 2021 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 TSRs and the ability of NTSC to pay debt service on all or a portion of the Series 2021 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 TSRs Projection Methodology and Assumptions and described in "PLEDGED TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" are based in part upon the tobacco consumption forecasts 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 TSRs and the ability of NTSC to pay debt service on all or a portion of the Series 2021 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. NTSC is not a party to the MSA; accordingly, NTSC has no right to challenge any such amendment, waiver or termination. While the economic interests of the State and the Owners of the Series 2021 Bonds are expected to be the same in many circumstances, no assurance can be given that such an amendment, waiver or termination of the MSA would not have a material adverse effect on NTSC's ability to make payments to the Owners of the Series 2021 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 NTSC, AHFC or the Owners 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. No assurance can be given that the State will enforce any particular provision of the MSA. Failure by the State to do so may have a material adverse effect on the ability of NTSC to make payments to the Owners. It is possible that the State could attempt to claim some or all of the Pledged TSRs for itself or otherwise interfere with the security for the Series 2021 Bonds. In that event, the Owners, the Trustee or NTSC may assert claims based on contractual, fiduciary or constitutional rights, but no prediction can be made as to the disposition of such claims. See "LEGAL CONSIDERATIONS."

Amendment to the State's Qualifying Statute

The MSA provides that if a state adopts the Model Statute or a Qualifying Statute but then repeals it or amends it in such fashion that it is no longer a Qualifying Statute, then such state will no longer be entitled to any protection from the NPM Adjustment. No assurance can be provided that a PM would not assert that, or a court or arbitrator would not determine that, the State's Qualifying Statute as may be so amended would not continue to constitute a Qualifying Statute. Should it be determined that any prior or future amendments to the State's Qualifying Statute cause it to no longer be a Qualifying Statute, then the State would no longer be entitled to any protection from the NPM Adjustment, and there could be substantial reductions in the amount of Pledged TSRs available to NTSC to make payments on the Series 2021 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 NTSC, the Trustee and the Owners of the Series 2021 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 TSRs received by NTSC 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, NTSC, the Trustee or the Owners or the beneficial owners of the Series 2021 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 Owners or beneficial owners of the Series 2021 Bonds within a certain period prior to the bankruptcy of a PM could be avoided as preferential payments, so that such Owners 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, NTSC, the Trustee or the Owners and beneficial owners of the Series 2021 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 2021 Bonds and could materially adversely affect the amount and/or timing of the Pledged TSRs and the ability of NTSC to pay debt service on all or a portion of the Series 2021 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 TSRs and the ability of NTSC to pay debt service on all or a portion of the Series 2021 Bonds on a timely basis or in full.

Series 2021 Bonds Secured Solely by the Collateral

The Series 2021 Bonds are limited obligations of NTSC, payable solely from certain funds held under the Indenture, including Collections. The Series 2021 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 2021A Bonds (and any other Class 1 Senior Bonds that may be issued) and the Class 2 Senior Liquidity Reserve Subaccount securing only the Series 2021B-1 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 2021B-2 Bonds or Subordinate Bonds. The Series 2021 Bonds do not constitute a charge against the general credit of NTSC and under no circumstances will NTSC be obligated to pay the interest on or principal or Accreted Value of or redemption premiums, if any, on the Series 2021 Bonds except from Collections and balances held under the Pledged Accounts (where applicable, and, to the extent available). The Series 2021 Bonds and other obligations of NTSC do not constitute a debt, liability or other obligation of AHFC or the State or any subdivision or instrumentality of the State or a pledge of the faith and credit or taxing power of AHFC or the State or of any political subdivision or instrumentality thereof. NTSC has no taxing power.

Uncertainty as to Timing of Turbo Redemptions of the Series 2021B Bonds

No assurance can be given as to the timing of Turbo Redemptions of the Series 2021B 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 2021B Bonds from available Collections, are discussed in "PLEDGED TSRs 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 TSRs or earnings on the Pledged Accounts would impair the Collections available to make Turbo Redemptions of the Series 2021B Bonds and extend the average lives of the Series 2021B Bonds. Owners of the Series 2021B 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 2021B-1 Bonds are <u>not</u> rated by S&P. The Series 2021B-2 Bonds are <u>not</u> 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 agreements and to receiving the Pledged TSRs and applying them in accordance with the Indenture. The Trustee cannot sell or foreclose on the Pledged TSRs or its rights under the Purchase and Sale Agreement. NTSC 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 Pledged TSRs under any circumstances, including unenforceability of the MSA 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 2021 Bonds.

Limited Liquidity of the Series 2021 Bonds; Price Volatility

There is currently a limited secondary market for securities such as the Series 2021 Bonds. The Underwriters are under no obligation to make a secondary market for the Series 2021 Bonds. There can be no assurance that a secondary market for the Series 2021 Bonds will develop, or if a secondary market does develop, that it will provide Owners of the Series 2021 Bonds with liquidity or that it will continue for the life of the Series 2021 Bonds. Tobacco settlement revenue bonds generally have also exhibited greater price volatility than traditional municipal bonds. Any purchaser of the Series 2021 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."

S&P Global Ratings ("**S&P**"), the sole rating agency providing ratings for the rated Series 2021 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. 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 2021 Bonds.

The ratings assigned to the Series 2021A Bonds and Series 2021B-1 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 2021A Bonds that are Term Bonds, Fixed Sinking Fund

Installment dates. The ratings do not address the payment of Turbo Redemptions on the Series 2021B-1 Bonds. The Series 2021B-2 Bonds are not rated and involve additional risks that may not be appropriate for certain investors. See "RISK FACTORS—Market for Series 2021B-2 Bonds; No Credit Rating on Series 2021B-2 Bonds." The ratings of the Series 2021A Bonds and Series 2021B-1 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 prices of, the rated Series 2021 Bonds. See "RATINGS" herein.

Market for Series 2021B-2 Bonds; No Credit Rating on Series 2021B-2 Bonds

The Series 2021B-2 Bonds are not rated. There may be a limited secondary market for the Series 2021B-2 Bonds because the absence of any rating could adversely affect the ability of Owners of such Bonds to sell such Bonds or the price at which such Bonds can be sold.

(Remainder of Page Intentionally Left Blank)

LEGAL CONSIDERATIONS

The following discussion summarizes some, but not all, of the possible legal issues that could adversely affect the ability of NTSC to pay debt service on all or a portion of the Series 2021 Bonds on a timely basis or in full, and could have an adverse effect on the liquidity and/or market value of the Series 2021 Bonds. The discussion does not address every possible legal challenge that could result in a decision that would cause the Pledged TSRs to be reduced or eliminated. Any reference in the discussion to an opinion is an incomplete summary of such opinion and is qualified in its entirety by reference to the actual opinion.

Bankruptcy of a PM

The enforceability of the rights and remedies of NTSC, the Trustee and the Owners of the Series 2021 Bonds and of the obligations of a PM under the MSA 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 2021 Bonds.

The MSA provides that it can be amended only with the consent of the parties affected by the amendment. No assurance can be given that the NPM Adjustment Settlement does not constitute an amendment of the MSA or that the NPM Adjustment Settlement does not have an effect on parties that are not signatories to the NPM Adjustment Settlement. If it were to be determined that the NPM Adjustment Settlement does have an effect on parties that are not signatories, then all or part of the NPM Adjustment Settlement may be unenforceable, which could have a material adverse effect on NTSC and its ability to pay debt service on the Series 2021 Bonds.

See "RISK FACTORS—Payment Decreases Under the Terms of the MSA—*NPM Adjustment*" and "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 TSRs

It is possible that the State could in the future attempt to claim some or all of the Pledged TSRs for itself, or otherwise interfere with the security for the Series 2021 Bonds. In that event, the Owners, the Trustee or NTSC may assert claims based on contractual, fiduciary or constitutional rights, but no prediction can be made as to the disposition of such claims. The Pledged TSRs and money derived therefrom are the principal source of payment for the Series 2021 Bonds.

Contractual Remedies and Constitutional Claims

In the Purchase and Sale Agreement, the State covenants, among other things, to take all actions as may be required by law fully to preserve, maintain, defend, protect and confirm the interest of NTSC in the NTSC Tobacco Assets and in the proceeds thereof; to not take any action that will adversely affect NTSC's legal right to receive the NTSC Tobacco Assets; and to not limit or alter the rights of NTSC to fulfill the terms of its agreements with bondholders, or in any way impair the rights and remedies of bondholders or the security for the bonds thereunder until all such 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. If the State violates such covenants so as to impair NTSC's right to the NTSC Tobacco Assets, the Trustee, as assignee of NTSC's rights under the Purchase and Sale Agreement, could seek to compel the State to honor such covenants. Such enforcement costs will be paid from the Operating Account. As interested parties, NTSC on its own behalf and the Trustee on behalf of the Owners 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.

The Owners are entitled to the benefit of the prohibitions in the United States Constitution's Contract Clause against any state's impairment of the obligation of contracts.

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.*, the State must justify the exercise of its inherent police power to safeguard the vital interests of its people before the State may alter the MSA or the financing arrangements in a manner that would substantially impair the rights of the Owners to be paid from the Pledged TSRs. However, to justify the enactment by the State of legislation that substantially impairs the contractual rights of the Owners 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 the impairment of the Owners' rights is based upon reasonable conditions and are of a character appropriate to the public purpose justifying the legislation's adoption.

Finally, the Owners may also have constitutional claims under the Due Process Clauses of the United States and State Constitutions and the "impairment of contract" provision of the State Constitution.

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, the NPM Adjustment Settlement and NPM Adjustment Settlement Stipulated Partial Settlement and Award, and/or the State's related legislation, Qualifying Statute or the enforcement of the right to the Pledged TSRs or otherwise filed in connection with the 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 TSRs and the ability of NTSC to pay debt service on all or a portion of the Series 2021 Bonds on a timely basis or in full.

Recharacterization of Transfer of 2000 Tobacco Asset Could Void Transfer

At the time of the execution of the 2000 Purchase and Sale Agreement, AHFC and NTSC intended and structured the transfer of the 2000 Tobacco Asset by AHFC to NTSC as an absolute sale and not as the grant of a security interest in the 2000 Tobacco Asset to secure a borrowing of AHFC. However, if the transfer of the 2000 Tobacco Asset were to be recharacterized as part of a borrowing by AHFC secured by the 2000 Tobacco Asset instead of a sale of the 2000 Tobacco Asset, the transfer of the 2000 Tobacco Asset by AHFC to NTSC could be declared void. No assurance can be given that a court would not find that the transfer of the 2000 Tobacco Asset to NTSC is part of a secured borrowing. The Owners could suffer a loss of their entire investment if there were such a judicial finding.

Bankruptcy of AHFC

AHFC is the sole member of NTSC. AHFC is a governmental instrumentality of the State and, accordingly, cannot be the subject of an involuntary bankruptcy case under the Bankruptcy Code. AHFC can become a debtor under the Bankruptcy Code only in a voluntary case. AHFC and NTSC have taken steps to minimize the risk that in the event AHFC were to become the debtor in a bankruptcy case, a court would order that the assets and liabilities of NTSC be substantively consolidated with those of AHFC. NTSC is a separate, special purpose non-profit corporation, the organizational documents of which include provisions to the effect that NTSC shall not commence a voluntary bankruptcy case without the unanimous affirmative vote of all of its directors, although this restriction may not be enforceable. See "NTSC" herein and "— Recharacterization of Transfer of 2000 Tobacco Asset Could Void Transfer" above.

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. In addition, the following includes a brief summary of certain provisions of the NPM Adjustment Settlement. See "RISK FACTORS" and "LEGAL CONSIDERATIONS" herein for a discussion of certain risks related to the MSA and the NPM Adjustment Settlement. See also APPENDIX C-1 — "NPM ADJUSTMENT SETTLEMENT AGREEMENT," APPENDIX C-2 — "ALASKA JOINDER TO NPM ADJUSTMENT SETTLEMENT AGREEMENT" and APPENDIX C-3 — "2018 THROUGH 2022 NPM ADJUSTMENTS SETTLEMENT AGREEMENT" for a copy of the NPM Adjustment Settlement Agreement and related extension settlements.

General

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

Parties to the MSA

The Settling States are all of the states, territories and the District of Columbia, except for the four states (Florida, Minnesota, Mississippi and Texas) that separately settled with the original OPMs prior to the adoption of the MSA (the "**Previously Settled States**"). According to NAAG, the following PMs are parties to the MSA (as of May 11, 2021, NAAG's most recent reference date):

(Remainder of Page Intentionally Left Blank)

OPMs

Philip Morris USA Inc. (formerly Philip Morris Incorporated)
R.J. Reynolds Tobacco Company (formerly R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation (2004 merger) and Lorillard Tobacco Company (2015 merger))

SPMs

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

---

(1) Has filed for bankruptcy relief. There may be other PMs that have filed for bankruptcy relief, of which NTSC 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, all of the OPMs and most of the SPMs† have made their required have made the Annual Payments due in 2000 through, and including, 2021, 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 and NPM Adjustment Settlement"). 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 aggregate 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 aggregate 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.

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.

* 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 PMs are required to make Annual Payments on each April 15 in perpetuity. All of the OPMs and most of the SPMs have made their required Annual Payments due April 15 in each of the years 2000 through 2021. The MSA sets forth the following table of scheduled base amounts of Annual Payments for the OPMs:

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 2021 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.

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. See "—Subsequent Participating Manufacturers" below.

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 TSRs under the MSA from the scheduled base amounts for the years 2000 through 2021, 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. All of the OPMs and most of the SPMs have made their required 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 on the same basis as their Annual Payment obligations. 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 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. The State has not yet executed documentation approving the PSS Credit Amendment. No assurance can be given that the State will execute documentation approving the PSS Credit Amendment, or when any such approval will be executed. Further, no assurance can be given as to whether the PSS Credit Amendment, if and when it takes effect, will reduce the amount of Pledged TSRs available to NTSC to pay debt service on the Series 2021 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."* See also "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT—NPM Adjustment Claims and NPM Adjustment Settlement—*NPM Adjustment Settlement*."

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 Market Share Losses 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:

$$\text{NPM Adjustment} = 50\% + \left[50\% / (\text{Base Aggregate Participating Manufacturer Market Share} - 16\tfrac{2}{3}\%)\right] \times \left[\text{Market Share Loss} - 16\tfrac{2}{3}\%\right]$$

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

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

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 terms of the NPM Adjustment Settlement, which settled claims related to the 2003 through 2022 NPM Adjustments and set forth a methodology for determining subsequent NPM Adjustments, and matters related thereto, see "—NPM Adjustment Claims and NPM Adjustment Settlement" below. The State was a non-contested state with respect to the 2003 NPM Adjustment disputes, and the State joined the NPM Adjustment Settlement in 2018, thereby settling claims related to the 2004 through 2022 NPM Adjustments. In the view of the Attorney General and the Department of Law of the State ("**DOL**"), the State has been and is diligently enforcing its Qualifying Statute. See "STATE LAWS RELATED TO THE MSA—State Statutory Enforcement Framework" herein. The Pledged TSRs 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, and that there will not be an NPM Adjustment, except in payment years 2022-2026. See "PLEDGED TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" herein.

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

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. Changes in the market share of the SPMs could increase or decrease the aggregate amount of Annual Payments.

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 Trustee) 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. NTSC'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, as applicable, allocable to the State pursuant to the MSA that were sold pursuant to the Purchase and Sale Agreement, and the amounts of Pledged TSRs actually received by the Trustee in such year, as described below. The amounts actually received may reflect adjustments attributable to prior years' payments.

Year[(1)]	**Sold Portion of Base Payment Allocable to the State**[(2)]	**Actual Receipts of Pledged TSRs**[(3)]
2012 Annual Payment and Strategic Contribution Payment	$34,022,000	$23,993,000
2013 Annual Payment and Strategic Contribution Payment	34,022,000	23,990,000
2014 Annual Payment and Strategic Contribution Payment	34,022,000	25,808,000
2015 Annual Payment and Strategic Contribution Payment	34,022,000	23,340,000
2016 Annual Payment and Strategic Contribution Payment	34,022,000	24,315,000
2017 Annual Payment and Strategic Contribution Payment	34,022,000	24,072,000
2018 Annual Payment	24,582,000	40,840,000
2019 Annual Payment	24,582,000	15,816,000
2020 Annual Payment	24,582,000	16,053,000
2021 Annual Payment	24,582,000	17,103,000

(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 NTSC's fiscal year) of each year.

(2) Rounded. The sold portion of base payments allocable to the State as represented in this table consists of the State's 0.3414187% share of Annual Payments under the MSA, and the State's 1.7118798% share of Strategic Contribution Payments under the MSA, in each case multiplied by 80%, which is the aggregate percentage sold under the Purchase and Sale Agreement and pledged under the Indenture.

(3) Rounded. Reflects adjustments. Amounts are set forth to the best of NTSC's knowledge. For fiscal years ending June 30, 2018 onward, reflects the NPM Adjustment Settlement (including a release from the DPA in 2018), as discussed herein. 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 2021 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 NTSC 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."

For a discussion of the NPM Adjustment Settlement, which the State joined, see "—NPM Adjustment Claims and NPM Adjustment Settlement" below, and for a discussion of the State's Qualifying Statute, Complementary Legislation and enforcement framework, see "STATE LAWS RELATED TO THE MSA."

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.

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

* 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.

Statutes, as well as other legislation to assist in the regulation of tobacco sales. See "STATE LAWS RELATED TO THE MSA—Alaska Complementary Legislation."

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

NPM Adjustment Claims and NPM Adjustment Settlement

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 $16.7 billion, for the sales years 2003 through 2020 (payment years 2004 through 2021) 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 was a non-contested state in the 2003 NPM Adjustment dispute. In 2018, the State joined the NPM Adjustment Settlement, thereby settling its 2004 to 2022 NPM Adjustment disputes. The NPM Adjustment Settlement also sets forth a methodology for determining subsequent years' NPM Adjustments, as discussed below.

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, the District of Columbia and Puerto Rico and to no longer contest such claims by 12 other states (including the State) 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 in December 2012 through May 2013 with the OPMs and certain of the SPMs as discussed below under "—*NPM Adjustment Settlement*," leaving 15 states contested in the 2003 NPM Adjustment arbitration proceedings. A common issues hearing was held in April 2012, and state-specific evidentiary hearings began in May 2012 and were completed in May 2013. The decisions of the Arbitration Panel, released in September 2013, with regard to those 15 states 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 others of the contested states and the non-contested states (including the State) subsequently joined the NPM Adjustment Settlement, as discussed below.

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-Q filed with the SEC for the three-month period ended March 31, 2021, 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. Regarding the State's settlement of the 2004 NPM Adjustment dispute, the State had been an uncontested state with respect to the 2004 NPM Adjustment dispute, and so the State was not subject to an NPM Adjustment for sales year 2004. On various dates between June 14, 2018 and November 27, 2018, the initial 26 jurisdictions 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. In the first quarter of 2020, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, the PMs' settlement with Pennsylvania (one of the 10 jurisdictions that joined the NPM Adjustment Settlement Agreement in 2018) was extended to include NPM Adjustments for 2018-2024. In the third quarter of 2020, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, the initial 26 jurisdictions that joined the NPM Adjustment Settlement Agreement, along with the remaining 9 jurisdictions that joined the NPM Adjustment Settlement Agreement in 2018 (including the State), and the signatory tobacco manufacturers, executed the 2018 Through 2022 NPM Adjustments Settlement Agreement (the “**2018-2022 NPM Adjustments Settlement Agreement**”), providing for settlement of disputes related to the 2018-2022 NPM Adjustments, as further described below. The signatory jurisdictions to the NPM Adjustment Settlement Term Sheet, the NPM Adjustment Settlement Agreement and related joinder agreements, the 2016 and 2017 NPM Adjustments Settlement Agreement and the 2018-2022 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 related joinder agreements, the 2016 and 2017 NPM Adjustments Settlement Agreement and the 2018-2022 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 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**,” which term as used herein excludes the states of New York and Montana, each of which entered into a separate settlement with the PMs relating to the NPM Adjustment), (iii) to determine how the 2003 NPM Adjustment settlement would be allocated among the NPM Adjustment Settlement Non-Signatories in light of the settlement and (iv) to incorporate and direct the MSA Auditor to implement the provisions of the NPM Adjustment Settlement Term Sheet, including as they pertain to years beyond 2003. The Arbitration Panel noted that it was neither “approving” the NPM Adjustment Settlement Term Sheet nor assessing the merits of any NPM Adjustment dispute, but giving effect to the NPM Adjustment Settlement Signatories’ and signatory PMs’ agreed settlement payments as among themselves, by directing the MSA Auditor to implement the settlement provisions at issue.

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

While not ruling on years subsequent to the 2003 NPM Adjustment, the Arbitration Panel ruled that the reduction of the 2003 NPM Adjustment, in light of the NPM Adjustment Stipulated Partial Settlement and Award (for purposes of allocating the 2003 NPM Adjustment to the NPM Adjustment Settlement Non-Signatories), would be on a *pro rata* basis: the dollar amount of the 2003 NPM Adjustment would be reduced by a percentage equal to the aggregate allocable share of the NPM Adjustment Settlement Signatories. In addition, the Arbitration Panel directed the MSA Auditor to treat the NPM Adjustment Settlement Signatories as not being subject to the 2003 NPM Adjustment, resulting in a reallocation of the NPM Adjustment Settlement Signatories’ share of the 2003 NPM Adjustment among those NPM Adjustment Settlement Non-Signatories that are found not to have diligently enforced their Qualifying Statutes during 2003. This framework would create an incentive for NPM Adjustment Settlement Non-Signatories to contest the diligent enforcement of NPM Adjustment Settlement Signatories for years 2004 onward. The Arbitration Panel concluded that the NPM Adjustment Settlement Term Sheet and the NPM Adjustment Stipulated Partial Settlement and Award do not legally prejudice or adversely affect the NPM Adjustment Settlement

Non-Signatories, but that, should an NPM Adjustment Settlement Non-Signatory found by the Arbitration Panel to be non-diligent have a good faith belief that the *pro rata* reduction method did not adequately compensate it for an NPM Adjustment Settlement Signatory's removal from the reallocation pool, its relief, if any, is by appeal to its individual MSA state court. The NPM Adjustment Settlement Non-Signatories that were found to be non-diligent with respect to the 2003 NPM Adjustment claims filed motions in their MSA state courts objecting to the *pro rata* reduction method; see "*—2003 NPM Adjustment Arbitration Results and Disputes Concerning the NPM Adjustment Settlement Term Sheet and Stipulated Partial Settlement and Award*" below for a discussion of such motions. The Arbitration Panel further concluded that neither the NPM Adjustment Stipulated Partial Settlement and Award nor the NPM Adjustment Settlement Term Sheet constitutes an amendment to the MSA that would require the consent of any NPM Adjustment Settlement Non-Signatory. No assurance can be given, however, that a court would not hold that the NPM Adjustment Stipulated Partial Settlement and Award and the NPM Adjustment Settlement constitute amendments to the MSA. 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*."

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 received an adjustment to the MSA payments in April 2019 and April 2020. In July and August 2020, pursuant to the 2018-2022 NPM Adjustments Settlement Agreement, claims related to the 2018-2022 NPM Adjustments were settled, and the signatory PMs will receive adjustments to the MSA payments in April 2021 through April 2025 (with respect to the MSA payments payable to the initial 26 jurisdictions that executed the NPM Adjustment Settlement Agreement; and April 2022 through April 2026 with respect to the MSA payments payable to any additional signatories to the 2018-2022 NPM Adjustments Settlement Agreement, including the State), as described below under "*—2018 Through 2022 NPM Adjustments Settlement Agreement*." 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 (the "**SET-Paid NPM Percentage**") equal to the sum of (i) the percentage represented by the fraction of the total number of NPM cigarettes on which SET was paid in such year in the Settling States, divided by the total nationwide number of NPM cigarettes on which FET was paid in such year, plus (ii) in the case of an NPM Adjustment Settlement Signatory that has, as of January 1 of the year at issue, approved the PSS Credit Amendment (even if the PSS Credit Amendment has not yet taken effect), the percentage represented by the fraction of (x) the total number of NPM cigarettes on which an equity fee was paid in such year in those Previously Settled States that had in effect an equity fee law for the entirety of such year (which, by its terms, imposed a per-cigarette payment equal to or greater than 90% of the escrow amount for sales made that year under the Model Statute on all NPM cigarette sales in such state that it has the authority under federal law to tax), divided by (y) the total nationwide number of NPM cigarettes on which FET was paid in such year. Such liability reduction will be effectuated by each NPM Adjustment Settlement Signatory that is found non-diligent and allocated a share of the NPM Adjustment amount receiving a reimbursement by the signatory PMs. See "SUMMARY OF THE MASTER SETTLEMENT AGREEMENT — Adjustments to Payments — *Previously Settled States Reduction — PSS Credit Amendment*."

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. Pursuant to such formula, (x) the amount released to the NPM Adjustment Settlement Signatories would be (1) the SET-Paid NPM Percentage with respect only to NPM Adjustment Settlement Signatories (plus other factors as specified in Section VI.I.1 of the NPM Adjustment Settlement Agreement), plus (2) 50% of the portion that remains, and (y) the amount released to the PMs would be the other 50% of the portion that remains. The amount released pursuant to clause (x)(1) of the prior sentence is based on an estimate of the reimbursement percentage determined by the Data Clearinghouse. The NPM Adjustment Settlement also provides that, except for the DPA deposit (and subsequent release) described above, and except in certain other cases (primarily, if the dispute was noticed for arbitration by the PM and the party-selected arbitrator has not been appointed for over one year from the date notice was first given despite good faith efforts by the PM), the PMs will not withhold payments or pay into the DPA based on a dispute arising out of the NPM Adjustment as 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.

The NPM Adjustment Settlement sets forth a framework for determining whether an NPM Adjustment Settlement Signatory diligently enforced its Qualifying Statute. Pursuant to the NPM Adjustment Settlement, the diligent enforcement standard applies to all NPM cigarettes on which federal excise tax was paid that the NPM Adjustment Settlement Signatory reasonably could have known about and that such state has the authority under federal law to tax or to subject to the escrow requirement, including (i) all such sales made via the internet, (ii) all such tribal sales or sales on tribal lands, and (iii) all such sales that may otherwise constitute contraband (regardless of whether the state's Qualifying Statute imposes a broader or narrower escrow requirement). The NPM Adjustment Settlement provides that no determination that an NPM Adjustment Settlement Signatory failed to diligently enforce a Qualifying Statute may be based on the state's failure to collect escrow on NPM cigarettes that federal law prohibits the state from subjecting to the escrow requirement, regardless of whether the state has authority under federal law to tax such cigarettes, provided the state used reasonable efforts (i) to oppose any claims of such prohibition and (ii) to appeal any ruling finding that such prohibition exists. Pursuant to the NPM Adjustment Settlement, the following are exempt from the diligent enforcement standard: (i) NPM cigarettes sold on a federal installation in a transaction that is exempt from state taxation under federal law, and (ii) NPM cigarettes sold on a Native American tribe's reservation (which includes Indian Country as defined by federal law) by an entity more than 50% of which is owned, and which is operated, by that tribe or member of that tribe to a consumer who is an adult member of that tribe in a transaction that is exempt from state taxation under federal law.

Pursuant to the NPM Adjustment Settlement, factors relevant to the diligent enforcement determination for an NPM Adjustment Settlement Signatory include, but are not limited to: (i) whether the number of NPM cigarettes on which SET was paid in such state in the year in question was reduced by virtue of a state policy or agreement not to require or collect SET of the state where due or not to enforce an SET stamping requirement of the state, or an indifference of the state to such SET collection or to enforcement of such SET stamping requirement, unless escrow was deposited on such SET-unpaid cigarettes; and (ii) whether the actual number of NPM cigarettes on which SET was paid in such state during that year significantly exceeded the number of such cigarettes used in Non-Compliant NPM Cigarette calculations pursuant to the NPM Adjustment Settlement.

No assurance can be given as to the implementation in future years of the NPM Adjustment Settlement by the MSA Auditor with regard to the State, as to whether or not the NPM Adjustment Settlement will be revised and any consequences thereto, or the effect of such factors on the amount and/or timing of Pledged TSRs available to NTSC to pay debt service on the Series 2021 Bonds. See also "*—2003 NPM Adjustment Arbitration Results and Disputes Concerning the NPM Adjustment Settlement Term Sheet and Stipulated Partial Settlement and Award*" below.

See APPENDIX C-1 — "NPM ADJUSTMENT SETTLEMENT AGREEMENT," APPENDIX C-2 — "ALASKA JOINDER TO NPM ADJUSTMENT SETTLEMENT AGREEMENT" and APPENDIX C-3 — "2018 THROUGH 2022 NPM ADJUSTMENTS SETTLEMENT AGREEMENT" for a copy of the NPM Adjustment Settlement Agreement and related extension settlements. The Pledged TSRs Projection Methodology and Assumptions include an assumption that there will not be an NPM Adjustment. See "PLEDGED TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS."

Alaska Joinder

In 2018, Alaska joined the NPM Adjustment Settlement Agreement. Regarding the State's settlement of the 2004 NPM Adjustment dispute, the State had been an uncontested state with respect to the 2004 NPM Adjustment dispute, and so the State was not subject to an NPM Adjustment for sales year 2004. Pursuant to the State's joinder to the NPM Adjustment Settlement Agreement (the "**State's Joinder**"), the State received in connection with its 2018 MSA payment a release from the DPA of amounts allocable to the State, and the PMs received or will receive, as applicable, credits in connection with their 2019, 2020, 2021 and 2022 MSA payments, all under the terms set forth in the NPM Adjustment Settlement. The State's Joinder therefore settled the sales years covered by the NPM Adjustment Settlement Agreement (through sales year 2015), and, also, contained a settlement of sales years 2016-2017. Regarding the settlement of sales years 2015-2017 as transition years, the State's Joinder specifies that the PMs will receive 25% of the joining jurisdictions' respective allocable shares of the corresponding NPM Adjustments, with the joining jurisdictions receiving the balance (75%), and for such sales years, the adjustment under Sections V.B and V.C of the NPM Adjustment Settlement Agreement would not be applicable. The State's Joinder also contains certain terms relating to subsequent sales years. According to the DOL, in order to clarify and extend, but not modify or replace, the terms of the State's Joinder for the years 2020, 2021, and 2022, the State entered into the 2018-2022 NPM Adjustments Settlement Agreement, as described below. See "APPENDIX C-2 — ALASKA JOINDER TO NPM ADJUSTMENT SETTLEMENT AGREEMENT" for a copy of the State's Joinder.

2018 Through 2022 NPM Adjustments Settlement Agreement

Pursuant to the 2018-2022 NPM Adjustments Settlement Agreement (which the State signed), the disputes relating to the 2018-2022 NPM Adjustments were settled, and sales years 2018-2022 were added as transition years as described in section V of the NPM Adjustment Settlement Agreement. The states that execute the 2018-2022 NPM Adjustments Settlement Agreement (the "**2018-2022 Settlement Signatory States**") will not be subject to the NPM Adjustment for sales years 2018-2022 (resulting in certain amounts released to the 2018-2022 Settlement Signatory States on or before the April 2021 MSA payment date relating to the 2018 NPM Adjustment claims and on or before the April 2022 MSA payment date relating to the 2019 NPM Adjustment claims, and resulting in no withholdings by the PMs in payment years 2020-2022 with respect to 2018-2022 Settlement Signatory States), and the PMs will receive credits relating to sales years 2018-2022 as described as follows. In lieu of the 2018 through 2022 NPM Adjustments with respect to sales years 2018-2022 applicable to the 2018-2022 Settlement Signatory States, each PM will receive a transition year adjustment to its Annual Payment in payment years 2021-2025, respectively, with respect to the initial 26 jurisdictions that executed the NPM Adjustment Settlement Agreement, and in payment years 2022-2026, respectively, with respect to any additional signatories to the 2018-2022 NPM Adjustments Settlement Agreement, including the State, allocated solely to and among the respective 2018-2022 Settlement Signatory States as they direct. As to each PM, the amount of its transition year adjustment credit for a sales year applied in a given payment year shall equal the product of (a) the Potential Maximum NPM Adjustment allocated to that PM (as calculated by the MSA Auditor in the Final Notice for such sales year as revised in the year immediately preceding application of the credit, but which shall not change regardless of any subsequent revision of the Final Notice by the MSA Auditor), (b) the aggregate Allocable Share of the applicable group of 2018-2022 Settlement Signatory States (for example, the initial 26 jurisdictions that executed the NPM Adjustment Settlement Agreement), and (c) 25%. For each of the 2018-2022 transition years, the adjustment for SET-Paid NPM Sales will continue to apply and the adjustment for Non-SET-Paid NPM Sales will not apply. Capitalized terms used in this paragraph and not defined have the meanings given in the 2018-2022 NPM Adjustments Settlement Agreement. See APPENDIX C-3 — "2018 THROUGH 2022 NPM ADJUSTMENTS SETTLEMENT AGREEMENT" for a copy of the 2018-2022 NPM Adjustments Settlement Agreement. In connection with its execution of the 2018-2022 NPM Adjustments Settlement Agreement, the State signed the optional Interdicted Contraband Agreement, Document Production Agreement, Bootleg Agreement, Reporting Agreement and Tribal Compacting Agreement contained as exhibits to the 2018-2022 NPM Adjustments Settlement Agreement.

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 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, as well as the jurisdictions that were either not contested (including the State) 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.

No assurance can be given that other challenges to the NPM Adjustment Stipulated Partial Settlement and Award or NPM Adjustment Settlement will not be commenced in other MSA courts, nor can any prediction be made as to the effect on NPM Adjustment Settlement Signatories such as the State.

NPM Adjustment Settlement Non-Signatories' Ongoing NPM Adjustment Claims

All of the NPM Adjustment Settlement Non-Signatories other than Montana and New Mexico (as described below) participated in a multi-state arbitration with respect to the 2004 NPM Adjustment. That arbitration initially concluded in July 2019, and, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, as of April 29, 2021, no decisions have resulted from the arbitration. The 2004 NPM Adjustment arbitration is pending before two separate arbitration panels.

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-Q filed with the SEC for the three-month period ended March 31, 2021, the arbitration hearing for New Mexico has been scheduled for October 2021. 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-Q filed with the SEC for the three-month period ended March 31, 2021, the PMs agreed not to contest the applicability of the 2004 NPM Adjustment to Montana. In April 2020, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, the State of Montana filed a motion in Montana state court against the PMs (including Philip Morris), claiming that Montana's share of the NPM Adjustment amounts should be paid to Montana in advance of the resolution of disputes over the applicability of those adjustments (Philip Morris had been placing the disputed NPM Adjustment amounts in the DPA), and Montana sought a total of approximately $43 million in disputed payments from all defendants combined, as well as treble and punitive damages. On November 16, 2020, the Attorney General of Montana announced that Montana reached a settlement with the PMs pursuant to which Montana will recover $49 million in MSA payments that had been withheld by the PMs from 2006 to 2020, plus interest, and pursuant to which the PMs will fully pay through 2030 Montana's Allocable Share of Annual Payments with no withholdings for NPM Adjustment disputes, resulting in a total settlement value to Montana of over $100 million. The PMs also agreed in perpetuity not to withhold any portion of the Annual Payments payable to Montana based on allegations that Montana is not enforcing its Qualifying Statute.

According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, the PMs have reached an agreement with the NPM Adjustment Settlement Non-Signatories (with the exception of Missouri) that the next round of NPM Adjustment arbitrations will encompass three years, 2005-2007, and the parties have selected an arbitration panel for the 2005-2007 arbitration, although the hearings in this arbitration have not yet been scheduled. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, Missouri is participating in the selection, but has agreed to arbitrate only one year, 2005, before the panel. No assurance can be given as to when proceedings for 2008 and subsequent years will be scheduled or the precise form those proceedings will take, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021. Altria stated in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021 that it has continued to pursue the NPM Adjustments against jurisdictions that have not signed onto settlements.

Other Settlements

In October 2015, New York State entered into a settlement agreement with the OPMs and certain SPMs pursuant to which the 2004-2014 NPM Adjustment disputes were settled with respect to New York and pursuant to which a methodology for the NPM Adjustments for sales years 2015 onward is determined for such state, involving an adjustment for NPM cigarettes on which New York SET is paid, and credits to PMs for tribal NPM sales. The PMs have received amounts for sales years 2004-2019, and the PMs expect to receive cash amounts annually, pursuant to the settlement agreement, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021.

The PMs and Montana entered into a settlement in November 2020 with respect to their NPM Adjustment disputes, as described above under "--NPM Adjustment Settlement Non-Signatories' Ongoing NPM Adjustment Claims."

No prediction can be given as to whether or when any 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 NPM Adjustment Settlement Signatories such as the State.

STATE LAWS RELATED TO THE MSA

Alaska Qualifying Statute

The Alaska Qualifying Statute, Title 45, Chapter 53 of the Alaska Statutes, as amended, became effective on June 4, 1999. The State has adopted the Model Statute, which is by definition a Qualifying Statute under the MSA. The State further enacted an Allocable Share Release Amendment to amend its Qualifying Statute by eliminating the provision authorizing an NPM to obtain the release of the amount by which its annual escrow deposit exceeds 0.3414187% of the total payments that the NPM would have made as a PM for that year. Under the Allocable Share Release Amendment, an NPM would have been entitled to the release of its escrow deposit only to the extent that it exceeded the total amount that the NPM would have paid as a PM. 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. 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."

Alaska Complementary Legislation

Pursuant to the State's Complementary Legislation, every tobacco product manufacturer whose cigarettes are sold, whether directly or through a distributor, retailer, or similar intermediary or intermediaries, in the State is required to certify annually that it is either (a) a PM and is in full compliance with the terms of the MSA or (b) an NPM and is in full compliance with the State's Qualifying Statute. Such certification shall be in a form and in the manner prescribed by the "**Commissioner**" of the Alaska Department of Revenue ("**ADR**"), no later than April 30 of each year. Such certification shall also include a list of the manufacturer's brand families. The manufacturer shall update the list thirty calendar days prior to any addition to or modification of the manufacturer's brand families by executing and delivering a supplemental certification to the Commissioner. In addition to any other penalties that may be imposed by law, a civil penalty may be imposed on any tobacco product manufacturer in violation of the Complementary Legislation.

Pursuant to the State's Complementary Legislation, the Commissioner is required to maintain a directory listing of all tobacco product manufacturers that have filed current and accurate certifications. No person may sell, offer or possess for sale cigarettes of a tobacco product manufacturer not included in the then current directory. Any cigarettes that have been sold, offered for sale or possessed in the State in violation of the State's Complementary Legislation will be deemed contraband and are subject to seizure and forfeiture. Seized and forfeited cigarettes shall be destroyed and may not be resold. The Commissioner does not include or retain in the directory the name or brand families of any NPM that has failed to provide the required certification or whose certification the Commissioner determines is not in compliance with the Complementary Legislation, unless the Commissioner determined that the violation was satisfactorily cured. The Commissioner updates the directory as necessary in order to correct mistakes and to add or remove a tobacco product manufacturer or brand family to keep the directory in conformity with the requirements of the Complementary Legislation. The State's current (a) directory of "MSA Compliant Tobacco Manufacturers," (b) "Directory of Cigarettes Approved for Sale and Importation by Brand" and (c) "Directory of Cigarettes Approved for Sale and Importation by Manufacturer," are available at http://tax.alaska.gov/programs/programs/reports/index.aspx?60170.

State Statutory Enforcement Framework

DOL, ADR and the State's Department of Health and Social Services, Division of Public Health ("**DPH**") are jointly responsible for the enforcement of the State's tobacco laws. State investigators work closely with businesses and community organizations to ensure compliance with local, State and federal tobacco control laws. The primary goal of DPH's Tobacco Enforcement program is to decrease youth access to tobacco. Tobacco Enforcement investigators ensure compliance and enforce the laws prohibiting the sale and distribution of tobacco products to minors.

DPH also administers its Tobacco Prevention and Control Program. The program's mission is to coordinate and promote activities that help all Alaskans to live healthy and tobacco-free lives. The program (a) helps people quit tobacco by supporting free cessation services for all Alaskans, (b) improves tobacco cessation services by working with the State's Tribal Health Organizations and health care providers, (c) educates the public on health harms of tobacco use and secondhand smoke, (d) supports community policies that create tobacco-free environments, (e) helps youth stay healthy by empowering them to avoid tobacco products and (f) collects and shares information about tobacco use in the State and health consequences for Alaskans.

Alaska 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 is set forth in related statutes and regulations spanning several State agencies and divisions, including AS 18.74 *et seq.*, AS 43.50 *et seq.*, AS 43.70.075, AS 45.50 *et seq.*, and AS 45.53 *et seq.* and implementing regulations.

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.

Tribal Reservation Cigarette Sales

The sales of cigarettes on tribal reservations are subject to AS 43.50.090, AS 43.50.150, and 15 AAC 50.100(d).

ALASKA CONSENT DECREE

On February 9, 1999, the Consent Decree and Final Judgment (the "**Consent Decree**") that governs the class action portion of the State's action against the tobacco companies was entered in the Superior Court for the State of Alaska, First Judicial District at Juneau. The Consent Decree, which is final and non-appealable, settled the class action litigation brought by the State against the OPMs and resulted in the achievement of Alaska State-Specific Finality under the MSA.

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 NTSC has no independent knowledge of any facts indicating that the following information is inaccurate in any material respect, NTSC has not independently verified this information and cannot and does not warrant the accuracy or completeness *of this information. To the extent that reports submitted to the MSA Auditor by the PMs pursuant to the requirements of the MSA provide information that is pertinent to the following discussion, including market share information, the Attorney General of the State has not consented to the release of such information pursuant to the confidentiality provisions of the MSA. Prospective investors in the Series 2021 Bonds should conduct their own independent investigations of the domestic tobacco industry to determine if an investment in the Series 2021 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 TSRs Projection Methodology and Assumptions. See "PLEDGED TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS."

Industry Overview

According to NAAG, the OPMs accounted for approximately 79.97% (measuring roll-your-own cigarettes at 0.0325 ounces per cigarette conversion rate) of the U.S. domestic cigarette market in sales year 2020. 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, 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 a press release dated January 28, 2021, Altria reported that its domestic cigarette market share for the full calendar year 2020 was 49.2%. In its Form 10-K filed with the SEC for the calendar year ended December 31, 2020, Altria reported that Philip Morris's domestic cigarette market share for the year ended December 31, 2020 was 49.2% (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 49.8% for 2019 and 50.3% for 2018. In its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, Altria reported that Philip Morris's domestic cigarette market share for the first quarter of 2021 was 49.0% (based on retail sales data from IRI/Management Science Associate, Inc.), compared to 49.0% for the first quarter of 2020. Philip Morris's major premium brands are Marlboro, Virginia Slims and Parliament (with Marlboro representing approximately 88.2% of Philip Morris's domestic cigarette shipment volume during the first quarter of 2021, according to Altria's Form 10-Q filed with the SEC for the three-month period ended March 31, 2021). Marlboro is also the largest selling cigarette brand in the U.S., with approximately (i) 43.0% and 43.3% of the U.S. domestic retail share for the years ended December 31, 2020 and 2019, respectively, according to Altria in its Form 10-K filed with the SEC for the calendar year ended December 31, 2020 and (ii) 43.1% and 42.7% of the U.S. domestic retail share for the first quarters of years 2021 and 2020, respectively, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, 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. In its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, Altria disclosed a vision to responsibly lead the transition of adult smokers to a non-combustible future. 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 March 31, 2021, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021). Altria reported in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021 that during the three-month period ended March 31, 2021, Altria recorded a non-cash pre-tax unrealized loss of $200 million for the first quarter of 2021 as a result of a decrease in the fair value of JUUL. The carrying value of Altria's investment in JUUL was $1.7 billion at December 31, 2020. Juul Labs, Inc. is engaged in the manufacture and sale of e-vapor products globally. On April 1, 2020, the U.S. Federal Trade Commission ("**FTC**") filed an administrative complaint alleging that Altria's acquisition of a 35% economic interest in Juul Labs, Inc. eliminated competition in violation of federal antitrust laws. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, the administrative trial will take place before an FTC administrative law judge, with any decision by the administrative law judge to be subject to review by the FTC on its own motion or at the request of any party, following which the FTC will issue a ruling, to be subject to appellate review; such administrative trial is currently scheduled to begin in June 2021. If the FTC's challenge is successful, the FTC may order a broad range of remedies, including divestiture of Altria's minority investment in Juul Labs, Inc. and rescission of the transaction and all associated agreements. 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 preliminary results for the year ended December 31, 2019, BAT reported that its U.S. retail cigarette market share at December 31, 2019 increased 30 basis points from 2018, and in its half-year report for the six months ended June 30, 2020, BAT reported that its U.S. cigarette market share increased 30 basis points. 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 full-year results for the fiscal year ended September 30, 2020, Imperial Tobacco's market share in the U.S. tobacco market at fiscal year-end 2020 was 8.9% (representing an increase from 8.8% at fiscal year-end 2019), 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 the calendar year 2019, Vector Group Ltd. reported that the domestic market share of its Liggett subsidiary was 4.0% in 2019, 4.0% in 2018 and 3.7% in 2017. 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 core brands include Pyramid, Eagle 20's, Grand Prix and Liggett Select, all of which are in the discount segment.

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.

(Remainder of Page Intentionally Left Blank)

Manufacturers' Domestic Market Share of Cigarettes[1]

	Calendar Year							
Manufacturer	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Philip Morris	50.7%	50.9%	51.3%	51.4%	50.7%	50.1%	49.7%	49.2%
Reynolds Tobacco[2]	26.0	26.5	32.0	32.3	34.7	34.5	34.8	34.9
Imperial Tobacco[3]	----	----	9.5	9.2	8.7	8.7	8.8	8.9
Lorillard[4]	14.9	15.1	----	----	----	----	----	----
Other[5]	8.4	7.5	7.2	7.1	5.9	6.7	6.7	7.0

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

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

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

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

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

Cigarette Shipment Trends

According to NAAG data, 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 2011-2020

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]
2020	229.730	2.02%	183.085	(0.05)%
2019	225.186	(4.81)	183.169	(7.08)
2018	236.555	(4.96)	197.132	(5.94)
2017	248.904	(4.30)	209.584	(5.09)
2016	260.078	(4.19)	220.818	(2.39)
2015	271.452	2.00	226.214	(0.15)
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)

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 2011-2020

Calendar Year	No. of Cigarettes (in billions)	Percent Change From Prior Year[1]
2020	228.565	2.30%
2019	223.433	(5.05)
2018	235.321	(4.79)
2017	247.163	(4.00)
2016	257.454	(4.03)
2015	268.261	2.10
2014	262.737	(4.04)
2013	273.787	(4.77)
2012	287.487	(1.80)
2011	292.769	(2.57)

[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 ended December 31, 2020, when adjusted for certain factors, total domestic cigarette industry volumes declined by an estimated 2% in 2020, compared to 5.5% in 2019. When adjusted for calendar differences, trade inventory movements and other factors, estimated total domestic cigarette industry volumes for the calendar year ended December 31, 2020 were unchanged versus the prior year, according to Altria in its Form 10-K filed with the SEC for the calendar year ended December 31, 2020. On January 28, 2021, Altria reported in its full-year earnings press release for calendar year 2020 that, when adjusted for trade inventory movements, calendar differences and other factors, estimated total domestic cigarette industry volumes for calendar year 2020 were unchanged versus the prior year.

According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, total domestic cigarette industry volume declined by 12.0%, driven primarily by trade inventory movements, the industry's rate of decline, one fewer shipping day and other factors, compared to the first quarter of 2020. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, when adjusted for trade inventory movements, one fewer shipping day and other factors, it is estimated that total domestic cigarette industry volume declined by 2% in the first quarter of 2021, compared to the first quarter of 2020. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, Altria expects 2021 cigarette industry volume trends to be most influenced by (i) adult smoker stay-at-home practices, (ii) unemployment rates, (iii) fiscal stimulus, (iv) cross-category movement, (v) the timing and breadth of COVID-19 vaccine administration and (vi) adult smoker purchasing behavior of those who receive the vaccine.

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 independently verified, may differ materially from the amounts used by the MSA Auditor for calculating Annual Payments under the MSA.

Physical Plant, Raw Materials, Distribution and Competition

The production facilities of the OPMs tend to be highly concentrated. Material damage to these facilities could materially 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 March 2020, Altria's tobacco businesses temporarily suspended operations at several of their manufacturing facilities, including Philip Morris's manufacturing facility in Richmond, Virginia (the primary facility for manufacturing Philip Morris cigarettes), as a result of the COVID-19 pandemic described herein. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, all of its manufacturing facilities are currently operational under enhanced safety protocols. In addition, shifts in crops (such as those driven by economic conditions and adverse weather patterns), government mandated prices, economic trade sanctions, geopolitical instability, production control programs and access to raw materials may increase or decrease the cost or reduce the supply or quality of tobacco and other agricultural products or machinery and related materials used to manufacture tobacco products. Any significant change in the price, quality or availability of tobacco leaf or other agricultural products or other raw materials or component parts 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 reported that a year after it stopped selling cigarettes, cigarette sales across all retailers dropped in 13 states where it has sizable market share. A group of state attorneys general 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. Costco reportedly removed tobacco products from a majority of its U.S. locations, according to news reports in March 2016. According to the ANRF, as of April 1, 2021, two states (Massachusetts and New York) and 246 cities and counties, located principally in California and Massachusetts, have tobacco-free pharmacy laws.

Beverly Hills and Manhattan Beach, California became the first jurisdictions in the U.S. to ban retail sales of all tobacco products, effective January 1, 2021 (with limited, temporary hardship exemptions). 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.

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.

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.

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. On April 29, 2021, the FDA announced it is working to issue proposed product standards within the next year to ban menthol as a characterizing flavor in cigarettes. The FDA’s announcement did not mention whether the forthcoming ban of menthol flavoring would be applicable to e-cigarettes and other vapor products.

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. According to the Tobacco Consumption Report, growth of e-cigarette use increased dramatically in 2017 and 2018, led by sales of the JUUL brand. 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. JUUL is an e-cigarette shaped like a USB flash drive, which heats a nicotine-containing liquid to produce an aerosol that is inhaled. 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 the Tobacco Consumption Report, JUUL currently accounts for approximately three-fourths of the e-cigarette market. According to Altria, 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 March 31, 2021, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021). Altria reported in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021 that during the three-month period ended March 31, 2021, Altria recorded a non-cash pre-tax unrealized loss of $200 million for the first quarter of 2021 as a result of a decrease in the fair value of JUUL. The carrying value of Altria’s investment in JUUL was $1.7 billion at December 31, 2020. On April 1, 2020, the FTC filed an administrative complaint alleging that Altria’s acquisition of a 35% economic interest in Juul Labs, Inc. eliminated competition in violation of federal antitrust laws. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, the administrative trial will take place before an FTC administrative law judge, with any decision by the administrative law judge to be subject to review by the FTC on its own motion or at the request of any party, following which the FTC will issue a ruling, to be subject to appellate review; such administrative trial is currently scheduled to begin in June 2021. See “—Industry Overview” above.

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 SEC filings, 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. 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. 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. 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 and projected to reach $9 billion for 2019, 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. Altria reported in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021 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 nicotine pouches. In addition, Altria stated that a growing number of adult smokers are converting from cigarettes to exclusive use of non-combustible tobacco product alternatives, that up until the second half of 2019 the e-vapor category had experienced significant growth in recent years, and that the number of adults who exclusively use e-vapor products also increased during that time which, along with growth in oral nicotine pouches, negatively impacted consumption levels and sales volume of cigarettes. Altria noted in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021 that growth in the e-vapor category (i) has been negatively impacted by legislative and regulatory activities, (ii) is increasingly competitive and (iii) is now experiencing a moderate rate of growth. Altria and its tobacco subsidiaries believe that the innovative tobacco products category (in particular, e-vapor) 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-Q filed with the SEC for the three-month period ended March 31, 2021.

According to the Tobacco Consumption Report, in 2019 the CDC reported that 10.9 million people in the U.S. used electronic cigarettes, representing 4.5% of the adult population, and in 2018 14.9% of adults had tried e-cigarettes and 3.2% were current users. According to a CDC report published November 9, 2018, in 2017 2.8% of adults were current e-cigarette users. 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. 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, findings from the 2020 National Youth Tobacco Survey showed that 1.8 million fewer U.S. youth are currently using e-cigarettes compared to the prior year. However, youth e-cigarette use has increased dramatically since 2011, and 3.6 million youth still currently use e-cigarettes, according to the Tobacco Consumption Report. The CDC reported that, in 2020, 19.6% of high school students and 4.7% of middle school students reported current e-cigarette use. Among current e-cigarette users, 38.9% of high school students and 20.0% of middle school students reported using e-cigarettes on 20 or more of the past 30 days; 22.5% of high school users and 9.4% of middle school users reported daily use. 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.

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 during the last 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, 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. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, JUUL ceased its sales of all cartridge-based, flavored e-vapor products (other than tobacco and menthol) in 2019. 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, the Child Nicotine Poisoning Prevention Act was signed 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. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, Massachusetts passed legislation capping the amount of nicotine in vapor products, and similar legislation is pending in three other states.

Certain legislation has been passed by states and localities restricting the use and sale of electronic cigarettes and other vapor products. According to ANRF, as of April 1, 2021, 23 U.S. states and territories and 981 municipalities restrict 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-Q filed with the SEC for the three-month period ended March 31, 2021, as of April 26, 2021, 17 states and the District of Columbia have proposed legislation to ban flavors in one or more tobacco products, including vapor products, oral nicotine pouches and cigarettes, and five states, California, Massachusetts, New Jersey, Utah and New York, have passed such legislation. 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, the Governor of Michigan directed the state health department to issue emergency rules to temporarily ban the sale of flavored vaping products. On January 21, 2020, New Jersey banned the sale of flavored vaping products, effective April 20, 2020. In March 2020, Rhode Island banned the sale of flavored e-cigarettes (making permanent the similar emergency regulations issued in 2019). In April 2020, New York State banned the sale of vapor products in flavors other than tobacco (effective May 18, 2020). On August 28, 2020, California banned the retail sale of all flavored tobacco products, including e-cigarettes (and allowed local ordinances to be more restrictive). A referendum against the ban was filed by the tobacco industry, and the requisite number of signatures was collected to place the issue on the November 2022 ballot, which resulted in a suspension of the effective date of the ban pending action by voters in the November 2022 election.

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. In March 2020, BAT announced the evolution of its "A Better Tomorrow" strategy, including plans to reduce the health impact of its business by offering a greater choice of less risky products, and to increase the number of consumers of its non-combustible 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. IQOS is the electronic device that is used with the HeatSticks heated tobacco products. BAT has developed a similar heat-not-burn tobacco product, Glo. Such products are currently sold in certain international markets, and, following authorization by the FDA as described below, sales of IQOS began in the United States in October 2019 in Atlanta and November 2019 in Richmond, according to the Tobacco Consumption Report, and Philip Morris launched IQOS in Charlotte in July 2020, according to Altria's Form 10-K filed with the SEC for the calendar year ended December 31, 2020. Beginning in November 2020, IQOS is expected to be available for sale in select Charlotte convenience stores, according to a press release by Altria. IQOS will be available in 25% of the U.S. market by the end of 2021, according to the Tobacco Consumption Report. 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. through the FDA's Premarket Tobacco Application pathway (but not the modified risk pathway at that time). On July 7, 2020, the FDA approved IQOS as a "modified risk" tobacco product, which will be allowed to be marketed with "exposure modification" statements to the effect that the product significantly reduces the production of harmful and potentially harmful chemicals and that scientific studies have shown that switching completely from conventional cigarettes to the IQOS system significantly reduces the body's exposure to harmful or potentially harmful chemicals. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, in

December 2020 the FDA authorized the premarket tobacco application for a new generation of the IQOS tobacco heating system, IQOS 3. The modified risk tobacco product application for the original IQOS tobacco heating system does not apply to IQOS 3. Future generations of the IQOS tobacco heating system will require separate premarket tobacco application and modified risk tobacco product application authorization from the FDA, and Philip Morris International has disclosed that it plans to seek modified risk tobacco product authorization for the IQOS 3 electronic device in the future, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021.

On April 9, 2020, BAT sued Philip Morris International for patent infringement based on the sale of IQOS in the United States, seeking remedies for damages caused and an injunction on importing IQOS into the United States. In June 2020, the defendants filed counterclaims against the plaintiffs for infringement of various patents owned by the defendants, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021. The case is currently stayed; in February 2021, the court lifted the stay with respect to defendants' counterclaims.

Also in April 2020, a related action was filed against the same defendants by the same plaintiffs, as well as Reynolds Tobacco, with the United States International Trade Commission ("**ITC**"). There, the plaintiffs also allege patent infringement, but the remedies sought include a prohibition on the importation of the IQOS electronic device, HeatSticks and component parts into the United States. No damages are recoverable in the proceedings before the ITC. A hearing before an administrative law judge began on January 25, 2021. In May 2021, an ITC judge reached an initial determination that Philip Morris International's IQOS technology infringes on patents owned by BAT. The case will subsequently be heard by the full ITC tribunal.

Altria has stated that it considers IQOS and other products in which tobacco is heated rather than burned to be included within "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 ended December 31, 2020, 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 nicotine pouches under the brand name "*on!*". On May 15, 2020, Altria announced that it submitted premarket tobacco product applications to the FDA for 35 *on!* products on behalf of Helix Innovations LLC. In November 2020, BAT announced its acquisition of the nicotine pouch product assets of Dryft Sciences, LLC. The oral nicotine products will be sold under BAT's modern oral nicotine brand, VELO.

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, and according to the Tobacco Consumption Report, in 2018, 2.9% of adults used smokeless tobacco products. 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 ended December 31, 2020, oral tobacco products (comprising the formerly named smokeless products plus oral nicotine pouches) accounted for approximately 9.9% of Altria's net revenues for the smokeable and oral tobacco products segments for the calendar year ended December 31, 2020, compared to 9.7% for the calendar year ended December 31, 2019. Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, oral tobacco products (comprising the formerly named smokeless products plus oral nicotine pouches) accounted for approximately 10.7% of Altria's net revenues for the smokeable and oral tobacco products segments for the first quarter of 2021, compared to 9.7% for the first quarter of 2020.

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. In October 2019, the FDA announced that it had authorized the marketing of eight Swedish Match snus products through the MRTP pathway, marking the first time the FDA had authorized modified risk tobacco products.

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 2020 reported that approximately 34 million American adults were current smokers in 2019, representing approximately 14% of the population age 18 and older, an increase from 13.7% in 2018, but a decline from 15.5% in 2016 and 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, the Prevent All Cigarette Trafficking (PACT) Act was signed into law. 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 into law on June 22, 2009, grants the FDA authority to regulate tobacco products. Among other provisions, the FSPTCA:

- prohibits fruit, candy and clove flavored cigarettes;
- 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 in cigarettes upon a finding that such a prohibition would be appropriate for the public health (as described herein, on April 29, 2021, the FDA announced it is working to issue proposed product standards within the next year to ban menthol as a characterizing flavor in cigarettes);
- 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 the FSPTCA's ban on fruit, candy and clove flavored cigarettes;

- 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;
- issued final 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);
- issued an ANPRM in order to obtain information for consideration in developing a tobacco product standard to set the maximum nicotine level for cigarettes (and is currently considering requiring tobacco companies to reduce nicotine levels to non-addictive levels in all cigarettes sold in the United States); and
- announced on April 29, 2021 that it is working to issue proposed product standards within the next year to ban menthol as a characterizing flavor in cigarettes.

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

Warnings. Pursuant to requirements of the FSPTCA, the FDA issued a proposed rule in November 2010 to modify the required warnings that appear on cigarette packages and in cigarette advertisements. The proposed new warnings consisted of nine new textual warning statements accompanied by color pictures depicting the negative health consequences of smoking. The 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 March 17, 2020, the FDA issued a final rule to require new health warnings on cigarette packages and in cigarette advertisements. The warnings feature textual statements with photo-realistic color images depicting some of the lesser-known but serious health risks of cigarette smoking. Beginning April 14, 2022, the new cigarette health warnings will be required to 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. Once implemented, the new warnings must be randomly and equally displayed and distributed on cigarette packages and rotated quarterly in cigarette advertisements. The final cigarette health warnings each consist of one of the following 11 textual warning statements (each beginning with "WARNING:") paired with an accompanying photo-realistic image depicting the negative health consequences of smoking: "Tobacco smoke can harm your children"; "Tobacco smoke causes fatal lung disease in nonsmokers"; "Smoking causes head and neck cancer"; "Smoking causes bladder cancer, which can lead to bloody urine"; "Smoking during pregnancy stunts fetal growth"; "Smoking can cause heart disease and strokes by clogging arteries"; "Smoking causes COPD, a lung disease that can be fatal"; "Smoking reduces blood flow, which can cause erectile dysfunction"; "Smoking reduces blood flow to the limbs, which can require amputation"; "Smoking causes type 2 diabetes, which raises blood sugar"; and "Smoking causes cataracts, which can lead to blindness." According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, in the preamble to the final rule the FDA stated that it would not exempt HeatSticks, the heat-not-burn tobacco product used with the IQOS electronic device, as part of the graphic warning rulemaking, but would consider marketing orders on a case-by-case basis.

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. Leading up to its April 29, 2021 announcement regarding a menthol ban, as described below, the FDA has been considering the issue of menthol in cigarettes for over a decade. 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. 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.

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. See "—*Comprehensive Regulatory Plan for Tobacco and Nicotine*" below. 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 June 2020, the African American Tobacco Control Leadership Council, the Action on Smoking and Health, the American Medical Association and the National Medical Association filed a complaint against the FDA, seeking to compel the FDA to fulfill its mandate to take action on the FDA's conclusions that it would benefit the public health to add menthol to the list of prohibited characterizing flavors and therefore ban it from sale. On January 22, 2021 a coalition of 23 Attorneys General sent a letter to the FDA urging the FDA to ban menthol cigarettes, citing evidence that such a ban would benefit public health, reduce youth smoking initiation and improve smoking cessation outcomes. In connection with this litigation, on April 29, 2021 the FDA announced it is working to issue proposed product standards within the next year to ban menthol as a characterizing flavor in cigarettes. The FDA's enforcement would extend to manufacturers, distributors, wholesalers, importers and retailers. Proposed rules will be published by the FDA, with a period for public comment.

According to research published in *Nicotine and Tobacco Research* in 2018, the menthol cigarette domestic market share increased from 30.2% in 2011 to 32.5% in 2015, and a Federal Trade Commission report estimated the 2019 domestic market share of menthol cigarettes at 37%.

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 the FDA, new tobacco product applications must demonstrate with scientific data that the product is 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; therefore, manufacturers of these products may not be able to file substantial equivalence reports and would be required to file new tobacco product applications demonstrating that the marketing of the products would be appropriate for the protection of the public health. 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 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, and 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). On April 22, 2020 the court granted a 120-day extension (to September 9, 2020) to the e-cigarette PMTA filing deadline, on account of the COVID-19 pandemic. 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 (formerly named VLN), which are combusted, filtered cigarettes that contain a reduced amount of nicotine compared to typical commercial cigarettes (an approximately 95% reduction). 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, in which 22nd Century Group Inc. seeks to sell such products with reduced exposure claims.

Altria reported in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021 that it is difficult to predict the duration of FDA reviews of substantial equivalence reports or PMTAs, and that a "not substantially equivalent" determination, a denial of a PMTA or the withdrawal by the FDA of a prior marketing order on one or more products could result in the removal of products from the market and could have a material adverse impact on Altria's 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, prohibits the alteration or removal of warning labels and prohibits the use of modified risk claims, unless expressly authorized by the FDA through the modified risk tobacco product application process. 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-Q filed with the SEC for the three-month period ended March 31, 2021.

As described above under "—Smokeless Tobacco Products," in October 2019, the FDA announced that it had authorized the marketing of eight Swedish Match snus products through the modified risk tobacco product pathway, marking the first time the FDA had authorized modified risk tobacco products.

As described above under "—Heat-Not-Burn Tobacco Products," on July 7, 2020, the FDA approved Philip Morris International's IQOS system as a "modified risk" tobacco product, which will be allowed to be marketed with "exposure modification" statements to the effect that the product significantly reduces the production of harmful and potentially harmful chemicals and that scientific studies have shown that switching completely from conventional cigarettes to the IQOS system significantly reduces the body's exposure to harmful or potentially harmful chemicals.

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.

As described above under "*—Pre-Market Review for New and Modified Products*," the FDA has not yet made a ruling on the modified risk tobacco product application for the reduced nicotine cigarettes of 22nd Century Group Inc.

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, and the FDA is currently considering requiring tobacco companies to reduce nicotine levels to non-addictive levels in all cigarettes sold in the United States, according to news reports in April 2021. As described in "*Menthol*" above, on April 29, 2021, the FDA (as part of the comprehensive plan) announced it is working to issue proposed product standards within the next year to ban menthol as a characterizing flavor in cigarettes.

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 e-vapor product pre-market applications from August 2022 to August 2021 (however, as described above, the U.S. District Court for the District of Maryland ordered a May 12, 2020 deadline for the submission of e-vapor product PMTAs, which the court extended to September 9, 2020 on account of the COVID-19 pandemic), and imposing restrictions on sales of flavored vapor 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. 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.

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 March 17, 2020, the FDA issued its final 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, an increase was signed into law, effective April 1, 2009, 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, a provision was signed into law 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.

In 2019, a bill was introduced in the U.S. Senate that would have doubled the federal excise tax per pack of cigarettes (and would have applied the same tax level to all tobacco products), and it is possible that similar legislation will be enacted in order to help fund the President's climate-related and other initiatives. In April 2021, the Tobacco Tax Equity Act of 2021 was introduced into both the Senate and House of Representatives. The bill seeks to (i) double the federal tax rate on cigarettes, pegging the resulting tax rate to inflation and (ii) set the federal tax rate for all other tobacco products at this same level. Numerous advocacy groups, including the American Cancer Society Cancer Action Network and American Lung Association, support increasing the federal cigarette excise tax and raising federal tax rates on other tobacco products. According to the Centers for Disease Control and Prevention, increasing the price of tobacco products is one of the most effective methods to prevent or reduce tobacco use.

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 December 7, 2020. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, between the end of 1998 (the year that the MSA was executed) and April 26, 2021, the weighted average state cigarette excise tax increased from $0.36 to $1.89 per pack. In recent years, almost every state has increased tobacco taxes, according to the Campaign for Tobacco-Free Kids. 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 such state's cigarette excise tax (in addition to such 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. During 2019, New Mexico and Illinois increased their cigarette excise taxes. During 2020, a cigarette excise tax increase went into effect in Virginia, and voters in Oregon and Colorado approved cigarette excise tax increases effective January 1, 2021 — an increase of $2.00 in Oregon, from $1.33 to $3.33 per pack, and incremental increases in Colorado, from $0.84 to $2.64 per pack by July 2027.

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 the federal government, state and local governments will continue to raise their respective excise taxes on cigarettes in future years.

All 50 states and the District of Columbia subject smokeless tobacco to excise taxes. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, a majority of states currently tax moist smokeless tobacco products using an ad valorem method, which is calculated as a percentage of the price of the product, typically the wholesale price. As of April 26, 2021, the federal government, 23 states, Puerto Rico, Philadelphia, Pennsylvania and Cook County, Illinois have adopted a weight-based tax methodology for moist smokeless tobacco, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021.

According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, as of April 26, 2021, 30 states, the District of Columbia, Puerto Rico and a number of cities and counties have enacted legislation to tax e-vapor products; these taxes are calculated in varying ways and may differ based on the e-vapor product form. Eleven states and the District of Columbia have enacted legislation to tax oral nicotine pouches, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021.

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. On July 1, 2020, New York State prohibited the use of coupons and other price discounts on cigarette sales.

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 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). According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, Massachusetts passed legislation capping the amount of nicotine in vapor products, and similar legislation is pending in three other states.

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-Q filed with the SEC for the three-month period ended March 31, 2021, as of April 26, 2021, 17 states and the District of Columbia have proposed legislation to ban flavors in one or more tobacco products, including vapor products, oral nicotine pouches and cigarettes, and five states, California, Massachusetts, New Jersey, Utah and New York, have passed such legislation. 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. On January 21, 2020, New Jersey banned the sale of flavored vaping products, effective April 20, 2020. In March 2020, Rhode Island banned the sale of flavored e-cigarettes (making permanent the similar emergency regulations issued in 2019). In April 2020, New York State banned the sale of vapor products in flavors other than tobacco (effective May 18, 2020). Los Angeles County banned the sale of all flavored tobacco products, including menthol cigarettes, effective May 1, 2020. On August 28, 2020, California banned the retail sale of all flavored tobacco products, including menthol-flavored cigarettes (and allowed local ordinances to be more restrictive). A referendum against the ban was filed by the tobacco industry, and the requisite number of signatures was collected to place the issue on the November 2022 ballot, which resulted in a suspension of the effective date of the ban pending action by voters in the November 2022 election.

According to ANRF, as of April 1, 2021, 36 states as well as the District of Columbia, American Samoa, Guam, the Northern Mariana Islands, Puerto Rico and the U.S. Virgin Islands 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 April 1, 2021, 27 states as well as District of Columbia, Puerto Rico and the U.S. Virgin Islands have laws that require 100% smoke-free non-hospitality workplaces and restaurants and bars: Arizona, California, Colorado (with certain exemptions for marijuana smoking), Delaware, the District of Columbia, Hawaii, Illinois, Iowa, Kansas, Maine, Maryland, Massachusetts, Michigan (with certain exemptions for marijuana smoking), 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 April 1, 2021, according to ANRF, there were 1,631 local jurisdictions with local laws that require 100% smoke-free non-hospitality workplaces or restaurants or bars, of which 1,142 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 June 1, 2021, there were at least 1,076 gambling facilities that are required to be 100% smoke-free indoors, and as of April 1, 2021, 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. On January 26, 2021 a Florida Senate committee approved a bill that would prohibit smoking in state parks and allow local governments to ban smoking at beaches and parks;

- 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 April 1, 2021, 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 554 municipalities have enacted laws for 100% smoke-free outdoor dining, while 371 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 April 1, 2021, there are at least 2,537 100% smoke-free university and college campuses, and of these, 2,076 have a 100% tobacco-free policy and 2,128 prohibit the use of e-cigarettes anywhere on campus. The University of California implemented its system-wide smoke-free and tobacco-free policy effective January 1, 2014. ANRF further reports, as of April 1, 2021, that four national hospitals, clinics, insurers and health service companies, and at least 4,146 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 January 1, 2021 (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 April 1, 2021, six states and 266 municipalities have laws requiring that all hotel and motel rooms be 100% smoke-free. Furthermore, ANRF reports as of April 1, 2021 that 65 municipalities prohibit, and an additional 19 municipalities partially restrict, smoking in private units of market-rate multi-unit housing (whether privately-owned or publicly-owned housing), and 623 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-Q filed with the SEC for the three-month period ended March 31, 2021, as of April 26, 2021, 181 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-Q filed with the SEC for the three-month period ended March 31, 2021.

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 2021 Bonds payable from tobacco settlement payments made under the MSA.

Thousands of claims have been brought against the PMs in tobacco-related litigation. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, the following tobacco-related cases were pending in the U.S. against Philip Morris and, in some instances, Altria, as of April 26, 2021: 162 individual smoking and health cases (see "—*Individual Smoking and Health Cases*" below); 1,471 flight attendant cases (see "—*Flight Attendant Cases*" below); approximately 1,214 *Engle* Progeny Cases in state court (involving approximately 1,500 state court plaintiffs) and 3 *Engle* Progeny Cases in federal court (see "—*Engle Progeny Cases*" below); 1 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 2,150 e-vapor cases (see "—*E-Vapor Cases*" below). Altria reported in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021 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 $841 million and interest totaling approximately $218 million as of March 31, 2021.

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 have appealed (in February 2021, the Massachusetts Supreme Judicial Court asserted jurisdiction over the appeal), according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021. Another example of an Individual Smoking and Health Case is *Greene*, in which a jury in a Massachusetts state court returned a verdict in September 2019 in favor of plaintiffs and against Philip Morris, awarding approximately $10 million in compensatory damages; in May 2020, the court ruled on plaintiffs' remaining claim and trebled the compensatory damages award to approximately $30 million, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021. In February 2021, the trial court in *Greene* awarded plaintiff attorneys' fees and costs in the amount of approximately $2.3 million, and Philip Morris served its post-trial motions to reverse the judgment or for a new trial, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021.

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-Q filed with the SEC for the three-month period ended March 31, 2021, 1,471 cases brought by flight attendants seeking compensatory damages for personal injuries allegedly caused by exposure to environmental tobacco smoke were pending as of April 26, 2021.

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-Q filed with the SEC for the three-month period ended March 31, 2021, as of April 26, 2021, 135 state and federal *Engle* Progeny Cases involving Philip Morris have resulted in verdicts since the Florida Supreme Court's *Engle* decision: 76 verdicts were returned in favor of plaintiffs (five of which were reversed post-trial or on appeal and remain pending; 50 verdicts were returned in favor of Philip Morris (four of which were subsequently reversed for new trials); 2 verdicts were returned in favor of Philip Morris with zero damages; 2 verdicts were returned against Philip Morris awarding no damages but the trial court in each case decided to award plaintiffs damages; one verdict was returned in favor of Philip Morris following a retrial of an initial verdict returned in favor of plaintiff (appeals by plaintiff and defendants resulted in the appellate court affirming the judgement in favor of the defendants); and three verdicts were returned in favor of plaintiffs following retrial of initial verdicts returned in favor of plaintiffs (post-trial motions or appeals are pending). In addition, according to Altria's Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, as of April 26, 2021 approximately 1,214 state court cases were pending against Philip Morris or Altria asserting individual claims by or on behalf of approximately 1,500 state court plaintiffs, and 3 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. In May 2017, the en banc Eleventh Circuit (in the *Graham* case) 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. In addition, in 2018 the Eleventh Circuit (in the *Burkhart* and *Searcy* cases) rejected defendants' arguments that application of the *Engle* findings to the *Engle* progeny plaintiffs' concealment and conspiracy claims violated defendants' due process rights. The U.S. Supreme Court denied the tobacco manufacturers' petitions for writ of certiorari in all of the above-described cases where such petitions were sought.

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 *Soffer*, 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*, 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.

In another *Engle* Progeny Case, *Rintoul (Caprio)*, a verdict was rendered in November 2019 against the defendants Philip Morris and Reynolds Tobacco in the amount of $9 million in compensatory damages and $74 million in punitive damages; appeals are pending, according to Altria's Form 10-Q filed with the SEC for the three-month period ended March 31, 2021. Various *Engle* Progeny Cases in addition to the cases described herein are discussed in detail in the SEC filings of Altria. As of April 26, 2021, one *Engle* Progeny Cases is set for trial through June 30, 2021, according to Altria's Form 10-Q filed with the SEC for the three-month period ended March 31, 2021. Trial schedules are subject to change, and many trials have been postponed due to the COVID-19 pandemic; however, the courts are beginning to reopen, and trials may be scheduled for the second half of 2021.

In June 2009, Florida amended its existing bond cap statute by adding a $200 million bond cap that applied to all *Engle* Progeny Cases in the aggregate. In May 2011, Florida removed the provision that would have allowed it to expire on December 31, 2012. The bond cap for any given individual *Engle* Progeny Case varies depending on the number of judgments in effect at a given time, but never exceeds $5 million per case for appeals within the Florida state court system. The legislation, which became effective in June 2009 and 2011, applies to judgments entered after the original 2009 effective date. The plaintiffs in some cases challenged the constitutionality of the amended statute, but the challenges were unsuccessful. No federal court has yet addressed the constitutionality of the bond cap statute or the applicability of the bond cap to *Engle* Progeny Cases tried in federal court, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021. 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-Q filed with the SEC for the three-month period ended March 31, 2021.

Class Action Cases and Aggregated Claims

In 1996, the Fifth Circuit Court of Appeals in *Castano v. American Tobacco Co.* overturned the certification of a nation-wide class of persons whose claims related to alleged addiction to tobacco products, finding that the district court failed to properly assess variations in the governing state laws and whether common issues predominated over individual issues. Since the Fifth Circuit's ruling in *Castano*, plaintiffs have filed numerous putative smoking and health class action suits in various state and federal courts; in general, these cases purport to be brought on behalf of residents of a particular state or states (although a few cases purport to be nationwide in scope), according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021. 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. 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-Q filed with the SEC for the three-month period ended March 31, 2021, 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 April 26, 2021, two "lights" class actions were pending in U.S. state court, and neither case is active, according to Altria's Form 10-Q filed with the SEC for the three-month period ended March 31, 2021.

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-Q filed with the SEC for the three-month period ended March 31, 2021, 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 federal circuit courts of appeals. The MSA and the Previously Settled State Settlements were executed in settlement of asserted and unasserted health care cost recovery and other claims.

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-Q filed with the SEC for the three-month period ended March 31, 2021, 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-Q filed with the SEC for the three-month period ended March 31, 2021 that in 2014 and 2019, Altria and Philip Morris recorded provisions totaling $36 million for the estimated costs of implementing the corrective communications remedy ($31 million in 2014 and $5 million in 2019).

The requirements related to corrective statements at point-of-sale remain outstanding. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, in May 2018 the parties submitted a joint status report and additional briefing on point-of-sale signage to the district court; in May 2019, the district court ordered a hearing on the point-of-sale signage issue; and such hearing is currently scheduled for July 2021.

E-Vapor Cases

According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, as of April 26, 2021, Altria and/or its subsidiaries, including Philip Morris, were named as defendants in 47 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 also sought to add antitrust claims due to the April 1, 2020 administrative complaint filed by the FTC, and although the court denied this request in the class action lawsuits, the individual antitrust claims remain pending before the same court. Plaintiffs seek various remedies including compensatory and punitive damages and an injunction prohibiting product sales. According to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021, the FTC administrative trial is currently scheduled to begin in June 2021. Altria and/or its subsidiaries, including Philip Morris, also have been named as defendants in other lawsuits involving JUUL e-vapor products, including 1,980 individual lawsuits, 123 "third party" lawsuits filed by school districts, state and local governments, including the states of Alaska, Hawaii and Minnesota, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021; 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-Q filed with the SEC for the three-month period ended March 31, 2021. Altria and its subsidiaries filed motions to dismiss certain claims in the class action and school district cases, including the federal RICO claim; in October 2020, the U.S. District Court for the Northern District of California granted the motion to dismiss the RICO class action claim (but otherwise denied the motion). The U.S. District Court for the Northern District of California gave plaintiffs the opportunity to amend their complaints and plaintiffs filed their amended complaints in November 2020, after which Altria and its subsidiaries filed a renewed motion to dismiss in January 2021, which the court denied in April 2021, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021. An additional group of cases is pending in California state courts; in January 2020, the Judicial Council of California determined that this group of cases was appropriate for coordination and assigned the group to the Superior Court of California, Los Angeles County, for pretrial purposes, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021. No case in which Altria or any of its subsidiaries is named has been set for trial, according to Altria in its Form 10-Q filed with the SEC for the three-month period ended March 31, 2021. 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-Q filed with the SEC for the three-month period ended March 31, 2021.

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-Q filed with the SEC for the three-month period ended March 31, 2021 that Juul Labs, Inc. is currently under investigation by various federal and state agencies, including the SEC, the FDA and the FTC, 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 NTSC 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 2021 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 2021 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 2021 Bonds will be as assumed. See "RISK FACTORS" herein.

General

IHS Global prepared the Tobacco Consumption Report for NTSC. IHS Global provided the following description to NTSC 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 2020, 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 2021 through 2066 (the "**Tobacco Consumption Base Case Forecast**"). IHS Global's model was also used to project total United States cigarette consumption from 2021 through 2066 including a national menthol ban under two different scenarios (the "**Tobacco Consumption Alternative Case (Menthol Ban) Forecast 1**" and the "**Tobacco Consumption Alternative Case (Menthol Ban) Forecast 2**", respectively; and together with the Tobacco Consumption Base Case Forecast, the "**Tobacco Consumption Forecasts**"). The Tobacco Consumption Base Case Forecast indicates that the total consumption of cigarettes in the United States is projected to fall at an average annual rate of approximately 3.37% from 2021 through 2066, resulting in a forecast of total U.S. cigarette consumption in 2066 of 47.5 billion cigarettes including a roll-your-own equivalent of 0.0325 ounces per cigarette (a 79% decline from the 2020 level), as set forth in the Tobacco Consumption Report. The Tobacco Consumption Alternative Case (Menthol Ban) Forecast 1 indicates that the total consumption of cigarettes in the United States is projected to fall at an average annual rate of approximately 3.59% from 2021 through 2066, resulting in a forecast of total U.S. cigarette consumption in 2066 of 42.9 billion cigarettes including a roll-your-own equivalent of 0.0325 ounces per cigarette (an 81% decline from the 2020 level), as set forth in the Tobacco Consumption Report. The Tobacco Consumption Alternative Case (Menthol Ban) Forecast 2 indicates that the total consumption of cigarettes in the United States is projected to fall at an average annual rate of approximately 3.71% from 2021 through 2066, resulting in a forecast of total U.S. cigarette consumption in 2066 of 40.4 billion cigarettes including a roll-your-own equivalent of 0.0325 ounces per cigarette (an 82% decline from the 2020 level), as set forth in the Tobacco Consumption Report. According to IHS Global, the assumptions on which the Tobacco Consumption Forecasts are 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 2017-2019. NAAG reported an industry volume decline in 2019 of 5.0%.

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. Furthermore, IHS Global assumed in its forecast that the November 2022 referendum in California will uphold a menthol cigarette ban in California, and that such ban will go into effect in 2023.

Based on the Tobacco Consumption Alternative Case (Menthol Ban) Forecast 1, the Tobacco Consumption Report projects U.S. cigarette consumption decline to accelerate from a 4.6% decline in 2023 to an 8.7% decline in 2024 (the Tobacco Consumption Report projects the ban to be effective by the middle of 2024), followed by an 8.4% decline in 2025 (the first full year that the Tobacco Consumption Report projects the ban to be effective), and projects U.S. cigarette consumption decline to decelerate to a 3.4% decline in 2026. Based on the Tobacco Consumption Alternative Case (Menthol Ban) Forecast 2, the Tobacco Consumption Report projects U.S. cigarette consumption decline to accelerate from a 4.6% decline in 2023 to an 11.2% decline in 2024 (the Tobacco Consumption Report projects the ban to be effective by the middle of 2024), followed by an 11.0% decline in 2025 (the first full year that the Tobacco Consumption Report projects the ban to be effective), and projects U.S. cigarette consumption decline to decelerate to a 3.4% decline in 2026.

Comparison with Prior Forecast

On August 11, 2006, IHS Global presented a study to NTSC, in which its base case forecast projected that total consumption in 2046 would be 182 billion cigarettes, a 54% decline from the 2003 level. From 2004 through 2046 the average annual rate of decline was projected to be 1.81%. The Tobacco Consumption Base Case Forecast projects an average decline rate, from 2005, of 3.3% through 2046, with a projected annual consumption level of 94.2 billion cigarettes in such year. According to the Tobacco Consumption Report, the Tobacco Consumption Base Case 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 over the last 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, NTSC will execute a Continuing Disclosure Agreement (the "**Continuing Disclosure Undertaking**") for the benefit of the Owners and beneficial owners of the Series 2021 Bonds. Pursuant to the Continuing Disclosure Undertaking, NTSC 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."

In August 2020, Moody's Investors Service upgraded its ratings on certain of the Series 2006 Bonds; NTSC did not file a notice of such rating upgrade on EMMA.

LITIGATION

There is no litigation pending in any court (either State or federal) to restrain or enjoin the issuance or delivery of the Series 2021 Bonds or questioning the creation, organization or existence of NTSC, the validity or enforceability of the Indenture or the Purchase and Sale Agreement, the sale of the NTSC Tobacco Assets to NTSC, the proceedings for the authorization, execution, authentication and delivery of the Series 2021 Bonds or the validity of the Series 2021 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.

On or about October 11, 2000, a complaint was filed in the Superior Court for the State of Alaska, Third Judicial District (*Myers v. State of Alaska, Alaska Housing Finance Corporation and Northern Tobacco Settlement Corporation*), seeking a declaratory judgment determining that the sale of the 2000 Tobacco Asset by the State to AHFC or to NTSC is a dedication of State funds for a special purpose, in violation of Section 7, Article IX, of the Alaska Constitution. On October 24, 2000, Superior Court Judge Hensley ruled that such sale of the 2000 Tobacco Asset did not violate the Alaska Constitution. Plaintiff thereafter appealed to the Alaska Supreme Court, and on April 18, 2003, the Alaska Supreme Court affirmed the decision of the Superior Court. No similar litigation was ever commenced to challenge the sale of the 2001 Tobacco Asset.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Kutak Rock LLP, Bond Counsel to NTSC ("**Bond Counsel**"), to be delivered on the date of issuance of the Series 2021 Bonds, (A) assuming compliance with certain covenants which are designed to meet the requirements of the Internal Revenue Code of 1986, as amended (the "**Code**"), under existing laws, regulations, rulings and judicial decisions, (i) interest on the Series 2021 Bonds (including any original issue discount properly allocable to the owner of a Series 2021 Bond) is *excluded* from gross income for federal income tax purposes and (ii) interest on the Series 2021 Bonds is not a specific preference item for purposes of the alternative minimum tax imposed under the Code; and (B) interest on the Series 2021 Bonds is free from taxation by the State under existing law (*except* that no opinion is expressed as to such exemption from State estate and inheritance taxes and taxes of transfers by or in anticipation of death). A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto.

Compliance

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 2021 Bonds, including compliance with restrictions on the yield of investments and periodic rebate payments to the Federal government. The Tax Certificate of NTSC, which will be delivered concurrently with the delivery of the Series 2021 Bonds, will contain provisions and procedures relating to compliance with such requirements of the Code. NTSC also has covenanted in the Indenture to do and perform all acts and things permitted by law and necessary or desirable to assure that interest paid on the Series 2021 Bonds shall not be included in gross income for federal income tax purposes. Failure to comply with these covenants may result in interest on the Series 2021 Bonds being included in gross income for federal income tax purposes from the date of issuance of the Series 2021 Bonds. The opinion of Bond Counsel assumes NTSC is in compliance with these covenants. Bond Counsel is not aware of any reason why NTSC cannot or will not be in compliance with such covenants. *However,* Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series 2021 Bonds may affect the tax status of interest on the Series 2021 Bonds.

Original Issue Discount

The Series 2021 Bonds that have an original yield above their respective interest rates, as shown on the inside cover of this Offering Circular (collectively, the "**Discount Bonds**"), are being sold at an original issue discount. The difference between the initial public offering prices of such Discount Bonds and their stated amounts to be paid at maturity constitutes original issue discount treated in the same manner for federal income tax purposes as interest, as described above.

The amount of original issue discount that is treated as having accrued with respect to a Discount Bond or is otherwise required to be recognized in gross income is added to the cost basis of the owner of the bond in determining, for federal income tax purposes, gain or loss upon disposition of such Discount Bond (including its sale or payment at maturity). Amounts received on disposition of such Discount Bond that are attributable to accrued or otherwise recognized original issue discount will be treated as tax-exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discount Bond, on days that are determined by reference to the maturity date of such Discount Bond. The amount treated as original issue discount on such Discount Bond for a particular semiannual accrual period is equal to (a) the product of (i) the yield to maturity for such Discount Bond (determined by compounding at the close of each accrual period) and (ii) the amount that would have been the tax basis of such Discount Bond at the beginning of the particular accrual period if held by the original purchaser, (b) less the amount of any interest payable for such Discount Bond during the accrual period. The tax basis for purposes of the preceding sentence is determined by adding to the initial public offering price on such Discount Bond the sum of the amounts that have been treated as original issue discount for such purposes during all prior periods. If such Discount Bond is sold between semiannual compounding dates, original issue discount that would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

Owners of Discount Bonds should consult their tax advisors with respect to the determination and treatment of original issue discount accrued as of any date, with respect to when such original issue discount must be recognized as an item of gross income and with respect to the state and local tax consequences of owning a Discount Bond. Subsequent purchasers of Discount Bonds that purchase such bonds for a price that is higher or lower than the "adjusted issue price" of the bonds at the time of purchase should consult their tax advisors as to the effect on the accrual of original issue discount.

Original Issue Premium

Series 2021 Bonds sold at an initial public offering price that is greater than the stated amount to be paid at maturity constitute "**Premium Bonds**." An amount equal to the excess of the issue price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of Premium Bonds should consult with their tax advisors with respect to the determination and treatment of amortizable premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

Recognition of Income Generally

Section 451 of the Code was amended by Pub. L. No. 115-97, enacted December 22, 2017 (sometimes referred to as the Tax Cuts and Jobs Act), to provide that taxpayers using an accrual method of accounting for federal income tax purposes generally will be required to include certain amounts in income, including original issue discount and market discount, no later than the time such amounts are reflected on certain financial statements of such taxpayer. The application of this rule may require the accrual of income earlier than would have been the case prior to the amendment of Section 451 of the Code. However, proposed regulations generally would exclude, among other items, original issue discount (whether or not de minimis) from applicability of the book/tax conformity rule. Investors should consult their own tax advisors regarding the application of this rule and its impact on the timing of the recognition of income related to the Series 2021 Bonds under the Code.

Backup Withholding

As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Series 2021 Bonds is subject to information reporting in a manner similar to that with respect to interest paid on taxable obligations. Backup withholding may be imposed on payments to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. This reporting requirement does not in and of itself affect or alter the excludability of interest on the Series 2021 Bonds from gross income for federal income tax purposes or any other Federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Certain Additional Federal Tax Consequences

The foregoing is a brief discussion of certain Federal and State income tax matters with respect to the Series 2021 Bonds under existing statutes. It does not purport to deal with all aspects of Federal or State taxation that may be relevant to a particular owner of Series 2021 Bonds. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal, state and local tax consequences of owning and disposing of the Series 2021 Bonds.

Although Bond Counsel will render an opinion that interest on the Series 2021 Bonds will be excluded from gross income for federal income tax purposes, the accrual or receipt of interest on the Series 2021 Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Purchasers of the Series 2021 Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions or recipients of Social Security or Railroad Retirement benefits, taxpayers otherwise entitled to claim the earned income credit, taxpayers entitled to claim the refundable credit in Section 36B of the Code for coverage under a qualified health plan and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations, are advised to consult their tax advisors as to the tax consequences of purchasing, holding or selling the Series 2021 Bonds.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to under this heading "Tax Matters" or adversely affect the market value of the Series 2021 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Series 2021 Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Series 2021 Bonds or the market value thereof would be impacted thereby. Purchasers of the Series 2021 Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinion expressed by Bond Counsel are based on existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series 2021 Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

PROSPECTIVE PURCHASERS OF THE SERIES 2021 BONDS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS PRIOR TO ANY PURCHASE OF THE SERIES 2021 BONDS AS TO THE IMPACT OF THE CODE UPON THEIR ACQUISITION, HOLDING OR DISPOSITION OF THE SERIES 2021 BONDS.

RATINGS

It is a condition to the obligation of the Underwriters to purchase the Series 2021 Bonds that, at the date of delivery thereof to the Underwriters, S&P Global Ratings ("**S&P**") has assigned a rating of "A (sf)" to the Series 2021A Bonds maturing June 1, 2022 through June 1, 2031; a rating of "A- (sf)" to the Series 2021A Bonds maturing June 1, 2032 through June 1, 2041; a rating of "BBB+ (sf)" to the Series 2021A Bonds maturing June 1, 2050; a rating of "BBB+ (sf)" to the Series 2021B-1 Bonds maturing June 1, 2031; and a rating of "BBB- (sf)" to the Series 2021B-1 Bonds maturing June 1, 2050. The Series 2021B-2 Bonds are <u>not</u> rated and involve additional risks that may not be appropriate for certain investors. See "RISK FACTORS—Market for Series 2021B-2 Bonds; No Credit Rating on Series 2021B-2 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 NTSC to pay (i) interest on the Series 2021A Bonds and Series 2021B-1 Bonds, when due, and (ii) principal of the Series 2021A Bonds and Series 2021B-1 Bonds by their Maturity Dates and, with respect to the Series 2021A Bonds that are Term Bonds, Fixed Sinking Fund Installment dates. The ratings do not address the payment of Turbo Redemptions on the Series 2021B-1 Bonds. The ratings of the Series 2021A Bonds and Series 2021B-1 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 2021 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 2021 Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Series 2021 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 2006 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 2021 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, as representative of the Underwriters set forth on the cover page hereof, has agreed, subject to certain conditions, to purchase all, but not less than all, of the Series 2021 Bonds from NTSC at an underwriters' discount of $1,848,685.14. The Underwriters will be obligated to purchase all of the Series 2021 Bonds if any are purchased. The initial public offering prices of the Series 2021 Bonds may be changed from time to time by the Underwriters. The Series 2021 Bonds may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Series 2021 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 NTSC as Underwriters) for the distribution of the Series 2021 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 NTSC. 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 NTSC.

Citigroup Global Markets Inc. is an affiliate of Citibank, N.A., which is acting as MSA Escrow Agent under the MSA.

The following two paragraphs have been provided by Wells Fargo Bank, National Association:

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Securities, LLC, member NYSE, FINRA, NFA, and SIPC.

Wells Fargo Securities, LLC ("WFSLLC"), one of the underwriters of the Series 2021 Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA") for the distribution of certain municipal securities offerings, including the Series 2021 Bonds. Pursuant to the WFA Distribution Agreement, WFSLLC will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Series 2021 Bonds with WFA. WFS has also entered into an agreement (the "WFBNA Distribution Agreement") with its affiliate, Wells Fargo Bank, N.A., acting through its Municipal Finance Group ("WFBNA"), for the distribution of municipal securities offerings, including the Series 2021 Bonds. Pursuant to the WFBNA Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

LEGAL MATTERS

The validity of the Series 2021 Bonds and certain other legal matters are subject to the approving opinion of Kutak Rock LLP, as Bond Counsel to NTSC. A complete copy of the proposed form of opinion of Bond Counsel is contained in APPENDIX D hereto. Certain legal matters will be passed upon for the State by the Attorney General of the State of Alaska. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP.

OTHER PARTIES

IHS Global

IHS Global has been retained on behalf of NTSC 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 2021 Bonds. The Tobacco Consumption Report should be read in its entirety.

Municipal Advisor

Masterson Advisors LLC is employed as "**Municipal Advisor**" to NTSC in connection with the issuance of the Series 2021 Bonds. The Municipal Advisor's fee for services rendered with respect to the sale of the Series 2021 Bonds is contingent upon the issuance and delivery of the Series 2021 Bonds. Masterson Advisors LLC, in its capacity as Municipal Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Series 2021 Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Municipal Advisor to NTSC has provided the following sentence for inclusion in this Offering Circular.

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

NORTHERN TOBACCO SECURITIZATION CORPORATION

By: /s/ Bryan D. Butcher
Bryan D. Butcher,
Vice President

<u>APPENDIX A</u>

TOBACCO CONSUMPTION REPORT

THIS PAGE INTENTIONALLY LEFT BLANK

A Forecast of U.S. Cigarette Consumption (2021-2066) for the Northern Tobacco Securitization Corporation

Submitted to:

The Northern Tobacco Securitization Corporation

Prepared by:

IHS Global Inc.

June 24, 2021

IHS Markit

James Diffley
Executive Director

IHS Global Inc.
1300 Connecticut Avenue NW
Washington DC 20036
(339) 223-5765

Executive Summary

IHS Global Inc. has developed a cigarette consumption model based on historical U.S. data between 1965 and 2020. 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 2021 through 2066. Our Base Case forecast indicates that total consumption in 2066 will be 47.3 billion cigarettes (or 47.5 billion including roll-your-own ("RYO") tobacco equivalents at 0.0325 ounces per cigarette), a 79% decline from the 2020 level. From 2021 through 2066 the average annual rate of decline is projected to be approximately 3.37%.

IHS Global Inc. has also developed two alternative forecasts which include a ban on menthol cigarettes. Alternative 1 indicates that total consumption in 2066 will be 42.6 billion cigarettes (or 42.9 billion including roll-your-own ("RYO") tobacco equivalents at 0.0325 ounces per cigarette), an 81% decline from the 2020 level. From 2021 through 2066 the average annual rate of decline is projected to be approximately 3.59% under Alternative 1.

Alternative 2 indicates that total consumption in 2066 will be 40.3 billion cigarettes (or 40.4 billion including roll-your-own ("RYO") tobacco equivalents at 0.0325 ounces per cigarette), an 82% decline from the 2020 level. From 2021 through 2066 the average annual rate of decline is projected to be approximately 3.71% under Alternative 2.

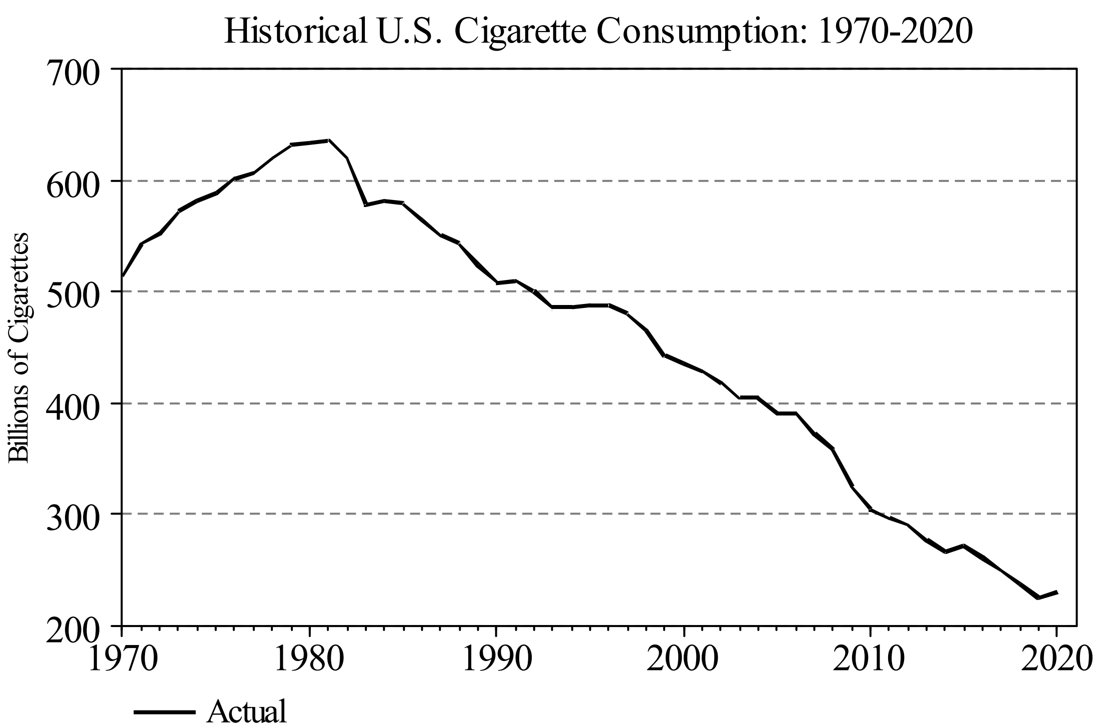
Our model was constructed based on widely accepted economic principles and IHS Global Inc.'s considerable experience in building econometric forecasting models. A review of the economic research literature indicates that our model is consistent with the prevalent consensus among economists concerning 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 2020, NAAG reported a 2019 industry volume decline of 5.0%, to 225.1 billion. This followed declines of 4.5% in 2017 and 4.8% in 2018. This acceleration in the industry decline rate coincided with the extraordinary growth of JUUL, a recent entrant to the e-cigarette market.

In 2020, with the Covid pandemic dramatically altering social life, with a greater prevalence of working from home, smoking increased by 2.02%, according to NAAG data released in May 2021.

The following table sets forth United States domestic cigarette consumption, with and without roll-your-own equivalents, for the twenty-one years ended December 31, 2020. 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
2020	228.8	2.0%	229.7	2.0%
2019	224.2	-5.0%	225.2	-5.0%
2018	235.5	-4.9%	236.6	-5.0%
2017	247.6	-4.2%	248.9	-4.3%
2016	258.5	-4.1%	260.0	-4.2%
2015	269.6	1.9%	271.5	2.0%
2014	264.5	-3.7%	266.1	-3.7%
2013	274.6	-4.8%	276.4	-4.9%
2012	288.3	-1.8%	290.5	-1.9%
2011	293.5	-2.6%	296.2	-2.8%
2010	301.3	-5.5%	304.5	-6.4%
2009	318.9	-8.0%	325.2	-9.1%
2008	346.7	-4.3%	357.7	-3.8%
2007	362.5	-5.2%	371.8	-5.0%
2006	382.6	0.2%	391.3	0.3%
2005	381.7	-4.1%	390.3	-3.5%
2004	397.8	0.1%	404.4	0.1%
2003	397.6	-3.5%	404.1	-3.3%
2002	412.1	-2.9%	417.9	-2.7%
2001	424.6	-1.5%	429.4	-1.5%
2000	431.2	-1.5%	435.9	-1.3%

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 32.6% in 2020, second to Altria's 46.1% share. ITG Brands is the third largest manufacturer, producing the Winston and Kool brands among others. Its 2019 market share was 8.8%. The fourth largest market participant, the Vector (formerly, Liggett) Group accounted for 4.2% of the US market in 2020.

NAAG reports that in 2020, the share of the Original Participating Manufacturers ("OPMs") was 79.7%, from 81.3% in 2019 and from 83.3% in 2018, and 84.2% in 2017. 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 2020, NAAG determined that total shipments by the remaining OPMs, which is the basis for the computation of MSA payments, equaled 183.1 billion cigarettes, down slightly from 183.2 billion cigarettes in 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 2019, the federal government received $12.5 billion in excise tax revenue from tobacco sales. In addition, state governments also raised significant revenues from excise taxes ($18.7 billion in 2019). 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

[6] *Source:* Surgeon General's 1988 Report, "The Health Consequences of Smoking – Nicotine Addiction".

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 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

---

[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.

letter to the FDA, and in November 2013, twenty-five state attorneys general asked U.S. public health regulators to ban menthol 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.

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 June 1, 2020, a ban on the sale of menthol cigarettes went into effect in Massachusetts. On January 1, 2021 a California ban on the sale of menthol cigarettes was to go into effect, but on November 24, 2020 the California Coalition for Fairness submitted more than 1 million signatures from registered voters in a bid to get a veto referendum to overturn the legislation, SB 793, onto the November 2022 ballot. The Secretary of State certified the petition on January 22, 2021, and announced that the referendum would appear on the 2022 ballot. Menthol ban legislation has also been proposed in Connecticut, Maryland, Vermont, and Washington. Over twenty local jurisdictions in California, Minnesota, Illinois, and Massachusetts have implemented a ban on menthol cigarettes. These range from comprehensive bans to bans in especially designated zones, such as near schools[11].

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.

In June 2020 a lawsuit was filed by the African American Leadership Council seeking to compel the FDA to ban menthol-flavored cigarettes. On January 21, 2021, the FDA stated that by April 29, 2021 it would release a decision on whether it will impose a menthol cigarette ban. On January 25, 2021, a bipartisan coalition of 23 attorneys general called on the FDA to ban menthol cigarettes. On April 29, 2021, the FDA announced that it is working toward issuing proposed product standards within the next year to ban menthol as a characterizing flavor in cigarettes. The FDA's announcement did not mention whether the forthcoming ban of menthol flavoring would be applicable to e-cigarettes and other vapor products.

Menthol cigarette sales represent approximately 37%[12] 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 nearly 40% of menthol

[11] Cadham, C.J., Sanchez-Romero, L.M., Fleischer, N.L. et al. The actual and anticipated effects of a menthol cigarette ban: a scoping review. BMC Public Health 20, 1055 (2020). https://doi.org/10.1186/s12889-020-09055-z All et al. Evaluating the Impact of Menthol Cigarette Bans on Cessation and Smoking Behavior in Canada. Tobacco Control.2020. http://dx.doi.org/10.1136/tobaccocontrol-2020-056259

[12] Federal Trade Commission, "Cigarette Report for 2019", 2021.

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 14.8% reduction in cigarette consumption. Research in 2011 by Levy et al[13] simulated the impact in the US of a menthol ban. It concluded that a ban would reduce overall cigarette consumption by 9.7%. Menthol bans were found to reduce sales and increase smoking cessation with only partial substitution for non-menthol cigarettes. US smokers' reactions to a hypothetical ban indicate that about 25-64% would attempt to quit smoking and 11-46% would consider switching to other tobacco products, including 15-30% to e-cigarettes.

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.[14,15,16] 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, after one month, 29.1% attempted to quit at follow-up, compared with 14.5% who intended to do so before the ban. In a follow-up after one year, 63% of daily menthol smokers reported making a quit attempt since the ban compared with 62% of occasional menthol smokers and 43% of non-menthol smokers. After two years menthol smokers were more likely (12% vs 3%) to have quit smoking than non-menthol smokers. Additional research[17], has found an approximately 40% decline in sales of menthol cigarettes in Canada after the ban. That research also concluded that 11-45% of menthol cigarette smokers would quit smoking in response to a ban.

Regulatory Impact

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.

---

[13] David T. Levy, et al. "Modeling the Future Effects of a Menthol Ban on Smoking Prevalence and Smoking-Attributable Deaths in the United States", American Journal of Public Health 101, no. 7 (July 1, 2011): pp. 1236-1240.

[14] 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.

[15] 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.

[16] Michael Chaiton, et al. Ban on Prior Daily Menthol Smokers More Likely to Quit 2 Years After a Menthol Ban Than Non-menthol Smokers: A Population Cohort StudyNicotine & Tobacco Research, ntab042, https://doi.org/10.1093/ntr/ntab042.

[17] Cadham, C.J., Sanchez-Romero, L.M., Fleischer, N.L. et al. Ibid.

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.[18]

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.

Incidence of Smoking

Approximately 34 million American adults were current smokers in 2019, representing approximately 14% of the population age 18 and older, an increase from 13.7% in 2018, but a decline from 15.5% in 2016, and 19.4% in 2010, according to a Centers for Disease Control and Prevention ("CDC") study released in 2020. 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%.

[18]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.

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%[19]. It declined to 15.7% in 2013 and to 10.8% in 2015. In 2019, the YRBSS reports that cigarette use among high school students had declined to 6.0%.[20]

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.

Prevalence of Cigarette Use Among 8th, 10th, and 12th Graders

Grade	1991 (%)	2017 (%)	2018 (%)	2019 (%)	'91-'19 Change (%)
8th	14.3	1.9	2.2	2.3	-83.9%
10th	20.8	5.0	4.2	3.4	-83.7%
12th	28.3	9.7	7.6	5.7	-79.9%

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.

[19] *Source*: CDC. Morbidity and Mortality Weekly Report. "Quitting Smoking Among Adults – United States, 2000-2015". January 2017.
[20] Source: CDC. Tobacco Product Use Among High School Students — Youth Risk Behavior Survey, United States, 2019 MMWR / August 21, 2020 / Vol. 69 / No.1

Also, in 2021, TAAT Lifestyles & Wellness Ltd. has produced a hemp-based tobacco-free and nicotine-free product that emulates the sensory experience of smoking a cigarette. It has been available online, and will now also be sold through a convenience store chain in Ohio.

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.

In its 2020 National Youth Tobacco Survey, the CDC reported that the prevalence of tobacco product use among middle and high school students was 6.7% and 23.6%, respectively, a decline from 7.2% and 27.1% in 2018. For cigarettes, the prevalence was 1.6% and 4.6%, respectively, declining for high school students from 8.1% in 2018. Electronic cigarettes were the most commonly used tobacco product, with the CDC reporting that 19.6% of high school students and by 6.7% of middle school students use them.

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, followed by Indiana in July 2020. Alabama, Alaska, and Utah set the age at 19.

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[21] from the Yale School of Public Health found that, in areas covered by age 21 tobacco laws, the smoking prevalence among 18-20-year olds 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.

[21] https://news.yale.edu/sites/default/files/files/ntz123.pdf

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.[22] The study's findings state that the decrease in cigarette prices in the early 1990s 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.[23] 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 Grossman, estimated an elasticity of smoking participation of just -0.12.[24] 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%.[25]

Tauras et al. (2001) conducted a study that looked at the effects of price on teenage smoking initiation.[26] 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.

---

[22] *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.
[23] 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.
[24] Michael Grossman. "Individual Behaviors and Substance Use: The Role of Price". Working Paper No. W10948. National Bureau of Economic Research. December 2004.
[25] 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.
[26] Tauras et al. "Effects of Price and Access Laws on Teenage Smoking Initiation: A National Longitudinal Analysis". University of Chicago Press. Copyright 2001.

In a related study, Powell et al. (2003) estimated a price elasticity of youth smoking participation of –0.46.[27]

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.

Nicotine Replacement Products

In January 2017, the CDC released the results of a study on quitting smoking[28]. 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.[29] 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. Zyban is a non-nicotine cessation drug that has been available since 2000 and serves as both an antidepressant and smoking cessation aid. It has been shown to be effective when combined with intensive behavioral support.[30]

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

---

[27] Powell et al. "Peer Effects, Tobacco Control Policies, and Youth Smoking Behavior". Impacteen. February 2003.
[28] *Source*: CDC. Morbidity and Mortality Weekly Report. "Quitting Smoking Among Adults – United States, 2000-2015". January 2017.
[29] Hu et al. "Cigarette consumption and sales of nicotine replacement products". TC Online. Tobacco Control. Summer 2000. http:\\tc.bmjjournals.com.
[30] Roddy, Elin. "Bupropion and Other Non-nicotine Pharmacotherapies". *British Medical Journal.* 28 February 2004.

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 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%.[31] 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.[32]

Electronic Cigarettes

E-cigarettes, which are not subject to the MSA, have also gained in popularity in recent years. In 2019, the CDC reported that 10.9 million people used e-cigs, 4.5% of the adult population. 2018 sales in the U.S. were estimated at over $7 billion. The National Health Survey of the CDC reported that in 2018, 14.9% of adults had tried e-cigs and 3.2% were current users.

Findings from the 2020 National Youth Tobacco Survey showing that 1.8 million fewer U.S. youth are currently using e-cigarettes compared to last year. However, youth e-cigarette use has increased dramatically since 2011, and 3.6 million youth still currently use e-cigarettes.[33] The CDC reported that, in 2020, 19.6% of high school students and 4.7% of middle school students reported current e-cigarette use. Among current e-cigarette users, 38.9% of high school students and 20.0% of middle school students reported using e-cigarettes on 20 or more of the past 30 days; 22.5% of high school users and 9.4% of middle school users reported daily use. 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. 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[34]. A YRBSS survey in found that in 2019 high school student incidence had reached 32.7%[35]. The report from the Monitoring the Future Survey also found usage among 10th

---

[31] MacLean, Pesko, Hill, National Bureau of Economic Research. Working Paper No. 3450. May 2017.

[32] Jonathan W. Koma, et al. Medicaid Coverage Expansions and Cigarette Smoking Cessation Among Low-income Adults Medical Care. Oct 2017.

[33] Wang TW, Neff LJ, Park-Lee E, Ren C, Cullen KA, King BA. E-cigarette Use Among Middle and High School Students—United States, 2020. MMWR Morb Mortal Wkly Rep 2020;69:1310–1312.
DOI: http://dx.doi.org/10.15585/mmwr.mm6937e1external icon

[34] Karen A. Cullen, PhD, Center for Tobacco Products, US Food and Drug Administration, November 5, 2019, doi:10.1001/jama.2019.18387

[35] ibid

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. 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.[36] 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.[37] Moreover, a study on vaping safety has confirmed that vapers are exposed to far fewer toxic chemicals than smokers.[38] 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[39] 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

---

[36] Peter Hajek , "A randomized trial of E-Cigarettes versus Nicotine-Replacement Therapy" N Engl J Med 2019; 380:629-637

[37] 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

[38] Maciej Goniewicz, Comparison of Nicotine and Toxicant Exposure in Users of Electronic Cigarettes and Combustible Cigarettes. . JAMA Netw Open. 2018;1(8):e185937

[39] 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

patches). By 2016, the scientific consensus was that e-cigarette use was associated with quit attempts by smokers.[40] Others also conclude that youth use of e-cigarettes is unlikely to increase the ranks of future cigarette smokers.[41] 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.[42] But in 2019, two new studies[43] [44], 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 970 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 manufacturers, 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)

---

[40] 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,

[41] 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.

[42] 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

[43] 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

[44] 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.

required submission of ingredient listing 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, then 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, 2020, 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 has begun marketing IQOS, a heat not burn 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 63 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. On July 7, 2020, Altria received FDA authorization to market IQOS as a modified risk tobacco product with a reduced exposure claim.

In October 2019, U.S. sales began in Atlanta, GA, and subsequently Richmond, VA, and Charlotte, NC in July 2020. Altria has stated that it will the product will be available in 25% of the US market by yearend 2021. In Japan, IQOS s have expanded rapidly since launching nationwide in 2016, 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.[45] 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

[45] *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.

regression analysis using U.S. data from 1965 to 2020 shows that the long-run 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. On July 1, 2020, a $0.30 per pack excise tax increase went into effect in Virginia. Also, on that date, a New York State law prohibited the use of coupons and other price discounts on cigarette sales.

A November 2020 ballot measure in Oregon was approved by voters and will raise its excise tax by $2.00 per pack in 2021. Colorado voters also approved a measure that raised Colorado's excise tax by $1.10 to $1.84 per pack and would implement further increases in 2024 and 2027. In 2021, the Maryland legislature voted for a $1.75 per pack excise tax increase, and excise tax increases are under considerations in Georgia, Hawaii, Kansas, Minnesota, New Mexico, and New York.

The federal excise tax 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 $3.01 per pack.

In May 2021, U.S Senate Majority Whip Dick Durbin (D-IL) and Senate Finance Committee Chair Ron Wyden (D-OR), along with U.S. Representative Raja Krishnamoorthi (IL-D-08) and seven other Senate Democrats, introduced the bicameral Tobacco Tax Equity Act of 2021. The bill would increase the federal tax rate on cigarettes, peg the rate to inflation, and impose equivalent rates for most other tobacco products (including e-cigarettes). The Tobacco Tax Equity Act of 2021 is endorsed by the Campaign for Tobacco-Free Kids, American Academy of Pediatrics American Lung Association, American Heart Association, American Cancer Society Cancer Action Network, American Public Health Association, National Association of County and City Health Officials, Trust for America's Health, and American Thoracic Society.

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 per pack had increased by 3.4% 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. In 2020, the three major tobacco manufacturers announced increases in list prices of at least 8 cents per pack, effective Feb. 22. In July 2020 Altria announced a $0.11 increase in its list price per pack. Consumer price index data from the Bureau of Labor Statistics indicates a retail price increase of 7.0% in April 2021 versus a year earlier. RJR raised prices by $0.13 per pack in December 2020, and by $0.14 per pack on April 5, 2021, while Altria raised its price per pack by $0.14 effective January 24, 2021.

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 Incom*e**. 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.[46] However, a few studies found cigarette consumption decreases as disposable income increases.[47] 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,[48] almost all adult smokers first used cigarettes by high school, and very little first use occurs after age 20.[49] One study examines the effects of youth smoking on future adult smoking.[50] 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.

---

[46] Ippolito, et al.; Fuji.
[47] Wasserman, et al.; Townsend et al.
[48] Except for those such as Wasserman, et al. that studied the price elasticity for different age groups.
[49] *Source*: Surgeon General's 1994 Report, "Preventing Tobacco Use Among Young People."
[50] *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..

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.

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 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.[51] 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%.[52] 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.[53] 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

[51] Hammond, Fong, McDonald, Brown, and Cameron. "Graphic Canadian Warning Labels and Adverse Outcomes: Evidence from Canadian Smokers". *American Journal of Public Health.* August 2004.
[52] 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.
[53] 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.

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 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 a color graphic warning on cigarette packs and in cigarette advertisements as required by the FSPTCA. On March 17, 2020, the FDA issued a final rule to require new health warnings on cigarette packages and in cigarette advertisements. The warnings feature textual statements with photo-realistic color images depicting some of the lesser-known but serious health risks of cigarette smoking. Beginning April 14, 2022[54], the new cigarette health warnings will be required to appear prominently on cigarette packages and in advertisements and must be randomly and equally displayed and distributed on cigarette packages and rotated quarterly in cigarette advertisements. The final cigarette health warnings consist of one of 11 textual warning statements paired with an accompanying photo-realistic image depicting the negative health consequences of 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

[54] On March 2, the US District Court for the Eastern District of Texas granted a 90 day extension from January.

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 27 states and several large cities. Restrictions to all workplaces, restaurants, and bars cover 61.1% 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, 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 January 1, 2021, there were 1,622 municipalities with local laws that require 100% smoke-free, non-hospitality workplaces or restaurants or bars, of which 1,131 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.[55]

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.[56] 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.[57] 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.[58]

[55] *Source:* American Nonsmokers' Rights Foundation. http://www.no-smoke.org. July 2018.
[56] 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
[57] Tauras, John A. "Smoke-Free Air Laws, Cigarette Prices, and Adult Cigarette Demand". Economic Inquiry, April 2006.
[58] 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.

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 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 went into effect January 1, 2020. On January 26, 2021 a Florida Senate committee approved a bill which would prohibit smoking in state parks and allow local governments to ban smoking at their beaches and parks.

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.

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 fully implemented by July 2019. ANRF reports that there are 64 municipalities in the U.S. that have enacted laws prohibiting smoking in all multi-unit housing, and 623 municipalities that have in publicly owned housing.

New Jersey has prohibited smoking in college dormitories since 2005. At least 2,511 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, Illinois, 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 2016, 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. This impact has been included in our forecast since 2018.

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 February 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 2018, according to SAMHSA's National Survey on Drug Use & Health, 2.9% of adults used smokeless tobacco products. Smokeless tobacco sales declined by 3.9% from 2016 to 2019[59].

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.[60] 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.[61] A 2009 study concluded however that young males who used smokeless tobacco products were more likely to be concurrent smokers.[62] 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.

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

[59] Cristine D Delnevo, PhD, MPH, Mary Hrywna, PhD, MPH, Erin J Miller Lo, MPH, Olivia A Wackowski, PhD, MPH, Examining market trends in smokeless tobacco sales in the United States: 2011-2019, Nicotine & Tobacco Research, , ntaa239, https://doi.org/10.1093/ntr/ntaa239

[60] Foulds, Ramstrom, Burke, and Fagerstrom. “Effect of Smokeless Tobacco (Snus) on Smoking and Public Health in Sweden”. Tobacco Control. Vol. 12, 2003.

[61] 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.

[62] 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.

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 2066. 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 2020 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 2020 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 adult population growth is projected to average 0.53%, and real per capita personal disposable income is projected to increase over the long term at just over 2.1% per year.

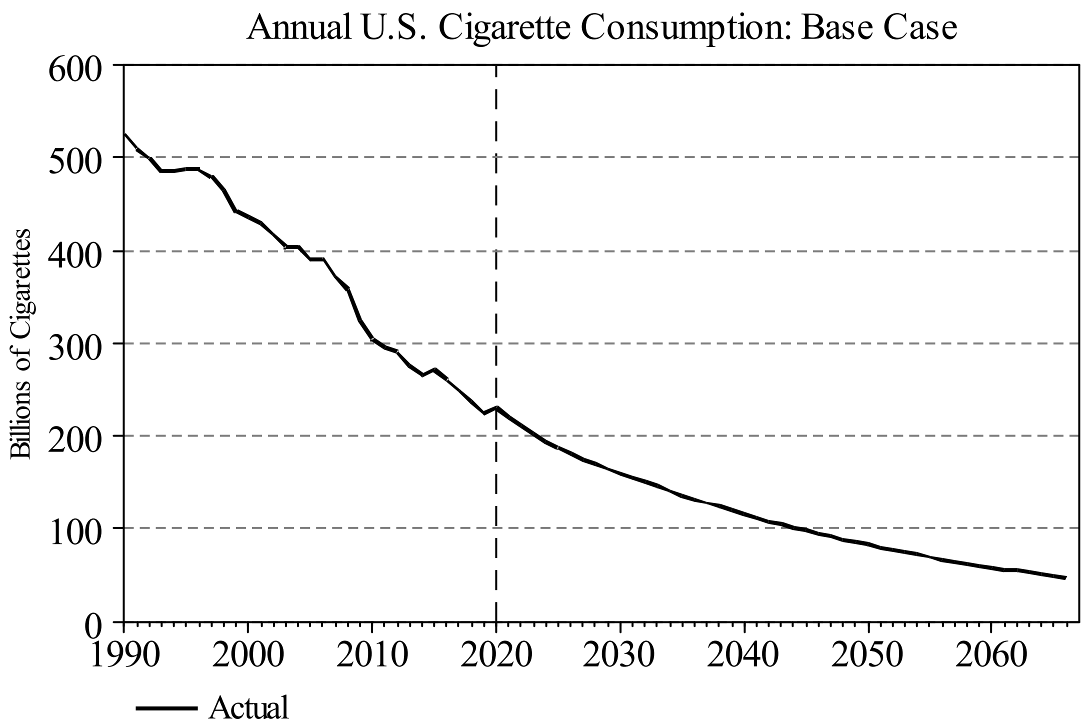
The projection of the real price of cigarettes is based upon its past behavior with an adjustment for the shock to prices due to the MSA and other state settlement agreements and subsequent excise tax increases. Cigarette prices increased dramatically in November 1998, as manufacturers raised prices by $0.45 per pack. Subsequent increases by the manufacturers and numerous federal and state hikes in excise taxes brought prices to a weighted average[63] across US states of $7.22 per pack in March 2021. In April 2021, the BLS reported that cigarettes prices had increased by 7.6% over the past year. 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, going forward, 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.

[63] Tobacco Free Kids, "STATE CIGARETTE EXCISE TAX RATES & RANKINGS", March 15, 2021.

Forecast of Cigarette Consumption – Base Case

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. NAAG results for the year indicated that the 2019 market size was 224 billion cigarettes, a 5.0% decline from 2018.

On January 28, 2021, Altria announced its full-year 2020 earnings. It reported that, when adjusted for trade inventory movements, calendar differences and other factors, total domestic cigarette shipments were unchanged from 2019. On March 24, 2021, TTB reported that shipments totaled 228.6 billion in 2020, a 2.3% increase from 2019, and NAAG reported a 2.02% increase in its May 2021 report for the MSA.

The Covid pandemic distorted cigarette shipment patterns during 2020. With extensive social distancing practices and much larger numbers working from home, it’s not surprising that smoking may have increased. We assume that this is a temporary phenomenon and the smoking rate will resume its decline in 2021.

In the first quarter of 2021, Altria reported that, after adjusting for inventory movements, and one fewer shipping day, industry volumes decreased by approximately 2%.

Beginning in 2020 the minimum legal age to purchase cigarettes in the U.S. is 21. This restriction will further reduce cigarette consumption. Based on research and simulations by the Institute of Medicine of the National Academies[64] we have incorporated its impact, of approximately 0.17% per year, on additional cigarette consumption declines.

Based on the population of California, the incidence of smoking, and the menthol proportion of cigarette sales, we estimate that a menthol cigarette ban in California, upon implementation, will reduce the US consumption of cigarettes by 1.3 billion, 0.63% of US consumption in its initial year.[65] We assume that the November 2022 referendum on the issue will uphold the ban, and that it will go into effect in 2023.

This base case forecast assumes that there is no national menthol ban. However, as described further below, we have developed an alternative forecast which simulates the imposition of a national menthol ban effective in middle of 2024. Under that alternative cigarette consumption falls by an additional 9.7% in 2025, the first full year under the ban.

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 2021 through 2066, the average annual rate of decline is projected to be 3.37% under the Base Case.

Forecast of Cigarette Consumption – Alternative Cases (Menthol Ban)

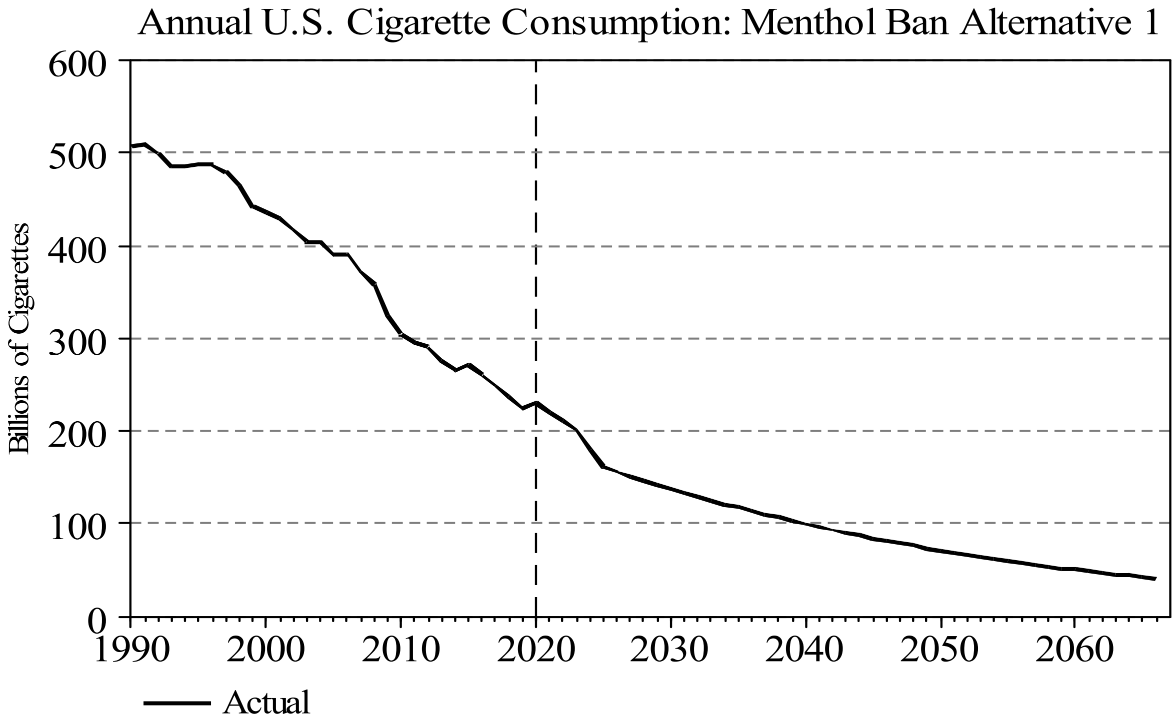
Recent actions of the FDA indicate that the likelihood of a US ban on menthol cigarettes has increased significantly. In this report we include a forecast simulation of cigarette consumption under a scenario in which menthol cigarette sales are banned in mid-2024, with the full effect in place for all of 2025.

Following the research by Levy[66], we assume, in this scenario, that the ban reduces overall cigarette consumption by 9.7%. This decline falls within the band of estimates cited for the US in the review by Cadham et al[67]. In our simulation we project that this occurs sometime during 2024

[64] Op cit.
[65] Cadham, C.J., Sanchez-Romero, L.M., Fleischer, N.L. et al. The actual and anticipated effects of a menthol cigarette ban: a scoping review. BMC Public Health 20, 1055 (2020). https://doi.org/10.1186/s12889-020-09055-z
[66] Ibid.
[67] Ibid

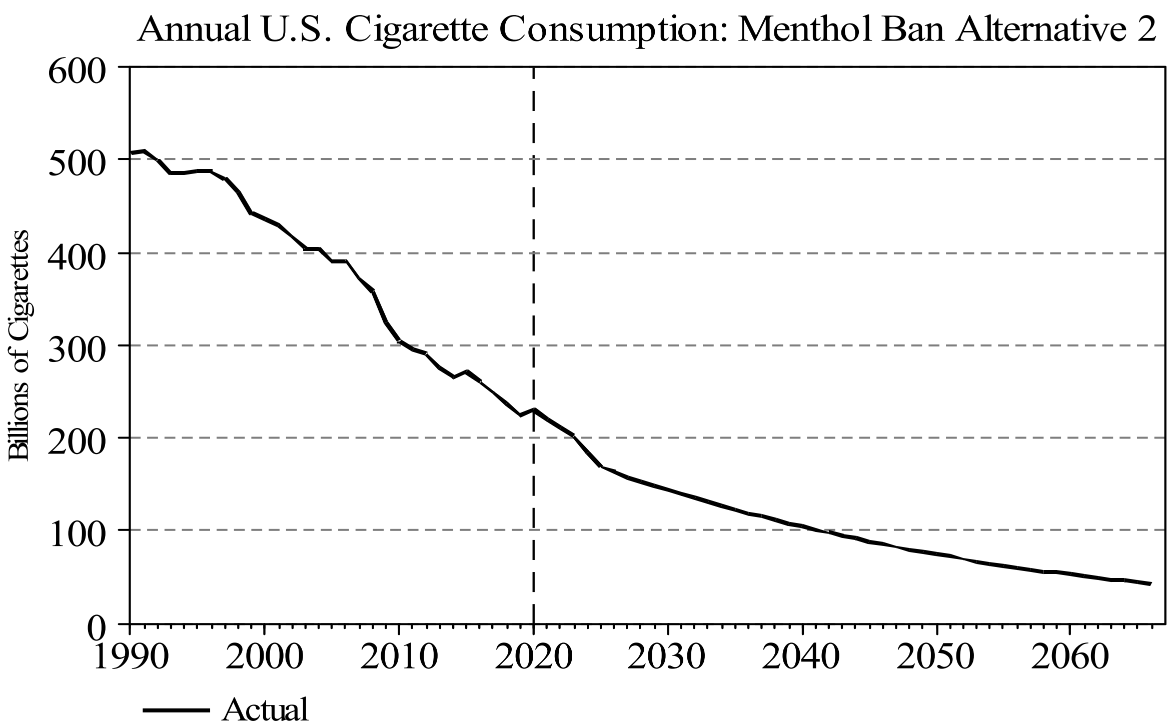
to the extent that consumption falls by an additional 4.85%, with the full impact, 9.7% in place for 2025.

Under Alternative 1, the decline rate increases to 8.7% in 2024, and 8.4% in 2025. From 2021 through 2066, the average annual rate of decline with a menthol ban in place is projected to be 3.59%.



In Alternative 2, we simulate a stronger response to the menthol ban, assuming a 14.8% decline in consumption. This decline assumes, following research on the Canada experience by Cadham[68], and Hall[69], that 40% of menthol smokers quit.

Under Alternative 2, US cigarette consumption falls by an additional 14.8% in the first two years of implementation. By 2066 consumption will fall to 40.3 billion sticks. From 2021 through 2066, the average annual rate of decline under Alternative 2 is projected to be 3.71%.



[68] Ibid.
[69] Ibid.

Base Case Forecast: U.S. Consumption of Cigarettes

	Total Consumption	Decline Rate	Consumption including Roll-Your-Own	Decline Rate
	(billions)	*(%)*	*(billions)*	*(%)*
2011	293.5	-2.6%	296.2	-2.8%
2012	288.3	-1.8%	290.5	-1.9%
2013	274.6	-4.8%	276.4	-4.9%
2014	264.5	-3.7%	266.1	-3.7%
2015	269.6	1.9%	271.5	2.0%
2016	258.9	-4.0%	260.4	-4.1%
2017	247.5	-4.4%	248.8	-4.5%
2018	235.9	-4.7%	236.9	-4.8%
2019	224.2	-5.0%	225.1	-5.0%
2020	228.8	2.0%	229.7	2.0%
FORECAST				
2021	218.7	-4.4%	219.7	-4.4%
2022	210.3	-3.8%	211.2	-3.8%
2023	200.7	-4.6%	201.5	-4.6%
2024	193.1	-3.8%	193.9	-3.8%
2025	186.2	-3.6%	186.9	-3.6%
2026	179.9	-3.4%	180.7	-3.4%
2027	174.2	-3.2%	174.9	-3.2%
2028	168.9	-3.1%	169.6	-3.1%
2029	163.7	-3.0%	164.4	-3.0%
2030	158.7	-3.0%	159.4	-3.0%
2031	153.8	-3.1%	154.5	-3.1%
2032	149.1	-3.1%	149.7	-3.1%
2033	144.5	-3.1%	145.1	-3.1%
2034	140.0	-3.1%	140.6	-3.1%
2035	135.6	-3.1%	136.2	-3.2%
2036	131.3	-3.2%	131.9	-3.2%
2037	127.1	-3.2%	127.7	-3.2%
2038	123.1	-3.2%	123.6	-3.2%
2039	119.1	-3.2%	119.6	-3.2%
2040	115.2	-3.2%	115.7	-3.2%
2041	111.4	-3.2%	111.8	-3.2%
2042	107.8	-3.3%	108.2	-3.3%
2043	104.3	-3.3%	104.7	-3.3%
2044	100.8	-3.3%	101.2	-3.3%
2045	97.5	-3.3%	97.9	-3.3%
2046	94.2	-3.3%	94.6	-3.3%
2047	91.1	-3.3%	91.5	-3.3%
2048	88.0	-3.3%	88.4	-3.3%
2049	85.1	-3.4%	85.4	-3.4%
2050	82.2	-3.4%	82.6	-3.4%
2051	79.4	-3.4%	79.8	-3.4%
2052	76.8	-3.4%	77.1	-3.4%
2053	74.2	-3.4%	74.5	-3.4%

2054	71.7	-3.4%	72.0	-3.4%
2055	69.2	-3.4%	69.5	-3.4%
2056	66.9	-3.4%	67.2	-3.4%
2057	64.6	-3.4%	64.9	-3.4%
2058	62.4	-3.4%	62.7	-3.4%
2059	60.3	-3.4%	60.6	-3.4%
2060	58.2	-3.4%	58.5	-3.4%
2061	56.3	-3.4%	56.5	-3.4%
2062	54.3	-3.4%	54.6	-3.4%
2063	52.5	-3.4%	52.7	-3.4%
2064	50.7	-3.4%	50.9	-3.4%
2065	48.9	-3.4%	49.1	-3.4%
2066	47.3	-3.4%	47.5	-3.4%

Menthol Ban Alternative 1 : U.S. Consumption of Cigarettes

	Total Consumption	Decline Rate	Consumption including Roll-Your-Own	Decline Rate
	(billions)	*(%)*	*(billions)*	*(%)*
2011	293.5	-2.6%	296.2	-2.8%
2012	288.3	-1.8%	290.5	-1.9%
2013	274.6	-4.8%	276.4	-4.9%
2014	264.5	-3.7%	266.1	-3.7%
2015	269.6	1.9%	271.5	2.0%
2016	258.9	-4.0%	260.4	-4.1%
2017	247.5	-4.4%	248.8	-4.5%
2018	235.9	-4.7%	236.9	-4.8%
2019	224.2	-5.0%	225.1	-5.0%
2020	228.8	2.0%	229.7	2.0%
		FORECAST		
2021	218.7	-4.4%	219.7	-4.4%
2022	210.3	-3.8%	211.2	-3.8%
2023	200.7	-4.6%	201.5	-4.6%
2024	183.3	-8.7%	184.4	-8.7%
2025	167.9	-8.4%	169.1	-8.4%
2026	162.3	-3.4%	163.4	-3.4%
2027	157.1	-3.2%	158.2	-3.2%
2028	152.3	-3.1%	153.4	-3.1%
2029	147.6	-3.0%	148.7	-3.0%
2030	143.1	-3.0%	144.2	-3.0%
2031	138.7	-3.1%	139.7	-3.1%
2032	134.5	-3.1%	135.4	-3.1%
2033	130.4	-3.1%	131.3	-3.1%
2034	126.3	-3.1%	127.2	-3.1%
2035	122.3	-3.1%	123.2	-3.2%
2036	118.4	-3.2%	119.3	-3.2%
2037	114.6	-3.2%	115.5	-3.2%
2038	111.0	-3.2%	111.8	-3.2%
2039	107.4	-3.2%	108.2	-3.2%
2040	103.9	-3.2%	104.6	-3.2%
2041	100.5	-3.2%	101.2	-3.2%
2042	97.2	-3.3%	97.9	-3.3%
2043	94.0	-3.3%	94.7	-3.3%
2044	90.9	-3.3%	91.6	-3.3%
2045	87.9	-3.3%	88.5	-3.3%
2046	85.0	-3.3%	85.6	-3.3%
2047	82.1	-3.3%	82.7	-3.3%
2048	79.4	-3.3%	80.0	-3.3%
2049	76.7	-3.4%	77.3	-3.4%
2050	74.1	-3.4%	74.7	-3.4%
2051	71.6	-3.4%	72.2	-3.4%
2052	69.2	-3.4%	69.7	-3.4%

2053	66.9	-3.4%	67.4	-3.4%
2054	64.6	-3.4%	65.1	-3.4%
2055	62.4	-3.4%	62.9	-3.4%
2056	60.3	-3.4%	60.8	-3.4%
2057	58.3	-3.4%	58.7	-3.4%
2058	56.3	-3.4%	56.7	-3.4%
2059	54.4	-3.4%	54.8	-3.4%
2060	52.5	-3.4%	52.9	-3.4%
2061	50.7	-3.4%	51.1	-3.4%
2062	49.0	-3.4%	49.4	-3.4%
2063	47.3	-3.4%	47.7	-3.4%
2064	45.7	-3.4%	46.0	-3.4%
2065	44.1	-3.4%	44.5	-3.4%
2066	42.6	-3.4%	42.9	-3.4%

Menthol Ban Alternative 2 : U.S. Consumption of Cigarettes

	Total Consumption	**Decline Rate**	**Consumption including Roll-Your-Own**	**Decline Rate**
	(billions)	*(%)*	*(billions)*	*(%)*
2011	293.5	-2.6%	296.2	-2.8%
2012	288.3	-1.8%	290.5	-1.9%
2013	274.6	-4.8%	276.4	-4.9%
2014	264.5	-3.7%	266.1	-3.7%
2015	269.6	1.9%	271.5	2.0%
2016	258.9	-4.0%	260.4	-4.1%
2017	247.5	-4.4%	248.8	-4.5%
2018	235.9	-4.7%	236.9	-4.8%
2019	224.2	-5.0%	225.1	-5.0%
2020	228.8	2.0%	229.7	2.0%
		FORECAST		
2021	218.7	-4.4%	219.7	-4.4%
2022	210.3	-3.8%	211.2	-3.8%
2023	200.7	-4.6%	201.5	-4.6%
2024	178.2	-11.2%	178.9	-11.2%
2025	158.7	-11.0%	159.3	-11.0%
2026	153.3	-3.4%	154.0	-3.4%
2027	148.4	-3.2%	149.1	-3.2%
2028	143.9	-3.1%	144.5	-3.1%
2029	139.5	-3.0%	140.1	-3.0%
2030	135.3	-3.0%	135.8	-3.0%
2031	131.1	-3.1%	131.6	-3.1%
2032	127.1	-3.1%	127.6	-3.1%
2033	123.2	-3.1%	123.7	-3.1%
2034	119.3	-3.1%	119.8	-3.1%
2035	115.6	-3.1%	116.0	-3.2%
2036	111.9	-3.2%	112.4	-3.2%

2037	108.3	-3.2%	108.8	-3.2%
2038	104.9	-3.2%	105.3	-3.2%
2039	101.5	-3.2%	101.9	-3.2%
2040	98.2	-3.2%	98.6	-3.2%
2041	94.9	-3.2%	95.3	-3.2%
2042	91.9	-3.3%	92.2	-3.3%
2043	88.9	-3.3%	89.2	-3.3%
2044	85.9	-3.3%	86.3	-3.3%
2045	83.1	-3.3%	83.4	-3.3%
2046	80.3	-3.3%	80.6	-3.3%
2047	77.6	-3.3%	77.9	-3.3%
2048	75.0	-3.3%	75.3	-3.3%
2049	72.5	-3.4%	72.8	-3.4%
2050	70.1	-3.4%	70.4	-3.4%
2051	67.7	-3.4%	68.0	-3.4%
2052	65.4	-3.4%	65.7	-3.4%
2053	63.2	-3.4%	63.5	-3.4%
2054	61.1	-3.4%	61.3	-3.4%
2055	59.0	-3.4%	59.3	-3.4%
2056	57.0	-3.4%	57.2	-3.4%
2057	55.1	-3.4%	55.3	-3.4%
2058	53.2	-3.4%	53.4	-3.4%
2059	51.4	-3.4%	51.6	-3.4%
2060	49.6	-3.4%	49.8	-3.4%
2061	47.9	-3.4%	48.1	-3.4%
2062	46.3	-3.4%	46.5	-3.4%
2063	44.7	-3.4%	44.9	-3.4%
2064	43.2	-3.4%	43.4	-3.4%
2065	41.7	-3.4%	41.9	-3.4%
2066	40.3	-3.4%	40.4	-3.4%

Comparison with Prior Forecast

On August 11, 2006, IHS Global presented a similar study for the Northern Tobacco Securitization Corporation in which we projected that total consumption in 2046 would be 182 billion cigarettes, a 54% decline from the 2003 level. From 2004 through 2046 the average annual rate of decline was projected to be 1.81%. The current base case forecast projects an average decline rate of 3.3% from 2005 through 2046, to an annual consumption level of 94.2 billion sticks. The sharp acceleration in the decline rate beginning in 2007 was unanticipated and resulted in a substantial forecast error. The new Base Case forecast was developed with consideration of the large federal tax increase on 2009, the negative effects of the proliferation on smoking ban legislation across the US, and the market share gains by electronic cigarettes over the last decade.

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX B

MASTER SETTLEMENT AGREEMENT

THIS PAGE INTENTIONALLY LEFT BLANK

MASTER SETTLEMENT AGREEMENT

(AS AMENDED BY THE ADDENDUM OF CLARIFICATIONS)

TABLE OF CONTENTS

Page

MASTER SETTLEMENT AGREEMENT

TABLE OF CONTENTS

Page

TABLE OF CONTENTS
(continued)

TABLE OF CONTENTS
(continued)

TABLE OF CONTENTS
(continued)

Page

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.

(iii) 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

[2] [All per unit numbers subject to verification]

[3] [The phrase "after the date of enactment of this Act" would need to be included only in the calendar year in which the Act is enacted.]

manufacturer that fails to place into escrow the funds required under this section. Any tobacco product manufacturer that fails in any year to place into escrow the funds required under this section shall --

(A) be required within 15 days to place such funds into escrow as shall bring it into compliance with this section. The court, upon a finding of a violation of this subsection, may impose a civil penalty [to be paid to the general fund of the state] in an amount not to exceed 5 percent of the amount improperly withheld from escrow per day of the violation and in a total amount not to exceed 100 percent of the original amount improperly withheld from escrow;

(B) in the case of a knowing violation, be required within 15 days to place such funds into escrow as shall bring it into compliance with this section. The court, upon a finding of a knowing violation of this subsection, may impose a civil penalty [to be paid to the general fund of the state] in an amount not to exceed 15 percent of the amount improperly withheld from escrow per day of the violation and in a total amount not to exceed 300 percent of the original amount improperly withheld from escrow; and

(C) in the case of a second knowing violation, be prohibited from selling cigarettes to consumers within the State (whether directly or through a distributor, retailer or similar intermediary) for a period not to exceed 2 years.

Each failure to make an annual deposit required under this section shall constitute a separate violation.[4]

[4] [A State may elect to include a requirement that the violator also pay the State's costs and attorney's fees incurred during a successful prosecution under this paragraph (3).]

EXHIBIT U
STRATEGIC CONTRIBUTION FUND PROTOCOL

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

Section 1

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

Section 2

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

Section 3

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

Section 4

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

Section 5

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

Section 6

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

Section 7

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

THIS PAGE INTENTIONALLY LEFT BLANK

<u>APPENDIX C-1</u>

NPM ADJUSTMENT SETTLEMENT AGREEMENT

THIS PAGE INTENTIONALLY LEFT BLANK

NPM ADJUSTMENT SETTLEMENT AGREEMENT

TABLE OF CONTENTS

I. RECITALS

WHEREAS, the Settling States and the Participating Manufacturers are parties to the Master Settlement Agreement ("MSA");

WHEREAS, pursuant to the MSA, the Participating Manufacturers make certain payments for the benefit of the Settling States each year;

WHEREAS, the MSA provides that certain of the Participating Manufacturers' payments for the benefit of the Settling States are subject to the Non-Participating Manufacturer Adjustment ("NPM Adjustment");

WHEREAS, the Settling States and the Participating Manufacturers have disputes concerning the NPM Adjustments for 2003-2012;

WHEREAS, the Settling States (other than Montana) and the Participating Manufacturers were parties to an arbitration regarding the 2003 NPM Adjustment (the "2003 arbitration");

WHEREAS, 26 Settling States and 34 Participating Manufacturers have entered into a Term Sheet for settlement in order to avoid the further expense, delay, inconvenience, burden and uncertainty of continued disputes with respect to the applicability of such NPM Adjustments;

WHEREAS, the Term Sheet provides for the settlement of specified NPM Adjustment disputes as among the Signatory Parties, including the final resolution as among them of the 2003-2012 NPM Adjustments and certain provisions as among them regarding the NPM Adjustments for subsequent years;

WHEREAS, the PMs reserve all rights regarding the NPM Adjustment with respect to all Non-Signatory States;

WHEREAS, the arbitration panel in the 2003 arbitration has entered a Stipulated Partial Settlement and Award ("Award") incorporating specified terms of the Term Sheet and permitting the Signatory Parties to proceed with the settlement pursuant to the Term Sheet;

WHEREAS, the Award satisfies the second condition of Section IV.E of the Term Sheet, and the Term Sheet is binding on the Signatory Parties;

WHEREAS, the Independent Auditor has implemented the provisions of the Term Sheet with respect to the April 15, 2013, April 15, 2014, April 15, 2015, April 15, 2016, and April 17, 2017 MSA payments;

WHEREAS, the Term Sheet provides that the Signatory Parties will cooperate in the drafting and execution of a comprehensive final settlement agreement incorporating the terms of that Term Sheet, as well as all other customary terms and conditions acceptable to the Signatory Parties;

WHEREAS, this Settlement Agreement constitutes such comprehensive final settlement agreement and, upon execution by all Signatory Parties, will supersede the Term Sheet and be binding upon all Signatory Parties;

NOW, THEREFORE, BE IT KNOWN THAT, in consideration for the payments and credits provided for in this Settlement Agreement, and such other consideration as described in this Settlement Agreement, the sufficiency of which is hereby acknowledged, the Signatory Parties, acting by and through their authorized representatives, memorialize and agree as follows:

II. DEFINITIONS

A. All capitalized terms not otherwise defined in this Settlement Agreement shall be defined as in the MSA.

B. "[Year] NPM Adjustment," or "NPM Adjustment for [Year]" means the NPM Adjustment based on the Market Share Loss for the specified year and applicable to the payments due pursuant to MSA Section IX(c) on April 15 of the year following the specified year, calculated as provided in the MSA. For example, the 2003 NPM Adjustment, or the NPM Adjustment for 2003, means the NPM Adjustment based on the Market Share Loss for 2003 and applicable to the MSA payments due on April 15, 2004.

C. "Allocable Share" means the percentage for the State in question as set forth in Exhibit A to the MSA.

D. "IX(c)(2) Allocable Share" means the percentage for the State in question as determined in 1999 pursuant to Exhibit U to the MSA.

E. "IX(c)(1) Allocated Settlement Percentage" of a Signatory State means the percentage set forth for that State in the second column of Exhibit A to this Settlement Agreement.

F. "IX(c)(2) Allocated Settlement Percentage" of a Signatory State means the percentage set forth for that State in the third column of Exhibit A to this Settlement Agreement.

G. "Allocable Share Repeal" means an amendment to a Signatory State's Escrow Statute substantially in the form of the attachment to Amendment 21 to the MSA, dated January 9, 2003.

H. “Complementary Legislation” means a State statute substantially in the form of the Model Complementary Legislation proposed by the National Association of Attorneys General in December of 2002. Solely for purposes of this Settlement Agreement, a statute listed in Exhibit B, as such statute is in effect in the respective Signatory State as of the Effective Date, shall be considered to be substantially in the form of such Model Complementary Legislation so long as the respective State continuously has such statute in full force and effect. The PMs reserve all rights to contend otherwise for purposes other than this Settlement Agreement.

I. “Effective Date” means the date by which PMs with an aggregate Market Share in 2016 equal to at least 90%, and Signatory States with an aggregate Allocable Share equal to at least 90% of the aggregate Allocable Share of (i) the 2016 Signatory States, (ii) Oregon, and (iii) Rhode Island, have executed this Settlement Agreement.

J. “Equity Fee” means a payment imposed by an Equity Fee Law.

K. “Equity Fee Law” means a statute, regulation or other State directive in effect in a Previously Settled State that, by its terms: (i) imposes a per-Cigarette payment (including payments per carton, per pack, or per other package of Cigarettes), whether denominated as a “fee,” “tax,” “assessment,” or by any other name, on the distribution or sale in such Previously Settled State of all Cigarettes manufactured or imported by NPMs (including without limitation legislation or regulation or other State directive requiring distributors, retailers, or consumers to make such payments) that are within such State’s authority under federal law with respect to a tax described in subsection II.V(i); (ii) sets the per-Cigarette payment at an amount equal to or greater than 90% of the escrow amount per Cigarette sold in the same year under subsection (b)(1) of the Requirements section of the Model Statute (attached as Exhibit T to the MSA) (as

such amount is adjusted for inflation pursuant to the Model Statute); (iii) exempts from any part of such payment Cigarettes on which payments are made under that Previously Settled State’s Tobacco Settlement Agreement; and (iv) if the PSS Amendment has not become effective, exempts from at least 73% of such payment Cigarettes manufactured or imported by an SPM (other than Cigarettes of a brand previously owned by an OPM). The NPM fee laws in effect as of the Effective Date in Mississippi, Minnesota and Texas shall be deemed to be Equity Fee Laws solely for purposes of this Agreement whether or not they otherwise would meet the foregoing definition, so long as (w) such laws continue to apply to all NPM Cigarettes to which they apply as of the Effective Date, (x) the per-Cigarette amount in effect under such laws (including any inflation requirement in such laws) remains at least as large as it was on the Effective Date, (y) the fee under such laws is not subsequently imposed on the sale or distribution of any Cigarettes on which payments are made under that Previously Settled State’s Tobacco Settlement Agreement, and (z) with respect to the NPM fee law in Texas, until after the PSS Amendment becomes effective, the fee under such law is not subsequently imposed on the sale or distribution of any Cigarettes manufactured or imported by any SPM (other than Cigarettes of a brand previously owned by an OPM) in excess of the amount imposed on that SPM on the Effective Date. The PMs will cooperate in good faith with respect to the enactment of an Equity Fee Law in Florida and any proposed amendments to the Equity Fee Laws in Mississippi, Minnesota or Texas, in each case as consistent with the foregoing (including not supporting any reduction of the per-Cigarette amount in effect under such laws) and provided that any such legislation is not in conjunction with any other legislative proposal, except that each PM reserves its rights to support or oppose the enactment, amendment or interpretation of any legislation in any Previously Settled State with respect to (1) Cigarettes manufactured or imported by an SPM that has a Tobacco Settlement Agreement with that Previously Settled State and (2) Cigarettes manufactured or imported by an SPM of a brand previously owned by an OPM. If PMs with an aggregate Market Share in the immediately preceding calendar year equal to at least 93% support the enactment in Florida (or in Texas, Mississippi or Minnesota if an Equity Fee Law is no longer effective in those States) of an NPM fee law that does not meet the definition of Equity Fee Law and such law is enacted, the law shall be deemed to meet the definition of Equity Fee Law solely for purposes of this Agreement as to all PMs.

L. “Escrow Statute” of a State means a State statute in the form set forth in Exhibit T to the MSA, 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. A statute listed in Exhibit C, as such statute is in effect in the respective Signatory State as of the Effective Date, shall be considered to be such Escrow Statute so long as the respective State continuously has such statute in full force and effect. The PMs reserve all rights with respect to what constitutes an Escrow Statute in a Non-Signatory State.

M. “Initial OPM” means Philip Morris USA Inc. (as successor-in-interest to Philip Morris Incorporated) and R.J. Reynolds Tobacco Company (for itself and as successor-in-interest to Brown & Williamson Tobacco Corporation and Lorillard Tobacco Company).

N. “Non-Compliant NPM Cigarettes” means Cigarettes described in subsection V.B.3.

O. “Non-Signatory State” means a Settling State that is not a signatory to this Settlement Agreement.

P. “NPM” means a Non-Participating Manufacturer. For purposes of this Settlement Agreement, a Tobacco Product Manufacturer shall be treated as a Participating Manufacturer or an NPM as it would be treated under the MSA.

Q. “OPM” means an Initial OPM; in addition, any SPM that assumes the obligations of an Original Participating Manufacturer within the meaning of MSA Section XVIII(c) with respect to a brand formerly owned by an Original Participating Manufacturer shall be treated for purposes of this Settlement Agreement the same way as the Independent Auditor determines it should be treated under the MSA (subject to the MSA parties’ right to dispute any such determination pursuant to MSA Section XI(c) and to the outcome of any such dispute), and shall be considered an OPM or SPM with respect to such brand, as applicable. Each such SPM shall continue to be treated as, and considered, an SPM as to a particular brand or brands it manufactures that were not formerly owned by an Original Participating Manufacturer.

R. “Potential Maximum NPM Adjustment” for the OPMs for a year in question means the OPMs’ total aggregate amount of the NPM Adjustment for such year in question calculated pursuant to MSA Section IX(d) (without regard to any subsequent revisions to such formula pursuant to any agreement between the PMs and any States), assuming that all Settling States’ Allocated Payments are subject to the NPM Adjustment for that year and the NPM Adjustment for that year would be applied pursuant to MSA Section IX(d)(1)(C)-(D). An SPM’s “Potential Maximum NPM Adjustment” for a year in question means the SPM’s total amount of the NPM Adjustment for such year calculated pursuant to MSA Section IX(d) (without regard to any subsequent revisions to such formula pursuant to any agreement between the PMs and any States), assuming that all Settling States’ Allocated Payments are subject to the NPM Adjustment for that year and the NPM Adjustment for that year would be applied pursuant to MSA Section IX(d)(1)(C)-(D) and (4). For avoidance of doubt, if an SPM owns a brand previously owned by an OPM and is entitled to a share of the OPMs' Potential Maximum NPM Adjustment for a year based on Cigarettes of that brand, the calculation of such SPM's Potential Maximum NPM Adjustment for that year shall not include Cigarettes of that brand.

S. "PM" means a Participating Manufacturer that is a signatory to this Settlement Agreement.

T. "PSS Amendment" means an amendment to the MSA substantially in the form of the draft Amendment 27 to the MSA dated October 2008.

U. "Previously Settled States" means Florida, Minnesota, Mississippi and Texas.

V. "SET" of a State means, for purposes of this Settlement Agreement: (i) State excise tax or other State tax on the distribution or sale of any 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 (ii) an excise or other tax on the distribution or sale of any Cigarettes imposed by a State-recognized or federally-recognized Native American tribe located in whole or in part within the geographic boundaries of the State (other than a tribal sales tax that is applicable to consumer products generally and is not in lieu of an excise tax), if such distribution or sale was within the State's taxing authority under federal law with respect to a tax described in clause (i), provided, however, that this clause (ii) does not include a tribal tax as to which the State establishes that it did not formally or informally acquiesce in the tax's imposition or collection in lieu of a tax described in clause (i) (including, without limitation, acquiescing by making the rate of a tax described in clause (i) zero). A tax falling within the foregoing definition of SET

qualifies as an SET whether or not the State or a tribe required that packages or containers of the Cigarettes be stamped with an SET or other tax stamp.

W. "Signatory Parties" means, collectively, all Signatory States and all PMs.

X. "Signatory State" means any Settling State that is or becomes a signatory to this Settlement Agreement, including Subsequent-Joining Signatory States.

Y. "SPM" means a PM that is a Subsequent Participating Manufacturer, subject to subsection II.Q.

Z. "Subsequent-Joining Signatory State" means a Settling State that becomes a Signatory State after the end of individual state hearings in the 2003 arbitration.

AA. "Tobacco Settlement Agreement" of a Previously Settled State means, respectively (and, in each case, as such agreement is amended, supplemented or replaced): (i) the August 25, 1997 Settlement Agreement among the State of Florida, Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation, Lorillard Tobacco Company and United States Tobacco Company; (ii) the May 8, 1998 Settlement Agreement and Stipulation for Entry of Consent Judgment among the State of Minnesota, Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation and Lorillard Tobacco Company; (iii) the October 17, 1997 Comprehensive Settlement Agreement and Release among the State of Mississippi, Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation and Lorillard Tobacco Company; (iv) the January 16, 1998 Comprehensive Settlement Agreement and Release among the State of Texas, Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation, Lorillard Tobacco Company and United States Tobacco Company; and (v) for purposes of the penultimate sentence of Section II.K, the March 15, 1996 and March 20, 1997 Settlement Agreements among certain States, Liggett Group, Inc., Liggett & Myers Inc. and Brooke Group Ltd.

BB. "2003 Contested Signatory State Whose Diligent Enforcement Was Not Determined" means a Signatory State whose diligent enforcement of its Escrow Statute during 2003 was contested by the PMs in the 2003 arbitration but was not determined by the arbitration panel in the 2003 arbitration. Such States are listed in Exhibit D.

CC. "2003 Uncontested Signatory State" means a Signatory State whose diligent enforcement of its Escrow Statute during 2003 was not contested by the PMs in the 2003 arbitration. Both Signatory States and Non-Signatory States that were so not contested (including Montana) are listed in Exhibit E.

DD. "2016 Signatory State" means the following Signatory States: Alabama, Arizona, Arkansas, California, Connecticut, District of Columbia, Georgia, Indiana, Kansas, Kentucky, Louisiana, Michigan, Nebraska, Nevada, New Hampshire, New Jersey, North Carolina, Oklahoma, Puerto Rico, South Carolina, Tennessee, Virginia, West Virginia and Wyoming. The term does not include any Subsequent-Joining Signatory States other than Kentucky and Indiana.

III. 2003-2012 NPM ADJUSTMENTS

A. Settlement by the Initial OPMs.

1. The Signatory Parties agree that the aggregate amount of the disputed NPM Adjustments for 2003-2012 (including interest and earnings on such Adjustments) is (i) $8,190,565,465.07 in respect of the Initial OPMs' payments under MSA Section IX(c)(1) and (ii) $488,353,515.88 in respect of the Initial OPMs' payments under MSA Section IX(c)(2). The Signatory Parties further agree that such amounts shall not change

notwithstanding any subsequent revision to or recalculation of any such Adjustments by the Independent Auditor.

2. In consideration of the final resolution of the disputes among the Signatory Parties regarding the 2003-2012 NPM Adjustments, the Initial OPMs shall receive a projected amount equal to the total of (i) the amount in subsection III.A.1(i) multiplied by the aggregate IX(c)(1) Allocated Settlement Percentage of the Signatory States and (ii) the amount in subsection III.A.1(ii) multiplied by the aggregate IX(c)(2) Allocated Settlement Percentage of the Signatory States. Such total amount is referred to as the "Projected OPM Settlement Amount."

3. Based on the States that became Signatory States prior to April 15, 2013 (as such States and their respective Allocated Settlement Percentages are listed in Exhibit A), the portion of the Projected OPM Settlement Amount attributable to MSA Section IX(c)(1) payments, as calculated pursuant to subsection III.A.2(i), equals $1,621,321,258.46, and the portion of the Projected OPM Settlement Amount attributable to MSA Section IX(c)(2) payments, as calculated pursuant to subsection III.A.2(ii), equals $79,239,110.99, for a total Projected OPM Settlement Amount of $1,700,560,369.45. (The Projected OPM Settlement Amounts resulting from additional Settling States' becoming Signatory States after April 15, 2013 are addressed in subsections III.D-E below.)

4. The Initial OPMs shall receive the Projected OPM Settlement Amount set forth in subsection III.A.3 in a form of (i) a credit against their MSA payments due on April 15, 2013 (the "2013 Credit") and (ii) a percentage reduction to each of the Initial OPMs' four subsequent MSA payments due April 15, 2014-2017 (each a "[Year] Percentage Reduction," and collectively the "2014-2017 Percentage Reductions").

5. The total dollar amount of the Initial OPMs' 2013 Credit shall equal 50% of the total Projected OPM Settlement Amount set forth in subsection III.A.3, or $850,280,184.72. That total dollar amount shall consist of (i) 50% of the portion of the Projected OPM Settlement Amount attributable to MSA Section IX(c)(1) payments, or $810,660,629.23, and (ii) 50% of the portion of the Projected OPM Settlement Amount attributable to MSA Section IX(c)(2) payments, or $39,619,555.49.

6. The principal dollar amount due to the Initial OPMs as a result of the application of each of the 2014-2017 Percentage Reductions shall be determined by multiplying the aggregate payment amount due from all of the Initial OPMs pursuant to MSA Section IX(c)(1) on April 15 of the respective year by the applicable Percentage Reduction (determined as provided below). For purposes of this subsection III.A.6, this aggregate Initial OPM payment amount shall be after the application of the Inflation Adjustment, Volume Adjustment and Previously Settled States Reduction, but before the application of any remaining adjustments, reductions and offsets under the MSA or this Settlement Agreement, all as determined by the Independent Auditor in the latest Final Calculation prior to the respective Payment Due Date. (The dollar amount due to the Initial OPMs as a result of the application of a Percentage Reduction shall not change notwithstanding any subsequent revision to or recalculation of such aggregate Initial OPM payment amount by the Independent Auditor.) Such principal dollar amount shall be increased by interest as provided in subsection III.A.9.

7. Each of the 2014-2017 Percentage Reductions shall be determined on November 15 of the year prior to the year the respective Percentage Reduction shall be applied. (For example, the 2014 Percentage Reduction shall be determined on November 15, 2013.) Absent other agreement by the Signatory States and each Initial OPM scheduled to

receive a Percentage Reduction credit, each such Percentage Reduction shall be determined so that multiplying the applicable Estimated MSA Payment (as defined below) by such Percentage Reduction will produce a dollar amount equal to 12.5% of the total Projected OPM Settlement Amount set forth in subsection III.A.3, or $212,570,046.18.

8. The "Estimated MSA Payment" shall mean an estimate of the aggregate amount due from all of the Initial OPMs pursuant to MSA Section IX(c)(1) on April 15 of the year following the year in which such estimate is being made, after the application of the Inflation Adjustment, Volume Adjustment and Previously Settled States Reduction, but before the application of any remaining adjustments, reductions and offsets under the MSA or this Settlement Agreement. Estimated MSA Payments due in each of 2014-2017 shall be estimated on November 15 of the year prior to the year in which the payment is due, as follows.

a. The Inflation Adjustment shall be calculated pursuant to Exhibit C to the MSA, except that such adjustment shall be based on the Consumer Price Index for September (as released in October) of the year prior to the year in which the payment is due.

b. The Volume Adjustment shall be calculated pursuant to Exhibit E to the MSA, except that shipment volume for the Applicable Year (which is also the year in which the estimate is being made) shall be the sum of the actual total OPM shipment volume in the first three quarters of the Applicable Year and an estimate of total OPM shipment volume in the fourth quarter of such year. For determining the 2014 and 2015 Percentage Reductions, fourth-quarter volume shall be estimated by calculating the percentage that the total OPM shipment volume in the fourth quarter of the year prior to the Applicable Year represented of the total OPM shipment volume in the first three quarters of that prior year, and then applying that percentage to the total OPM shipment volume in the first three quarters of the Applicable

Year. (For example, if, in 2012, 100 OPM Cigarettes were shipped in the first three quarters and 30 in the fourth quarter, then the percentage referenced in the preceding sentence would be 30%. If, in 2013, 90 OPM Cigarettes were shipped in the first three quarters, then the estimated volume for the fourth quarter of 2013 would be 27 (90 times 30%), and the total volume in 2013, for estimating the Estimated MSA Payment due in 2014, would be 117 (90 plus 27).) For determining the 2016 Percentage Reduction, shipment volume for the fourth quarter of 2015 shall be estimated in the same way, unless the net principal dollar amount that the Initial OPMs received from application of the 2014 and 2015 Percentage Reductions exceeded, by more than $2 million, 25% of the Projected OPM Settlement Amount, in which case the Signatory States may elect to have such estimated shipment volume equal the actual shipment volume for the fourth quarter of 2014. For determining the 2017 Percentage Reduction, if the net principal dollar amount that the Initial OPMs received from application of the 2014, 2015 and 2016 Percentage Reductions equaled or was less than 37.5% of the Projected OPM Settlement Amount, then the shipment volume for the fourth quarter of 2016 shall be estimated in the same way as for the 2014 and 2015 Percentage Reductions; if and only if such net principal dollar amount exceeded such 37.5%, then the Signatory States may elect to have such estimated shipment volume equal the actual shipment volume for the fourth quarter of 2015.

c. For purposes of determining whether the Signatory States may elect the alternative estimation of shipment volumes for the fourth quarters of 2015 and 2016 pursuant to subsection III.A.8.b (to determine the 2016 and 2017 Percentage Reductions, respectively), the Projected OPM Settlement Amount shall not include settlement amounts due from Indiana and Kentucky. For all other purposes of determining the 2015, 2016 and 2017

Percentage Reductions, the Projected OPM Settlement Amount shall include settlement amounts due from Indiana and Kentucky. For determining the 2018 Percentage Reduction applicable to Indiana and Kentucky, the method of estimating the shipment volume for the fourth quarter of 2017 shall be selected and operate in the same way as the method for estimating the shipment volume for the fourth quarter of 2016 (for determining the 2017 Percentage Reduction), except that, in determining whether the 37.5% threshold was exceeded, only the settlement amounts received and projected to be received from Indiana and Kentucky through the 2015, 2016 and 2017 Percentage Reductions shall be considered, and, if those Signatory States are authorized to and do elect the second method stated in the last sentence of subsection III.A.8.b, then the estimated shipment volume for the fourth quarter of 2017 shall equal the actual shipment volume for the fourth quarter of 2016.

d. The volume of any brand formerly owned by an Initial OPM that is now manufactured by an SPM shall continue to be included in the calculations of the Volume Adjustment pursuant to subsection III.A.8.b. Provided, however, that, because the Percentage Reductions under subsections III.A.6-8 apply only to the Initial OPMs, the Estimated MSA Payment and the aggregate payment amount due from all of the Initial OPMs as referenced in subsection III.A.8 shall not include the MSA payments due from such SPM with respect to such brand.

9. The principal dollar amount of each Percentage Reduction determined pursuant to subsection III.A.6 shall be increased by interest accruing at the Prime Rate from April 15, 2013, to April 15 of the year in which the relevant Percentage Reduction is applied. Provided, however, that for purposes of calculating such interest only, each such principal dollar amount shall be reduced by the aggregate Allocable Share of the States that became

Signatory States before April 15, 2013 of $83,748,186.69, or $36,039,003.34. (The calculation of the principal for purposes of calculating the interest, and the reduction in principal for purposes of calculating such interest, resulting from additional Settling States becoming Signatory States after April 15, 2013 are addressed in subsections III.D and III.E below.)

10. The total dollar amount of the 2013 Credit and of each of the 2014-2017 Percentage Reductions shall be allocated among the Initial OPMs as they direct.

B. Settlement by the SPMs.

1. In consideration of the final resolution of the disputes among the Signatory Parties regarding the 2003-2012 NPM Adjustment, and as further addressed in Exhibit F, the Signatory Parties agree that the aggregate settlement amounts related to the disputed MSA Section IX(c)(1) and MSA Section IX(c)(2) NPM Adjustments for 2003-2012 (including interest and earnings on such Adjustments) for each SPM are the amounts for that SPM set forth in Exhibit F, Chart F.1. The Signatory Parties further agree that such amounts shall not change notwithstanding any subsequent revision to or recalculation of any such Adjustments by the Independent Auditor.

2. Based on the States that became Signatory States prior to April 15, 2013 (as listed in Exhibit A), each SPM's settlement amount attributable to MSA Section IX(c)(1) payments is calculated pursuant to subsection III.B.2(i) and Exhibit F, and each SPM's settlement amount attributable to MSA Section IX(c)(2) payments is calculated pursuant to subsection III.B.2(ii) and Exhibit F. (The settlement amounts resulting from additional Settling States' becoming Signatory States after April 15, 2013 are addressed in subsections III.D-E below and Exhibit F.)

3. Each SPM shall receive its total settlement amount in the manner provided in Exhibit F.

4. Exhibit F further provides for (i) the treatment of SPMs that withheld amounts attributable to NPM Adjustments for 2003-2012, and (ii) the calculation of credits, including the application of interest, as to those SPMs that elected to receive their credits over time.

C. Allocation Among the Signatory States.

1. All credits and reductions described in subsections III.A-B shall be allocated solely to and among the Signatory States as follows. No part of such credits or reductions shall be allocated to any Settling State that is a Non-Signatory State.

2. For the States that became Signatory States prior to April 15, 2013:

a. All credits described in subsections III.A-B that are attributable to MSA Section IX(c)(1) payments for the benefit of such Signatory States shall be allocated among those Signatory States in proportion to their respective IX(c)(1) Allocated Settlement Percentages. All credits described in subsections III.A-B that are attributable to MSA Section IX(c)(2) payments for the benefit of such Signatory States shall be allocated among those Signatory States in proportion to their respective IX(c)(2) Allocated Settlement Percentages.

b. For purposes of allocating the dollar amount due to the Initial OPMs as a result of the application of each of the 2014-2017 Percentage Reductions, each such dollar amount shall be divided into two parts, one part attributable to MSA Section IX(c)(1) payments and another part attributable to MSA Section IX(c)(2) payments, in proportion to the corresponding portions of the total Projected OPM Settlement Amount set forth in subsection III.A.3. The part attributable to MSA Section IX(c)(1) payments for the benefit of such

Signatory States shall be allocated among those Signatory States in proportion to their respective IX(c)(1) Allocated Settlement Percentages. The part attributable to MSA Section IX(c)(2) payments for the benefit of such Signatory States shall be allocated among those Signatory States in proportion to their respective IX(c)(2) Allocated Settlement Percentages. Allocation of the dollar amount due to the SPMs that receive Percentage Reductions pursuant to Exhibit F shall be determined in the same manner, except that, for each such SPM, the payments shall be divided into two parts, one part attributable to MSA Section IX(c)(1) payments and another part attributable to MSA Section IX(c)(2) payments, in proportion to the corresponding portions of the Projected SPM Settlement Amount for that SPM set forth in Exhibit F, Chart F.1.

c. Any such credits and reductions may be reallocated among such Signatory States as they direct.

3. All credits and reductions due to a PM pursuant to section III that are allocated to a Signatory State shall be applied up to the full amount of that PM's payment for the benefit of such Signatory State in the year in question pursuant to MSA Sections IX(c)(1) and IX(c)(2). If a PM's credit or reduction amount allocated to a particular Signatory State cannot be applied in full in any year because that Signatory State does not have sufficient total payments due from that PM under MSA Sections IX(c)(1) and IX(c)(2) for the benefit of that Signatory State against which it could be used as a result of the application of the NPM Adjustment or as pursuant to this Settlement Agreement, all unused amounts shall carry forward (with interest at the Prime Rate) and apply against subsequent eligible payments due from that PM for the benefit of that Signatory State until all such amounts have been applied. This provision does not apply to an SPM that falls within the circumstances described in

subsection IX.K, except that, if such SPM would be entitled to interest under this paragraph if it did not fall within the circumstances described in subsection IX.K, it will be entitled to such interest.

D. States That Joined Between April 15, 2013 and the End of Individual State Hearings in the 2003 Arbitration.

1. Two States joined the settlement and became Signatory States between April 15, 2013 and the end date of the last individual State hearing in the 2003 arbitration. The respective IX(c)(1) and IX(c)(2) Allocated Settlement Percentages of these States are set forth in Exhibit A.

2. Such joinder by each of these Signatory States gives rise to a Projected OPM Settlement Amount in addition to that set forth in subsection III.A.3. For each such additional Signatory State, such additional Projected OPM Settlement Amount shall be calculated as follows: (i) the portion of the additional Projected OPM Settlement Amount attributable to MSA Section IX(c)(1) payments shall equal the amount in subsection III.A.1(i) multiplied by the IX(c)(1) Allocated Settlement Percentage of such State, and (ii) the portion of the additional Projected OPM Settlement Amount attributable to MSA Section IX(c)(2) payments shall equal the amount in subsection III.A.1(ii) multiplied by the IX(c)(2) Allocated Settlement Percentage of such State. The total additional Projected OPM Settlement Amount attributable to each such Signatory State shall equal the sum of the amounts in clauses (i) and (ii).

3. The Initial OPMs shall receive the total additional Projected OPM Settlement Amount attributable to each such Signatory State, as referenced in subsection III.D.2, in the form of (i) a credit against their MSA payments due on April 15, 2014 (the "2014 Credit") and (ii) an increase in the 2014-2017 Percentage Reductions. Such amounts shall be

determined and provided to the Initial OPMs consistent with the provisions of subsections III.A.4-10, except as follows.

a. The principal amount of the 2014 Credit attributable to each such Signatory State shall equal 50% of the respective additional Projected OPM Settlement Amount determined pursuant to subsection III.D.2.

b. The 2014-2017 Percentage Reductions shall be increased by (i) adding, for purposes of determining the Percentage Reduction pursuant to subsection III.A.7, the total additional Projected OPM Settlement Amount determined pursuant to subsection III.D.2 for each such additional Signatory State to the total Projected OPM Settlement Amount set forth in subsection III.A.3, and (ii) adding, for purposes of determining the applicable amount of interest pursuant to subsection III.A.9, each such additional Signatory State's Allocable Share to the aggregate Allocable Share of the States that became Signatory States before April 15, 2013.

4. Such joinder by these additional Signatory States also gives rise to settlement amounts for each SPM in addition to those described in subsection III.B.3. For each such additional Signatory State, such additional settlement amounts due to an SPM shall be calculated as set out in Exhibit F. The SPMs shall receive such additional settlement amounts consistent with the provisions of Exhibit F.

5. The additional settlement amounts described in subsections III.D.2-4 shall be allocated among the Signatory States and applied consistent with the provisions of subsection III.C, except as follows.

a. The 2014 Credit attributable to each such additional Signatory State shall be allocated solely to such State.

b. For purposes of allocating the total dollar amount of each Percentage Reduction, as determined pursuant to subsections III.A.6-9 and increased pursuant to subsection III.D.3 (or, for SPMs as determined and increased pursuant to Exhibit F), each such additional Signatory State's respective IX(c)(1) Allocated Settlement Percentages and IX(c)(2) Allocated Settlement Percentages shall be included for purposes of subsection III.C.2.

c. Notwithstanding the foregoing, the dollar amount of each of the 2014-2017 Percentage Reductions allocated to the State of Connecticut shall be carried forward one year and applied to the Initial OPMs' (and, for SPMs that receive a Percentage Reduction, each SPM's) next respective year's MSA payments for the benefit of Connecticut, with interest at the Prime Rate accruing during such year. (For example, the dollar amount of the 2014 Percentage Reduction allocated to Connecticut shall apply to the Initial OPMs' or an SPM's MSA payments for the benefit of Connecticut due on April 15, 2015, with interest at the Prime Rate accruing from April 15, 2014 to April 15, 2015.)

d. Such credits and reductions may be reallocated among the Signatory States as they direct.

E. <u>Subsequent-Joining Signatory States</u>.

1. Additional Settling States may join this Settlement Agreement before or after the Effective Date and become Subsequent-Joining Signatory States if the PMs, in their sole discretion, agree. A Subsequent-Joining Signatory State's IX(c)(1) Allocated Settlement Percentage shall equal 59% of its Allocable Share and its IX(c)(2) Allocated Settlement Percentage shall equal 59% of its IX(c)(2) Allocable Share. Provided, however, that the PMs, in their sole discretion, may agree to change the applicable percentage specified in the

preceding sentence. The PMs, in their sole discretion, may further agree to add statutes then in effect in such Subsequent-Joining Signatory State to Exhibits B and C.

2. For purposes of any agreement by the PMs referenced in subsection III.E.1, agreement by the PMs with an aggregate Market Share in the immediately preceding calendar year equal to at least 93% of the aggregate Market Share of all the PMs shall be sufficient and shall bind any remaining PMs. The Signatory States agree that such agreement by the PMs (including such agreements already made with certain Signatory States after December 17, 2012 to reduce the applicable percentage for those States to 46%, and the agreements described in subsection III.E.6) shall not give rise to any claims pursuant to subsection IX.A and shall not obligate the PMs to agree to any similar agreement for any other Settling State.

3. Such joinder by Subsequent-Joining Signatory States shall give rise to Projected OPM Settlement Amounts in addition to those set forth in subsections III.A.3 and III.D.2, and to interest in addition to interest set forth in subsections III.A.9 and III.D.3.b. Unless the Initial OPMs and the respective Subsequent-Joining Signatory State agree otherwise, the Initial OPMs shall receive the additional Projected OPM Settlement Amounts and interest consistent with the provisions of subsection III.D, except that the 50% credit shall be applied against the first MSA payment following such State's execution of this Settlement Agreement, and the remaining settlement amount shall be divided into four equal percentage reductions applied against the four subsequent MSA payments. All such credits and reductions shall be allocated among the Initial OPMs as they direct.

4. Such joinder by Subsequent-Joining Signatory States shall also give rise to settlement amounts for each SPM in addition to those described in subsections III.B.3 and

III.D.4. The SPMs shall receive such additional settlement amounts consistent with the provisions of Exhibit F, unless the respective SPM and Subsequent-Joining Signatory State agree otherwise.

5. The additional settlement amounts described in subsections III.E.3-4 attributable to each Subsequent-Joining Signatory State shall be allocated solely to such State, and otherwise applied consistent with the provisions of subsection III.C, except as directed by the Signatory States.

6. Four States, Indiana, Kentucky, Oregon and Rhode Island have become Subsequent-Joining Signatory States prior to the Effective Date, on the terms set forth in Exhibits G, H, I and J, respectively. All provisions of this Settlement Agreement apply to Indiana and Kentucky except as specifically provided in Exhibits G and H, in subsection III.A.8.c, and in Exhibit F. All provisions of this Settlement Agreement apply to Oregon except subsection V.A.10 and as specifically provided in Exhibit I. All provisions of this Settlement Agreement apply to Rhode Island except as specifically provided in Exhibit J, provided, however, that the applicability to Rhode Island of subsection V.A.10 and the provisions of subsections VIII.A.2 and VIII.B.2 related to the 2015 NPM Adjustment are subject to a condition subsequent that Rhode Island obtain bondholder approval of subsection V.A.10 as applied to Rhode Island prior to March 31, 2018 (which Rhode Island agrees it will use reasonable best efforts to obtain).

F. <u>No Effect on MSA Payment Calculations</u>. Other than applying as provided in this Settlement Agreement, the credits and reductions described in this section III shall not be included in, and shall not affect, any other calculations of payments due under the MSA, including calculations of the amount of the NPM Adjustments pursuant to the MSA and this Settlement Agreement.

G. The Profit Adjustment.

1. It is the intent of the Signatory Parties that any credits and reductions (including carry-forwards) described above in this section III with respect to 2016 Signatory States, and any adjustments pursuant to subsection V.A.2 with respect to 2016 Signatory States, shall not subject the OPMs in any year to a profit adjustment pursuant to Section B(ii) of MSA Exhibit E. Absent an OPM's election consistent with the requirements of subsection III.G.8, if the application of the full amount of such credit, reduction and/or adjustment would result in such profit adjustment in any year, such credit, reduction and/or adjustment amount applicable in such year to the OPMs shall be reduced so that no profit adjustment is due in such year due to such credit, reduction and/or adjustment; provided, however, that no OPM shall be required to return or repay to any State any amounts previously received by such OPM pursuant to the terms of this Settlement Agreement, whether by credit, reduction or adjustment, for the purpose of avoiding the application of the profit adjustment.

2. If any credit or reduction amounts described in section III cannot be used in a given year due to the application of this subsection III.G, the 12.5% number used to determine the Percentage Reduction applicable in the subsequent year pursuant to subsection III.A.7 (together with the corresponding numbers pursuant to subsections III.D-E, as applicable) shall be increased by adding to it the percentage number reflecting the share of the Projected OPM Settlement Amount represented by such unused credit or reduction amount. (For example, if the unused amount represents 2% of the Projected OPM Settlement Amount, 12.5% in subsection III.A.7 shall be increased to 14.5%.) If no percentage reduction is otherwise

applicable in the subsequent year, then a percentage reduction shall apply by operation of this subsection, determined pursuant to subsections III.A.6-9, except that the 12.5% number referenced in subsection III.A.7 shall be substituted with the percentage number reflecting the share of the Projected OPM Settlement Amount represented by such unused credit or reduction amount.

3. If any adjustments pursuant to subsection V.A.2 cannot be used in a given year due to the application of this subsection III.G, the unused amount shall be converted into a percentage reduction applicable to the next MSA payment due from the OPMs. The percentage applicable to such percentage reduction shall be determined by dividing such unused amount of the adjustment by the next Estimated MSA Payment, and the percentage reduction shall be calculated and applied consistent with the procedures set forth in subsections III.A.6-9.

4. If any credit or reduction described in section III and an adjustment pursuant to subsection V.A.2 cannot both be used in the same year due to the application of this subsection III.G, then the provisions of subsection III.G.3 shall be applied first, and the provisions of subsection III.G.2 shall be applied second.

5. The Signatory Parties shall instruct the Independent Auditor sufficiently in advance of the issuance of Final Calculations for the MSA payments to which such credits, reductions and/or adjustments described in subsection III.G.1, if any, are due to be applied regarding any reduction to those credits, reductions and/or adjustments that is required pursuant to this subsection III.G.

6. If, (i) notwithstanding the provisions of this subsection III.G, the application of any such credits, reductions and/or adjustments described in subsection III.G.1,

or (ii) the application of a percentage reduction by operation of the last sentence of subsection III.G.2, subjects the OPMs in any year to a profit adjustment pursuant to Section B(ii) of MSA Exhibit E, each of the Signatory States hereby agrees that the payments due to it from any OPM pursuant to MSA Sections IX(c)(1) and IX(c)(2) shall be offset by an amount equal to its Allocable Share or IX(c)(2) Allocable Share, as applicable, of such profit adjustment attributable to application of any such credits, reductions and/or adjustments described in subsection III.G.1. The amount of the payments due from any OPM receiving such an offset shall thus be decreased by subtracting the value of such offset from the full amount otherwise due pursuant to MSA subsection IX(j), step Thirteenth.

7. If a credit, reduction or adjustment amount described in subsection III.G.1 and applicable to the payments due from an OPM is reduced in any year by the operation of subsections III.G.1-4, the reduced credit, reduction or adjustment amount shall be allocated among the OPMs as they direct. Any increase in subsequent percentage reduction resulting from the operation of subsections III.G.1-4 shall be allocated among the OPMs in proportion to their respective shares of the corresponding amount by which a credit or reduction was reduced by the operation of subsections III.G.1-6. Nothing in this Settlement Agreement shall affect the allocation of the profit adjustment as provided in Section B(iii) of MSA Exhibit E.

8. If an amount due to an OPM in a given year would be reduced by the operation of the provisions of subsections III.G.1-6, such OPM may at its option elect to receive such amount in full in such year notwithstanding such provisions by agreeing as described below that it will bear the entire cost of the additional profit adjustment pursuant to Section B(ii) of MSA Exhibit E and pursuant to the settlement agreements with the Previously Settled States

that would result from its receipt of the amount that would otherwise be reduced by operation of the provisions of subsection III.G.1-6. Such an agreement shall be made prior to any such election through a binding agreement that provides that such OPM will instruct the Independent Auditor to allocate the entirety of such additional profit adjustment to such OPM and that, if the Independent Auditor does not do so or if for any other reason any other OPM bears a share of such additional profit adjustment, such OPM will indemnify each other such OPM and promptly re-pay it for any share of such additional profit adjustment that it bears. If, prior to the Effective Date, an OPM receives an amount that would have been reduced by the operation of the provisions of subsections III.G.1-6, that OPM shall be deemed to have made such an election and timely provided the binding agreement described in this subsection III.G.8.

9. If an OPM makes the election and timely provides the binding agreement described in subsection III.G.8, then the provisions of subsections III.G.1-6 shall not apply to such OPM's payments in the given year. Instead, in the year following the given year ("Deferred Year"), each of the 2016 Signatory States agrees that the payments due from any OPM pursuant to MSA Sections IX(c)(1) and IX(c)(2) shall be offset by an amount equal to the lesser of the following: (x) the offset amount that would have applied to its payment under subsection III.G.6 had that subsection applied to all credits, reductions or adjustment amounts described in subsection III.G.1 for the given year; or (y) its Allocable Share or IX(c)(2) Allocable Share, as applicable, of the Deferred Year profit adjustment attributable to an amount equal to the credits, reductions or adjustment amounts described in subsection III.G.1 in the given year. For purposes of subsection III.G.9(y) only, the profit adjustment for the Deferred Year shall be calculated pursuant to Section B(ii) of MSA Exhibit E, except that the "operating income for sales of Cigarettes" of the OPMs shall not include any NPM Adjustment-related

settlement credits or reductions to any charges or expenses other than those accrued under the Term Sheet or this Settlement Agreement.

10. This subsection III.G shall not be applicable to any credits, reductions or adjustments with respect to any Signatory State that is not a 2016 Signatory State.

H. The Independent Auditor. The Signatory States and the PMs shall jointly instruct the Independent Auditor and the Escrow Agent to apply all the credits and reductions as set forth in section III and Exhibit F, and allocate them among the PMs and the Signatory States, as provided in this Settlement Agreement, provided that instructions by those Signatory Parties whose MSA payments and receipt of MSA payments are affected by a particular application or allocation shall be sufficient for the Independent Auditor and the Escrow Agent to implement them.

IV. THE DISPUTED PAYMENTS ACCOUNT

A. Release of Amounts Attributable to 2003-2012 NPM Adjustments Held in the Disputed Payments Account as of April 15, 2013.

1. Except as provided in Exhibit F, any PMs that withheld from payment any amounts attributable to the 2003-2012 NPM Adjustments shall deposit such withheld amounts into the Disputed Payments Account by April 15, 2013.

2. The PMs and the Signatory States shall jointly instruct the Independent Auditor to determine the amounts held in the Disputed Payments Account (including the accumulated earnings thereon) as of April 15, 2013 that are attributable to the PMs' dispute over the applicability of the 2003-2012 NPM Adjustments to (i) MSA Section IX(c)(1) payments for any year, and (ii) MSA Section IX(c)(2) payments for any year. The Signatory Parties agree that such amounts shall change only due to additional earnings accumulating on such amounts from April 15, 2013 to the time of the release, and shall not change

notwithstanding any subsequent revision to or recalculation of any of the 2003-2012 NPM Adjustments by the Independent Auditor.

3. Following the Independent Auditor's confirmation that it will apply the settlement credits and reductions set forth in section III attributable to a Signatory State, the PMs and such Signatory State shall jointly instruct the Independent Auditor to release from the Disputed Payments Account such Signatory State's Allocable Share of the amount described in subsection IV.A.2(i) and such Signatory State's IX(c)(2) Allocable Share of the amount described in subsection IV.A.2(ii). Nothing in this Settlement Agreement shall require the release from the Disputed Payments Account of the Non-Signatory States' Allocable Shares or IX(c)(2) Allocable Shares, as applicable, of such amounts.

4. The PMs and the Signatory States shall jointly instruct the Independent Auditor to initially retain in the Disputed Payments Account $10,000,000 of the amounts released pursuant to subsection IV.A.3 to be used to fund certain expenses related to the Data Clearinghouse described in section VI that are payable by the Signatory States. The Signatory States shall provide any necessary instructions regarding the subsequent placement of these funds and any contribution by Signatory States that join this Settlement Agreement after the Effective Date.

5. The PMs and the Signatory States shall jointly instruct the Independent Auditor to allocate the remainder of the amounts released from the Disputed Payments Accounts pursuant to subsection IV.A.3 solely to and among the Signatory States, as directed by them. Such Signatory States may instruct the Independent Auditor to reallocate any such released amounts among them as necessary (i) to allocate a portion of the Data Clearinghouse fund described in subsection IV.A.4 to the Signatory States that joined the settlement between

April 15, 2013 and the Effective Date, and (ii) to reallocate with respect to the 2003 Uncontested Signatory States among the 2016 Signatory States pursuant to subsection IX.J.

6. An individual Signatory State may elect to have its share of the amounts to be released from the Disputed Payments Account pursuant to subsection IV.A.3 released in installments over the period of up to five years following the time the funds would first be released to such State pursuant to subsection IV.A.3. Such State shall inform the Signatory Parties of its selection in a reasonable time in advance of the time the funds would first be released and shall instruct the Independent Auditor accordingly. Such election shall not affect any credits, reductions or other calculations pursuant to this Settlement Agreement.

7. The Signatory Parties agree that the withheld amounts described in subsection IV.A.1 were properly deposited into the Disputed Payments Account.

B. NPM Adjustment Amounts Not in the Disputed Payments Account as of April 15, 2013.

1. NPM Adjustments for 2011-2014.

a. In connection with the MSA payments due on April 15 of each of 2014-2017, on or before the respective Payment Due Date each OPM shall deposit into the Disputed Payments Account the Signatory States' aggregate Allocable Share and the aggregate IX(c)(2) Allocable Share, as applicable, of that OPM's share (as such shares are determined pursuant to MSA Section IX(d)(3)) of the OPMs' Potential Maximum NPM Adjustment for the year preceding the payment year by three years. (For example, on April 15, 2014, the OPMs shall deposit such shares of the 2011 NPM Adjustment.)

b. In connection with the MSA payments due on April 15 of each of 2014-2015, on or before the respective Payment Due Date each SPM shall deposit into the Disputed Payments Account the Signatory States' aggregate Allocable Share and the aggregate

IX(c)(2) Allocable Share, as applicable, of that SPM's respective Potential Maximum NPM Adjustment for the preceding year. (For example, on April 15, 2014, the SPMs shall deposit such shares of the NPM Adjustment for 2013.)

c. Following the Independent Auditor's confirmation that it will apply the settlement credits and reductions set forth in section III, the PMs and the Signatory States shall jointly instruct the Independent Auditor to release such amounts, and to allocate those released amounts solely to and among the Signatory States as they direct.

d. Deposits and releases described in this subsection IV.B.1 shall be based on the Allocable Shares and IX(c)(2) Allocable Shares of the States that are Signatory States at the time of the deposit in question.

2. NPM Adjustments for 2015 and thereafter.

a. In connection with the MSA payments due on April 15, 2016 and thereafter, on or before the respective Payment Due Date each OPM shall deposit into the Disputed Payments Account the Signatory States' aggregate Allocable Share and aggregate IX(c)(2) Allocable Share, as applicable, of its share of the OPMs' Potential Maximum NPM Adjustment for the preceding year. (For example, on or before April 15, 2016, the OPMs shall deposit such shares of the OPMs' Potential Maximum NPM Adjustment for 2015.)

b. Notwithstanding MSA Section IX(d)(3), the OPMs shall jointly determine and instruct the Independent Auditor as to their respective shares of such OPMs' Potential Maximum NPM Adjustments for purposes of the deposits required under subsection IV.B.2(a), and, provided that all OPMs agree to the allocation set forth in such joint instruction and that such OPMs' respective shares of their Potential Maximum NPM Adjustments total 100%, the Signatory States agree that each OPM shall be responsible for depositing only its share of such Adjustments as so determined and instructed by the OPMs. Such share percentages shall be the same as the OPMs' allocation of the adjustment for the year in question under subsections V.A-C.

c. In connection with the MSA payments due on April 15, 2016 and thereafter, on or before the respective Payment Due Date each SPM shall deposit into the Disputed Payments Account the Signatory States' aggregate Allocable Share and aggregate IX(c)(2) Allocable Share, as applicable, of that SPM's Potential Maximum NPM Adjustment for the preceding year. (For example, on April 15, 2016, the SPMs shall deposit such shares of their respective Potential Maximum NPM Adjustments for 2015.)

d. Each PM and the Signatory States shall jointly instruct the Independent Auditor to release the entire amount deposited by that PM pursuant to subsections IV.B.2.a-c promptly upon deposit, and distribute it as provided in subsection IV.B.2.e.

e. The amount to be released pursuant to subsection IV.B.2.d shall be allocated among the Signatory States pro rata in proportion to their respective Allocable Shares and IX(c)(2) Allocable Shares, as applicable. The amount so allocated to a Signatory State shall be released as follows: (i) the percentage of such allocated amount described in subsection V.C.9 – to such State; (ii) 50% of the portion of such allocated amount that remains after the release pursuant to clause (i) – to such State; and (iii) 50% of the portion of such allocated amount that remains after the release pursuant to clause (i) – to the PM that made the deposit. The amount released pursuant to subsection IV.B.2.e(i) shall be based on an estimate of the reimbursement percentage determined pursuant to subsection VI.I.1. (For example, if a PM makes a deposit of $200 million pursuant to subsection IV.B.2.a for a year in question, the entire $200 million will be released. If $10 million of such released amount is allocated to a

Signatory State, and such State's reimbursement percentage determined pursuant to subsection VI.I.1 for such year equals 40%, that $10 million will be released as follows: (i) $4 million will be released to such State pursuant to clause (i) (40% of $10 million); (ii) another $3 million will be released to such State pursuant to clause (ii) (50% of the $6 million that remains after the release pursuant to clause (i)); and (iii) $3 million will be released to the PM that made the deposit pursuant to clause (iii) (50% of the $6 million that remains after the release pursuant to clause (i)).)

f. Releases to the PMs pursuant to subsection IV.B.2.e(iii) shall be made only with respect to the amounts deposited into the Disputed Payments Account before both party-selected arbitrators are appointed for the first NPM Adjustment arbitration involving the Signatory States and commenced pursuant to subsection VII.C.5.a or subsection VII.C.5.b. The amounts deposited into the Disputed Payments Account pursuant to subsections IV.B.2.a-c after both such arbitrators have been appointed for the first such arbitration shall be released to the Signatory States in their entirety.

g. Deposits and releases described in this subsection IV.B.2 shall be based on the Allocable Shares and IX(c)(2) Allocable Shares of the States that are Signatory States at the time of the deposit in question. The released amounts shall be subject to repayment as provided in subsections V.C.6-7.

h. Notwithstanding subsection VI.H.7 (but subject to disputes pursuant to subsections VI.H.2-7 and VII.B), once the amounts have been released and distributed pursuant to subsection IV.B.2.e(i)-(iii), the allocation of the released amounts shall not be revised or recalculated based on any new, additional or revised documents or data (including any revised calculations issued by the Independent Auditor), and the amounts so released and distributed shall remain in the respective Signatory Parties' possession, until such time as reimbursement pursuant to subsection V.C.9 becomes due upon conclusion of the NPM Adjustment arbitration for the relevant year. At such time, the reimbursement percentages shall be determined as provided in subsection VI.I.2.

3. Revisions to Prior Adjustment Amounts. If, prior to an MSA Payment Due Date, the Independent Auditor issues Revised Final Calculations for prior years that contain revised NPM Adjustment amounts for such prior years, the amounts the OPMs deposit into the Disputed Payments Account on such Payment Due Date pursuant to subsections IV.B.1.a and IV.B.2.a-b shall be based on a "net" adjustment amount, that is, the amount that reflects both the NPM Adjustment amount for the year that is first subject to deposit into the Disputed Payments Account and revisions to prior years' adjustment amounts (for example, if the prior years' adjustments are revised upwards, the OPMs shall deposit the amount of the increase into the Disputed Payments Account in the current year; if the prior years' adjustments are revised downwards, the OPMs shall deduct the amount of the decrease from the amount they deposit into the Disputed Payments Account in the current year). The amount to be released from the Disputed Payments Account each year pursuant to subsections IV.B.1.c and IV.B.2.d will likewise be based on such "net" amounts. If a portion of such released amount is to be provided to a Signatory State in the year in question pursuant to subsection IV.B.2.e(i), the amount so provided shall be determined based entirely on the estimated reimbursement percentage for that year without regard to the reimbursement percentages used in connection with prior years' releases. Each SPM also may elect to make such deposits and direct releases based on such "net" adjustment amounts on the same terms.

4. No Effect on Deposits for Non-Signatory States. If, in addition to the Signatory States' shares of the Potential Maximum NPM Adjustments addressed in subsections IV.B.1-2, a PM also deposits into the Disputed Payments Account the Non-Signatory States' Allocable Shares or IX(c)(2) Allocable Shares, as applicable, of that PM's share of an NPM Adjustment, such PM and the Signatory States shall jointly instruct the Independent Auditor to release, as provided in subsections IV.B.1-2, only the Signatory States' Allocable Shares or IX(c)(2) Allocable Shares, as applicable, of the amounts described in subsections IV.B.1-2. Nothing in this section IV shall require the release from the Disputed Payments Account of the Non-Signatory States' Allocable Shares or IX(c)(2) Allocable Shares, as applicable, of such PM's share of any NPM Adjustment.

5. No Other Withholdings or Deposits into the Disputed Payments Account. Except as provided in subsections IV.B.1-2, the PMs shall not withhold or deposit into the Disputed Payments Account any amounts attributable to the Signatory States based on a dispute arising out of the adjustments set forth in subsections V.A-C. Provided, however, that, notwithstanding subsections IV.B.1-2:

a. If a PM notices for arbitration a dispute with a Signatory State with respect to an adjustment pursuant to subsections V.A-B, and the party-selected arbitrator for such State (or, if such dispute is noticed with more than one Signatory State, such States as a side) has not been appointed for such arbitration for over one year from the date such notice was first given despite good faith efforts by the PM, the PM may withhold, or deposit into the Disputed Payments Account and instruct the Independent Auditor not to release until such dispute is resolved with finality, the amount at issue in such dispute.

b. If a PM notices for arbitration a dispute with the Signatory States with respect to an adjustment pursuant to subsection V.C at or after the time such arbitration may commence pursuant to subsection VII.C, and the party-selected arbitrator for such States as a side (or, in the case of a merged arbitration pursuant to subsection VII.C.2, for all the participating States as a side) has not been appointed for such arbitration for over one year from the date such notice was first given despite good faith efforts by the PM (and other than as a result of delays due to Non-Signatory States), the PM may withhold, or deposit into the Disputed Payments Account and instruct the Independent Auditor not to release until such dispute is resolved with finality, such Signatory States' Allocable Shares or IX(c)(2) Allocable Shares, as applicable, of the NPM Adjustment for the year in question.

C. Subsequent-Joining Signatory States.

1. Upon joinder by a Subsequent-Joining Signatory State, following the Independent Auditor's confirmation that it will apply the credits and reductions resulting from the additional settlement amounts attributable to such Subsequent-Joining Signatory State as set forth in subsection III.E and Exhibit F, the PMs and such Subsequent-Joining Signatory State shall jointly instruct the Independent Auditor to release from the Disputed Payments Account such Subsequent-Joining Signatory State's Allocable Share of the amount described in subsection IV.A.2(i) and such Subsequent-Joining Signatory State's IX(c)(2) Allocable Share of the amount described in subsection IV.A.2(ii), to the extent such State's shares of such amounts are in the Disputed Payments Account. If any such shares of such amounts are not in the Disputed Payments Account, such Subsequent-Joining Signatory State and the PMs shall agree on how such amounts shall be addressed, subject to the provisions of subsection IV.C.2. For any SPM that has withheld amounts attributable to the NPM Adjustment for 2003 through

2012, unless the SPM and the Subsequent-Joining Signatory State agree otherwise, payment of such amounts for the benefit of the Subsequent-Joining Signatory State shall be determined in the manner described in Exhibit F.

2. The Signatory States shall instruct the Independent Auditor to reallocate the amounts released or otherwise provided to a Subsequent-Joining Signatory State pursuant to subsection IV.C.1 among them as necessary to allocate a portion of the Data Clearinghouse fund described in subsection IV.A.4 to the Subsequent-Joining Signatory State, subject to subsection IV.A.5. The Signatory States shall instruct the Independent Auditor to allocate the remainder of such amounts to such Subsequent-Joining Signatory State. For a Subsequent-Joining Signatory State that becomes a Signatory State in 2017 or later, the Signatory States may instruct the Independent Auditor to allocate to the Data Clearinghouse fund from the amounts to be released or otherwise provided to the Subsequent-Joining Signatory State pursuant to subsection IV.C.1 an amount equal to what that Subsequent-Joining Signatory State's share of the $10 million Data Clearinghouse fund would have been if such State had been a 2016 Signatory State and allocated a portion of the Data Clearinghouse fund among the pool of 2016 Signatory States, thereby making this an additional deposit into the fund rather than reallocating the contribution among the Signatory States.

3. Unless the PMs and the Subsequent-Joining Signatory State agree otherwise, the PMs shall deposit into the Disputed Payments Account the Subsequent-Joining Signatory State's Allocable Share and IX(c)(2) Allocable Share, as applicable, of the amounts referenced in subsection IV.B, and the PMs and such State shall jointly instruct the Independent Auditor to release such amounts, consistent with the provisions of subsection IV.B (and taking into account the timing of the joinder by such Subsequent-Joining Signatory State).

V. ADJUSTMENTS FOR SUBSEQUENT YEARS.

A. Adjustments During the Transition Period.

1. There will be a three-year transition period during which the PMs will receive adjustments to their MSA payments for the benefit of the Signatory States as provided in this subsection V.A.

2. In lieu of the 2013 NPM Adjustment and the 2014 NPM Adjustment as applicable to the Signatory States, the PMs will receive the downward adjustment for the sales year in question calculated pursuant to subsections V.A.3-8 applied to their payments pursuant to MSA Sections IX(c)(1) and IX(c)(2) due on April 15, 2014 and April 15, 2015. Such adjustment shall be applied to such payments on the Payment Due Date of the respective payment and shall not be subject to any conditions or exclusions that may apply to adjustments pursuant to MSA Section IX(d).

3. To calculate the Initial OPMs' aggregate amount of the adjustment under subsection V.A.2 for 2013 and 2014, the Independent Auditor shall first compare the Market Share Loss for 2013 or 2014, as applicable, with the Market Share Loss for 2011. If the Market Share Loss for such year in question is less than or equal to the 2011 Market Share Loss, the Independent Auditor shall calculate the total IX(c)(1) and IX(c)(2) adjustment amounts each equal to 25% of the Initial OPMs' Potential Maximum NPM Adjustment applicable to MSA Section IX(c)(1) and IX(c)(2) payments, respectively. (For example, if the 2013 Market Share Loss is less than the 2011 Market Share Loss, the total IX(c)(1) adjustment amount applicable to the OPMs' payments pursuant to MSA Section IX(c)(1) due on April 15, 2014 shall equal 25% of the OPMs' Potential Maximum 2013 NPM Adjustment applicable to the OPMs' MSA

Section IX(c)(1) payments. Adjustments to Section IX(c)(2) payments shall be treated in the same way.)

4. If the Market Share Loss for 2013 or 2014, as applicable, is more than the 2011 Market Share Loss, the Independent Auditor shall calculate the total IX(c)(1) and IX(c)(2) adjustment amounts by adding together the following amounts.

a. 25% of the amount of the Potential Maximum NPM Adjustment for the year in question the Initial OPMs would be entitled to pursuant to the provisions of the MSA, if the Market Share Loss for such year were equal to the 2011 Market Share Loss.

b. 30% of any part of the Potential Maximum NPM Adjustment for the year in question the Initial OPMs would be entitled to pursuant to the provisions of the MSA, arising from NPM sales volumes in such year of 1 to 100 million Cigarettes above the 2011 Market Share Loss.

c. 40% of any part of the Potential Maximum NPM Adjustment for the year in question the Initial OPMs would be entitled to pursuant to the provisions of the MSA, arising from NPM sales volumes in such year of 100 million to 200 million Cigarettes above the 2011 Market Share Loss.

d. 50% of any part of the Potential Maximum NPM Adjustment for the year in question the Initial OPMs would be entitled to pursuant to the provisions of the MSA, arising from NPM sales volumes in such year of more than 200 million Cigarettes above the 2011 Market Share Loss.

5. The aggregate Initial OPM amounts of the adjustment for a year in question under subsection V.A.2 applicable to MSA Sections IX(c)(1) and IX(c)(2) payments shall be equal to, respectively, (i) the total IX(c)(1) adjustment amount determined pursuant to

subsection V.A.3 or V.A.4, as applicable, multiplied by the aggregate Allocable Share of all Signatory States, and (ii) the total IX(c)(2) adjustment amount determined pursuant to subsection V.A.3 or V.A.4, as applicable, multiplied by the aggregate IX(c)(2) Allocable Share of all Signatory States. Such aggregate Initial OPM amounts shall be allocated among the Initial OPMs as they direct.

6. Such aggregate Initial OPM amounts under subsection V.A.2 shall be allocated solely to and among the Signatory States, in proportion to their Allocable Shares or IX(c)(2) Allocable Shares, as applicable.

7. For each SPM, the amount of the adjustment under subsection V.A.2 for 2013 and 2014 applicable to MSA Section IX(c)(1) and IX(c)(2) payments shall be determined in the same manner as the aggregate amount of the respective OPMs' adjustment, applying the percentages determined pursuant to subsection V.A.3 or V.A.4, as applicable, to such SPM's Potential Maximum NPM Adjustment, and multiplying the resulting amounts by the aggregate Allocable Share of all Signatory States, in case of the adjustment applicable to MSA Section IX(c)(1) payments, and by the aggregate IX(c)(2) Allocable Share of all Signatory States, in case of the adjustment applicable to MSA Section IX(c)(2) payments. Each SPM's adjustment shall be allocated solely to and among the Signatory States, in proportion to their Allocable Shares or IX(c)(2) Allocable Shares, as applicable.

8. The amount of the adjustment pursuant to subsection V.A.2 for 2013 and 2014 shall be determined based on the Market Share Loss for 2013 or 2014, as applicable, the Potential Maximum NPM Adjustment for 2013 or 2014, as applicable, and the Market Share Loss for 2011, all as determined by the Independent Auditor in the latest Final Calculation or Revised Final Calculation preceding the Payment Due Date of the MSA payment to which the

adjustment in question applies. The Signatory Parties agree that such adjustments for 2013 and 2014 shall not change after the Payment Due Date of the payment to which the adjustment in question is applied notwithstanding any subsequent revision or recalculation by the Independent Auditor of the amounts described in the preceding sentence.

9. In lieu of the calculation set out in subsections V.A.3 through V.A.8, the Signatory States and the PMs may provide the Independent Auditor with joint instructions specifying the dollar amounts to be used for the adjustment under subsection V.A.2.

10. In lieu of the 2015 NPM Adjustment as applicable to the Signatory States, the PMs will receive the following adjustments applied to their payments pursuant to MSA Section IX(c)(1) due on April 16, 2018:

a. The OPMs will receive an aggregate adjustment applicable to MSA Section IX(c)(1) payments, subject to subsection IX.L, equal to the sum of (i) 25% of the OPMs' Potential Maximum 2015 NPM Adjustment applicable to MSA Section IX(c)(1) multiplied by the aggregate Allocable Share of all Signatory States, and (ii) 25% of the OPMs' Potential Maximum 2015 NPM Adjustment applicable to MSA Section IX(c)(2) multiplied by the aggregate IX(c)(2) Allocable Share of all Signatory States. Such aggregate OPM amount shall be allocated among the OPMs as they direct, and shall be allocated solely to and among the Signatory States, in proportion to their Allocable Shares and IX(c)(2) Allocable Shares, as applicable.

b. Each SPM will receive an adjustment applicable to MSA Section IX(c)(1) payments, subject to subsection IX.L, equal to the sum of (i) 25% of that SPM's Potential Maximum 2015 NPM Adjustment applicable to MSA Section IX(c)(1) multiplied by the aggregate Allocable Share of all Signatory States, and (ii) 25% of that SPM's Potential

Maximum 2015 NPM Adjustment applicable to MSA Section IX(c)(2) multiplied by the aggregate IX(c)(2) Allocable Share of all Signatory States. Each SPM's adjustment shall be allocated solely to and among the Signatory States, in proportion to their Allocable Shares and IX(c)(2) Allocable Shares, as applicable.

c. The amounts of the adjustments pursuant to this subsection V.A.10 shall be determined based on the Market Share Loss for 2015 and the Potential Maximum NPM Adjustment for 2015 as determined by the Independent Auditor in the latest Final Calculation or Revised Final Calculation preceding the April 17, 2017 Payment Due Date. The Signatory Parties agree that the amounts of such adjustments shall not change after such Payment Due Date notwithstanding any subsequent revision or recalculation by the Independent Auditor of the amounts described in the preceding sentence.

d. The Signatory States and the PMs may provide the Independent Auditor with joint instructions specifying the dollar amounts to be used for the adjustments under this subsection V.A.10.

e. Each PM shall receive its amount under this subsection V.A.10 by repaying (without interest) all amounts previously released to that PM attributable to the 2015 NPM Adjustment as referenced in subsection IV.B.2 and then receiving its amount under this subsection V.A.10 in full (without interest); provided, however, that each PM's receipt of its amount under this subsection V.A.10 is conditioned on its prior release from the DPA to the Signatory States of all amounts, if any, that PM both deposited into the DPA and has retained in the DPA attributable to the Signatory States' Allocable Share or IX(c)(2) Allocable Share of the 2015 NPM Adjustment (and the earnings on those amounts).

f. The PMs shall also receive the adjustment pursuant to subsection V.B, determined and applied as provided in that subsection.

B. <u>SET-Paid NPM Sales</u>.

1. <u>Adjustment for the OPMs</u>. Starting with the payments for sales year 2015, due on April 15, 2016, and each year thereafter, the OPMs' payments pursuant to MSA Section IX(c)(1) made for the benefit of each Signatory State shall be subject to a downward dollar adjustment as provided in this subsection V.B. (The timing of the application of the adjustment is addressed in subsection V.B.9.) The aggregate OPM amount of such adjustment for a given sales year shall equal the sum of the adjustments applicable to each Signatory State for such year, as such amounts are determined pursuant to this subsection V.B. Such aggregate OPM amount shall be allocated among the OPMs as they direct.

2. <u>Amount of the OPMs' Adjustment Applicable to a Signatory State</u>. The amount of such adjustment applicable to the OPMs' aggregate MSA payment for a given sales year allocated to a Signatory State shall equal the product of (i) three times the escrow amount per Cigarette, as such escrow amount is set forth in subsection (b)(1) of the Requirements Section of the Model Statute (attached as Exhibit T to the MSA) for that sales year (as such amount is adjusted for inflation pursuant to the Model Statute), and (ii) the total number of Non-Compliant NPM Cigarettes sold in the Signatory State in question during such year. (For example, to calculate the adjustment applicable to the OPMs' payment for 2015 sales year, due on April 15, 2016, allocated to a Signatory State, the total number of Non-Compliant NPM Cigarettes sold in that Signatory State during 2015 shall be multiplied by the dollar amount equal to three times the escrow amount due per Cigarette sold in 2015.)

3. Non-Compliant NPM Cigarettes. Except as provided in subsection V.B.5, Non-Compliant NPM Cigarettes sold in a Signatory State during a year in question shall mean NPM Cigarettes on which such State's SET was paid during such calendar year, but on which escrow was either (i) not deposited at the rate equal to or greater than the escrow amount per Cigarette, as set forth in subsection (b)(1) of the Requirements Section of the Model Statute (MSA Exhibit T) for the sales year in question (as such amount is adjusted for inflation pursuant to the Model Statute), or (ii) released or refunded other than (x) pursuant to the terms of the State's Escrow Statute (as amended by Allocable Share Repeal) or (y) a release to the State pursuant to an irrevocable assignment of the escrow funds (including any interest thereon) to the State. (The phrase "Non-Compliant NPM Cigarettes sold in a Signatory State" as used in this Settlement Agreement governs the application of the adjustment provided for in this subsection V.B, and is not intended to indicate whether or not the Cigarettes in question or the manufacturer of such Cigarettes were in compliance with such State's escrow requirements at the time of sale.)

4. Determining the Number of Non-Compliant NPM Cigarettes Sold in a State. A determination of the total number of Non-Compliant NPM Cigarettes sold in a Signatory State during a particular year shall be made as provided in subsection VI.I.4.

5. Exclusion of Certain Cigarettes from the Number of Non-Compliant NPM Cigarettes. Notwithstanding the foregoing, Non-Compliant NPM Cigarettes sold in a Signatory State shall not include Cigarettes described in this subsection V.B.5 (the "excluded Cigarettes"). If any such excluded Cigarettes have been included in the total number of Non-Compliant NPM Cigarettes sold in a State in question during a sales year determined pursuant

to the preceding subsection V.B.4, the number of such excluded Cigarettes shall be subtracted from such total number of Non-Compliant NPM Cigarettes.

a. Cigarettes on which the escrow was deposited at the rate set forth in subsection V.B.3(i) by either (i) any entity (other than the NPM) liable for such deposits under the laws of the Signatory State in question or (ii) a person or entity in the distribution chain on behalf of such NPM or other entity liable for such deposits under such laws, and in either case such State did not release or refund any part of the deposit with respect to the Cigarettes in question other than (x) pursuant to the terms of the State's Escrow Statute (as amended by Allocable Share Repeal) or (y) a release to the State pursuant to an irrevocable assignment of the escrow funds (including any interest thereon) to the State.

b. Cigarettes on which the Signatory State in question recovered at the escrow rate set forth in subsection V.B.3(i) on an escrow bond posted pursuant to the laws of that State, and such State did not release or refund any part of the deposit so recovered with respect to the Cigarettes in question other than (i) pursuant to the terms of the State's Escrow Statute (as amended by Allocable Share Repeal) or (ii) a release to the State pursuant to an irrevocable assignment of the escrow funds (including any interest thereon) to the State.

c. Cigarettes as to which the Signatory State in question is barred from requiring escrow deposits from all entities liable under its individual State law for such payments, and also is barred from recovery on any remaining escrow bond, by an automatic stay or subsequent order in a federal bankruptcy proceeding or by order of a court of competent jurisdiction that requiring escrow deposits is barred by federal or State constitutional law (other than State constitutional provisions added or amended after December 14, 2012 or state constitutional law as it may impact or be applied in relation to sovereign immunity or other

Native American issues) or federal statutory or common law. Provided, however, that the preceding sentence applies only if (i) the State in question uses reasonable efforts to oppose and appeal such stay or order, and (ii) within 30 days prior to the time of sale the NPM and brand at issue were both properly on the State's directory of approved manufacturers and Cigarette brands, either in accordance with the terms of the State's Complementary Legislation or pursuant to the order of a court of competent jurisdiction barring removal of the NPM or brand from that directory. This subsection V.B.5.c only applies to a Signatory State that has requirements in effect (1) that the NPM at issue post a bond (or adjust the amount of a previously posted bond) at least 10 days in advance of each calendar quarter as a condition to being listed in the state directory of manufacturers and brands permitted to be sold in the States for that quarter in at least the amount equal to the greater of (x) the greatest required escrow amount due from the NPM or its predecessor for any of the 12 preceding calendar quarters and (y) $25,000, and (2) that importers are jointly and severally liable for escrow deposits due from an NPM with respect to NPM Cigarettes that they import. Notwithstanding the preceding sentence, this subsection V.B.5.c shall apply to a Signatory State whose bonding requirement described in the preceding sentence has been stayed or held invalid by a court of competent jurisdiction on the basis that such requirement is barred by federal or State constitutional law (other than State constitutional provisions added or amended after December 14, 2012, or State constitutional law as it may impact or be applied in relation to sovereign immunity or other Native American issues) or federal statutory or common law, provided the State used reasonable efforts to oppose and appeal such stay or order. If the bonding requirement of such State is stayed or invalidated as provided in the preceding sentence only with respect to some

Cigarettes, this subsection V.B.5.c shall apply only to those Cigarettes as to which the State is thereby barred from requiring, or recovering on, an escrow bond.

d. NPM Cigarettes on which such State's SET was paid and on which escrow was timely deposited at the rate equal to or greater than the rate set forth in subsection V.B.3(i), but as to which the State releases a portion of such escrow amount not to exceed 50% of the escrow deposited on the particular NPM Cigarettes pursuant to a tribal compact to a federally recognized tribe (or tribe that was recognized by that State as of January 1, 2012) with a reservation within the geographic boundaries of that State, provided each of the following conditions are satisfied: (i) the release occurs no earlier than one year after the deposit is made; (ii) the Cigarettes on which the escrow is released were sold in retail transactions to consumers on that tribe's reservation; (iii) the money released is provided to the tribe itself and used solely for public safety on such tribe's reservation and/or social services for tribal members (e.g., health care, education) and not for any function that could directly or indirectly promote or reduce the costs of Cigarette production, marketing or sales; (iv) the money released is not used in any way for the benefit of an NPM or to facilitate NPM sales; (v) the compact makes the requirements of subsection IX.D applicable to the tribe, and the tribe is in conformity with such requirements; and (vi) the State has amended its Escrow Statute to remove the NPM's right to reversion and interest as to (but only as to) the escrow to be released in conformity with the above requirements. Provided, however, that (x) a Signatory State may not release more than $1 million in escrow as described in this subsection V.B.5.d in any year to all tribes collectively, and (y) in the event a court strikes down a Signatory State's removal of the NPM's right to reversion and interest described in subsection V.B.5.d(vi), such State may pay to tribes the amounts authorized under the remainder of this subsection out of its general fund (subject to all other conditions and limits set forth above). A State that releases escrow as described in this subsection V.B.5.d has the responsibility of ensuring that conditions set forth in clauses d(i)-(vi) of this subsection and the terms of the preceding sentence are met. This subsection V.B.5.d applies only with respect to Cigarettes of those NPMs that existed in the U.S. market as of June 1, 2012 and does not apply with respect to Cigarettes of those NPMs that entered the U.S. market after that date. In addition, this subsection V.B.5.d does not apply where any NPM involved in the production, distribution or sale of the Cigarettes at issue is one (or an affiliate or successor of one) affiliated with the tribe (or any members of the tribe) to which the escrow would be released. For purposes of this subsection V.B.5.d, a tribe with reservation land located in more than one State is considered to have a reservation in, and to be eligible for release of escrow from, only the State in which the largest portion of its reservation land is located.

6. Adjustments for the SPMs. Each SPM shall receive a downward dollar adjustment to its MSA Section IX(c)(1) payment due for the benefit of a Signatory State if and when the OPMs' aggregate payment for the benefit of such State is adjusted pursuant to this subsection V.B. The amount of such SPM adjustment shall constitute the same share of the SPM's MSA Section IX(c)(1) payment due for the sales year in question for the benefit of such State (prior to any credits, reductions and adjustments pursuant to this Settlement Agreement) as the OPMs' aggregate adjustment applicable to such State pursuant to this subsection V.B constitutes of the OPMs' aggregate MSA Section IX(c)(1) payment due for the same sales year in question for the benefit of that State (prior to any credits, reductions and adjustments pursuant to this Settlement Agreement).

7. Subsequent Escrow Deposits and Releases.

a. If a stay or order, as referenced in subsection V.B.5.c, is reversed or otherwise becomes no longer operative and the full escrow amount is not then deposited on the Cigarettes at issue, any adjustment on those Cigarettes, determined in conformity with this subsection V.B, shall be applied to the PMs' next MSA Section IX(c)(1) payment made for the benefit of the Signatory State in question, unless a further stay or order is entered.

b. In the event that after the documents for the sales year in question are provided to the Data Clearinghouse as set forth in section VI, (i) additional or amended reports of SET-paid NPM Cigarette sales are provided to a Signatory State pursuant to the laws and/or regulations of the State in question or the State determines that there were different volumes of such sales based on evidence that the State is not prohibited from using for Escrow Statute enforcement purposes, (ii) additional escrow is deposited, or is released other than (x) pursuant to the provisions of the State's Escrow Statute (as amended by Allocable Share Repeal), (y) a release to the State pursuant to an irrevocable assignment of the escrow funds (including any interest thereon) to the State, or (z) in conformity with subsection V.B.5.d, or (iii) there has been an initial or additional recovery by the State on a bond posted pursuant to the laws of that State (unless the Cigarettes in question were excluded pursuant to subsection V.B.5.c), the adjustment for such sales year shall be revised accordingly and the revised instructions provided to the Independent Auditor.

c. In the event that the revision to prior calculations described in the preceding subsection takes place after the adjustment specified in this subsection V.B for a sales year in question is applied to a payment for the benefit of a Signatory State, the resulting underpayment or overpayment to such Signatory State by each PM shall be used (with interest at Prime Rate) to increase or decrease, as the case may be, the next MSA payment for the benefit of such Signatory State from each such PM by the amount of such PM's underpayment or overpayment.

d. Notwithstanding the foregoing, no revisions to the adjustment pursuant to subsection V.B shall be made more than five years after the Payment Due Date of the MSA payment to which the adjustment in question applies (that is, the payment following the sales year in which the NPM sales at issue were made, as stated in subsection V.B.1, not the Payment Due Date for the next available MSA payment to which an adjustment can be applied, as stated in subsection V.B.9), except that such revisions shall be made at any time to the extent that (i) the revision is attributable to releases of escrow other than (x) pursuant to the provisions of the State's Escrow Statute (as amended by Allocable Share Repeal), (y) a release to the State pursuant to an irrevocable assignment of the escrow funds (including any interest thereon) to the State, or (z) in conformity with subsection V.B.5.d, (ii) the revision is attributable to an escrow deposit made in the sixth year after the Payment Due Date of the MSA payment to which the adjustment in question applies and such deposit is with respect to NPM sales first identified during the fifth year after such Payment Due Date (provided the State in question provides to the Data Clearinghouse documents evidencing such deposit no later than 30 days following the end of such sixth year), (iii) the revision is attributable to an escrow deposit that results from litigation, bankruptcy, or contested proceeding in which the State in question was a fully participating party if such proceeding was commenced within three years after the Payment Due Date of the MSA payment to which the adjustment in question applies or two years after the determination of revised volumes of sales for which the deposit was made, whichever is later, or (iv) the revision is against a Signatory Party's interest and is based on

information the Signatory Party possessed and was required to provide to the Data Clearinghouse pursuant to section VI but failed to do so. Provided, however, that no revisions to the number of NPM Cigarettes on which a Signatory State's SET was paid in a given year, as such number is used in calculating the adjustment pursuant to subsection V.B and the reimbursement pursuant to subsection V.C.9 applicable to such State for such year, shall be made after the commencement of discovery in an NPM Adjustment arbitration for such State for such year pursuant to subsection VII.C.

8. <u>Safe Harbor</u>.

a. The PMs' MSA Section IX(c)(1) payment for a given sales year for the benefit of a Signatory State shall not be subject to the adjustment under this subsection V.B if the State demonstrates (i) that the total number of Non-Compliant NPM Cigarettes sold in that State during such sales year did not exceed 4% of all NPM Cigarettes on which such State's SET was paid during such year, or (ii) that the total number of Non-Compliant NPM Cigarettes sold in such State during such sales year did not exceed 2 million Cigarettes. For purposes of this subsection V.B.8, the total number of Non-Compliant NPM Cigarettes sold in a State shall be determined pursuant to the provisions of subsections V.B.3-7 other than the exclusion set forth in subsection V.B.5.c. Such determination shall take into account any revisions to the calculation of Non-Compliant NPM Cigarettes made pursuant to subsection V.B.7, including the time frame limitations in subsection V.B.7.d.

b. If a Signatory State does not qualify for an exemption from the application of the adjustment pursuant to the preceding subsection V.B.8.a, the amount of the adjustment applicable to such State shall be determined based on the total number of Non-

Compliant NPM Cigarettes sold in that State (determined pursuant to this subsection V.B), that is, without subtracting either 4% or 2 million Cigarettes from such total number.

9. Timing of the Adjustment. Because some or all of the escrow deposits are due at the same time as the MSA payments for the same sales year, the number of Non-Compliant NPM Cigarettes sold in a State during a sales year cannot be determined by the Payment Due Date of the MSA payment for that sales year. Accordingly, each adjustment pursuant to this subsection V.B shall be applied to reduce the next available MSA payment due from the PMs for the benefit of the Signatory States. (For example, the adjustment with respect to the Non-Compliant NPM Cigarettes sold in 2019 and applicable to the MSA payment for sales year 2019, due on April 15, 2020, shall be applied to reduce the MSA payment due on April 15, 2021.) Provided, however, that the adjustments with respect to the Non-Compliant NPM Cigarettes sold in 2015 and 2016 shall be applied to the MSA payment due on April 15, 2019, and the adjustments with respect to the Non-Compliant NPM Cigarettes sold in 2017 and 2018 shall be applied to the MSA payments due on April 15, 2020.

C. NPM Adjustment Following the Transition Period.

1. In addition to any adjustments applicable under subsection V.B, the Signatory States shall be subject to a potential NPM Adjustment for 2016 and all subsequent sales years under MSA Section IX(d) as provided in this Settlement Agreement.

2. The calculation and applicability of the NPM Adjustment for each year shall be as under MSA Sections IX(d)(1) and (4), except that the significant factor condition to the applicability of the NPM Adjustment under MSA Section IX(d)(1)(C) shall be deemed satisfied as to the Signatory States for each year.

3. The NPM Adjustment for each year shall be allocated, and reallocated, as under MSA Section IX(d)(2).

4. Notwithstanding MSA Section IX(d)(3), NPM Adjustment amounts for the OPMs that are allocated to any Signatory States shall be allocated among the OPMs as they direct. NPM Adjustment amounts for the SPMs shall continue to be calculated and allocated among the SPMs on an SPM-specific basis as under MSA Section IX(d)(4).

5. The following provisions shall apply to any determination of whether a Signatory State diligently enforced the provisions of its Qualifying Statute to qualify for an exemption from the application of the NPM Adjustment.

a. The diligent enforcement standard applies to all NPM Cigarettes on which federal excise tax was paid that the Signatory State reasonably could have known about and that such State has the authority under federal law to tax or to subject to the escrow requirement, including (i) all such sales made via the Internet, (ii) all such tribal sales or sales on tribal lands, and (iii) all such sales that may otherwise constitute contraband. The foregoing states the scope of the diligent enforcement standard applicable to a Signatory State regardless of whether the State's Escrow Statute imposes a broader or narrower escrow requirement.

b. Notwithstanding subsection V.C.5.a, no determination that a Signatory State failed to diligently enforce an Escrow Statute may be based on the State's failure to collect escrow on NPM Cigarettes that federal law prohibits the State from subjecting to the escrow requirement, regardless of whether the State has authority under federal law to tax such Cigarettes, provided the State used reasonable efforts (i) to oppose any claims of such prohibition and (ii) to appeal any ruling finding that such prohibition exists.

c. The following are exempt from the diligent enforcement standard: (i) NPM Cigarettes sold on a federal installation in a transaction that is exempt from state taxation under federal law, and (ii) NPM Cigarettes sold on a Native American tribe's reservation (which shall include Indian Country as defined by federal law) by an entity more than 50% of which is owned, and which is operated, by that tribe or member of that tribe to a consumer who is an adult member of that tribe in a transaction that is exempt from state taxation under federal law.

d. Factors relevant to the diligent enforcement determination for a Signatory State shall include, but shall not be limited to: (i) whether the number of NPM Cigarettes on which SET was paid in such State in the year in question was reduced by virtue of a State policy or agreement not to require or collect SET of the State where due or not to enforce an SET stamping requirement of the State, or an indifference of the State to such SET collection or to enforcement of such SET stamping requirement, unless escrow was deposited on such SET-unpaid Cigarettes; and (ii) whether the actual number of NPM Cigarettes on which SET was paid in such State during that year significantly exceeded the number of such Cigarettes used in calculations pursuant to subsection V.B.4. A determination by an arbitration panel making the finding referenced in subsection V.C.5.d(ii) shall be relevant to the diligent enforcement determination only, and shall not affect the amount of the adjustment applicable to the State under subsection V.B or the reimbursement set forth in subsection V.C.9. Each Signatory State shall also have an option, but is not required, to enter into an additional agreement with the PMs, as set forth in Exhibit K to this Settlement Agreement. The PMs and Oklahoma also agree to the additional terms set forth in the second paragraph of Exhibit L.

e. The Signatory States and the PMs shall continue to discuss in good faith on an ongoing basis whether there are other actions that they can reasonably take to prevent sales of NPM Cigarettes on which SET is not paid.

6. The OPMs shall receive NPM Adjustment amounts allocated to any Signatory States as follows.

a. If the total amount of the NPM Adjustment for a year allocated to the Signatory States is less than or equal to the total amount previously released to the OPMs from the Disputed Payments Account pursuant to subsections IV.B.2.d-e with respect to the NPM Adjustment for that year, the OPMs shall retain a part of such total released amount equal to the total amount of such NPM Adjustment allocated to the Signatory States, with each OPM retaining the proportionate share of the released amount it received. (This subsection V.C.6.a does not apply if no such amount was released to the OPMs by virtue of subsection IV.B.2.f.)

b. If the total amount of the NPM Adjustment for a year allocated to the Signatory States is greater than the total amount previously released to the OPMs from the Disputed Payments Account pursuant to subsections IV.B.2.d-e with respect to the NPM Adjustment for that year, each OPM shall retain the entire released amount it received (if no such amount was released to the OPMs by virtue of subsection IV.B.2.f, the amount retained by each OPM shall be zero). Each OPM shall further receive the excess of that OPM's share of the total amount of the NPM Adjustment allocated to the Signatory States over the amount that OPM retains under the preceding sentence as follows: (i) first, through an offset against the OPM's subsequent MSA payment up to the amount that such OPM previously deposited into the Disputed Payments Account with respect to that NPM Adjustment and that was released to any Signatory State pursuant to subsections IV.B.2.d-e (whether or not the Signatory State that received such release is allocated any part of that NPM Adjustment); (ii) if there is remaining excess and that OPM withheld funds with respect to that NPM Adjustment (i.e., did not either pay those funds for the benefit of the States or deposit them into the Disputed Payments Account), by that OPM retaining such withheld funds, unless the OPM is entitled to retain such funds as the means of receiving the NPM Adjustment for that year allocated to any Non-Signatory States and provided the OPM is entitled to retain such funds as the means of receiving the NPM Adjustment for that year allocated to any Signatory States; (iii) if there is remaining excess, through release of funds remaining in the Disputed Payments Account, if any, deposited by that OPM into the Disputed Payments Account with respect to that NPM Adjustment (with only the principal amount so deposited and released counting towards such remaining excess), unless such funds are subject to potential release to the OPM as the means of receiving the NPM Adjustment for that year allocated to any Non-Signatory States and provided the OPM is entitled to a release of such funds as the means of receiving the NPM Adjustment for that year allocated to any Signatory States; and (iv) if there is remaining excess above the amounts the OPM receives pursuant to clauses (i)-(iii), through an additional offset against the OPM's MSA payment.

c. Amounts due pursuant to subsection V.C.6.b(i) and (iv) shall be treated as overpayments by the OPM in question under MSA Section XI(i)(2)(B). Provided, however, that with respect to NPM Adjustments for those years for which amounts are released from the Disputed Payments Account to the OPMs pursuant to subsection IV.B.2.e(iii): (i) interest shall not be applied to amounts due pursuant to subsection V.C.6.b(i); and (ii) interest shall be applied to amounts due to an OPM pursuant to subsection V.C.6.b(iv) only if (x) the OPM used reasonable efforts to obtain release of funds from the Disputed Payments

Account as described in subsection V.C.6.b(iii), and (y) the OPM did not receive the full amount of excess from the Disputed Payments Account as described in subsection V.C.6.b(iii) for reasons other than because the OPM did not deposit the Non-Signatory States' share of the NPM Adjustment in question into the Disputed Payments Account or released such share from the Disputed Payments Account to the Non-Signatory States other than pursuant to the "commitment" referenced in paragraph V.4 of the Award. (The preceding sentence does not apply to NPM Adjustments for years for which no amounts are released from the Disputed Payments Account to the OPMs by virtue of subsection IV.B.2.f.) Amounts due pursuant to subsection V.C.6.b(i) and (iv) shall be allocated solely among those Signatory States that were allocated part of the NPM Adjustment for the year at issue, pro rata in proportion to the amount of that NPM Adjustment allocated to them.

d. The timing of the OPMs' receipt of the NPM Adjustment allocated to any Signatory States shall be as under the MSA, except that Signatory States shall not be required to offset amounts under subsection V.C.6.b in any one calendar year that are attributable to more than one year's NPM Adjustment (this limitation does not apply to any credits or offsets due to the OPMs under other provisions of this Settlement Agreement). Any amounts due pursuant to subsection V.C.6.b that cannot be offset in a calendar year due to the preceding sentence shall carry forward (without interest) and be provided pursuant to MSA Section XI(i)(2)(B) as soon as is consistent with this subsection V.C.6.d. Any subsequent revisions to the NPM Adjustment amount allocated to a Signatory State shall be treated consistently with the provisions of subsection V.C.6.

e. Beginning with the 2022 NPM Adjustment, the OPMs shall not receive any part of the NPM Adjustment allocated to any Signatory State for any year for which the aggregate Market Share of all the Participating Manufacturers, as determined by the Independent Auditor using the 0.0325 RYO conversion factor, is equal to, or exceeds, 97%. The amount of the NPM Adjustment applicable to the Signatory States shall not be affected by the preceding sentence for any year for which the aggregate Market Share of all the Participating Manufacturers is less than 97%.

f. This subsection V.C.6 provides for the manner in which the OPMs shall receive NPM Adjustment amounts allocated to a Signatory State for a particular year, and it is not intended to, and shall not, result in the OPMs' receiving a total principal amount that is different from the principal amount of the NPM Adjustment for that year allocated to that State. Such principal amounts shall be increased by interest and/or DPA earnings as provided in this subsection V.C.6 and the MSA.

7. If one or more of the Signatory States is exempt from the NPM Adjustment for a year in question, those States shall receive their respective amounts previously released to the OPMs from the Disputed Payments Account pursuant to subsection IV.B.2.e(iii) with respect to the NPM Adjustment for that year in the following manner.

a. If all the Signatory States are exempt from the NPM Adjustment for that year, each OPM shall return the full released amount it received. If, pursuant to subsection V.C.6.a, the OPMs are to retain some, but not all, of such previously released amounts, each OPM shall return the excess of the released amount it received over the amount it is to retain.

b. If, pursuant to subsection V.C.6.b, the OPMs are to retain all such previously released amounts, the OPMs shall not be required to return any part of such amounts.

c. Amounts due under subsections V.C.7.a shall be treated as underpayments by the OPM in question under MSA Section XI(i)(1)(B), except that no interest shall be applied with respect to such amounts. Such amounts shall be allocated among the Signatory States that are exempt from the NPM Adjustment for the year in question, pro rata in proportion to their Allocable Shares and IX(c)(2) Allocable Shares, as applicable.

d. Notwithstanding subsection V.C.7.a, the OPMs shall not be required to return previously released amounts if doing that would reduce their recovery of the NPM Adjustment allocated to any Non-Signatory States.

e. If a Signatory State that is exempt from the NPM Adjustment for a year in question does not receive from the OPMs the full portion of the amount allocated to it pursuant to subsection IV.B.2.e with respect to the NPM Adjustment for that year that was previously released to the OPMs from the Disputed Payments Account pursuant to subsection IV.B.2.e(iii), including as a result of subsection V.C.7.d, such State shall receive such amount through reallocation of MSA payments among the Settling States as under the MSA.

f. The timing of the Signatory States' receipt of amounts to be returned pursuant to subsection V.C.7.a or reallocated pursuant to subsection V.C.7.e shall be the time under the MSA at which a Settling State that is exempt from the NPM Adjustment is entitled to receive the amounts attributable to that NPM Adjustment that it has not previously received. Provided, however, that the OPMs shall not be required to return amounts under subsection V.C.7.a in any one calendar year that are attributable to more than one year's NPM Adjustment. Any amounts due pursuant to subsection V.C.7.a that cannot be returned in a calendar year due to the preceding sentence shall carry forward (without interest) and be provided pursuant to MSA Section XI(i)(1)(B) as soon as is consistent with this subsection

V.C.7.f. Any subsequent revisions to the NPM Adjustment amount allocated to a Signatory State shall be treated consistently with the provisions of subsection V.C.7.

g. This subsection V.C.7 provides for the manner in which the Signatory States exempt from the NPM Adjustment for a year in question shall receive their respective amounts previously released to the OPMs from the Disputed Payments Account with respect to the NPM Adjustment for that year, and it is not intended to, and shall not, result in any Signatory State receiving an amount that is different from its respective amount previously released to the OPMs with respect to the NPM Adjustment for that year.

8. The SPMs shall receive NPM Adjustment amounts allocated to any Signatory States consistent with the provisions of subsection V.C.6. The Signatory States exempt from the NPM Adjustment for a year in question shall receive their Allocable Share and IX(c)(2) Allocable Share, as applicable, of the amounts previously released to an SPM from the Disputed Payments Account pursuant to subsection IV.B.2.e(iii) with respect to the NPM Adjustment for that year consistent with the provisions of subsection V.C.7.

9. If an NPM Adjustment for 2016 or any subsequent year is allocated to a Signatory State, each PM, promptly upon receiving its share of the NPM Adjustment allocated to such Signatory State as provided in subsection V.C.10, and subject to the provisions of subsection IX.E, shall severally reimburse such Signatory State (in a manner as reasonably directed by that Signatory State) in an amount equal to the percentage set forth below of the amount so received by that PM. The reimbursement percentage shall equal the sum of the following two percentages (which shall be determined pursuant to subsection VI.I.2).

a. The percentage equal to (i) the total number of NPM Cigarettes on which SET was paid in such year in the Settling States, divided by (ii) the total nationwide number of NPM Cigarettes on which federal excise tax was paid in such year.

b. In the case of a Signatory State that has, as of January 1 of such year, approved the PSS Amendment, the percentage equal to (i) the total number of NPM Cigarettes on which an Equity Fee was paid in such year in those Previously Settled States that had in effect an Equity Fee Law for the entirety of such year, divided by (ii) the total nationwide number of NPM Cigarettes on which federal excise tax was paid in such year. The Signatory States that have approved the PSS Amendment as of the Effective Date, and the dates of their respective approvals, are listed in Exhibit M.

10. A PM's obligation to reimburse a Signatory State pursuant to subsection V.C.9 shall not apply until the PM actually receives all of its share of the NPM Adjustment allocated to that Signatory State. For purposes of this subsection:

a. A release from the Disputed Payments Account is actually received when the full amount of such release, including any applicable earnings, is transferred to and received by such PM.

b. An overpayment offset pursuant to subsection V.C.6.c is actually received when the full amount of the offset, including any applicable interest, is applied to reduce an MSA payment due from such PM for the benefit of such Signatory State and the Payment Due Date for such payment has passed.

c. Any amounts retained pursuant to subsections V.C.6.a-b are actually received when the PM's right to retain them is no longer subject to dispute by a Signatory State.

VI. DATA CLEARINGHOUSE

A. Determinations and Calculations by Data Clearinghouse. Each year a Data Clearinghouse shall (i) determine the application of and calculate the adjustments pursuant to subsection V.B (including as applied in the transition period pursuant to subsection V.A.10.f), (ii) calculate the estimated NPM Adjustment reimbursement percentages pursuant to subsection IV.B.2.e, (iii) if requested by a Signatory Party, determine whether the conditions for early commencement of arbitration pursuant to subsections VII.C.5.a-b have been satisfied, and (iv) when applicable, calculate the NPM Adjustment reimbursement percentages pursuant to subsection V.C.9. The Data Clearinghouse shall perform all calculations and make all determinations that are necessary in connection with the foregoing. The Data Clearinghouse also shall promptly collect all information necessary to make such calculations and determinations, as provided in this section VI.

B. Identity of the Data Clearinghouse. The Data Clearinghouse shall be a nationally recognized professional services firm with substantial expertise in data collection and analysis. It shall also have or have means to obtain appropriate legal expertise to make determinations, including regarding Non-Compliant NPM Cigarettes described in subsection V.B.5. The Data Clearinghouse shall not be the entity, or an affiliate of the entity, that is serving or has served as the Independent Auditor or the Firm. The Data Clearinghouse shall also not be an entity, or an affiliate of an entity, that tracks, gathers, assembles or handles Cigarette sales data for any Signatory Party if such data are to be submitted to the Data Clearinghouse by such Signatory Party.

C. Selection of the Data Clearinghouse.

1. The Data Clearinghouse shall be jointly selected and retained by the Signatory States (and/or the National Association of Attorneys General) and the PMs.

2. Within 90 days of the Effective Date, the PMs and the Signatory States shall jointly send an agreed upon request for proposal to potential candidate firms meeting the above qualifications, and shall jointly interview those candidate firms that submit acceptable responses to such requests. Within 135 days of the Effective Date, the Signatory States and the PMs shall jointly compile a list of between three and five candidate firms. Within 10 days of compiling such a list, the Signatory States as one side, and the PMs as another side, shall each submit to a neutral party selected by them (the "Neutral") its rankings of its top three candidate firms from that list in order of preference, with one being the most preferred and three being the least preferred. The Neutral shall not reveal the rankings submitted by one side to the other side. The Neutral shall add the rankings for each candidate firm submitted by each side, with the candidates not ranked by either side excluded from consideration. The candidate firm that receives the lowest combined ranking shall be selected as the Data Clearinghouse. If two or more candidates receive the same combined ranking, the candidate that was not the least preferred by either side shall be selected (that is, the candidate ranked two by each side wins over the candidate ranked one by one side and three by another side). If two candidates receive identical rankings, the Neutral shall select one of them at random.

3. The firm selected to serve as the original or successor Data Clearinghouse may be terminated at any time by joint agreement of the two sides but cannot be terminated unilaterally by the PMs or the Signatory States for three years following its selection. Following such three-year period, either the PMs or the Signatory States, as a side,

may unilaterally terminate the Data Clearinghouse upon reasonable cause. Reasonable cause shall include, but is not limited to, three separate reversals of the Data Clearinghouse's determinations or calculations by an arbitration panel pursuant to subsection VII.B. Provided, however, that an arbitration panel's decision shall not qualify as such a reversal if it only adjusts the amount of a subsection V.B adjustment applicable to a Signatory State by less than $100,000 for reasons other than a reversal of a legal determination made by the Data Clearinghouse with respect to which Cigarettes should be counted as Non-Compliant NPM Cigarettes. The PMs and the Signatory States further agree to require that if the firm serving as the Data Clearinghouse resigns or is terminated for any reason, such firm will continue serving as the Data Clearinghouse until a successor firm is selected or appointed pursuant to this Settlement Agreement.

4. If the firm serving as the Data Clearinghouse resigns or is terminated by the PMs and/or the Signatory States, a successor firm shall be selected as provided in subsection VI.C.2, with the date such resignation or termination is noticed to the Signatory Parties being the Effective Date for purposes of such selection.

5. If for any reason the Signatory Parties are unable to select the original, or a successor, Data Clearinghouse within 165 days of the Effective Date, then, unless the PMs and the Signatory States agree otherwise, a firm satisfying the requirements set forth in subsection VI.B shall be appointed by a former Article III federal judge (who has not served as an arbitrator, and has not been included on a list of third arbitrator candidates prepared by the party-appointed arbitrators, in any MSA-related arbitration) selected by JAMS.

6. The principals of the firm selected or appointed as the Data Clearinghouse who are responsible for performing the calculations and making the

determinations required by this Settlement Agreement shall be acceptable to both the Signatory States and the PMs, provided that such acceptance shall not be unreasonably withheld. The Data Clearinghouse shall be required to provide an advance notice to the Signatory Parties of any anticipated change in such principals.

7. For purposes of this subsection VI.C, for any decision or action that is to be made or taken by the PMs or the Signatory States as a side, (i) a decision or action by the PMs with an aggregate Market Share in the immediately preceding calendar year equal to at least 93% of the aggregate Market Share of all the PMs shall be sufficient and shall bind any remaining PMs, and (ii) a decision or action by the Signatory States with an aggregate Allocable Share equal to at least 87% of the aggregate Allocable Share of all Signatory States shall be sufficient and shall bind any remaining Signatory States.

D. Funding for the Data Clearinghouse. The funding for the Data Clearinghouse shall be paid 50% by the PMs as a side and 50% by the Signatory States as a side. Such amounts shall be provided by, and allocated within, each side as determined and directed by that side. The Signatory States shall replenish the fund described in subsection IV.A.4 by future assessments in a manner consistent with Exhibit N.

E. Documents to Be Provided by the Signatory States.

1. Each year each of the Signatory States shall provide to the Data Clearinghouse: (i) a document sufficient to identify all distributors, wholesalers or other entities licensed or otherwise certified by the State to apply tax stamps to packages of Cigarettes and/or pay the SET on Cigarettes during the preceding calendar year (the "distributors"); (ii) a document sufficient to show the volume of NPM Cigarettes on which the State's SET was paid during the preceding calendar year sold by each such distributor, broken

down to show sales by NPM, brand family and month (or by quarter for States that do not require monthly reporting); (iii) a document sufficient to show the total annual volume of such Cigarettes sold by each NPM, broken down by distributor, brand family and month (or by quarter for States that do not require monthly reporting), and the aggregate total of all such NPM Cigarette sales for the preceding calendar year; (iv) all escrow certifications submitted by, or on behalf of, NPMs reflecting the escrow deposits made for their Cigarettes sold in the State during such preceding calendar year (and any other documents reflecting such escrow deposits); (v) documentation reflecting all releases of funds from the escrow accounts held for the benefit of such State during such preceding calendar year; and (vi) any documents that directly relate to the Signatory State's claim that certain Cigarettes should be excluded from the number of Non-Compliant NPM Cigarettes sold in that State pursuant to subsection V.B.5.

2. Each Signatory State shall provide to the outside counsel designated by each PM: (i) copies of all documents provided by that Signatory State to the Data Clearinghouse pursuant to subsection VI.E.1; (ii) copies of all distributor-submitted reports or sections thereof (or relevant print-outs from the State's database if distributors submit only electronic reports to the State) that reflect the volumes, manufacturers and brands of all Cigarettes on which the State's SET was paid for the preceding calendar year, but only for those distributors that reported a positive (i.e., non-zero) volume of NPM Cigarettes on which the State's SET was paid during any part of such year; and (iii) copies of any other source materials used by the State to prepare the documents referenced in subsection VI.E.1(ii)-(iii).

3. Each Signatory State may provide to the outside counsel designated by each PM a list of those entities identified pursuant to subsection VI.E.1(i) that did not report to the State the sale of any Cigarettes on which the State's SET was paid during each of the

preceding calendar year and the two years immediately before that, but did report the sale of any other tobacco product on which such SET was paid during the preceding calendar year.

4. Each Signatory State shall also provide to the outside counsel designated by each PM additional documents as follows.

a. For each year for each Signatory State, the PMs may designate up to ten percent of the number of distributors that were required to be identified by the State pursuant to subsection VI.E.1(i), excluding the distributors identified by the State pursuant to subsection VI.E.3, but whose reports were not required to be provided to such counsel pursuant to subsection VI.E.2(ii). For such designated distributors, each Signatory State shall provide the same types of documents as those described in subsection VI.E.2(ii).

b. If the outside counsel for the PMs identifies (i) a discrepancy between the documents provided by a Signatory State to such counsel pursuant to subsection VI.E.4.a and the documents provided by such State to the Data Clearinghouse pursuant to subsection VI.E.1(ii)-(iii) that exceeds 12,000 NPM Cigarettes for a particular year, or (ii) a discrepancy between the documents provided to such counsel pursuant to subsection VI.E.4.a and the data provided to the Data Clearinghouse pursuant to subsection VI.F.1 that exceeds 100,000 Cigarettes for a particular NPM for the year in question, and if either of such discrepancies is confirmed by the Data Clearinghouse, then for each of the next three years the PMs may designate up to fifty percent of the number of the distributors that were required to be identified by the State pursuant to subsection VI.E.1(i), excluding the distributors identified by the State pursuant to subsection VI.E.3, but whose reports were not required to be provided to such counsel pursuant to subsection VI.E.2(ii). For each of those three years, each Signatory

State shall provide to the outside counsel designated by each PM the documents specified in subsection VI.E.2(ii) for such designated distributors for the preceding calendar year.

c. If for any of the three years described in subsection VI.E.4.b the outside counsel for the PMs identifies (i) a discrepancy between the documents provided by a Signatory State to such counsel pursuant to subsection VI.E.4.b and the documents provided by such State to the Data Clearinghouse pursuant to subsection VI.E.1(ii)-(iii) that exceeds 12,000 NPM Cigarettes for a particular year, or (ii) a discrepancy between the documents provided to such counsel pursuant to subsection VI.E.4.b and the data provided to the Data Clearinghouse pursuant to subsection VI.F.1 that exceeds 100,000 Cigarettes for a particular NPM for the year in question, and if either of such discrepancies is confirmed by the Data Clearinghouse, then for each of the next three years such Signatory State shall provide to the outside counsel designated by each PM the documents specified in subsection VI.E.2(ii) for all distributors that were required to be identified by the State pursuant to subsection VI.E.1(i) except those distributors identified by the State pursuant to subsection VI.E.3 for such year.

d. As used in subsections VI.E.4.b-c, a discrepancy "is confirmed by the Data Clearinghouse" if the Data Clearinghouse determines that the applicable document(s) provided by the State pursuant to subsection VI.E.1(ii)-(iii) is (are) inaccurate.

5. Each State that identified distributors pursuant to subsection VI.E.3 shall also provide to the outside counsel designated by each PM additional documents as follows:

a. For each year for each Signatory State, the PMs may designate up to ten percent of the number of distributors that were identified by the State pursuant to subsection VI.E.3. For such designated distributors, each Signatory State shall provide the same types of documents as those described in subsection VI.E.2(ii).

b. If the outside counsel for the PMs identifies (i) a discrepancy between the documents provided by a Signatory State to such counsel pursuant to subsection VI.E.5.a and the documents provided by such State to the Data Clearinghouse pursuant to subsection VI.E.1(ii)-(iii) that exceeds 12,000 NPM Cigarettes for a particular year, or (ii) a discrepancy between the documents provided to such counsel pursuant to subsection VI.E.5.a and the data provided to the Data Clearinghouse pursuant to subsection VI.F.1 that exceeds 100,000 Cigarettes for a particular NPM for the year in question, and if either of such discrepancies is confirmed by the Data Clearinghouse, then for the next three years the PMs may designate up to fifty percent of the number of the distributors that were identified by the State pursuant to subsection VI.E.3. For each of those three years, each Signatory State shall provide to the outside counsel designated by each PM the documents specified in subsection VI.E.2(ii) for such designated distributors for the preceding calendar year.

c. If for any of the three years described in subsection VI.E.5.b the outside counsel for the PMs identifies (i) a discrepancy between the documents provided by a Signatory State to such counsel pursuant to subsection VI.E.5.b and the documents provided by such State to the Data Clearinghouse pursuant to subsection VI.E.1(ii)-(iii) that exceeds 12,000 NPM Cigarettes for a particular year, or (ii) a discrepancy between the documents provided to such counsel pursuant to subsection VI.E.5.b and the data provided to the Data Clearinghouse pursuant to subsection VI.F.1 that exceeds 100,000 Cigarettes for a particular NPM for the year in question, and if either of such discrepancies is confirmed by the Data Clearinghouse, then for each of the next three years such Signatory State shall provide to the outside counsel designated by each PM the documents specified in subsection VI.E.2(ii) for all distributors that were identified by the State pursuant to subsection VI.E.3 for such year.

d. As used in subsections VI.E.5.b-c, a discrepancy "is confirmed by the Data Clearinghouse" if the Data Clearinghouse determines that the applicable document(s) provided by the State pursuant to subsection VI.E.1(ii)-(iii) is (are) inaccurate.

6. Each Signatory State shall have a continuing obligation to provide to the Data Clearinghouse and/or the PMs' designated counsel any additional or revised documents it becomes aware of (i) with respect to the documents described in subsections VI.E.1(i)-(iv), VI.E.1(vi) and VI.E.2-5, and documents containing information described in subsections V.B.7.a-b, during the respective time periods for revisions of prior calculations, as set forth in subsection V.B.7; and (ii) with respect to the documents described in subsection VI.E.1(v), for 25 years after the escrow amounts in question are deposited.

F. Data to Be Provided by the PMs.

1. The PMs as a side shall select data collected by one or more PMs in the ordinary course of business, if any, that, in their view, are the most accurate and reliable such data regarding sales of NPM Cigarettes by distributors to retailers located in the Signatory States and any Non-Signatory State described in subsection VI.I.1.e (the "database"). Each year the PMs, as a side, shall provide to the Data Clearinghouse such database reflecting sales during the preceding calendar year, broken down by distributor, brand family and month.

2. The PMs shall provide to the counsel in the office of the Attorney General and/or outside counsel, as designated by each Signatory State, (i) a portion of the database provided to the Data Clearinghouse that reflects NPM Cigarette sales to retailers in such Signatory State, and (ii) a portion of the database provided to the Data Clearinghouse that reflects NPM Cigarette sales to retailers located in any Non-Signatory State described in subsection VI.I.1.e. Upon the request by a Signatory State, the PMs also shall provide to that

State's designated counsel any other portion of the database provided to the Data Clearinghouse.

3. The PMs shall have a continuing obligation to provide a revised database, if any, to the Data Clearinghouse, and the portions of such revised database described in subsection VI.F.2 to the Signatory States, as follows: (i) on November 1 of the year following the sales year at issue; (ii) on July 1 and on December 1 of the following year; and (iii) thereafter, during the relevant time period for revisions of prior calculations as set forth in subsection V.B.7, only if the Data Clearinghouse relied on particular NPM sales volume data obtained from such database in making its calculations and the PM(s) become aware of revisions to such particular data in the database that could substantially affect the Data Clearinghouse's calculations.

4. In any arbitration under section VII the PMs may not use data that show NPM Cigarette sales by distributors to retailers located in the Signatory States if such data were not included in the PMs' database disclosure to the Data Clearinghouse pursuant to subsections VI.F.1 and/or VI.F.3 or otherwise disclosed to the Signatory States in connection with the Data Clearinghouse determinations and calculations, unless the PMs establish in such arbitration that such data (i) were not collected by any PM in the ordinary course of business, or (ii) were not known and available to any PM at the time of the PMs' database disclosure under subsections VI.F.1 and/or VI.F.3.

5. Any PM that paid an Equity Fee, or on whose Cigarettes an Equity Fee was otherwise paid, in a Previously Settled State, shall use reasonable efforts to obtain data regarding the number of its Cigarettes on which an Equity Fee was paid and the total amount of such Equity Fee paid on its Cigarettes in each of the Previously Settled States (the "PM Equity

Fee Data"). Each year each such PM shall provide to the Data Clearinghouse its PM Equity Fee Data with respect to such Cigarettes sold in the preceding calendar year. Each such PM shall provide a copy of the PM Equity Fee Data it provided to the Data Clearinghouse to counsel designated by each Signatory State, along with any source materials used by such PM to prepare the PM Equity Fee Data submission to the Data Clearinghouse.

G. Requests for Additional Information.

1. The Data Clearinghouse shall have the right to request from the Signatory Parties additional documents and/or data that are reasonably necessary for the Data Clearinghouse to perform the calculations and determinations required by this Settlement Agreement. Provided however that, except to the extent reasonably necessary to resolve a specific discrepancy or issue, the Data Clearinghouse may not require the Signatory Parties to provide documents or data that do not fall within the categories described in subsections VI.E and VI.F. Copies of documents or data provided to the Data Clearinghouse pursuant to this subsection VI.G shall be provided to the designated counsel for each of the PMs or each of the Signatory States, as applicable.

2. If the Data Clearinghouse discovers, or is notified of and confirms, a discrepancy between the NPM Cigarette sales volumes reflected in the documents provided to the Data Clearinghouse by a Signatory State and (i) the NPM Cigarette sales volumes reflected in the database provided by the PMs or (ii) the NPM Cigarette sales volumes reflected in the documents provided by the Signatory State to the PMs, the Data Clearinghouse shall provide notice of such discrepancy to the Signatory State and the PMs. Instances in which an NPM's sales volume provided by a Signatory State is higher than that reflected in the database provided by the PMs as a result of a greater number of distributors providing sales reports to

the State than to the PMs shall not be considered a discrepancy. Any notice of discrepancy provided to the Data Clearinghouse, including any such notice of discrepancy described in subsections VI.E.4 and VI.E.5, shall be served on the Signatory State that provided the documents or data at issue and the PMs. In response to a notice of discrepancy, the Signatory State and/or the PMs may provide revised or additional documents or data, and/or written comments, within 20 days of the notice.

H. Data Clearinghouse Schedule. The Data Clearinghouse shall perform all the calculations and make all the determinations it is required to make pursuant to this Settlement Agreement in a given calendar year on the following schedule.

1. All documents and data described in subsections VI.E and VI.F with respect to sales on which SET was paid in the calendar year 2015 shall be provided by the respective Signatory Parties on the schedule set forth in subsection VI.H.6. All documents and data described in subsections VI.E and VI.F with respect to sales on which SET was paid in the calendar year 2016 shall be provided by the Signatory Parties no later than August 1, 2018. All documents and data described in subsections VI.E and VI.F with respect to sales on which SET is paid in calendar years 2017 and 2018 shall be provided by the Signatory Parties no later than August 1, 2019. All documents and data described in subsections VI.E and VI.F with respect to sales on which SET is paid in calendar year 2019 and each year thereafter shall be provided by the respective Signatory Parties no later than August 1 of the year following the year in which the SET was paid.

2. No later than December 1 of each calendar year the Data Clearinghouse shall deliver to the counsel designated by the Signatory States and the PMs the preliminary results of all the calculations and determinations it is required to make in such year pursuant to

section VI. Provided, however, that (i) by December 1, 2018, the Data Clearinghouse shall deliver the preliminary results of such calculations and determinations for 2016, and (ii) by December 1, 2019, the Data Clearinghouse shall deliver the preliminary results of such calculations and determinations for the respective two calendar years for which it is provided documents and data pursuant to subsection VI.H.1. The results of all required calculations and determinations shall include detailed explanations and Excel spreadsheets therefor.

3. Any Signatory State or PM may dispute any aspect of such preliminary calculations or determinations, including the accuracy and completeness of the documents or data provided to the Data Clearinghouse by any Signatory Party, by submitting a written notice to the Data Clearinghouse, with copy to the designated counsel for each Signatory State and each PM. Such notice shall be submitted by January 15 of the following year.

4. The Data Clearinghouse shall issue the final results of its calculations and determinations, including detailed explanations and Excel spreadsheets therefor, no later than February 15 of such following year, and shall deliver such results to the Independent Auditor and to the counsel designated by each Signatory State and each PM.

5. Any Signatory State or PM may dispute any aspect of such final calculations or determinations, including the accuracy and completeness of the documents and data provided to the Data Clearinghouse by any Signatory Party, by submitting a written notice to the Data Clearinghouse, with copy to the Independent Auditor and to the designated counsel for each Signatory State and each PM. Such notice shall be submitted by March 1 of such following year.

6. The schedule described in subsections VI.H.1-5 with respect to sales on which SET was paid in the calendar year 2015 shall be modified as follows: (i) all documents

and data described in subsection VI.E and VI.F with respect to such sales shall be provided by the respective Signatory Parties no later than 60 days after the Data Clearinghouse contract and confidentiality agreement are executed, (ii) the Data Clearinghouse shall deliver to the counsel designated by the Signatory States and the PMs the preliminary results of all calculations and determinations it is required to make pursuant to subsection VI.H.2 no later than 180 days after the Data Clearinghouse contract and confidentiality agreement are executed, (iii) the Signatory Parties may submit the written dispute notices described in subsection VI.H.3 no later than 240 days after the Data Clearinghouse contract and confidentiality agreement are executed, (iv) the Data Clearinghouse shall issue and deliver the final results and explanations described in subsection VI.H.4 no later than 270 days after the Data Clearinghouse contract and confidentiality agreement are executed, and (v) any Signatory State or PM may submit a written notice of dispute described in subsection VI.H.5 no later than 320 days after the Data Clearinghouse contract and confidentiality agreement are executed.

7. During the time periods specifically allowed by subsections V.B.7, VI.E.6 and VI.F.3 for revisions to prior calculations and determinations based on new, additional or revised documents or data, a Signatory Party may request that the Data Clearinghouse issue such revised calculations and determinations. For any such request made prior to August 1 of a calendar year in question, the Data Clearinghouse shall issue the preliminary and final results of such calculations and determinations on the schedule for such year described in subsections VI.H.2 and VI.H.4. For any such request made after August 1 of a calendar year in question, the Data Clearinghouse shall issue the preliminary and final results of such calculations and determinations on the schedule described in subsections VI.H.2 and VI.H.4 for the following calendar year. The calculations described in the preceding two

sentences shall be subject to disputes on the schedule described in subsections VI.H.3 and VI.H.5.

8. A failure to raise a dispute within the time periods specified in subsections VI.H.3, VI.H.5, VI.H.6 and VI.H.7 shall not constitute a waiver of such dispute. A Signatory Party may raise disputes specified in subsections VI.H.3, VI.H.5 and VI.H.6 at any time up to five years after the Payment Due Date of the next MSA payment following the issuance of the final calculations and determinations described in subsections VI.H.4 or VI.H.6. A Signatory Party may raise disputes referenced in subsection VI.H.7 at any time up to three years after the Payment Due Date of the next MSA payment following the issuance of the revised final calculations and determinations described in subsection VI.H.7. Provided, however, that a dispute with respect to the number of NPM Cigarettes on which a Signatory State's SET was paid in a given year, as that number is used in calculations pursuant to subsections V.B and V.C.9, must be raised before the commencement of discovery in an NPM Adjustment arbitration for such Signatory State for such year pursuant to subsection VII.C. A dispute not raised within the time periods set forth in this subsection VI.H.8 shall be deemed waived.

I. Data Clearinghouse Process.

1. The Data Clearinghouse shall calculate the estimated reimbursement percentages for purposes of determining the amounts to be released pursuant to subsection IV.B.2.e(i) as follows.

a. Because, at the time the releases pursuant to subsection IV.B.2 are due, documents and data for the immediately preceding calendar year will not yet be available, the Data Clearinghouse shall calculate the estimated reimbursement percentages

based on documents and data for the previous calendar year. (For example, the estimated reimbursement percentages applicable to the amounts to be deposited and released in April 2020 shall be calculated using documents and data for sales year 2018.) Such estimate shall not be revised other than as provided in subsection IV.B.2.h.

b. The total nationwide number of NPM Cigarettes on which federal excise tax was paid in a year in question shall include Cigarettes on which *arbitrios de cigarillos* were collected by the Puerto Rico taxing authority. The number shall equal (i) the nationwide aggregate NPM market share in that year (calculated as 100% minus the aggregate market share of all Participating Manufacturers in that year) multiplied by (ii) the total market volume in that year, both as determined by the Independent Auditor in the latest available calculations for that year using the 0.0325 RYO conversion factor.

c. The number of NPM Cigarettes on which a Signatory State's SET was paid in a year in question shall be determined based on the documents and data provided by the Signatory Parties pursuant to subsections VI.E-G. Such number shall equal the corresponding number for such State and such year used in calculations pursuant to subsection V.B, as such number is determined by the Data Clearinghouse pursuant to subsection VI.I.4.

d. Except as provided in subsection VI.I.1.e, for all the Non-Signatory States that had the Allocable Share Repeal in full force and effect during the entire calendar year in question, the aggregate number of NPM Cigarettes on which such Non-Signatory States' SET was paid during that year shall equal the product of: (i) the aggregate of all such Non-Signatory States' "State Tax-Paid Cigarette Sales," as such sales are reported for each such Non-Signatory State for such year in Orzechowski & Walker, *The Tax Burden on*

Tobacco; (ii) 0.12; and (iii) the nationwide aggregate NPM market share in that year, as determined pursuant to subsection VI.I.1.b(i).

e. For each Non-Signatory State that did not have the Allocable Share Repeal in full force and effect during the entire calendar year in question or during any of the preceding three calendar years, the number of NPM Cigarettes on which such Non-Signatory State's SET was paid during that year shall equal the product of: (i) such Non-Signatory State's "State Tax-Paid Cigarette Sales," as such sales are reported for such Non-Signatory State for such year in Orzechowski & Walker, *The Tax Burden on Tobacco*; and (ii) the market share of NPM Cigarettes in such Non-Signatory State determined from the database provided pursuant to subsection VI.F.

f. The number of NPM Cigarettes on which an Equity Fee was paid in a year in question in a Previously Settled State shall equal: (i) the quotient of (x) the total dollar amount of Equity Fees collected in such year in such Previously Settled State, as publicly reported or provided to the Data Clearinghouse by that State, divided by (y) the per-Cigarette Equity Fee in effect for that year in such Previously Settled State; minus (ii) the aggregate number of PM Cigarettes on which an Equity Fee was paid in that year in that State, as those numbers are provided pursuant to subsection VI.F.5.

g. Prior to the issuance of the final calculations for a year in question pursuant to subsection VI.H.4, a Signatory Party may present evidence to the Data Clearinghouse demonstrating that any of the methods for estimating the number of NPM Cigarettes pursuant to subsections VI.I.1.d-f produces an estimated reimbursement percentage for such year that is incorrect by more than one percentage point. (For example, if estimating the number of NPM Cigarettes pursuant to subsections VI.I.1.d-f produces an estimated

reimbursement percentage of 35%, a Signatory Party may present evidence that the correct reimbursement percentage for such year is more than 36% or less than 34%.) The Data Clearinghouse shall determine whether to rely on such evidence in estimating the reimbursement percentages for such year.

h. If *The Tax Burden on Tobacco* no longer is published or no longer reports the number of Cigarettes on which SET was collected in each State, if the database is no longer maintained or provided by the PMs, if the SPMs do not provide the Equity Fee Data, or if a Previously Settled State neither publicly reports nor provides to the Data Clearinghouse its Equity Fee collection data, unless the Signatory Parties affected by the respective calculations agree otherwise, the Data Clearinghouse shall use its best estimate of such numbers based on publicly available information and the documents and data provided by the Signatory Parties.

2. The Data Clearinghouse shall determine the reimbursement percentages for purposes of calculating the reimbursement amounts pursuant to subsection V.C.9 as follows.

a. The Data Clearinghouse shall determine such reimbursement percentages applicable to an NPM Adjustment for a year in question after the conclusion of an NPM Adjustment arbitration for such year pursuant to subsection VII.C. Such determination shall be made on the schedule set forth in subsection VI.H.

b. The Data Clearinghouse shall determine the total nationwide number of NPM Cigarettes on which federal excise tax was paid in a year in question and the number of NPM Cigarettes on which an Equity Fee was paid in a year in question in the Previously Settled States as provided in subsection VI.I.1.

c. The number of NPM Cigarettes on which a Signatory State's SET was paid in a year in question shall equal the corresponding number for such State and such year used in calculations pursuant to subsection V.B, as such number is finally determined by the Data Clearinghouse pursuant to subsection VI.I.4 or by an arbitration panel pursuant to subsection VII.B.

d. The Data Clearinghouse shall determine the number of NPM Cigarettes on which a Non-Signatory State's SET was paid in a year in question based on information obtained in discovery in such NPM Adjustment arbitration, as such information is provided to the Data Clearinghouse by the Signatory Parties. Provided, however, that if the Signatory Parties do not obtain such information in such discovery because such Non-Signatory State does not participate in such arbitration, or if the Signatory Parties are not able to provide such information to the Data Clearinghouse due to confidentiality or other legal restrictions, then the Data Clearinghouse shall decide on the best method for determining such number for such Non-Signatory State following a consultation with the Signatory Parties.

3. The Data Clearinghouse shall determine the number of NPM Cigarettes sold nationwide in a year in question on which SET was not paid, as referenced in subsection VII.C.5, as follows.

a. Such number shall equal the difference between (i) the total nationwide number of NPM Cigarettes on which federal excise tax was paid in such year (as determined pursuant to subsection VI.I.1.b), and (ii) the sum of (x) the total number of NPM Cigarettes on which SET was paid in such year in the Settling States (as determined pursuant to subsections VI.I.1.c-e and VI.I.1.g) and (y) the total number of NPM Cigarettes on which SET

was paid in such year in the Previously Settled States (as determined pursuant to subsection VI.I.3.b).

b. The number of NPM Cigarettes on which SET was paid in a Previously Settled State in a year in question shall be as publicly reported by such State. If a Previously Settled State does not publicly report such numbers, the number of NPM Cigarettes on which SET was paid in such State in a year in question shall equal the number of NPM Cigarettes on which an Equity Fee was paid in such State in such year, as determined pursuant to subsection VI.I.1.f. If neither of these two methods is available for a Previously Settled State, such number shall be determined as provided in subsection VI.I.1.h.

4. The Data Clearinghouse shall determine the total number of Non-Compliant NPM Cigarettes sold in a Signatory State in a given year, as referenced in subsection V.B.3, as follows.

a. The number of NPM Cigarettes on which a Signatory State's SET was paid in a year in question shall be determined based on documents and data provided by the Signatory Parties pursuant to subsections VI.E-G. In making this determination, the Data Clearinghouse may rely only on documents and data that reflect actual sales of NPM Cigarettes and shall not extrapolate from documents or data to conclude that there were any additional sales of NPM Cigarettes on which a Signatory State's SET was paid in a year in question.

b. For each NPM with sales in a State during the year in question, (i) the gross amount of escrow deposited by that NPM (or other entities or persons specified in subsection V.B.5.a) for that year's sales in that State, as such gross amount is reduced by any release or refund of escrow as to such sales other than (x) pursuant to the terms of the State's

Escrow Statute (as amended by Allocable Share Repeal) or (y) a release to the State pursuant to an irrevocable assignment of the escrow funds (including any interest thereon) to the State (as all such amounts are determined based on the documents provided by the Signatory Parties pursuant to subsections VI.E-G) shall be divided by (ii) the applicable escrow rate per Cigarette (as set forth in subsection V.B.3(i)).

c. If the resulting number of Cigarettes is equal to or exceeds the number of such NPM's Cigarettes on which such State's SET was paid during the applicable year (as such number is determined pursuant to subsection VI.I.4.a), none of such NPM's Cigarettes should be considered Non-Compliant NPM Cigarettes.

d. If the resulting number of Cigarettes is less than the number of such NPM's Cigarettes on which such State's SET was paid during the applicable year, the excess of the latter over the former shall be considered Non-Compliant NPM Cigarettes sold by such NPM in such State during the year in question.

e. The total number of Non-Compliant NPM Cigarettes sold in a State in question during a calendar year shall equal the sum of the Non-Compliant NPM Cigarettes sold in such State by each of the NPMs selling in the State.

f. If an NPM owes escrow for sales in a State in more than one year, and escrow for such sales is deposited or otherwise recovered by the State pursuant to a settlement agreement or another arrangement between the State and the NPM, for purposes of this Settlement Agreement such deposit or recovery shall be applied to each of such years for which escrow is due, in proportion to the amount due for each such year. Provided, however, that this subsection does not apply to a settlement or other arrangement that does not involve sales in a State in the year 2015 or thereafter.

g. For purposes of this Settlement Agreement, SET shall be deemed to have been paid in a State on a package of Cigarettes at one of the following two times: (i) when a stamping agent applies an SET stamp to the package (or, if no stamp is required, pays the SET), or (ii) when a stamping agent sells the package of SET-paid Cigarettes. The time applicable to a State depends upon the rule governing when a stamping agent must report such package to the State that existed in the State at the time the stamping agent sold the package of SET-paid Cigarettes. The current applicable rule for each Signatory State is listed in Exhibit O. A Signatory State may change from the rule listed for it in Exhibit O to the other rule, but only prospectively and only if it notifies the PMs within 60 days after the change. The term "stamping agent" includes any entity that is licensed or otherwise certified to affix SET stamps or collect SET under the applicable State's law.

J. <u>Failure to Provide Information</u>. The following provisions shall apply if a Signatory State, or the PMs as a side, fails to provide to the Data Clearinghouse information as required by subsections VI.E, VI.F or VI.G (including because of claims of confidentiality or other legal restrictions) and such information was in such State's, or a PM's, possession at the time of the failure to provide such information.

1. The Data Clearinghouse shall determine the range of reasonably possible outcomes of calculations that would rely, in whole or in part, on such missing information and include such outcomes in its preliminary and final calculations and determinations. The Data Clearinghouse shall perform the preliminary and final calculations and determinations by assuming the outcome within such range that is the least favorable to the Signatory Party, or the side of the Signatory Party, that failed to provide such information.

2. The Signatory Party, or the side of the Signatory Party, that failed to provide information may dispute the Data Clearinghouse's determination and calculations described in subsection VI.J.1 as part of such Party's, or side's, dispute of preliminary or final calculations and determinations described in subsections VI.H.3 and VI.H.5. In so doing, the Signatory Party, or the side of the Signatory Party, that failed to provide the information may provide such missing information and request that the Data Clearinghouse's determinations reflect such information. The Data Clearinghouse shall consider such missing information only if the Data Clearinghouse determines that the failure to provide such missing information was inadvertent or otherwise excusable.

3. The Signatory Party, or the side of the Signatory Party, that failed to provide information may challenge the Data Clearinghouse's determinations and calculations described in subsections VI.J.1-2 in an arbitration pursuant to subsection VII.B. In such arbitration, such Signatory Party (or side) may then provide the missing information and request that the determinations and calculations reflect such new information, but such information that is provided for the first time in the arbitration shall be considered as evidence in the arbitration only if the arbitration panel determines that the reason for the Signatory Party's failure to provide information during the Data Clearinghouse process is no longer operative at the time such missing information is provided in the arbitration. The missing information that was provided to the Data Clearinghouse pursuant to subsection VI.J.2 but not considered by it pursuant to the last sentence of subsection VI.J.2 shall be considered as evidence in the arbitration only if the arbitration panel determines that the failure to provide such missing information was inadvertent or otherwise excusable.

4. Regardless of the cause of the failure to provide information, the Signatory Party (or side) opposite to the Signatory Party, or to the side of the Signatory Party, that failed to provide information may (i) dispute the determinations and calculations described in subsections VI.J.1-2 as part of its dispute of preliminary or final calculations and determinations described in subsections VI.H.3 and VI.H.5, and (ii) challenge the Data Clearinghouse's determinations and calculations described in subsections VI.J.1-2 in an arbitration pursuant to subsection VII.B.

5. Nothing in this subsection VI.J precludes the Data Clearinghouse, before issuing its preliminary determinations and calculations, from (i) communicating with the Signatory Parties regarding a failure to provide to the Data Clearinghouse information required by subsections VI.E, VI.F or VI.G, or (ii) accepting and considering such information if the Signatory Party, or the side of a Signatory Party, that had failed to provide such information submits such information to the Data Clearinghouse before the Data Clearinghouse issues its preliminary determinations and calculations.

K. Confidentiality Protections.

1. The PMs and the Signatory States shall enter into the confidentiality agreement attached as Exhibit P to this Settlement Agreement. To protect from further disclosure any confidential information provided to the Data Clearinghouse, as a precondition to the obligation to provide documents and data pursuant to subsections VI.E-G, the Signatory Parties shall enter into a confidentiality agreement with the Data Clearinghouse that is fully consistent with the provisions of section VI and Exhibit P.

2. Each Signatory State shall seek authority to provide documents to the Data Clearinghouse and to the PMs' designated counsel as specified in subsections VI.E and

VI.G (if such authority does not already exist), either by obtaining a court order or by enacting legislation recognizing or providing such authority. The PMs shall cooperate in the Signatory States' efforts to do so, and, if requested to do so by a Signatory State, shall join with the State in seeking to obtain such court orders. If a Signatory State's attempt to obtain such authority is unsuccessful, then the State shall undertake a renewed attempt when the Attorney General of such State determines in good faith that such a renewed attempt could be successful. In any event, such State shall also cooperate with, and support reasonable efforts by, the PMs to obtain the appropriate confidentiality protections that would permit disclosure of such documents to the PMs' outside counsel.

3. A Signatory State's obligation to provide documents to the outside counsel for the PMs pursuant to subsections VI.E and VI.G shall be further subject to the following:

a. If a Signatory State believes that, despite the confidentiality agreement entered into pursuant to subsection VI.K.1 and other confidentiality protections that are then in effect with respect thereto, and despite its efforts pursuant to subsection VI.K.2, the State cannot provide such documents to the PMs' outside counsel because doing so would violate the laws of such State, the State shall so notify the PMs and the Data Clearinghouse in writing in advance of the due date for providing such documents. Upon providing such written notice, the State shall not be obligated to provide such documents to the PMs' outside counsel, unless and until the requisite authority for it do so is obtained pursuant to subsection VI.K.2. In that event, such State shall provide all such documents to the Data Clearinghouse.

b. If a Signatory State cannot provide such documents to the PMs' outside counsel without violating the laws of such State, it shall inform the Data Clearinghouse

whether the laws of such State permit the Data Clearinghouse to provide such documents to the outside counsel for the PMs. If the State in question informs the Data Clearinghouse that the laws of such State permit the Data Clearinghouse to do so, then upon receipt of such documents from the State the Data Clearinghouse shall provide a copy of such documents to the PMs' outside counsel. If the laws of such State do not permit the Data Clearinghouse to provide such documents to the outside counsel for the PMs, the Data Clearinghouse shall review such documents itself, if requested to do so by the PMs. In that event, the Signatory State in question and the PMs shall equally bear the additional cost that results from the Data Clearinghouse's need to review such documents itself.

c. The outside counsel designated by the PMs to receive such documents shall not publicly disclose such documents or the information they contain, shall not share them with the PMs, and shall only use them for the purposes contemplated by this Settlement Agreement and in the manner that preserves the confidential nature of such documents and the information they contain.

4. The PMs' obligation to provide data to the counsel designated by a Signatory State pursuant to subsections VI.F and VI.G shall be further subject to the following:

a. The PMs shall be obligated to provide such data to such designated counsel only if such State notifies the PMs in writing prior to the due date for providing such data that (i) such data will be treated by such counsel as confidential, and (ii) the State has legislation in effect, or a court has issued a protective order, pursuant to which such data will be protected from public records disclosure. Absent such notice, the PMs shall not be obligated to provide such data to such State.

b. The PMs shall cooperate in the Signatory States' reasonable efforts to obtain such court orders or enact statutory amendments to such effect, and, if requested to do so by a Signatory State, shall join with the State in seeking to obtain such court orders.

c. The counsel designated by a Signatory State to receive such data shall not publicly disclose such data or the information they contain, and shall use them only for the purposes contemplated by this Settlement Agreement and in the manner that preserves the confidential nature of such data and the information they contain. Such designated counsel may share such data with the State's outside counsel and with other persons in the Attorney General's office and/or the State's revenue department (or other state agency that enforces the State's tobacco laws) only to the extent such outside counsel and other persons are involved in proceedings before the Data Clearinghouse or an arbitration pursuant to subsection VII.B, and provided such other persons maintain the confidentiality of such data and the information they contain.

d. Notwithstanding the foregoing subsection VI.K.4.c, such designated counsel may inform the appropriate persons in the State's Attorney General's office and/or revenue department (or other state agency that enforces the State's tobacco laws) of particular discrepancies in the NPM Cigarette sales data between those provided by the PMs and those reported to the State by distributors. Such data provided by the PMs shall not otherwise be disclosed or used by the State in any audit, investigation or enforcement proceeding, or otherwise used in a way that would make it subject to disclosure.

e. The PMs shall not maintain in an arbitration under subsection VII.C that a State's failure to obtain such data from the PMs or use such data in the

enforcement of Escrow Statute or Complementary Legislation is evidence of a failure by such State to diligently enforce its Escrow Statute.

5. The provisions in subsections VI.K.3-4 shall not prevent persons who receive such documents or data from sharing them with third-party consultants or experts, but only to the extent such consultants or experts are assisting the State or the PMs by accessing or converting the documents or data into a more useable form or are involved in proceedings before the Data Clearinghouse or an arbitration pursuant to subsection VII.B, and provided such consultants or experts maintain the confidentiality of such documents and data and the information they contain.

6. If, despite its good faith efforts to obtain authority to preserve the confidentiality of data described in subsections VI.F.2-3, a State is unable to provide to the PMs the written notice described in subsection VI.K.4.a, and, as a result of that inability, the PMs do not provide such data to such State, then, in addition to providing the documents described in subsections VI.E.2(ii)-(iii), VI.E.3, VI.E.4, VI.E.5 and VI.E.6 to the PMs (subject to the conditions and limitations described in subsections VI.K.1 and VI.K.3), the Signatory State in question may provide such documents to the Data Clearinghouse and request that the Data Clearinghouse review such documents and the PMs' data and identify any discrepancies among such documents, such data and the documents provided by the State to the Data Clearinghouse pursuant to subsection VI.E.1. In that event, the PMs and the Signatory State in question shall equally share the additional cost that results from such review.

VII. ARBITRATION

A. <u>Independent Auditor</u>. Any dispute, controversy or claim arising out of or relating to any calculations performed by, or any determinations made by, the Independent

Auditor pursuant to this Settlement Agreement shall be submitted to binding arbitration in accordance with MSA Section XI(c).

B. Data Clearinghouse.

1. Any dispute, controversy or claim arising out of or relating to (i) the accuracy of the information provided to and relied on by the Data Clearinghouse, or (ii) any aspect of the calculations or determinations made by the Data Clearinghouse, shall be submitted to binding arbitration as provided in this subsection VII.B. A Signatory State or a PM may initiate such arbitration by sending a written notice thereof to all the Signatory States and all the PMs. The Signatory Parties shall cooperate in prompt commencement and conduct of such arbitrations, and may agree to pursue mediation in lieu of arbitration. Provided, however, that, subject to subsection VII.B.3, a Signatory State need not participate in such arbitration if none of the disputes, controversies or claims apply to such State.

2. The arbitration panel shall be selected as follows. The PMs participating in the arbitration (collectively as one side, provided that, for purposes of this subsection VII.B.2, agreement by the PMs with an aggregate Market Share in the immediately preceding calendar year equal to at least 93% of the aggregate Market Share of all the PMs shall be sufficient and shall bind any remaining PMs) and the Signatory States with an aggregate Allocable Share equal to at least 87% of the aggregate Allocable Share of all Signatory States participating in the arbitration (collectively as another side) shall each select one neutral arbitrator chosen from JAMS (unless the parties to the arbitration agree to a substitute) within 90 days of the sending of the initial arbitration notice by a Signatory Party under this subsection VII.B. If the 90-day period expires without a side having selected its arbitrator, JAMS (unless the parties to the arbitration agree to a substitute) shall choose the arbitrator for that side.

Within 60 days of the selection of the two arbitrators, those two arbitrators shall choose the third neutral arbitrator, who shall be a retired Article III federal judge. Once selected, the panel will establish a scheduling order either as agreed to by the parties to the arbitration or, if not agreed to, as determined by the panel.

3. If a Signatory Party commences an arbitration about (i) the estimated NPM Adjustment reimbursement percentages pursuant to subsection IV.B.2.e, (ii) the NPM Adjustment reimbursement percentages and reimbursement amounts pursuant to subsection V.C.9, or (iii) the conditions for early commencement of arbitration pursuant to subsections VII.C.5.a-b, the arbitration shall include all disputes that could be raised at the time by any Signatory Party about such matters for the year in question. Any such dispute that is not raised in that arbitration shall be deemed waived. Provided, however, that a Signatory Party's failure to raise a dispute with respect to the estimated NPM Adjustment reimbursement percentages pursuant to subsection IV.B.2.e shall not affect the Signatory Party's right to commence an arbitration about the NPM Adjustment reimbursement percentages and reimbursement amounts pursuant to subsection V.C.9, or affect the position that a Signatory Party may take in such arbitration.

4. If a Signatory Party commences an arbitration about the application of the adjustment pursuant to subsection V.B (including as applied in the transition period pursuant to subsection V.A.10.f) and such arbitration is not limited to issues applicable solely to one Signatory State or one PM, the arbitration shall include all disputes that could be raised at the time by any Signatory Party about the application of the adjustment pursuant to subsection V.B for the year in question, except for any disputes about issues applicable solely

to one Signatory State or one PM. Any such dispute that is not raised in that arbitration (other than disputes falling within the exception described above) shall be deemed waived.

5. For purposes of subsections VII.B.3-4, a dispute could be raised at the time unless it is based on evidence that, with reasonable diligence, could not have been discovered and timely submitted prior to the conclusion of the arbitration at issue for decision by the arbitration panel.

C. Diligent Enforcement.

1. The Signatory States agree that diligent enforcement as to each of them shall be determined for any particular year in a single NPM Adjustment arbitration before a single arbitration panel in accordance with MSA Section XI(c). Such arbitrations are governed by MSA Section XI(c).

2. The Signatory States and the PMs shall cooperate in merging such NPM Adjustment arbitration as to the Signatory States with the NPM Adjustment arbitration under MSA Section XI(c) for the year in question as to the Non-Signatory States.

3. Subsections VII.C.1-2 do not apply to any Settling State as to which the PMs have released their claim to an NPM Adjustment for the year in question (provided that the reference in this sentence to the PMs releasing their claim as to a Settling State does not include determination by the PMs not to contest a State's diligent enforcement claim unless the PMs received consideration from that State in return for such determination). Subject to subsection VII.C.4, the Signatory States agree not to oppose, in such case, any argument that the proper treatment of the NPM Adjustment claim against the remaining Settling States (and thus the NPM Adjustment amount allocable to a non-diligent Settling State) is to reduce the amount of such claim pro rata in proportion to the Allocable Share or IX(c)(2) Allocable Share,

as applicable, of such released Settling State without the need for a determination of whether such released State diligently enforced its Escrow Statute.

4. The obligation of the PMs and the Signatory States whom the PMs have not released from an NPM Adjustment claim for the year in question to cooperate in merging the NPM Adjustment arbitration as to such Signatory States with the NPM Adjustment arbitration as to the Non-Signatory States whom the PMs have not released from an NPM Adjustment claim for the year in question is further subject to the following.

a. The arbitration with respect to such Signatory States' diligent enforcement during calendar year 2016 (and any subsequent year) shall not commence until the commencement of the arbitration with respect to diligent enforcement during calendar year 2016 (or such respective subsequent year) by such Non-Signatory States.

b. If any such Non-Signatory State refuses to participate in such merged arbitration for a year in question, the PMs shall use reasonable efforts to compel that Non-Signatory State to participate in such merged arbitration. If any such Non-Signatory State succeeds in refusing to participate in such merged arbitration for a particular year, the merged arbitration for that year shall proceed with all such Non-Signatory States that do not succeed in refusing to participate in such merged arbitration. If all such Non-Signatory States succeed in refusing to participate in such merged arbitration for a year in question, the PMs shall have the option to proceed separately with an NPM Adjustment arbitration for that year as to such Signatory States, with such separate arbitration commencing at the time the merged arbitration for that year would have commenced pursuant to subsection VII.C.4.a, but for the refusal of such Non-Signatory States to participate in such merged arbitration.

c. Except by agreement of all parties to an arbitration, the arbitration with respect to a Signatory State's diligent enforcement during a particular year shall not commence until the NPM Adjustment arbitrations for every prior year have either concluded or been commenced before an arbitration panel for all the Settling States whom the PMs have not released from an NPM Adjustment claim for the year(s) in question and, as to a Non-Signatory State, that did not succeed in refusing to participate in merged arbitrations for the years for which the PMs have not released it from an NPM Adjustment claim.

d. If an arbitration with respect to a Settling State's diligent enforcement during a particular year is commenced, and in the course of such arbitration the PMs decide not to continue to challenge such State's diligent enforcement for such year, the arbitration for such State for such year shall be considered to have concluded for purposes of subsection VII.C.4.c.

5. Notwithstanding the provisions of subsections VII.C.1-4:

a. The PMs, in their sole discretion, shall have the right to commence the 2016 (and subsequent) NPM Adjustment arbitrations as to the Signatory States prior to the time set forth in subsection VII.C.4 if the number of NPM Cigarettes sold nationwide on which SET was not paid exceeded 9 billion Cigarettes in each of any two years (whether or not consecutive). (After the first such year, the PMs and the Signatory States shall discuss measures that could be taken to avoid such sales.) Any early commencement of arbitration under this subsection VII.C.5.a requires the approval by the PMs with an aggregate Market Share in the immediately preceding calendar year equal to at least 93% of the aggregate Market Share of all the PMs.

b. The Signatory States, in their sole discretion, shall have the right to commence the 2016 (and subsequent) NPM Adjustment arbitrations as to the PMs prior to the time set forth in subsection VII.C.4 if the number of NPM Cigarettes sold nationwide on which SET was not paid was less than 2 billion Cigarettes in each of any two years (whether or not consecutive). Any early commencement of arbitration under this subsection VII.C.5.b requires the unanimous approval of all the Signatory States.

D. <u>This Settlement Agreement</u>. Any dispute arising out of or relating to this Settlement Agreement that is not otherwise specifically addressed in this section VII shall be submitted to binding arbitration as set forth in, and governed by the provisions of, subsection VII.B. Provided, however, that disputes regarding whether legislation, or a protective order issued by a court, authorizes the disclosure of confidential documents or information shall be resolved by a court of competent jurisdiction.

E. <u>MSA Section XI(c)</u>. Except as specifically provided in this section VII with respect to arbitration between a PM or PMs and one or more Signatory States, the arbitration provision set forth in MSA Section XI(c) applies according to its terms.

F. <u>FAA</u>. All arbitrations described in this section VII shall be governed by the United States Federal Arbitration Act.

VIII. RELEASES

A. <u>Release by PMs</u>. Except as provided in this Settlement Agreement:

1. Effective upon payment of all sums due from a Signatory State under section III, all PMs absolutely and unconditionally release and discharge that Signatory State from any further Claims directly or indirectly based on, arising out of or in any way related, in whole or in part, to the 2003-2012 NPM Adjustments.

2. Effective upon payment of all sums due from a Signatory State under subsection V.A with respect to the 2013 NPM Adjustment, all PMs absolutely and unconditionally release and discharge that Signatory State from any further Claims directly or indirectly based on, arising out of or in any way related, in whole or in part, to the 2013 NPM Adjustment. Effective upon payment of all sums due from a Signatory State under subsection V.A with respect to the 2014 NPM Adjustment, all PMs absolutely and unconditionally release and discharge that Signatory State from any further Claims directly or indirectly based on, arising out of or in any way related, in whole or in part, to the 2014 NPM Adjustment. Effective upon payment of all sums due from a Signatory State under subsection V.A with respect to the 2015 NPM Adjustment, all PMs absolutely and unconditionally release and discharge that Signatory State from any further Claims directly or indirectly based on, arising out of or in any way related, in whole or in part, to the 2015 NPM Adjustment.

3. The foregoing releases (i) apply to the PMs, their respective past, present and future Affiliates, the respective divisions, officers, directors, employees, agents and legal representatives of each such PM and each such Affiliate, and the successors and assigns of each of the foregoing, and (ii) inure to the benefit of the applicable Signatory State and its past, present and future agents, officials acting in their official capacities, legal representatives, agencies, departments, commissions and divisions, any political subdivision of such Signatory State, and the successors and assigns of each of the foregoing.

4. The PMs reserve all rights with respect to all Non-Signatory States, including, without limitation, as to the 2003-2015 NPM Adjustments.

B. Release by Signatory States. Except as provided in this Settlement Agreement:

1. Effective upon the deposit by a PM and release of the 2003-2012 NPM Adjustment amounts as required in subsections IV.A.1-5, each Signatory State absolutely and unconditionally releases and discharges such PM from any further Claims directly or indirectly based on, arising out of or in any way related, in whole or in part, to the 2003-2012 NPM Adjustments.

2. Effective upon deposit by a PM and release of the 2013 NPM Adjustment amount provided in subsection IV.B.1, each Signatory State absolutely and unconditionally releases and discharges such PM from any further Claims directly or indirectly based on, arising out of or in any way related, in whole or in part, to the 2013 NPM Adjustment. Effective upon deposit by a PM and release of the 2014 NPM Adjustment amount provided in subsection IV.B.1, all Signatory States absolutely and unconditionally release and discharge such PM from any further Claims directly or indirectly based on, arising out of or in any way related, in whole or in part, to the 2014 NPM Adjustment. Effective upon repayment and release by a PM of the 2015 NPM Adjustment amounts described in subsection V.A.10.e, all Signatory States absolutely and unconditionally release and discharge such PM from any further Claims directly or indirectly based on, arising out of or in any way related, in whole or in part, to the 2015 NPM Adjustment.

3. The foregoing releases (i) apply to such Signatory States and their respective past, present and future agents, officials acting in their official capacities, legal representatives, agencies, departments, commissions and divisions, any political subdivision of a Signatory State, and the successors and assigns of each of the foregoing, and (ii) inure to the benefit of such PMs, their respective past, present and future Affiliates (except to the extent

that such Affiliate is a Participating Manufacturer), the respective divisions, officers, directors, employees, agents and legal representatives of each such PM and each such Affiliate, and the successors and assigns of each of the foregoing.

4. The Signatory States reserve all rights with respect to all Participating Manufacturers that are not Signatory Parties, including, without limitation, as to the 2003-2015 NPM Adjustments.

C. Unknown Claims. Notwithstanding any provision of law, statutory or otherwise, that 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 subsections VIII.A-B release all Claims within the scope of the applicable release, whether known or unknown, foreseen or unforeseen, suspected or unsuspected, and each party giving the applicable release understands and acknowledges the significance and consequences of waiver of any such provision of law and hereby assumes full responsibility for any injuries, damages or losses that such party may incur as a result.

D. Instructions to Independent Auditor. The PMs and Signatory States shall cooperate with each other in providing instructions to the Independent Auditor to the extent reasonably necessary to satisfy the conditions for the releases set forth in subsections VIII.A and VIII.B.

E. No Effect on This Settlement Agreement. None of the foregoing releases applies to a Signatory Party's obligation to comply with the provisions of this Settlement Agreement or is intended to interfere with a Signatory Party's ability to enforce such provisions.

F. 2004-2015 Arbitrations with Non-Signatory States.

1. The Signatory States agree (i) to forgo any right to participate in the selection of the arbitration panels for the 2004-2015 NPM Adjustment disputes between the PMs and the Non-Signatory States, and (ii) not to argue that such panels do not have jurisdiction to determine the Signatory States' diligent enforcement on the specific ground that they did not participate in the selection of such panels. The Signatory States reserve any other objections they may have to (x) such panels' jurisdictions related to them, and (y) any claim by a Non-Signatory State contesting a Signatory State's diligent enforcement for 2004-2015.

2. If a Non-Signatory State advances a claim in any forum that the amount of the NPM Adjustment for any of the years 2004-2015 allocated to it or recoverable from it by the PMs should be lower because a Signatory State was non-diligent for the year at issue, then:

a. The Signatory State shall have the option, but shall not be required, to appear in such forum to substantiate its diligent enforcement for the year at issue.

b. Whether or not the Signatory State elects to exercise the option in subsection VIII.F.2.a, the PMs shall have the option, but shall not be required, to appear in such forum to substantiate that State's diligent enforcement for the year at issue.

c. If the PMs elect to exercise the option in subsection VIII.F.2.b, upon request from the PMs, the Signatory State shall provide documents and witnesses to the PMs or their outside counsel in an amount and in a time and manner reasonably necessary under the circumstances to substantiate the Signatory State's diligent enforcement for the year at issue. Without limiting further requests that may be reasonably necessary under the circumstances, the Signatory Parties agree that the following requests for witnesses are presumptively reasonable for purposes of this subsection VIII.F.2.c: (i) that the Signatory State provide for interview and to testify at the hearing, if any, on the State's diligent enforcement the percipient witness with the greatest personal knowledge regarding the State's diligent enforcement for the year at issue from each government agency or department with responsibility for administering, implementing, or enforcing the State's Escrow Statute (for example, the Attorney General's office and the department of revenue or its equivalent); and (ii) that the Signatory State make reasonable efforts to provide witnesses described in clause (i) above who are no longer in the State's employ, and, if such witnesses nonetheless cannot be provided, to provide the best available substitute. This subsection VIII.F.2.c does not require a Signatory State to provide to the PMs or their outside counsel any taxpayer confidential information, or other documents that are confidential under such State's law, absent a protective order entered in accordance with such State's law. The PMs and the Signatory State in question shall cooperate to obtain such a protective order to the extent such an order may be entered pursuant to applicable state law.

d. The PMs shall reimburse the Signatory State for the reasonable expenses incurred by the Signatory State to provide the documents and witnesses requested by the PMs under subsection VIII.F.2.c.

e. Documents provided by a Signatory State pursuant to this subsection VIII.F.2 shall be used only for the purpose of substantiating such State's diligent enforcement. At the request of the Signatory State that provided such documents, the PMs and/or their outside counsel shall promptly destroy or return all such documents to the Signatory State, provided that all Non-Signatory-State contests of such State's diligent enforcement for that year have been fully and finally resolved.

f. If a Non-Signatory State prevails on a claim described in this subsection VIII.F.2, and a Signatory State is found or deemed non-diligent for any of the years 2004-2015, the PMs shall ensure that the effect of such finding of non-diligence will not reduce any payment that otherwise would have been made by the PMs to such Signatory State but-for that decision.

3. Nothing in this Settlement Agreement is intended to provide any Non-Signatory State with a judgment reduction greater than that provided by the applicable arbitration panel. However, the following provisions will govern in the event that this Settlement Agreement gives rise to a Contribution Claim by a Non-Signatory State against a Signatory State with respect to any of the 2004-2015 NPM Adjustments and the Non-Signatory State is permitted to maintain such Claim:

a. Subject to the conditions in subsection VIII.F.3.b, the PMs shall ensure that a Signatory State itself does not have to pay any judgment obtained by a Non-Signatory State against such Signatory State on such Contribution Claim, including, without limitation, reducing any amount the PMs recover from the Non-Signatory State on the NPM Adjustment at issue in such Contribution Claim by the full amount of any judgment obtained by the Non-Signatory State against the Signatory State on such NPM Adjustment on such Contribution Claim. As used in this subsection VIII.F.3.a, a judgment means a contested judgment on the merits, and does not include, for example, a court-entered settlement or other type of stipulated relief. The amount of the PMs' recovery from the Non-Signatory States on the NPM Adjustment at issue, after reduction pursuant to this subsection VIII.F.3.a, shall be allocated among the PMs in proportion to their respective shares of the NPM Adjustment amount that would have been applicable to such Non-Signatory State absent such reduction, unless the PMs otherwise direct.

b. The PMs' obligations under subsection VIII.F.3.a shall apply only if the Signatory State gives notice to the PMs of the filing of the Contribution Claim within 30 days of its service and takes reasonable steps to defend against such Contribution Claim fully, including contending that the settlement bars such Contribution Claim (subject to any limitation arising from Rule 11 of the Federal Rules of Civil Procedure or similar state procedural or ethical rules). The Signatory Parties agree that this subsection VIII.F.3.b does not obligate a Signatory State to employ outside counsel or use an expert witness to defend against such Contribution Claim.

c. The Signatory State shall not oppose a request by a PM to intervene in the action in which such Contribution Claim is brought.

d. As used in this subsection VIII.F.3, a "Contribution Claim" means any contribution claim or similar claim-over on any theory (other than a claim based on an agreement entered after the MSA between or among any Settling States with respect to any NPM Adjustment) by which a Non-Signatory State seeks to recover from a Signatory State any part of the NPM Adjustment allocated to the Non-Signatory State or any portion of an amount by which a Non-Signatory State's MSA payment was reduced by virtue of an NPM Adjustment. "Contribution Claim" does not include a claim by a Non-Signatory State that does not seek recovery from a Signatory State. (For example, "Contribution Claim" does not include a claim by a Non-Signatory State that the amount of the NPM Adjustment allocated to it or recoverable from it by the PMs should be lower because a Signatory State(s) was or should

be treated as non-diligent for the year at issue, but by which the Non-Signatory State does not seek monetary recovery from the Signatory State of part of the NPM Adjustment.)

4. As part of any settlement with a Non-Signatory State of the NPM Adjustment for any of 2004-2015, the PMs entering such settlement shall obtain from such Non-Signatory State for the benefit of each Signatory State a release of all Contribution Claims such Non-Signatory State may have with respect to the portion of the NPM Adjustment for each year(s) from 2004-2015 that is resolved as among such PMs and such Non-Signatory State in the settlement.

G. <u>Claims Against Signatory States for 2016 and Subsequent NPM Adjustments</u>. No determination that a Signatory State failed to diligently enforce a Qualifying Statute during 2016 or any subsequent year shall be based at all on (i) NPM Cigarettes sold before calendar year 2013, or (ii) NPM Cigarettes sold during calendar year 2013, 2014 or 2015 that such State had not treated as subject to the escrow requirement under its Escrow Statute prior to a change in policy or law, if any, that became effective in or after calendar year 2011.

IX. MISCELLANEOUS

A. <u>Most Favored Nation</u>.

1. If one or more PMs entered into a separate settlement agreement with a Settling State that resolves the 2003 NPM Adjustment as to that State prior to a panel determination in the 2003 arbitration as to whether that State diligently enforced a Qualifying Statute during 2003, and such settlement includes overall terms more favorable to such Settling State than the terms of this Settlement Agreement applicable to the Signatory States that signed the Term Sheet and determined to proceed with the settlement by December 17, 2012, then the overall terms of this Settlement Agreement shall be revised as to all Signatory States so that

they will obtain from the PM(s) party to such separate settlement agreement overall terms as favorable as those obtained by such Settling State. Provided, however, that references to settling or resolving the 2003 NPM Adjustment as to a Settling State do not include determinations by a PM not to contest that State's diligent enforcement claim for 2003 unless the PM received consideration from that State in return for such determination.

2. If one or more Signatory States entered into a separate settlement agreement with a Participating Manufacturer that resolves the 2003 NPM Adjustment as to that State prior to a determination in the 2003 arbitration as to whether that State diligently enforced a Qualifying Statute during 2003, and such settlement includes overall terms more favorable to such Participating Manufacturer than the terms of this settlement, then the overall terms of this settlement shall be revised as to all PMs so that they will obtain from the Signatory State(s) party to such separate settlement agreement overall terms as relatively favorable as those obtained by such Participating Manufacturer.

3. The provisions of this subsection IX.A shall not apply to the following agreements: (i) Settlement Agreement Regarding 2003 NPM Adjustment Dispute between Canary Islands Cigar Company and certain Settling States dated May 25, 2006; (ii) Settlement Agreement Regarding 2003 NPM Adjustment Dispute between Wind River Tobacco Company, LLC and certain Settling States dated June 6, 2006; (iii) Settlement Agreement Regarding 2003 NPM Adjustment Dispute between Societe Nationale d'Exploitation Industrielle des Tabacs et Allumettes and certain Settling States dated June 18, 2006; and (iv) any similar settlement agreement entered into in 2006 by and between any Participating Manufacturer and any Settling State.

B. RYO.

1. For purposes of determining the number of Non-Compliant NPM Cigarettes pursuant to subsection V.B, references to a number of Cigarettes include roll-your-own tobacco, with 0.09 ounces of "roll-your-own" tobacco constituting one individual Cigarette. For all other purposes of this Settlement Agreement, references to a number of Cigarettes include roll-your-own tobacco, with 0.0325 ounces of "roll-your-own" tobacco constituting one individual Cigarette. This provision does not apply to determining the Relative Market Shares for purposes of allocating any aggregate OPM amounts among the OPMs.

2. The Signatory States and the PMs shall continue to discuss in good faith and on an ongoing basis the issues of pipe tobacco being sold for use as RYO and of cigarette rolling machines being located at retail establishments and clubs.

C. Necessary Legislation.

1. All Signatory States must continuously have the Escrow Statute, Complementary Legislation and Allocable Share Repeal in full force and effect.

2. If a Signatory State does not have the Escrow Statute or Complementary Legislation in full force and effect during any part of a calendar year, such State shall not receive the benefit, if any, of the exclusion provisions of subsection V.B.5 and the reimbursement provisions of subsection V.C.9 with respect to such year. The adjustments pursuant to subsections V.B and V.C for such year shall fully apply to such State other than the provisions set forth in the preceding sentence. In addition, nothing in this Settlement Agreement amends or supersedes the provisions of MSA Section IX(d)(2)(B) that the NPM Adjustment for a year is applied, regardless of diligent enforcement, to the Allocated Payment

of a State that does not have a Qualifying Statute in full force and effect during the entire such calendar year.

3. If a Signatory State that does not have the Allocable Share Repeal in full force and effect during any part of a calendar year, any NPM Cigarettes on which that State releases escrow in or for such year that would not be released under the Allocable Share Repeal shall be treated as Non-Compliant NPM Cigarettes under subsection V.B.

4. A Signatory State that does not have the Allocable Share Repeal in full force and effect as of the date it signs this Settlement Agreement shall have until the end of that calendar year to put it into full force and effect. If it does not do so, subsection IX.C.3 shall apply starting with NPM Cigarettes sold in the following year.

D. Taxes.

1. If a Signatory State has a law, regulation, systematic policy, compact or agreement with respect to taxes (applicability, amount, collection or refund) or stamping that is different for any NPM Cigarettes than any PM Cigarettes, or a law, regulation, systematic policy, compact or agreement with respect to stamping that does not set forth specific requirements regarding when and what stamps are required, the law, regulation, systematic policy, compact or agreement shall be relevant as evidence of lack of diligent enforcement by that State.

2. If the difference with respect to taxes or stamping between NPM and PM Cigarettes referenced in subsection IX.D.1 is material in a Signatory State, the reimbursement set forth in subsection V.C.9 (including the estimated amount of such reimbursement that would be applied under subsection IV.B.2) shall not apply to the NPM Adjustment allocated to that State (if any) for a year in which the difference is in effect.

3. The provisions of subsections IX.D.1-2 shall not apply to (i) taxes or stamping requirements that differ for Native American reservation sales and non-Native American reservation sales, provided that the taxes and stamping requirements applicable to reservation and non-reservation sales respectively are the same for both PM and NPM Cigarettes, or (ii) requirements that NPM Cigarettes bear a stamp of a different color or type solely for purposes of identification.

E. Cap of MSA Payment.

1. If the adjustment amount determined pursuant to subsections V.A.2, V.A.10 or V.C (prior to the reimbursement under subsection V.C.9) applicable to a PM's payment for the benefit of a Signatory State exceeds the total MSA payment amount for the benefit of such State from that PM for that year to which such adjustment applies pursuant to subsection IX.F.2 (i.e., before the application of the credits, reductions and adjustments described in subsections IX.F.3-4), such adjustment amount applicable to such PM's payment for the benefit of such State shall be reduced to equal such total MSA payment amount (determined as described in this sentence). The reimbursement under subsection V.C.9 shall then be determined based on such reduced adjustment amount. Pursuant to the MSA, any excess described in the first sentence of this subsection IX.E.1 shall be reallocated pursuant to MSA Section IX(d)(2).

2. If the adjustment amount determined pursuant to subsection V.B (including as applied in the transition period pursuant to subsection V.A.10.f) applicable to a PM's payment for the benefit of a Signatory State exceeds the total MSA payment amount due for the benefit of such State from that PM for that year to which such adjustment applies pursuant to subsection IX.F.3 (i.e., before the application of the credits, reductions and

adjustments described in subsection IX.F.4, but after the application of the reduction described in subsection IX.E.1 and after the application of the reimbursement under subsection V.C.9, if any), such adjustment amount applicable to such PM's payment for the benefit of such State shall be reduced to equal such total MSA payment amount (determined as described in this sentence).

3. For purposes of this subsection IX.E only, until the applicability of an adjustment pursuant to subsection V.C for a particular year has been determined, the amount of such adjustment applicable to a PM's payment for the benefit of a Signatory State for such year shall be deemed to equal the amount allocated to such State and released to such PM for such year pursuant to subsection IV.B.2.e (if no such amount is so released to such PM for such year, the amount shall be zero). Once the applicability of the adjustment pursuant to subsection V.C for a particular year has been determined, this subsection IX.E shall apply using the actual amount of such adjustment allocated to each Signatory State, if any.

4. Nothing in subsections IX.E and IX.F shall require a PM to return or repay to any Signatory State any amounts previously received by such PM pursuant to the terms of this Settlement Agreement, whether by credit, reduction or adjustment. Any amount of an adjustment pursuant to section V that could be applied to a PM's MSA payment for the benefit of a Signatory State for a given year under the provisions of subsections IX.E.1-3, but cannot be so applied because of the preceding sentence, shall carry forward (with interest at the Prime Rate) and apply against subsequent eligible MSA payments due from that PM for the benefit of that Signatory State until all such amount has been applied.

F. Order of Application of Credits, Reductions and Adjustments to MSA Payments. The Signatory Parties shall instruct the Independent Auditor to apply the credits, reductions and adjustments described in this Settlement Agreement as follows:

1. Except as provided below, the Independent Auditor shall calculate the payments due under the MSA by applying all clauses of MSA Section IX(j) as set forth in that Section.

2. The Independent Auditor shall apply the transition period adjustments under subsections V.A.2 and V.A.10, and the adjustments under subsection V.C, in applying clauses "Sixth" and "Seventh" of MSA Section IX(j).

3. The Independent Auditor shall apply the adjustments under subsection V.B (including as applied in the transition period pursuant to subsection V.A.10.f) to the results of clause "Seventh" of MSA Section IX(j).

4. The Independent Auditor shall apply the credits and the dollar amounts of the reductions under section III to the results of the preceding subsection IX.F.3, and then shall apply clause "Eighth" of MSA Section IX(j) to the resulting amounts due.

G. Additional Legislation.

1. If and to the extent requested by a Signatory State, the PMs will cooperate with the State Attorney General's office in drafting potential legislation that: (i) permits the release of information to the Data Clearinghouse as provided in subsection VI.K.2; (ii) imposes the bonding requirement described in subsection V.B.5.c; (iii) imposes the joint-and-several liability requirement described in subsection V.B.5.c; (iv) modifies the Escrow Statute in a manner consistent with subsection V.C.5 with respect to the subjects described therein; and/or (v) permits a compact meeting the conditions described in subsection

V.B.5.d and modifies the Escrow Statute in the manner described therein. The PMs will support the enactment in such State of legislation that contains no deviation of substance from such draft legislation, provided that such legislation is not in conjunction with any other legislative proposal.

2. The Signatory States and the PMs shall continue to discuss in good faith and on an ongoing basis support for other appropriate legislative enactments that would enhance enforcement of and/or improve compliance with the escrow requirement and for legislation prohibiting or limiting the sale of Cigarettes to any consumer who is not in the physical presence of the seller at the time of sale.

H. Potential New Participating Manufacturers.

1. Subject to the condition specified in subsection IX.H.2, the PMs agree to waive rights under MSA Section XVIII(b) as to any NPM signing the MSA and becoming a Participating Manufacturer without making back payments for sales in prior years that would otherwise be required under MSA Section II(jj) and/or without making full escrow deposits on such prior sales, provided that the following conditions are met: (i) the NPM signs the MSA within 120 days of the Effective Date; (ii) the NPM irrevocably assigns the full amount on deposit in all its existing escrow accounts to the Settling States; (iii) all other MSA terms are applicable to the NPM and the NPM waives any claim of immunity from enforcement of its MSA obligations; (iv) the NPM agrees to the other customary terms and conditions, apart from back payments and escrow deposits, that the Settling States have required for new Participating Manufacturers (including quarterly MSA payments and removal of brands and manufacturers from State directories if the MSA or Adherence Agreement provisions are breached); and (v) the NPM agrees that substantial non-compliance with its MSA obligations during the first

five years after joining the MSA in the absence of a good-faith dispute would trigger the back-payment obligations that would otherwise have been required of it. The PMs do not waive rights under MSA Section XVIII(b) as to a new Participating Manufacturer's performance of its MSA obligations going forward.

2. The applicability of subsection IX.H.1 is conditioned upon the delivery to the PMs within 60 days of the Effective Date of a binding agreement executed by all Settling States and the Foundation that NPMs that sign the MSA pursuant to this provision without making full back payments will not be considered Participating Manufacturers for purposes of MSA Section IX(e).

3. Subsection IX.H.1 does not apply to any entity that agreed prior to the Effective Date to sign the MSA and to make any back payments. The PMs retain their rights under MSA Section XVIII(b) as to any such entity.

I. Release of Escrow. Except pursuant to the consent of the PMs with an aggregate Market Share in the immediately preceding calendar year equal to at least 93% of the aggregate Market Share of all the PMs, the Signatory States shall not release or refund escrow deposited for Cigarettes sold during the resolved years 1999-2012 or transition years 2013-2015 except as provided in the Escrow Statute (as amended by Allocable Share Repeal), or to the Signatory State pursuant to an irrevocable assignment of the escrow funds (including any interest thereon) to the State, or in conformance with subsection V.B.5.d. Any release or refund of escrow deposited for subsequent years shall be addressed as provided in subsections V.B, V.C and VI.I.

J. 2003 Uncontested Signatory States. The 2003 Contested Signatory States Whose Diligent Enforcement Was Not Determined shall fully compensate each 2003

Uncontested Signatory State for such State's share of the settlement payments due under section III with respect to the 2003 NPM Adjustment, provided that such 2003 Uncontested Signatory State signed the Term Sheet prior to a panel determination in the 2003 arbitration as to whether any State diligently enforced a Qualifying Statute during 2003. Such compensation shall be provided as directed by the 2003 Contested Signatory States Whose Diligence Was Not Determined, and may be provided through a reallocation among those Signatory States of their respective shares of (i) the settlement credits and reductions described in section III, (ii) the releases from the Disputed Payments Account described in section IV, or (iii) MSA payments for the benefit of those Signatory States. Such compensation amounts shall be allocated to all the 2003 Contested Signatory States Whose Diligent Enforcement Was Not Determined, allocated among them pro rata in proportion to their respective Allocable Shares.

K. SPMs with Insufficient MSA Payment Obligations. If a credit, adjustment or overpayment offset due to a particular SPM pursuant to this Settlement Agreement, including Exhibit F to this Settlement Agreement, cannot be applied in full in a given year because such SPM (unlike other PMs) has insufficient or no MSA payments in such year because it had insufficient or no domestic sales in the preceding year, the SPM may carry forward such unused amount or transfer some or all of it to another PM, to be applied against that transferee PM's MSA payments. If such transfer occurs, the transferor PM and transferee PM shall jointly notify the Independent Auditor of the transfer and its amount, and the transferor PM, transferee PM and the Signatory States shall jointly instruct the Independent Auditor to apply the transferred amount as a dollar-for-dollar offset against the MSA payment(s) due from the transferee PM on the next MSA Payment Due Date following the date of the notice and instructions. If the transferee PM's combined MSA Sections IX(c)(1) and IX(c)(2) payment in

the applicable year is not sufficient to offset the transferred amount, the carry-forward and transfer provisions of this Settlement Agreement shall apply. No interest shall accrue on such unused amount so carried forward or transferred by the SPM except insofar as interest is otherwise due under another provision of this Settlement Agreement as of the date on which the credit would have been applied had the SPM had sufficient MSA payment obligations.

L. Quarterly Certification. Beginning with the 2018 Payment Due Date, twenty-five percent of a year's credit against the payment of each PM due on the Payment Due Date in each year may be recognized at the end of each quarter of the prior year – that is, on March 31, June 30, September 30, and December 31 (the "quarterly date") – subject to the following condition: Each PM will separately recognize its credits only if the respective PM certifies to the Independent Auditor, on or before each quarterly date, that the Signatory States' share of that PM's MSA payment that will be due on the Payment Due Date immediately following that year based on that PM's shipments of Cigarettes during that quarter as reported to Management Science Associates, Inc. (for purposes of this paragraph, "Signatory States' share") equals or exceeds the amount of the credit to be recognized by that PM on that quarterly date. If a PM does not so certify, then in that quarter it will recognize its credit only for the amount that such PM does certify that Signatory States' share will be; if, due to this paragraph, the twenty-five percent of a year's credit is not recognized in full by a PM on a quarterly date, then the unrecognized amount of that credit will be recognized in a subsequent quarter (or quarters) of that year for the amount that the PM certifies in that subsequent quarter that Signatory States' share is sufficient. A PM may elect to opt out of the certification process described above for a stated period of time by notice to the Signatory States. If a PM does opt out of that process, nothing in this subsection IX.L shall require it to account or prohibit it from accounting for the credits in a particular manner or to recognize or prohibit it from recognizing them at a particular time.

M. Reasonable Efforts. Where this Settlement Agreement refers to a Signatory Party using reasonable efforts, and such reasonable efforts may include court or arbitral proceedings, the required efforts do not include actions that would violate Rule 11 of the Federal Rule of Civil Procedure or similar state procedural or ethical rules.

N. Additional Participating Manufacturers. Any Participating Manufacturer that becomes a signatory to this Settlement Agreement after the conclusion of the 2003 arbitration hearings may join this Settlement Agreement on terms acceptable to the Signatory States, subject to subsection IX.A.

O. Office. Each Signatory State shall identify or establish an office, department or other point of contact to which information regarding potential violations of the provisions of the Model Escrow Statute, Complementary Legislation and Allocable Share Repeal, as enacted in each such Signatory State, can be reported by consumers, retailers, wholesalers, jobbers, manufacturers or others involved with the manufacture, distribution or sale of cigarettes.

P. Business Days. Any obligation under this Settlement Agreement that, under the terms of this Settlement Agreement, is to be performed on a day that is not a Business Day shall be performed on the first Business Day thereafter.

Q. Counterparts. This Settlement Agreement may be executed in counterparts. Electronically transmitted, facsimile or photocopied signatures shall be considered valid as of the date delivered, although the original signature pages shall thereafter be provided to:

NAAG Center for Tobacco and Public Health
Michael G. Hering, Director and Chief Counsel
c/o Erjona Fatusha, efatusha@NAAG.ORG
1850 M Street, NW, 12th Floor
Washington, DC 20036
eFax# 202.521.4052

R. No Third Party Beneficiaries. Except as provided in subsections VIII.A-B, no portion of this Settlement Agreement shall provide any rights to, or be enforceable by, any person or entity that is not a Signatory Party, including any Non-Signatory State.

S. Notices. All notices and other communications required by this Settlement Agreement shall be in writing and shall be deemed received (i) immediately if sent by electronic mail, or (ii) the next Business Day if sent by nationally recognized overnight courier to the respective address as provided by the recipient.

T. Non-Admissibility. No evidence of the negotiations of this Settlement Agreement, or any drafts of this Settlement Agreement, shall be admissible in any dispute between the Signatory Parties as to the meaning of this Settlement Agreement.

U. Construction. No Signatory State or PM shall be considered the drafter of this Settlement Agreement, or any provision thereof, 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.

V. Headings. The headings of the sections and subsections of this Settlement Agreement are not binding and are for reference only and do not limit, expand or otherwise affect the contents or meaning of this Settlement Agreement.

W. Cooperation.

1. Each Signatory State and each PM agrees to use its best efforts and to cooperate with each other to cause this Settlement Agreement 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 Signatory State and each PM agrees that it will not directly or indirectly assist or encourage any challenge to this Settlement Agreement by any other person, and will support the integrity and enforcement of the terms of this Settlement Agreement.

2. Each Signatory State further agrees to cooperate with the PMs in opposing any motions to vacate or modify the Stipulated Partial Award issued by the 2003 NPM Adjustment Dispute Arbitration Panel. Provided, however, that the foregoing sentence shall not require a Signatory State to submit to jurisdiction of any court if such State is not otherwise subject to such court's jurisdiction.

X. No Prejudice.

1. Nothing in this Settlement Agreement shall limit, prejudice or otherwise interfere with the rights of any PM or Signatory State to pursue any and all rights and remedies it may have against any Settling State that is a Non-Signatory State or any Participating Manufacturer that is not a PM.

2. This Settlement Agreement (including, but not limited to, subsections II.K, II.Q, II.R, II.AA, VI.F.5 and VI.I.1.f) is entered without prejudice to any Signatory Party's position regarding the effect of, or requirements with respect to, an Original Participating Manufacturer's sale of brands or an entity's acquisition of brands formerly owned by an Original Participating Manufacturer in connection with any dispute that does not directly arise under this Settlement Agreement. This Settlement Agreement (including, but not limited to, subsections II.K, II.Q, II.R, II.AA, VI.F.5 and VI.I.1.f) will not constitute evidence with respect to any such position and will not be admissible or used in connection with any dispute

that does not directly arise under this Settlement Agreement. For avoidance of doubt, disputes about allocation among the OPMs of adjustments under subsections IV.B.2.b and V.A-C or the profit adjustment under the MSA or any Previously Settled State's Tobacco Settlement Agreement do not directly arise under this Settlement Agreement.

3. Any joint determination and instruction to the Independent Auditor pursuant to subsection IV.B.2.b as to the OPMs' respective shares of the OPMs' Potential Maximum NPM Adjustments, or any direction to the Independent Auditor as to the allocation of adjustments under subsections V.A-C, shall be without prejudice to any disputes between or among the OPMs regarding such shares or regarding the OPMs' allocation of the adjustment for the year in question under subsections V.A-C. If such dispute is resolved so that the OPMs' new shares or allocation are different from those initially determined by the OPMs pursuant to subsection IV.B.2.b or initially directed by the OPMs pursuant to subsections V.A-C, then each OPM shall make any payments necessary to assure that each Signatory Party has received or paid the correct amounts based on such new shares or allocation.

Y. Representations of Signatory Parties. Each Signatory State and each PM hereby represents that this Settlement 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 to this Settlement Agreement expressly represent and warrant that they have the authority to settle and resolve all matters within the scope of this Settlement Agreement on behalf of their respective Signatory States and PMs and their respective past, present and future agents, officials acting in their official capacities, legal representatives, agencies, departments, commissions and divisions, affiliates, successors and assigns, and that such signatories are aware of no authority to the contrary. Each Signatory Party shall have the right to terminate this Settlement Agreement as to any other Signatory Party as to which the foregoing representation and warranty is breached or not effectively given.

Z. Integration. This Settlement Agreement contains an entire, complete and integrated statement of each and every term and provision agreed to by and among the PMs and Signatory States with respect to the settlement and resolution of specified NPM Adjustment disputes as among them, including the final resolution as among them of the 2003-2012 NPM Adjustments and provisions regarding the NPM Adjustments for subsequent years. This Settlement Agreement is not subject to any condition or covenant, express or implied, not provided for in this Settlement Agreement.

AA. No Admission of Liability. This Settlement 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 any liability or any wrongdoing whatsoever on the part of any PM or any Signatory State.

BB. Amendment and Waiver. This Settlement Agreement may be amended only by a written instrument executed by all PMs affected by the amendment and by all Signatory States affected by the amendment. The waiver of any rights conferred by this Settlement Agreement shall be effective only if made by written instrument executed by the waiving Signatory Party. The waiver by any Signatory Party of any breach of this Settlement 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 Signatory Party.

IN WITNESS THEREOF, each Signatory Party, through its authorized representative, has agreed to this Settlement Agreement on the respective date indicated below.

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

PHILIP MORRIS USA INC.

By: ______________________
Kevin C. Crosthwaite, Jr.
President and Chief Executive Officer

Date: 9/21/17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

EPSL LACROIX FILS S.A. (BELGIUM)

By: ____________________
Rob Wilkey
Authorized Signatory

Date: September 20, 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

FARMER'S TOBACCO CO. OF CYNTHIANA, INC.

By: ____________________
Dasha Hanson
President

Date: 9/26/17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

R. J. REYNOLDS TOBACCO COMPANY, in its own capacity and as successor in interest to Brown & Williamson Tobacco Corporation and as Successor in interest to Lorillard Tobacco Company

By: ____________________
Martin L. Holton III
Executive Vice President and General Counsel

Date: September 25, 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

COMMONWEALTH BRANDS, INC.

By: ____________________
Rob Wilkey
General Counsel and Secretary

Date: September 20, 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

HOUSE OF PRINCE A/S

By: ____________________
Peter Helbo
Board Member

Date: 28/9-2017

By: ____________________
James Yamamaka
Chief Executive Officer

Date: 28/9/2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

IMPERIAL TOBACCO LIMITED (UK)

By: ____________________
Rob Wilkey
Authorized Signatory

Date: September 20, 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

COMPANIA INDUSTRIAL DE TABACOS MONTE PAZ S.A.

By: Elizabeth B. McCallum
Elizabeth B. McCallum, Outside Counsel

Date: 10-15-17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

DAUGHTERS & RYAN, INC.

By: ____________________
Mark Ryan
President

Date: 9/20/17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

ITG BRANDS, LLC (FORMERLY LIGNUM-2, LLC)

By: ____________________
Rob Wilkey
General Counsel and Secretary

Date: September 20, 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

JAPAN TOBACCO INTERNATIONAL U.S.A., INC.

By: ____________________
Jerry Loftin
President

Date: 10/4/17

By: ____________________
Michael Mele
Chief Financial Officer

Date: ____________________

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

IMPERIAL TOBACCO MULLINGAR (IRELAND)

By: ____________________
Rob Wilkey
Authorized Signatory

Date: September 20, 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

IMPERIAL TOBACCO POLSKA S.A. (POLAND)

By: ____________________
Rob Wilkey
Authorized Signatory

Date: September 20, 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

JAPAN TOBACCO INTERNATIONAL U.S.A., INC.

By: ____________________
Jerry Loffin
President

Date: ____________________

By: ____________________
Michael Mele
Chief Financial Officer

Date: 10/4/17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

KING MAKER MARKETING, INC

By: ____________________
Edward W. Kacsuta
President

Date: 09.25.17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

IMPERIAL TOBACCO PRODUCTION UKRAINE

By: ____________________
Rob Wilkey
Authorized Signatory

Date: September 20, 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

IMPERIAL TOBACCO SIGARA VE TUTUNCULUK SANAYI VE TICARET S.A. (TURKEY)

By: ____________________
Rob Wilkey
Authorized Signatory

Date: September 20, 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

PREMIER MANUFACTURING, INC.

By: ______________________
Edward W. Kacouris
Chief Executive Officer

Date: 09.26.17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

P.T. DJARUM

By: ______________________
Harry C. Roemer
Counsel

Date: October 19, 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

KRETEK INTERNATIONAL, INC.

By: ______________________
Harry C. Roemer
Counsel

Date: October 19, 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

LIGGETT GROUP LLC

By: ______________________
John Long
Vice President and General Counsel

Date: September 20, 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

REEMTSMA CIGARETTENFABRIKEN GMBH (REEMTSMA)

By ______________________
Rob Wilkey
Authorized Signatory

Date: September 20, 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

SANTA FE NATURAL TOBACCO COMPANY, INC.

By: ______________________
Michael R. Ball
President

Date: 09/20/17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

OOO TABAKSFABRIK REEMTSMA WOLGA (RUSSIA)

By: ______________________
Rob Wilkey
Authorized Signatory

Date: September 20, 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

PETER STOKKEBYE TOBAKSFABRIK A/S

By: ______________________
Marge Valenta
Senior Vice President, Legal and Public Affairs

Date: 2 October 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

TOP TOBACCO, L.P.

By: ____________
Seth Gold
General Counsel

Date: September 20, 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

VAN NELLE TABAK NEDERLAND B.V. (NETHERLANDS)

By: ____________
Rob Wilkey
Authorized Signatory

Date: September 20, 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

SCANDINAVIAN TOBACCO GROUP LANE LTD (FORMERLY LANE LIMITED)

By: ____________
[illegible] Valerio
Senior Vice President, Legal and Public Affairs

Date: 2 October 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

SHERMAN'S 1400 BROADWAY N.Y.C., LLC

By: ____________
[illegible]
Vice President and Chief Financial Officer

Date: 9/20/2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

U.S. FLUE-CURED TOBACCO GROWERS, INC.

By: ____________
Edward W. Kacsinta
Senior Vice President

Date: 09-28-17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

VECTOR TOBACCO INC.

By: ____________
Nick Anson
Vice President-Finance and Chief Financial Officer

Date: September 20, 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

SOCIETE NATIONAL D'EXPLOITATION INDUSTRIELLE DES TABACS ET ALLUMETTES (SEITA)

By: ____________
Rob Wilkey
Authorized Signatory

Date: September 20, 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

TABACALERA DEL ESTE S/A (TABESA)

By: ____________, Esq.
Stephen Johnson
Director and Secretary

Date: September 20, 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

STATE OF ARKANSAS

By:
Leslie Rutledge
Attorney General

Date: 9/25/17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

STATE OF CALIFORNIA

By:
Xavier Becerra
Attorney General

Date: October 6, 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

VON EICKEN GROUP

By:
Henry C. Roemer
Counsel

Date: October 19, 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

WIND RIVER TOBACCO COMPANY INC.

By:
Mark Mansfield
President

Date: 9/21/17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

STATE OF CONNECTICUT

By:
George Jepsen
Attorney General

Date: 9/26/17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

DISTRICT OF COLUMBIA

By:
Karl A. Racine
Attorney General

Date: 10/13/17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

STATE OF ALABAMA

By:
Steve Marshall
Attorney General

Date: 9/26/17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

STATE OF ARIZONA

By:
Mark Brnovich
Attorney General

Date: 4 Oct 17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

STATE OF LOUISIANA

By: Jeff Landry
Attorney General

Date: 10/10/17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

STATE OF MICHIGAN

By: Bill Schuette
Attorney General

Date: October 10, 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

STATE OF GEORGIA

By: Christopher M. Carr
Attorney General

Date: 10/10/17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

STATE OF INDIANA

By: [illegible] Hill, Jr.
Attorney General

Date: 10-4-17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

STATE OF NEBRASKA

By: Doug Peterson
Attorney General

Date: 10/5/2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

STATE OF NEVADA

By: Adam Paul Laxalt
Attorney General

Date: 10/12/17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

STATE OF KANSAS

By: Derek Schmidt
Attorney General

Date: 10/6/2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

COMMONWEALTH OF KENTUCKY

By: Andy Beshear
Attorney General

Date: 9/25/17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

STATE OF OREGON

By: ______________________
Ellen F. Rosenblum
Attorney General

Date: September 27 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

COMMONWEALTH OF PUERTO RICO

By: ______________________
Wanda Vázquez Garced
Attorney General

Date: ______________________

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

STATE OF NEW HAMPSHIRE

By: ______________________
Gordon J. MacDonald
Attorney General

Date: 10/13/17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

STATE OF NEW JERSEY

By: ______________________
Christopher S. Porrino
Attorney General

Date: Sept 28, 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

STATE OF RHODE ISLAND

By: ______________________
Peter F. Kilmartin
Attorney General

Date: 27 Sept, 2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

STATE OF SOUTH CAROLINA

By: ______________________
Alan Wilson
Attorney General

Date: 10/2/17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

STATE OF NORTH CAROLINA

By: ______________________
Josh Stein
Attorney General

Date: 9/27/17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

STATE OF OKLAHOMA

By: ______________________
Mike Hunter
Attorney General

Date: 10/9/17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

STATE OF TENNESSEE

By: ______________________
Herbert H. Slatery III
Attorney General and Reporter

Date: 10/2/2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

COMMONWEALTH OF VIRGINIA

By: ______________________
Mark Herring
Attorney General

Date: 10/10/2017

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

STATE OF WEST VIRGINIA

By: ______________________
Patrick Morrisey
Attorney General

Date: 10-3-17

NPM ADJUSTMENT SETTLEMENT AGREEMENT
SIGNATURE PAGE

STATE OF WYOMING

By: ______________________
Peter K. Michael
Attorney General

Date: October 4, 2017

EXHIBIT A

ALLOCATED SETTLEMENT PERCENTAGES OF SIGNATORY STATES

STATES THAT BECAME SIGNATORY STATES PRIOR TO APRIL 15, 2013

Signatory State	IX(c)(1) Allocated Settlement Percentage	IX(c)(2) Allocated Settlement Percentage
Alabama	0.7434202%	0.3472706%
Arizona	0.6779869%	1.4054391%
Arkansas	0.3809104%	0.3472706%
California	5.8714195%	2.3795988%
D.C.	0.2792744%	0.3472706%
Georgia	1.1290505%	0.4307199%
Kansas	0.3834888%	0.8511075%
Louisiana	1.0374624%	1.2088435%
Michigan	2.0018959%	1.1855016%
Nebraska	0.2736923%	0.3472706%
Nevada	0.2805701%	0.4739521%
New Hampshire	0.3063296%	0.4135229%
New Jersey	1.7788183%	1.3095982%
North Carolina	1.0728511%	0.8934603%
Oklahoma	0.4766230%	1.4350480%
Tennessee	1.1228115%	0.3472706%
Virginia	0.9405827%	0.3472706%
West Virginia	0.4077718%	1.0476228%
Wyoming	0.1142387%	0.3472706%
Puerto Rico	0.5157876%	0.7604597%

STATES THAT BECAME SIGNATORY STATES BETWEEN APRIL 15, 2013 AND THE END OF INDIVIDUAL STATE HEARINGS IN THE 2003 ARBITRATION

Signatory State	IX(c)(1) Allocated Settlement Percentage	IX(c)(2) Allocated Settlement Percentage
Connecticut	0.8540072%	1.5240431%
South Carolina	0.5411219%	0.6128180%

STATES THAT BECAME SIGNATORY STATES AFTER THE END OF INDIVIDUAL STATE HEARINGS IN THE 2003 ARBITRATION AND BEFORE THE EFFECTIVE DATE

Signatory State	IX(c)(1) Allocated Settlement Percentage	IX(c)(2) Allocated Settlement Percentage
Indiana	(a)	
Kentucky		
Oregon		
Rhode Island		

(a) Special Allocated Settlement Percentages for each of the States that became Signatory States after the end of the individual state hearings in the 2003 Arbitration and before the Effective Date are reflected in their respective joinder letters. See Exhibits G-J.

EXHIBIT B

COMPLEMENTARY LEGISLATION IN EFFECT IN THE RESPECTIVE SIGNATORY STATES AS OF THE EFFECTIVE DATE

Signatory State	Complementary Legislation
Alabama	ALA. CODE §§ 6-12A-1–7 (2017).
Arizona	ARIZ. REV STAT. ANN. § 44-7111 (2017).
Arkansas	ARK. CODE. ANN. §§ 26-57-1301–1308 (2017).
California	CAL. REV. & TAX CODE § 30165.1 (2017).
Connecticut	CONN. GEN. STAT. ANN. §§ 4-28K–R (2016), *amended by* Conn. Pub. Act 17-105 (sub. H.B. 7263) (effective October 1, 2017).
D.C.	D.C. CODE ANN. §§ 7-1803.01–07 (2017).
Georgia	GA. CODE ANN. §§ 10-13A-1–10 (2017).
Indiana	IN. CODE §§ 24-3-5.4-1–30 (2017).
Kansas	KAN. STAT. ANN. §§ 50-6a04–6a021 (2017).
Kentucky	KY. REV. STAT. §§ 131.606–131.630 (2017).
Louisiana	LA. REV. STAT. ANN. §§ 13:5071–5078 (2017).
Michigan	MICH. COMP. LAWS §§ 205.426 C-E (2017).
Nebraska	NEB. REV. STAT. §§ 69-2704–2711 (2017).
Nevada	NEV. REV. STAT. §§ 370.600–705 (2017).
New Hampshire	N.H. REV. STAT. ANN. §§ 541-D:1–9 (2017).
New Jersey	N.J. STAT. ANN. §§ 52:4D-4–13 (2017).
North Carolina	N.C. GEN. STAT.§§ 66-292–294.2 (2017).
Oklahoma	OKLA. STAT. tit. 68, §§ 360.1–10 (2017).

Signatory State	Complementary Legislation
Oregon	OR. REV. STAT. §§ 180.400 TO 180.455 (2016), *amended by* 2017 Or. Laws 687 (H.B. 3461) (effective August 8, 2017).
Rhode Island	R.I. GEN LAWS § 44-20-28.1 (2017).
South Carolina	S.C. CODE ANN. §§ 11-48-10–110 (2017).
Tennessee	TENN. CODE ANN. §§ 67-4-2601–2610 (2017).
Virginia	VA. CODE ANN. §§ 3.2-4204–4219 (2017).
West Virginia	W. VA. CODE §§ 16-9D-1–10 (2017).
Wyoming	WYO. STAT. ANN. §§ 9-4-1205–1210 (2016), *amended by* 2017 Wyo. Laws ch. 123 (S.F. 97) (effective July 1, 2017).
Puerto Rico	P.R. LAWS ANN. tit. 24, §§ 15005–15010 (2010).

EXHIBIT C

ESCROW STATUTES IN EFFECT IN THE RESPECTIVE SIGNATORY STATES AS OF THE EFFECTIVE DATE

Signatory State	Escrow Statute
Alabama	ALA. CODE §§ 6-12-1–4 (2017).
Arizona	ARIZ. REV STAT. ANN. § 44-7101 (2017).
Arkansas	ARK. CODE. ANN. §§ 26-57-260–261 (2017).
California	CAL. HEALTH & SAFETY CODE §§ 104555–104558 (2017).
Connecticut	CONN. GEN. STAT. ANN. §§ 4-28H–J (2017).
D.C.	D.C. CODE ANN. §§ 7-1801.01–02 (2017).
Georgia	GA. CODE ANN. §§ 10-13-1–4 (2017).
Indiana	IN. CODE §§ 24-3-3-1–14 (2017).
Kansas	KAN. STAT. ANN. §§ 50-6a01–6a03 (2017).
Kentucky	KY. REV. STAT. §§ 131.600–602 (2017).
Louisiana	LA. REV. STAT. ANN. §§ 13:5061–5063 (2017).
Michigan	MICH. COMP. LAWS §§ 445.2051–2052 (2017).
Nebraska	NEB. REV. STAT. §§ 69-2701–2703 (2017).
Nevada	NEV. REV. STAT. §§ 370A.010–170 (2017).
New Hampshire	N.H. REV. STAT. ANN. §§ 541-C:1–3 (2017).
New Jersey	N.J. STAT. ANN. §§ 52:4D-1–3.2 (2017).
North Carolina	N.C. GEN. STAT. §§ 66-290–291 (2017).
Oklahoma	OKLA. STAT. tit. 37, §§ 600.21–23 (2017).

Signatory State	Escrow Statute
Oregon	OR. REV. STAT. §§ 323.800–323.806 (2016), *amended by* 2017 Or. Laws 687 (H.B. 3461) (effective August 8, 2017) and 2017 Or. Laws 315 (S.B. 148) (effective January 1, 2018).
Rhode Island	R.I. GEN. LAWS §§ 23-71-1–3 (2017).
South Carolina	S.C. CODE ANN. §§ 11-47-10–40 (2017).
Tennessee	TENN. CODE ANN. §§ 47-31-101–103 (2017).
Virginia	VA. CODE ANN. §§ 3.2-4200–4201 (2017).
West Virginia	W. VA. CODE §§ 16-9B-1–4 (2017).
Wyoming	WYO. STAT. ANN. §§ 9-4-1201–1202 (2017).
Puerto Rico	P.R. LAWS ANN. tit. 24, §§ 15001–15004 (2010).

EXHIBIT D

2003 CONTESTED SIGNATORY STATES WHOSE DILIGENT ENFORCEMENT WAS NOT DETERMINED

Alabama
Arizona
Arkansas
California
Connecticut
D.C.
Georgia
Kansas
Louisiana
Michigan
Nebraska
Nevada
New Hampshire
North Carolina
Oklahoma
South Carolina
Tennessee
Virginia
West Virginia
Puerto Rico

EXHIBIT E

2003 UNCONTESTED STATES

Alaska
Delaware
Hawaii
Idaho
Massachusetts
Montana
New Jersey
Rhode Island
South Dakota
Utah
Vermont
Wisconsin
Wyoming
American Samoa
Guam
Northern Mariana Islands
Virgin Islands

EXHIBIT F

SUBSEQUENT PARTICIPATING MANUFACTURER PAYMENTS FOR THE 2003-2012 NPM ADJUSTMENTS

I. The provisions of this Exhibit F shall govern SPM payments for the 2003-2012 NPM Adjustments, notwithstanding any contrary or contradictory provisions in the Settlement Agreement to which this Exhibit is attached, and shall also govern if the Settlement Agreement is silent on a matter addressed in this Exhibit F.[1]

II. SPM Projected Settlement Amounts

The Signatory Parties have determined by agreement the value of the settlement amounts to be received by the Signatory SPMs under the Settlement Agreement. Generally, the projected settlement amounts are equal to (i) the total Potential Maximum NPM Adjustment for each of the years 2003-2009, as determined by the Independent Auditor prior to the execution of the Term Sheet settlement agreement, multiplied by (ii) an agreed cumulative Interest factor, applied to all years 2003-2009, equal to 1.128090288, except that no cumulative Interest factor is applied to the Potential Maximum NPM Adjustment amounts for SPM Farmers Tobacco Co. of Cynthiana, plus (iii) the total Potential Maximum NPM Adjustment for each of the years 2010-2012, as determined by the Independent Auditor in the last revised calculations for the year prior to the date on which the applicable settlement amounts were agreed upon by the parties.

The resulting total IX(c)(1) and IX(c)(2) NPM Adjustment amounts are then multiplied by (iv) the IX(c)(1) Allocated Settlement Percentage and IX(c)(2) Allocated Settlement Percentage for each Signatory State, respectively, as set forth in Exhibit A of the Settlement Agreement for the States that became Signatory States prior to April 15, 2013 and States that became Signatory States between April 15, 2013 and the end of individual State hearings in the 2003 arbitration and as set forth in Exhibits G-J to the Settlement Agreement for the States that became Signatory States after the end of the individual state hearings in the 2003 arbitration and before the Effective Date.

Chart F.1, below, shows the projected settlement amounts for each SPM with respect to the Signatory States:

Chart F.1: Projected Settlement Amounts

SPM	Signatory States Prior to April 15, 2013	Connecticut and South Carolina	Indiana and Kentucky	Oregon and Rhode Island
Commonwealth Brands, Inc.	$58,290,220.62	$4,271,659.01	$9,890,401.22	$2,406,384.77
Compania Industrial de Tabacos Monte Paz, S.A.	$151,491.36	$11,329.21	$17,576.75	$7,135.69
Daughters and Ryan, Inc.	$59,430.37	$4,367.69	$8,682.52	$2,554.34
Ets L Lacrois Fils NV S.A.	$0.00	$0.00	$0.00	$0.00

[1] All payments for 2013, 2014, and later sales years are addressed elsewhere in the Agreement and its exhibits, except as specifically noted herein.

SPM	Signatory States Prior to April 15, 2013	Connecticut and South Carolina	Indiana and Kentucky	Oregon and Rhode Island
Farmers Tobacco Co. of Cynthiana	$5,259,398.38	$384,579.41	$1,028,740.38	$206,735.19
House of Prince A/S	$1,003,937.35	$70,756.83	$656,172.50	$79.37
Imperial Tobacco Limited/ITL (UK)	$0.00	$0.00	$0.00	$0.00
Imperial Tobacco Mullingar (Ireland)	$0.00	$0.00	$0.00	$0.00
Imperial Tobacco Polska S.A. (Poland)	$0.00	$0.00	$0.00	$0.00
Imperial Tobacco Production Ukraine	$0.00	$0.00	$0.00	$0.00
Imperial Tobacco Sigara ve Tutunculuk Sanayi Ve Ticaret S.A. (Turkey)	$0.00	$0.00	$0.00	$0.00
ITG Brands, LLC	$1,280,873.36	$96,217.40	$138,626.76	$62,276.16
Japan Tobacco International U.S.A., Inc.	$1,653,815.46	$122,699.22	$285,636.22	$69,760.17
King Maker Marketing, Inc.	$1,760,385.11	$128,897.83	$344,927.52	$68,508.73
Kretek International	$263,267.13	$19,101.43	$41,562.23	$10,172.84
Liggett Group LLC	$17,455,722.56	$1,293,380.75	$3,017,103.62	$726,888.22
OOO Tabaksfacrik Reemtsma Wolga (Russia)	$0.00	$0.00	$0.00	$0.00
P.T. Djarum	$917,415.52	$66,849.56	$150,536.81	$37,593.00
Peter Stokkebye Tobaksfabrik A/S	$315,255.57	$22,641.19	$74,933.27	$10,839.38
Premier Manufacturing, Inc.	$1,357,160.93	$101,958.39	$145,050.73	$64,984.04
Reemtsma Cigarettenfacbriken GmbH (Germany)	$61.48	$4.33	$6.49	$2.67
Santa Fe Natural Tobacco Company, Inc.	$8,855,027.99	$659,047.60	$1,172,570.27	$404,567.91
Scandinavian Tobacco Group Lane Ltd.	$299,388.39	$22,317.34	$32,222.36	$14,355.04
SEITA	$0.00	$0.00	$0.00	$0.00
Sherman's 1400 Broadway N.Y.C.,LLC	$259,406.59	$19,066.07	$44,773.60	$10,696.13
TABESA	$555,742.67	$41,882.77	$60,016.14	$27,024.40

SPM	Signatory States Prior to April 15, 2013	Connecticut and South Carolina	Indiana and Kentucky	Oregon and Rhode Island
Top Tobacco, L.P.	$2,909,913.53	$212,211.30	$469,684.56	$120,086.30
U.S. Flue-Cured Tobacco Growers, Inc.	$726,116.79	$54,511.61	$78,110.04	$35,015.54
Vector Tobacco Inc.	$691,770.69	$51,539.71	$74,033.76	$32,802.43
Von Eicken Group	$28,710.69	$2,097.43	$5,083.08	$1,154.48
Wind River Tobacco Company, LLC	$38,101.77	$2,845.28	$4,081.95	$1,816.60
Total	$104,132,614.31	$7,659,961.36	$17,740,532.78	$4,321,433.36

III. SPM Receipt of Projected Settlement Amounts

A. No Projected Settlement Amounts. A number of SPMs joining the Settlement Agreement had no projected settlement amounts for the years 2003-2012. These SPMs neither received settlement credits from the Signatory States nor made additional payments or releases to the Signatory States. These Signatory SPMs are: Ets L Lacrois Fils NV S.A., Imperial Tobacco Limited/ITL (UK), Imperial Tobacco Mullingar (Ireland), Imperial Tobacco Polska S.A. (Poland), Imperial Tobacco Production Ukraine, Imperial Tobacco Sigara ve Tutunculuk Sanavi Ve Ticaret S.A. (Turkey), OOO Tobaksfacrik Reemtsma Wolga (Russia), and SEITA.

B. Transferrable Settlement Credits.

1. A number of SPMs joining the Settlement Agreement elected to receive their projected settlement amounts for the years 2003-2012 in the form of transferrable settlement credits applicable in the first instance to the first Annual Payment following the Signatory States' respective joinders to the Term Sheet. SPMs that elected to receive such settlement credits could apply those credits against their Annual Payment obligation or, pursuant to Settlement Agreement subsection IX.K, transfer such credits to another PM, or carry forward those settlement credits and apply them against future payment obligations. These Signatory SPMs are: Commonwealth Brands, Inc. (with respect to the projected settlement amounts from Indiana, Kentucky, Oregon and Rhode Island only), Compania Industrial de Tabacos Monte Paz, S.A., Daughters & Ryan, Inc., House of Prince A/S, ITG Brands, LLC (with respect to the projected settlement amounts from Indiana, Kentucky, Oregon and Rhode Island only), Japan Tobacco International U.S.A., Inc., King Maker Marketing, Inc., Kretek International, Scandinavian Tobacco Group Lane Limited, P.T. Djarum, Peter Stokkebye Tobaksfabrik, Premier Manufacturing, Inc., Reemtsma Cigarettenfabriken GmbH (Germany), , Sherman 1400 Broadway N.Y.C., LLC, Tabacalera del Este, S.A. (TABESA), Top Tobacco, L.P., U.S. Flue-Cured Tobacco Growers, Inc., Von Eicken Group, and Wind River Tobacco Company, LLC.

2. Each of these SPMs has received transferrable settlement credits as set forth in the Settlement Agreement in the amounts determined by the Independent Auditor. The settlement credits related to the projected settlement amounts for the Signatory States that became Signatory States prior to April 15, 2013 were determined by

the Independent Auditor in connection with the April 15, 2013 Annual Payment. The settlement credits related to the projected settlement amounts for the Signatory States that became Signatory States between April 15, 2013 and the end of individual State hearings in the 2003 arbitration (i.e. Connecticut and South Carolina) were determined by the Independent Auditor in connection with the April 15, 2014 Annual Payment. Certain NPM Adjustment-related credits had already been determined by the Independent Auditor with respect to the 2003 NPM Adjustment for Indiana and Kentucky and applied against the April 15, 2014 Annual Payment prior to Indiana and Kentucky becoming Signatory States. Additional settlement credits, representing the difference between the projected settlement amounts for Indiana and Kentucky and the 2003 NPM Adjustment credit amounts already applied, were determined by the Independent Auditor in connection with the April 15, 2015 Annual Payment.[2] The settlement credits related to the projected settlement amounts for the other two Signatory States that became Signatory States after the end of the individual State hearings in the 2003 arbitration and before the Effective Date (i.e. Oregon and Rhode Island) were determined by the Independent Auditor in connection with the April 17, 2017 Annual Payment. As of the Effective Date, all such settlement credits so far determined have been applied or transferred pursuant to Settlement Agreement subsection IX.K.[3]

C. Percentage Reduction Credits. Certain SPMs elected to receive certain of their SPM projected settlement amounts over several years under an agreed percentage reduction credit protocol, see Settlement Agreement subsections III.A.4-9, III.C.2(b), III.D.3, as credits of 30% of the applicable settlement amount in the first available payment year and the remainder as percentage reductions over the three following years.[4] These Signatory SPMs are:

[2] The Independent Auditor's calculations for the April 15, 2014 Annual Payment included a credit of $807,360.17 for House of Prince with respect to the 2003 NPM Adjustment allocable to Indiana and Kentucky. House of Prince, Indiana, and Kentucky subsequently agreed to reduce this amount as part of the calculation of a projected settlement amount for these Signatory States. House of Prince transferred the value of the resulting transferrable settlement credit to Commonwealth Brands, Inc. (along with House of Prince's other transferrable settlement credits), and Commonwealth Brands, Inc. applied the net credit amount against its April 15, 2015 Annual Payment obligation.

[3] Two SPMs, King Maker Marketing and Monte Paz, have disputed the Independent Auditor's determination not to permit these SPMs to apply a portion of the settlement credits they were not able to apply against payments in April 2013 against payments in April 2014 on the grounds that those SPMs could not use the full amount of their carryforward credits until the SPMs released amounts deposited in the Disputed Payments Account in connection with NPM adjustment disputes with the Non-Signatory States. King Maker Marketing withheld $58,125.73 with respect to this dispute from its payments for April 2016, as noted in its payment letter of March 31, 2016. The parties agree that the SPMs should be able to use the full amount of their settlement credits and will jointly instruct the Independent Auditor to permit use of such credits, including with respect to King Maker Marketing's withheld amount, in the April 2018 payment cycle.

[4] Absent other agreement by the parties, the SPM Percentage Reduction for each such SPM for the applicable year has been determined as follows: (i) by December 1 of the year before the year in which the applicable SPM Percentage Reduction is to be applied, a percentage shall be derived so that such percentage, when multiplied by the Estimated MSA Payment for OPMs for the year in question as defined in Settlement Agreement subsection III(A)(8), produces a dollar amount which is equal to 23.333333% of the SPM's projected settlement amount as set forth in Chart F.1 above; (ii) the percentage determined in step (i) for each SPM shall be applied to the payment due from the OPMs pursuant to MSA Section IX(c)(1) on the payment due date of the applicable year; (iii) the amount derived in step (ii) shall be increased by interest accruing at the Prime Rate from April 15, 2013 (or the relevant date under the particular Signatory State joinder to the Term Sheet at issue) to the payment due date of the year in which

Commonwealth Brands, Inc. (with respect to the projected settlement amounts from the Signatory States that became Signatory States before the end of individual State hearings in the 2003 arbitration); ITG Brands, LLC (with respect to the projected settlement amounts from the Signatory States that became Signatory States before the end of individual State hearings in the 2003 arbitration); and Santa Fe Natural Tobacco Co., Inc. (with respect to all projected settlement amounts). The initial credits and percentage reduction credits for each of the SPMs have been determined by agreement between the SPMs that are Signatory Parties and Signatory States and have been applied as of the Effective Date, except: (i) the 2017 percentage reduction credits for each of these SPMs from Connecticut have been determined, but remain to be applied along with applicable interest at the Prime Rate from April 17, 2017 to April 16, 2018; (ii) the 2018 percentage reduction credits to Santa Fe Natural Tobacco Company from Indiana and Kentucky have not been determined and remain to be applied along with applicable interest at the Prime Rate from April 15, 2014 to April 16, 2018; and (iii) the 2018-2020 percentage reduction credits to Santa Fe Natural Tobacco Company from Oregon and Rhode Island have not been determined and remain to be applied along with applicable interest at the Prime Rate from April 17, 2017 to the date of payment.

D. Settlement Payments. (1) Certain SPMs—Liggett Group LLC ("Liggett"), Vector Tobacco Inc. ("Vector Tobacco"), and Farmers Tobacco of Cynthiana, Inc. ("Farmers") (collectively, the "withholding SPMs")—withheld funds for NPM Adjustments for various years from 2003 to 2012.[5] These previously withheld amounts are set forth in Chart F.2, below:

Chart F.2: Previously Withheld Amounts

Liggett Group LLC			
Year	**IX(c)(1)**	**IX(c)(2)**	**Total**
2003	0.00	0.00	0.00
2004	5,317,552.55	0.00	5,317,552.55
2005	1,599,181.96	0.00	1,599,181.96
2006	3,736,311.54	0.00	3,736,311.54
2007	3,603,198.82	381,171.42	3,984,370.24
2008	5,139,819.75	543,725.86	5,683,545.61
2009	6,207,692.13	656,692.83	6,864,384.96
2010	15,295,246.32	1,618,037.48	16,913,283.80
2011	0.00	0.00	0

the relevant percentage reduction is applied, without any deduction otherwise reflected in Settlement Agreement subsection III(A)(9); and (iv) the amount derived in step (iii) shall be subtracted from the SPM's Section IX(c)(1) payment for the applicable year. (The dollar amount due to each SPM as a result of the application of the SPM Percentage Reduction shall not change notwithstanding any subsequent revision to or recalculation of the aggregate OPM payment amount by the Independent Auditor.)

[5] Liggett and Vector Tobacco also placed funds in the Disputed Payments Account for certain years between 2003 and 2012 and released the Signatory States' allocable shares of such funds to the Signatory States in accordance with the Settlement Agreement.

Liggett Group LLC			
Year	**IX(c)(1)**	**IX(c)(2)**	**Total**
2012	0.00	0.00	0.00
Total	**40,899,003.07**	**3,199,627.59**	**44,098,630.66**

Vector Tobacco Inc.			
Year	**IX(c)(1)**	**IX(c)(2)**	**Total**
2003	0.00	0.00	0.00
2004	0.00	0.00	0.00
2005	0.00	0.00	0.00
2006	469,499.67	0.00	469,499.67
2007	0.00	0.00	0.00
2008	397,747.88	42,076.54	439,824.42
2009	836,797.50	88,522.26	925,319.76
2010	714,410.59	75,575.32	789,985.91
2011	0.00	0.00	0.00
2012	0.00	0.00	0.00
Total	**2,418,455.64**	**206,174.12**	**2,624,629.76**

Farmers Tobacco Company[6]			
Year	**IX(c)(1)**	**IX(c)(2)**	**Total**
2003	$4,185,243.25	$0.00	$4,185,243.25
2004	$3,588,743.91	$0.00	$3,588,743.91
2005	$2,224,528.65	$0.00	$2,224,528.65
2006	$2,192,500.22	$0.00	$2,192,500.22
2007	$1,641,647.99	$173,664.94	$1,815,312.93
2008	$2,576,071.35	$272,514.74	$2,848,586.09
2009	$2,869,998.55	$303,608.40	$3,173,606.95
2010	$1,517,017.03	$182,338.64	$1,699,355.67

[6] In April 2011, Farmers withheld from its IX(c)(1) and IX(c)(2) Annual Payments Potential Maximum NPM Adjustment amounts for 2003-2009, as attributable to all Settling States. In April 2013, Farmers withheld $3,499,688.55 from its IX(c)(1) Annual Payment and $420,646.87 from its IX(c)(2) Annual Payment, which represent the Potential Maximum NPM Adjustment amounts attributable to then-Non-Signatory States, including subsequent Signatory States Connecticut, South Carolina, Kentucky, Indiana, Rhode Island, and Oregon.

Farmers Tobacco Company[6]			
Year	IX(c)(1)	IX(c)(2)	Total
2011	$1,052,027.18	$126,448.95	$1,178,476.13
2012	$930,644.34	$111859.28	$1,042,503.62
Total	**$22,778,422.47**	**$1,170,434.95**	**$23,948,857.42**

The withholding SPMs received no credits or percentage reductions for their projected settlement amounts for 2003-2012 other than the 2003 NPM Adjustment-related offsets/credits already received from Indiana and Kentucky in connection with the April 15, 2014 payment. Instead, the withholding SPMs received the value of such projected settlement amounts by retaining such amounts from the Signatory States' IX(c)(1) Allocable Share and IX(c)(2) Allocable Share of previously withheld amounts. To effectuate the settlement, the withholding SPMs netted such projected settlement amounts (plus any applicable credits for 2013-2015) against the Signatory States' IX(c)(1) Allocable Share and IX(c)(2) Allocable Share of previously withheld amounts, and deposited the excess of such previously withheld amounts, plus agreed-upon interest,[7] into the Disputed Payments Account for release to the applicable Signatory State.

(2) (i) The withholding SPMs have made settlement payments into the Disputed Payments Account for the benefit of the Signatory States that became Signatory States prior to April 15, 2013 as set forth in Chart F.3:

Chart F.3: Amounts Placed in DPA for States That Became Signatory States Prior to April 15, 2013

	IX(c)(1) Amount Deposited Into DPA for Release	IX(c)(2) Amount Deposited Into DPA for Release	Total Amount Deposited Into DPA for Release
Liggett	2,586,565.66	168,977.05	2,755,542.71
Vector Tobacco	488,366.36	33,139.98	521,506.34
Farmers	3,263,845.06	37,368.49	3,301,213.56

(ii) The withholding SPMs have made settlement payments into the Disputed Payments Account for the benefit of Connecticut and South Carolina as set forth in Chart F.4:

Chart F.4: Amounts Placed in DPA for CT and SC

	IX(c)(1) Amount Deposited Into DPA for Release	IX(c)(2) Amount Deposited Into DPA for Release	Total Amount Deposited Into DPA for Release
Liggett	182,298.12	22,253.48	204,551.60
Vector Tobacco	34,419.51	4,364.38	38,783.89
Farmers	230,032.25	4,921.26	234,953.51

[7] For Liggett and Vector Tobacco, the parties agreed that cumulative interest would be calculated by multiplying the Signatory States' Allocable Share of the amounts withheld by 1.128090288, i.e., the same interest factor applied to the 2003-2009 NPM Adjustment amounts. For Farmer's, the parties agreed no interest factor would be applied either to the NPM Adjustment claims or to the Signatory States' Allocable Share of the amounts withheld.

(iii) The withholding SPMs have made settlement payments into the Disputed Payments Account for the benefit of Indiana and Kentucky as set forth in Chart F.5:

Chart F.5: Amounts Placed in DPA for IN and KY

(1)	(2)	(3)	(4)
SPM	IX(c)(1) Amount Deposited Into DPA for Release	IX(c)(2) Amount Deposited Into DPA for Release	Total Deposited into DPA for Release
Liggett	319,595.06	0.00	319,595.06
Vector Tobacco	21,963.74	1,391.91	23,355.65
Farmers	649,673.22	20,267.98	669,941.19

(iv) Farmers made settlement payments into the Disputed Payments Account for the benefit of Oregon and Rhode Island as set forth in Chart F.6. The projected settlement amounts from Liggett and Vector Tobacco plus applicable credits for 2013-2015 received from Oregon and Rhode Island did not result in an additional net payment from Liggett and Vector Tobacco for the benefit of those states, so no deposit into the Disputed Payments Account was required.

Chart F.6: Amounts Placed in DPA for OR and RI

(1)	(2)	(3)	(4)
SPM	IX(c)(1) Amount Deposited Into DPA for Release	IX(c)(2) Amount Deposited Into DPA for Release	Total Deposited into DPA for Release
Farmers	$206,225.97		$206,225.97

(3) The Signatory States agree that their respective IX(c)(1) and IX(c)(2) Allocation Percentages of the Potential Maximum NPM Adjustment amounts previously withheld by a withholding SPM pursuant to Master Settlement Agreement subsection XI(d)(6) are discharged (along with any interest accrued) by a satisfactory settlement payment from such withholding SPM under the Settlement Agreement and this Exhibit F. All amounts previously withheld with respect to the 2003-2012 NPM Adjustments are not and should not be considered an "underpayment" by the Independent Auditor and should not accrue interest pursuant to Master Settlement Agreement Section IX(h) (or any other rate). The Signatory States and Liggett, Vector Tobacco, and Farmers shall jointly direct the Independent Auditor if necessary to reflect in all appropriate calculation or summaries that the total amounts shown in the Independent Auditor's calculations and summaries as withheld or unpaid (along with any interest accrued on such amounts) should have been reduced by the Signatory States' Allocable Share and IX(c)(2) Allocable Share of such amounts.

E. Prior election to receive transferrable settlement credits does not alter an SPM's right to elect to receive its projected settlement amounts in another form consistent with the Settlement Agreement in connection with the projected settlement amounts from any Subsequent-Joining Signatory State.

EXHIBIT G

INDIANA JOINDER LETTER

Signatory State	Date of Sign-On
Indiana	June 26, 2014

STATE OF INDIANA
OFFICE OF THE ATTORNEY GENERAL
INDIANA GOVERNMENT CENTER SOUTH, FIFTH FLOOR
302 W. WASHINGTON STREET • INDIANAPOLIS, IN 46204-2770
www.AttorneyGeneral.IN.gov

GREG ZOELLER
INDIANA ATTORNEY GENERAL

TELEPHONE: 317.232.6201
FAX: 317.232.7979

June 26, 2014

Via Electronic and U.S. Mail

Jeffrey M. Wintner
Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, NY 10019
JMWintner@wlrk.com
Counsel for Philip Morris USA Inc.

Charles E. Coble
Brooks, Pierce, McLendon, Humphrey & Leonard LLP
1600 Wells Fargo Capitol Center
150 Fayetteville Street
Raleigh, NC 27601
Ccoble@brookspierce.com
Counsel for Lorillard Tobacco Co.

Elli Leibenstein
Jones Day
77 West Wacker
Chicago, IL 60601-1692
eleibenstein@jonesday.com
Counsel for R.J. Reynolds Tobacco Co.

Robert J. Brookhiser
Baker & Hostetler LLP
Suite 1100
1050 Connecticut Ave., N.W.
Washington D.C. 20036
Rbrookhiser@bakerlaw.com
Counsel for certain SPMs

John Bush
Bingham Greenebaum Doll LLP
3500 National City Tower
101 South Fifth Street
Louisville, KY 40202
jbush@bgdlegal.com
Counsel for Farmers Tobacco of Cynthiana Inc. and Wind River Tobacco Co. LLC

Re: Settlement of NPM Adjustment disputes

Dear Counsel:

This will confirm our agreement that the State of Indiana and the listed Participating Manufacturers (the "PMs"[1]) have agreed to settle NPM Adjustment disputes on the terms set forth in the November 14, 2012 Term Sheet for settlement of NPM Adjustment disputes ("Term Sheet") and

[1] The PMs are those listed in footnote 4 of the Stipulated Award, Tabacalera del Este, S.A. (TABESA), U.S. Flue-Cured Tobacco Growers Inc., and Wind River Tobacco Company LLC.

reflected in the March 12, 2013 Stipulated Partial Settlement and Award ("Stipulated Award"), except as follows.

1. The provisions of Section I.A.2 of the Term Sheet and Paragraphs 1-2 of Appendix A to the Term Sheet are modified as follows. The OPMs will receive from Indiana a total amount equal to (a) 65% of Indiana's allocated and reallocated share of the 2003 NPM Adjustment, plus interest and earnings, as reflected in the Independent Auditor's Revised Final Calculations for the MSA payment due on April 15, 2014 (Notice ID: 0414); and (b) 55% of Indiana's Allocable Share of the OPMs' full 2004-2012 NPM Adjustments, plus interest and earnings. The amount in clause (a) equals $67,708,226.20. The amount in clause (b) equals $86,231,085.24. The total of such amounts is $153,939,311.44.

2. It is recognized that $83,333,201.48 of the amount under Paragraph 1 (net of reimbursement paid under the Agreement Regarding Arbitration) was conferred on the OPMs by means of an offset and/or releases from the Disputed Payments Account ("DPA") in connection with the April 15, 2014 MSA payment and subsequent releases from the DPA. Accordingly, the amount under Paragraph 1 will be conferred on the OPMs in the manner provided in Paragraph 3 of Appendix A to the Term Sheet with the following modifications: (i) within 14 days of this agreement, R.J. Reynolds Tobacco Co. will pay $24,802,724.30 to Indiana; (ii) the OPMs will retain the remainder of the $83,333,201.48; (iii) the OPMs will receive a credit against the MSA annual payment due to Indiana on April 15, 2015 in the amount of $18,439,178.54 (plus interest at the Prime Rate calculated from April 15, 2014), with the credit to be allocated between Philip Morris USA and Lorillard in the manner they direct; and (iv) the OPMs will receive the percentage reductions as to Indiana under Paragraphs 3(A)(ii) and 3(B) of Appendix A to the Term Sheet in connection with the annual payments under Section IX(c)(1) of the MSA due in each of April 2015-2018 (with the interest on such reductions specified in Paragraph 3(A)(ii) of Appendix A to the Term Sheet calculated from April 15, 2014).

3. Indiana will receive releases of its Allocable Share of the OPMs' NPM Adjustment amounts currently in the DPA in the manner provided in Paragraph 5 of Appendix A to the Term Sheet with the following modifications: (i) amounts attributable to the 2003 NPM Adjustment will not be included (as they have already been released to OPMs); (ii) amounts attributable to the 2010-2011 NPM Adjustments will be included; and (iii) Indiana may choose to have these DPA releases spread over 2014-2018. The total of Indiana's Allocable Share of the OPMs' NPM Adjustment amounts in the DPA attributable to the 2004-2011 NPM Adjustments is approximately $99.6 million plus earnings. This amount shall be released to Indiana from the DPA on the following schedule (assuming the Independent Auditor has provided the confirmation specified in Paragraph 5 of Appendix A to the Term Sheet before the specified dates): $38 million in 2015; $19 million in 2016; $19 million in 2017; and the remainder in 2018. Indiana's Allocable Share of amounts to be paid into the DPA attributable to NPM Adjustments for 2012 and thereafter will be governed by the provisions of Section III.5 of the Stipulated Award.

4. The process for payments to the SPMs set forth in Appendix A and the SPM Addendum (along with Exhibit A thereto) to the Term Sheet and the SPM Appendix to the Stipulated Award governs, except that the reference to the same (*i.e.*, no greater) relative payment amounts refers to the payment amounts set forth in Paragraph 1 above and the reference to the same general timetable refers to the timetable set forth in Paragraph 2 above. The amounts for the SPMs paralleling the amounts for OPMs in the last sentence of Paragraph 1 above are included in the SPM Addendum hereto, along with provisions parallel to Paragraph 2 with respect to crediting amounts already conferred net of reimbursement paid and Paragraph 3 with respect to release of Indiana's share of DPA amounts.

5. Indiana's payment for the 2013 transition year under Section II.C of the Term Sheet is $4,289,303.31 to the OPMs and $276,802.54 to the listed SPMs. Because the 2014 MSA payment date to which these payments would have been applied as offsets under the Term Sheet has passed, they will instead be applied as offsets in connection with the MSA payment due April 15, 2015 (in addition to offsets arising from payments, if any, due from Indiana under Section II.B of the Term Sheet as to 2013 and under Section II.C of the Term Sheet as to 2014).

6. Section I.B of the Term Sheet will not apply to Indiana.

7. Indiana and the PMs believe that Indiana's settlement is to give rise to the same method of reduction in the 2004-12 NPM Adjustments that may be applied to Non-Signatory States as does the settlement of the Settling States that became Signatory States prior to the issuance of the 2003 Arbitration Panel's September 11, 2013 Final Awards (the "Initial Signatory States"). The following will apply with respect to any argument or ruling to the contrary.

(a) The PMs will oppose any argument to the contrary. Indiana will cooperate to the extent reasonably requested by the PMs in connection with their opposition; provided, however, that such cooperation will not include Indiana's disclosing to the PMs confidential or privileged information that Indiana received from another Settling State before the date of this agreement under a joint-defense agreement concerning an NPM Adjustment dispute.

(b) If the 2004 Arbitration Panel (or any other tribunal or court) nonetheless rules that Indiana's settlement gives rise to a different method of reduction in the 2004 NPM Adjustment that may be applied to Non-Signatory States than does the settlement of the Initial Signatory States, the following will apply.

(i) Indiana will pay to the OPMs an amount equal to the lesser of (A) 50% of the additional reduction in the 2004 NPM Adjustment (plus 50% of the additional reduction of interest and earnings) produced by application of such different method of reduction with respect to Indiana's settlement; or (B) $35 million. That amount would be paid as an offset against the OPMs' annual MSA payment under Section IX(c) of the MSA in 10 equal annual installments beginning with the first such payment following application of the different method of reduction, with the 9 installments to include interest on the remaining amount at the Prime Rate calculated from the date of such first payment and to continue until fully paid. Parallel provisions for the listed SPMs are included in the SPM Addendum hereto. In the event that an offset due under this subparagraph could not be credited without exceeding Indiana's share of the relevant companies' payment under Section IX(c) of the MSA for the year in question, the offset will carry forward with interest at the Prime Rate. The final settlement agreement referenced in Paragraph 8 will include provisions specifying the operation and order of the offset.

(ii) If there is a ruling as to the 2004 NPM Adjustment described in the introductory sentence of this subparagraph (b), both that introductory sentence and the entirety of subparagraph (b)(i) would apply to the 2005 NPM Adjustment as well, with any amounts owed being in addition to those owed with respect to the 2004 NPM Adjustment. However, if the 2004 Arbitration Panel rules that Indiana's settlement gives rise to the same method of reduction in the 2004 NPM Adjustment that may be applied to Non-Signatory States as does the settlement of the Initial Signatory States and that ruling is not vacated or modified in such a way as results in a ruling described in the introductory sentence of this subparagraph (b), then the provisions of

subparagraph (b)(ii) shall not apply in any subsequent NPM Adjustment arbitration. In no event are the provisions of Paragraph 7 applicable to any other NPM Adjustment arbitration other than the 2004 NPM Adjustment and the 2005 NPM Adjustment.

8. The final settlement agreement as referenced in Section IV.F of the Term Sheet will reflect the provisions set forth above as to Indiana. The PMs will allow Indiana to participate in the completion of the drafting of the final settlement agreement along with the other Signatory States.

9. If a PM enters into a settlement with a State that was found non-diligent for 2003 that settles the 2003 NPM Adjustment as to that State (including, but not limited to, if the settlement also settles any or all of the 2004-2012 NPM Adjustments) and the settlement contains overall terms more relatively favorable to that State than the terms set forth above as to Indiana, then the overall terms of this agreement will be revised as to that PM so that Indiana will obtain with respect to that PM overall terms substantially equal (on an Allocable Share basis) to those obtained by that State in all respects, including but not limited to the financial terms of the agreement. For example, if a PM enters into a settlement with a State that was found non-diligent for 2003 that settles the 2003-2012 NPM Adjustments and provides for the PM to receive any less for those Adjustments than the total of (a) 65% of the non-diligent State's allocated and reallocated share of the 2003 NPM Adjustment, plus interest and earnings, as reflected in the Independent Auditor's Revised Final Calculations for the MSA payment due on April 15, 2014 (Notice ID: 0414); and (b) 55% of the non-diligent State's Allocable Share of the OPMs' full 2004-2012 NPM Adjustments, plus interest and earnings, this agreement shall be revised as to that PM so that Indiana will obtain the same percentages. Furthermore, if a PM settles with a State that was found to be non-diligent for 2003 on terms with respect to the subject matter of Paragraph 7 of this agreement that are more favorable to that State (on an Allocable Share basis) than the terms of Paragraph 7, this agreement shall be promptly revised as to that PM so that Indiana will also obtain the same terms (on an Allocable Share basis).

10. All capitalized terms not otherwise defined herein have the meaning given those terms in the MSA, the Term Sheet or the Stipulated Award.

Sincerely,

Greg Zoeller

Gregory F. Zoeller
Attorney General

SPM ADDENDUM TO INDIANA LETTER

1. Pursuant to Paragraph 1 of the letter to which this SPM Addendum is attached, each SPM shall receive the following amounts under clause (a) and clause (b) of Paragraph 1 and in total from Indiana pursuant to the settlement:

SPM	Clause (a)	Clause (b)	Total
Commonwealth Brands, Inc.	2,350,013.59	3,032,909.32	5,382,922.92
Monte Paz	846.19	8,886.74	9,732.93
Daughters & Ryan, Inc.	1,521.30	3,219.79	4,741.10
Farmers Tobacco Co.	297,855.28	260,630.21	558,485.49
House of Prince A/S	352,034.69	103.42	352,138.11
Japan Tobacco International U.S.A., Inc.	69,237.44	86,885.06	156,122.50
King Maker Marketing, Inc.	101,003.79	86,310.65	187,314.44
Kretek International	9,523.76	12,930.58	22,454.34
Lane Limited	0.00	17,856.20	17,856.20
Liggett Group LLC	730,187.96	918,176.41	1,648,364.36
Lignum-2, Inc.	0.00	77,152.11	77,152.11
Peter Stokkebye Tobaksfabrik A/S	26,536.90	13,870.87	40,407.77
Premier Manufacturing, Inc.	0.00	80,730.17	80,730.17
P.T. Djarum	34,105.28	47,679.11	81,784.39
Reemtsma Cigarettenfacbriken Gmbh	0.00	3.48	3.48
Santa Fe Natural Tobacco Company, Inc.	141,298.81	504,119.24	645,418.05
Sherman 1400 Broadway N.Y.C., Inc.	10,943.73	13,444.22	24,387.95
TABESA	0.00	33,463.16	33,463.16
Top Tobacco, L.P.	103,086.04	152,220.17	255,306.21
U.S. Flue-Cured Tobacco Growers, Inc.	0.00	43,456.27	43,456.27
Vector Tobacco Inc.	0.00	41,010.07	41,010.07
Von Eicken Group	1,312.10	1,459.10	2,771.19
Wind River Tobacco Company, LLC	0.00	2,264.12	2,264.12
Total	**4,229,506.87**	**5,438,780.47**	**9,668,287.34**

2. (a) It is recognized that the following amounts under Paragraph 1 (net of reimbursement paid under the Agreement Regarding Arbitration) were conferred on the SPMs by means of offsets and/or releases from the Disputed Payments Account ("DPA") in connection with the April 15, 2014 MSA payment and subsequent releases from the DPA:

SPM	Amount Already Received by SPM
Commonwealth Brands, Inc.	2,892,324.42
Monte Paz	1,041.47
Daughters & Ryan, Inc.	1,872.37
Farmers Tobacco Co.	144,569.96[2]
House of Prince A/S	433,273.47[3]
Japan Tobacco International U.S.A., Inc.	85,215.32
King Maker Marketing, Inc.	124,312.36
Kretek International	11,721.55
Lane Limited	0.00
Liggett Group LLC	898,692.87
Lignum-2, Inc.	0.00
Peter Stokkebye Tobaksfabrik A/S	32,660.80
Premier Manufacturing, Inc.	0.00
P.T. Djarum	41,975.73
Reemtsma Cigarettenfacbriken Gmbh	0.00
Santa Fe Natural Tobacco Company, Inc.	173,906.23
Sherman 1400 Broadway N.Y.C., Inc.	13,469.21
TABESA	0.00
Top Tobacco, L.P.	126,875.12
U.S. Flue-Cured Tobacco Growers, Inc.	0.00
Vector Tobacco Inc.	0.00
Von Eicken Group	1,614.89
Wind River Tobacco Company, LLC	0.00
Total	**4,983,525.76**

[2] Represents interest amounts taken as an offset against April 2014 payment. See also Paragraph 2(b)(v).

(b) Accordingly, the remaining amounts under Paragraph 1 will be conferred on the SPMs in the manner provided in Appendix A and the SPM Addendum (along with Exhibit A thereto) to the Term Sheet and the SPM Appendix to the Stipulated Award with the following modifications:

(i) Each SPM will retain the amount already received in Paragraph 2(a), except that the credit of $433,273.47 that remains for House of Prince to carry forward or transfer with respect to Indiana shall be reduced by $81,135.35 to reflect House of Prince's total settlement amount of $352,138.11;

(ii) The following SPMs will receive a credit against the MSA annual payment due to Indiana on April 15, 2015 in the amount set out below (plus interest at the Prime Rate calculated from April 15, 2014), with the provisions in Appendix A and the SPM Addendum (along with Exhibit A thereto) to the Term Sheet and the SPM Appendix to the Stipulated Award regarding carry forward and/or transfer of SPM credits governing as applicable:

SPM	Credit Amount
Commonwealth Brands, Inc.	2,490,598.50
Monte Paz	8,691.46
Daughters & Ryan, Inc.	2,868.72
Farmers Tobacco Co.	0.00
House of Prince A/S	0.00
Japan Tobacco International U.S.A., Inc.	70,907.19

[3] House of Prince's 2003 NPM Adjustment credit was not used against a payment or transferred, so remains available for carry forward and/or transfer.

King Maker Marketing, Inc.	63,002.08
Kretek International	10,732.79
Lane Limited	17,856.20
Liggett Group LLC	0.00
Lignum-2, Inc.	77,152.11
Peter Stokkebye Tobaksfabrik A/S	7,746.97
Premier Manufacturing, Inc.	80,730.17
P.T. Djarum	39,808.66
Reemtsma Cigarettenfacbriken Gmbh	3.48
Santa Fe Natural Tobacco Company, Inc.	19,719.18
Sherman 1400 Broadway N.Y.C., Inc.	10,918.74
TABESA	33,463.16
Top Tobacco, L.P.	128,431.09
U.S. Flue-Cured Tobacco Growers, Inc.	43,456.27
Vector Tobacco Inc.	0.00
Von Eicken Group	1,156.30
Wind River Tobacco Company, LLC	2,264.12
Total	**3,109,507.21**

(iii) Santa Fe Natural Tobacco Company, Inc. will receive the percentage reductions as to Indiana under Paragraph 4(iii) of the SPM Addendum to the Term Sheet in connection with the annual payments under Section IX(c)(1) of the MSA due in each of April 2015-2017 (with the interest on such reductions specified in Paragraph 3(A)(ii) of Appendix A to the Term Sheet calculated from April 15, 2014);

(iv) Indiana's Allocable Share of the amount that Liggett Group LLC ("Liggett") and Vector Tobacco Inc. (Vector Tobacco") withheld with respect to the NPM Adjustments in various years from 2004-2010 is larger than the remaining amount these companies are to receive under the settlement for the NPM Adjustment claims for 2003-2012 and the Transition Year credit for 2013 after the offset they received as described in Paragraph 2(a) above. Accordingly Liggett and Vector will receive no credit against their MSA payments from the settlement as it relates to the NPM Adjustment claims for 2003-2012 and the Transition Year credit for 2013 and instead will receive those remaining benefits of the settlement and address previously withheld amounts for the 2004-2010 adjustments as follows: No later than April 15, 2015, each of those companies will pay to Indiana the excess of (a) $44,098,631 (for Liggett) or $2,624,630 (for Vector Tobacco) multiplied by Indiana's Allocable Share over (b) the remaining amount to which that company is entitled under this settlement for the NPM Adjustments for 2003-12 ($749,671.50 for Liggett and $41,010.07 for Vector Tobacco) and the amount to which that company is entitled under this settlement for the Transition Year credit for 2013 ($74,142.35 for Liggett and $5,810.48 for Vector Tobacco); plus (c) 12.8090288% of $27,185,288 (for Liggett) or $1,834,639 (for Vector Tobacco) multiplied by Indiana's Allocable Share. That payment amount shall be $167,498.44 for Liggett and $12,870.23 for Vector Tobacco. Following these payments, the amount Liggett and Vector Tobacco have withheld with respect to NPM Adjustments shall be reduced by $44,098,631 (for Liggett) and $2,624,630 (for Vector Tobacco) multiplied by Indiana's Allocable Share, plus the amount of all accrued interest on those amounts, reflecting the settlement between Liggett and Vector Tobacco and Indiana with respect to Liggett and Vector Tobacco's claims for the NPM Adjustment.

(v) Farmers Tobacco Company of Cynthiana, Inc. ("Farmers") withheld money with respect to the NPM Adjustments from 2003 through 2009 from its April 15, 2011 MSA payment and also with respect to the NPM Adjustments from 2010 to 2012 from its April 15, 2013 MSA payment but only on the allocable shares of the initial Non-Signatory States. Indiana's Allocable Share of the amount that Farmers withheld with respect to the NPM Adjustments is larger than the amount Farmers is to receive under the settlement for the NPM Adjustment claims for 2003-2012 as described in Paragraph 2(a) above and the Transition Year credit for 2013. Accordingly Farmers will receive no credit against its MSA payment from the settlement as it relates to the NPM Adjustment claims for 2003-2012 or the Transition Year credit for 2013 and instead will receive these benefits of the settlement and address previously withheld amounts as follows:[4]

(A) *2003 NPM Adjustment*: Non-Signatory States' Allocable Share of 2003 NPM Adjustment of $2,257,291.41 plus interest from April 15, 2004 to April 15, 2011 of $1,040,385.27 ($3,297,676.68) multiplied by Indiana's allocable share pursuant to the Final Awards of 13.8958103% ($458,238.90) multiplied by 65% ($297,855.28); less Indiana's allocable share (13.8958103%) of interest of $1,040,385.27 ($144,569.96); less Indiana's post-judgment portion of the 2003 NPM Adjustment amount withheld by Farmers of $4,185,243.25 ($313,668.93), subtotal of -160,383.61.;

(B) *2004-2012 NPM Adjustment [IX(c)(1)]*: Indiana's Allocable Share of 2004-2012 NPM Adjustment of $21,391,708.30 [IX(c)(1)] multiplied by Indiana's allocable share of 2.0398033% ($436,348.77) multiplied by 55% ($239,991.83); less Indiana's Allocable Share (2.0398033%) of 2004-2012 NPM Adjustment amount withheld by Farmers of $21,391,708.30 [IX(c)(1)] ($436,348.77), subtotal of -$196,356.94;

(C) *2004-2012 NPM Adjustment [IX(c)(2)]*: Indiana's Allocable Share of 2004-2012 NPM Adjustment of $1,416,057.32 [IX(c)(2)] multiplied by Indiana's allocable share of 2.6499166% ($37,524.34) multiplied by 55% ($20,638.39); less Indiana's Allocable Share (2.6499166%) of 2004-2012 NPM Adjustment amount withheld by Farmers of $1,416,057.32 [IX(c)(2)] ($37,524.34), subtotal of -$16,885.95;

(D) plus the amount to which that company is entitled under this settlement for the Transition Year credit for 2013 ($9,202.37), for a net amount due from Farmers of $364,424.13.

No later than April 15, 2015, Farmers will pay this amount, $364,424.13, to Indiana. Following this payment, the amount Farmers has withheld with respect to NPM Adjustments shall be reduced by $313,668.93 ($2,257,291.41, the Non-Signatory States' Allocable Share of 2003 NPM Adjustment, multiplied by Indiana's allocable share pursuant to the Final Awards of 13.8958103%) for 2003, $436,348.77 for 2004-2012 [IX(c)(1)], and $37,524.34 for 2004-2012 [IX(c)(2)], plus the amount of all accrued interest on those amounts, reflecting the settlement between Farmers and Indiana with respect to Farmers' claims for the NPM Adjustment.

[4] The parties agree that Farmers' payment obligation to Indiana under the Agreement Regarding Arbitration is satisfied with the payment described herein.

(i) If the Independent Auditor makes determinations that materially increase or decrease the value of a credit, offset, or benefit reflected in Paragraph 2(a) above, the affected SPM and Indiana agree to discuss in good faith mechanisms to ensure that both parties receive the expected benefits under this settlement.

3. Indiana will receive releases of its Allocable Share of the SPMs' NPM Adjustment amounts currently in the DPA in the manner provided in Paragraph 3 of the SPM Addendum to the Term Sheet with the following modifications: (i) amounts attributable to the 2003 NPM Adjustment will not be included (as they have already been released to SPMs); (ii) amounts in the DPA attributable to the 2012-2013 NPM Adjustments will be included; and (iii) Indiana may choose to have these DPA releases spread over 2014-2018. This amount shall be released to Indiana from the DPA on the following schedule (assuming the Independent Auditor has provided the confirmation specified in Paragraph 5 of Appendix A to the Term Sheet before the specified dates): the full amount in 2015. Indiana's Allocable Share of amounts to be paid into the DPA attributable to NPM Adjustments for 2014 and thereafter will be governed by the provisions of Section III.5 of the Stipulated Award.

4. The Transition Year adjustment for 2013 for each SPM shall be as follows:

SPM	Transition Year Credit Amount
Commonwealth Brands, Inc.	99,068.43
Monte Paz	0.00
Daughters & Ryan, Inc.	0.00
Farmers Tobacco Co.	9,202.37
House of Prince A/S	0.00
Japan Tobacco International U.S.A., Inc.	6,592.96
King Maker Marketing, Inc.	1,651.97
Kretek International	74.50
Lane Limited	1,309.77[5]
Liggett Group LLC	74,142.35
Lignum-2, Inc.	7,891.18
Peter Stokkebye Tobaksfabrik A/S	192.74
Premier Manufacturing, Inc.	1,002.14
P.T. Djarum	0.00
Reemtsma Cigarettenfacbriken Gmbh	0.00
Santa Fe Natural Tobacco Company, Inc.	64,961.13
Sherman 1400 Broadway N.Y.C., Inc.	658.48
TABESA	1,105.00
Top Tobacco, L.P.	0.00
U.S. Flue-Cured Tobacco Growers, Inc.	3,040.54
Vector Tobacco Inc.	5,810.48
Von Eicken Group	12.02
Wind River Tobacco Company, LLC	86.52
Total	**276,802.54**

[5] Lane is also entitled to $2,055.62 in Transition Year Credit as included in the OPM Transition Year credit total in Paragraph 4 of the letter to which this SPM Addendum is attached.

5. If the condition regarding a different method of reduction with respect to Indiana's settlement set forth in Paragraph 7 of the letter to which this SPM Addendum is attached applies with respect to the OPMs, Indiana will also pay to each SPM an amount equal to the lesser of (A) 50% of the additional reduction in the 2004 NPM Adjustment (plus 50% of the additional reduction of interest and earnings) produced by application of such different method of reduction with respect to Indiana's settlement; or (B) the amount set forth below:

SPM	Potential Amount Owed to SPM
Commonwealth Brands, Inc.	1,315,703.43
Monte Paz	473.76
Daughters & Ryan, Inc.	851.73
Farmers Tobacco Co.	166,760.40
House of Prince A/S	197,093.86
Japan Tobacco International U.S.A., Inc.	38,764.01
King Maker Marketing, Inc.	56,549.05
Kretek International	5,155.50
Lane Limited	0.00
Liggett Group LLC	408,810.74
Lignum-2, Inc.	0.00
Peter Stokkebye Tobaksfabrik A/S	14,857.23
Premier Manufacturing, Inc.	0.00
P.T. Djarum	19,094.54
Reemtsma Cigarettenfacbriken Gmbh	0.00
Santa Fe Natural Tobacco Company, Inc.	79,109.05
Sherman 1400 Broadway N.Y.C., Inc.	6,127.07
TABESA	0.00
Top Tobacco, L.P.	57,714.84
U.S. Flue-Cured Tobacco Growers, Inc.	0.00
Vector Tobacco Inc.	0.00
Von Eicken Group	734.61
Wind River Tobacco Company, LLC	0.00
Total	**2,367,799.83**

That amount would be paid as an offset against each SPM's annual MSA payment under Section IX(c) of the MSA in 10 equal annual installments beginning with the first such payment following application of the different method of reduction, with the 9 installments to include interest on the remaining amount at the Prime Rate calculated from the date of such first payment and to continue until fully paid, except that any SPM that is entitled to $300,000 or less shall be entitled to the full amount as an offset against each SPMs' annual NPM payment in the next year. The provisions for carry forwards and transfer of SPM credits in Appendix A and the SPM Addendum (along with Exhibit A thereto) to the Term Sheet and the SPM Appendix to the Stipulated Award shall apply.

EXHIBIT H

KENTUCKY JOINDER LETTER

Signatory State	Date of Sign-On
Kentucky	June 10, 2014

COMMONWEALTH OF KENTUCKY
OFFICE OF THE ATTORNEY GENERAL

JACK CONWAY
ATTORNEY GENERAL

CAPITOL BUILDING, SUITE 116
700 CAPITAL AVENUE
FRANKFORT, KENTUCKY 40601
(502) 696-5300
FAX: (502) 564-2894

June 10, 2014

Via Electronic and U.S. Mail

Jeffrey M. Wintner
Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, NY 10019
JMWintner@wlrk.com
Counsel for Philip Morris USA Inc.

Charles E. Coble
Brooks, Pierce, McLendon, Humphrey & Leonard LLP
1600 Wells Fargo Capitol Center
150 Fayetteville Street
Raleigh, NC 27601
Ccoble@brookspierce.com
Counsel for Lorillard Tobacco Co.

Elli Leibenstein
Jones Day
77 West Wacker
Chicago, IL 60601-1692
eleibenstein@jonesday.com
Counsel for R.J. Reynolds Tobacco Co.

Robert J. Brookhiser
Baker & Hostetler LLP
Suite 1100
1050 Connecticut Ave., N.W.
Washington D.C. 20036
Rbrookhiser@bakerlaw.com
Counsel for certain SPMs

John Bush
Bingham Greenebaum Doll LLP
3500 National City Tower
101 South Fifth Street
Louisville, KY 40202
jbush@bgdlegal.com
Counsel for Farmers Tobacco of Cynthiana Inc. and Wind River Tobacco Co. LLC

Re: Settlement of NPM Adjustment disputes

Dear Counsel:

This will confirm our agreement that the Commonwealth of Kentucky and the listed Participating Manufacturers (the "PMs"[1]) have agreed to settle NPM Adjustment disputes on the terms set forth in the November 14, 2012 Term Sheet for settlement of NPM Adjustment

[1] The PMs are those listed in footnote 4 of the Stipulated Award, Tabacalera del Este, S.A. (TABESA), U.S. Flue-Cured Tobacco Growers Inc., and Wind River Tobacco Company LLC.

disputes ("Term Sheet") and reflected in the March 12, 2013 Stipulated Partial Settlement and Award ("Stipulated Award"), except as follows.

1. The provisions of Section I.A.2 of the Term Sheet and Paragraphs 1-2 of Appendix A to the Term Sheet are modified as follows. The OPMs will receive from Kentucky a total amount equal to (a) 65% of Kentucky's allocated and reallocated share of the 2003 NPM Adjustment, plus interest and earnings, as reflected in the Independent Auditor's Revised Final Calculations for the MSA payment due on April 15, 2014 (Notice ID: 0414); and (b) 55% of Kentucky's Allocable Share of the OPMs' full 2004-2012 NPM Adjustments, plus interest and earnings. The amount in clause (a) equals $58,459,031.25. The amount in clause (b) equals $70,254,976.94.

2. It is recognized that $71,949,576.93 of the amount under Paragraph 1 (net of reimbursement paid under the Agreement Regarding Arbitration) was conferred on the OPMs by means of an offset and/or releases from the Disputed Payments Account ("DPA") in connection with the April 15, 2014 MSA payment and subsequent releases from the DPA. Accordingly, the amount under Paragraph 1 will be conferred on the OPMs in the manner provided in Paragraph 3 of Appendix A to the Term Sheet with the following modifications. In 2014, (i) within 14 days of this agreement, R.J. Reynolds Tobacco Co. will pay $21,914,242.24 to Kentucky; (ii) the OPMs will retain the remainder of the $71,949,576.93; and thus (iii) the amount conferred on the OPMs in 2014 will be $50,035,334.69. In subsequent years, (i) the OPMs will receive a credit against the MSA annual payment due to Kentucky on April 15, 2015 in the amount of $14,321,669.40 (plus interest at the Prime Rate calculated from April 15, 2014), with the credit to be allocated between Philip Morris USA and Lorillard in the manner they direct; and (ii) the OPMs will receive the percentage reductions as to Kentucky under Paragraphs 3(A)(ii) and 3(B) of Appendix A to the Term Sheet in connection with the annual payments under Section IX(c)(1) of the MSA due in each of April 2015-2018 (with the interest on such reductions specified in Paragraph 3(A)(ii) of Appendix A to the Term Sheet calculated from April 15, 2014).

3. Kentucky will receive releases of its Allocable Share of the OPMs' NPM Adjustment amounts currently in the DPA in the manner provided in Paragraph 5 of Appendix A to the Term Sheet with the following modifications: (i) amounts attributable to the 2003 NPM Adjustment will not be included (as they have already been released to OPMs); and (ii) amounts attributable to the 2010-2011 NPM Adjustments will be included. The total of Kentucky's Allocable Share of the OPMs' NPM Adjustment amounts in the DPA attributable to the 2004-2011 NPM Adjustments is approximately $83 million, which shall be released to Kentucky from the DPA in 2014 (assuming the Independent Auditor provides the confirmation specified in Paragraph 5 of Appendix A to the Term Sheet during 2014). In 2014, therefore, Kentucky will receive approximately $83 million and confer, pursuant to Paragraph 2 above, approximately $50 million. Kentucky's Allocable Share of amounts to be paid into the DPA attributable to NPM Adjustments for 2012 and thereafter will be governed by the provisions of Section III.5 of the Stipulated Award.

4. The process for payments to the SPMs set forth in Appendix A and the SPM Addendum (along with Exhibit A thereto) to the Term Sheet and the SPM Appendix to the Stipulated Award governs, except that the reference to the same (*i.e.*, no greater) relative

payment amounts refers to the payment amounts set forth in Paragraph 1 above and the reference to the same general timetable refers to the timetable set forth in Paragraph 2 above. The amounts for the SPMs paralleling the amounts for OPMs in the last sentence of Paragraph 1 above are included in the SPM Addendum hereto, along with provisions parallel to Paragraph 2 with respect to crediting amounts already conferred net of reimbursement paid and Paragraph 3 with respect to releases of Kentucky's share of DPA amounts.

5. Kentucky's payment for the 2013 transition year under Section II.C of the Term Sheet is $3,367,413.71 to the OPMs and $219,631.53 to the listed SPMs. Because the 2014 MSA payment date to which these payments would have been applied as offsets under the Term Sheet has passed, they will instead be applied as offsets in connection with the MSA payment due April 15, 2015 (in addition to offsets arising from payments, if any, due from Kentucky under Section II.B of the Term Sheet as to 2013 and under Section II.C of the Term Sheet as to 2014).

6. Section I.B of the Term Sheet will not apply to Kentucky.

7. <u>2003 Non-Diligent States Differential Judgment Reduction</u>. Kentucky and the PMs believe that Kentucky's settlement is to give rise to the same method of reduction in the 2004-12 NPM Adjustments that may be applied to Non-Signatory States as does the settlement of the Settling States that became Signatory States prior to the issuance of the 2003 Arbitration Panel's September 11, 2013 Final Awards (the "Initial Signatory States"). The following will apply with respect to any argument or ruling to the contrary.

(a) The PMs will oppose any argument to the contrary. Kentucky will cooperate to the extent reasonably requested by the PMs in connection with their opposition.

(b) If the 2004 Arbitration Panel (or any other tribunal or court) nonetheless rules that Kentucky's settlement gives rise to a different method of reduction in the 2004 NPM Adjustment that may be applied to Non-Signatory States than does the settlement of the Initial Signatory States, the following will apply.

(i) Kentucky will pay to the OPMs an amount equal to the lesser of (A) 50% of the additional reduction in the 2004 NPM Adjustment (plus 50% of the additional reduction of interest and earnings) produced by application of such different method of reduction with respect to Kentucky's settlement; or (B) $31 million. That amount would be paid as an offset against the OPMs' annual MSA payment under Section IX(c) of the MSA in 10 equal annual installments beginning with the first such payment following application of the different method of reduction, with the 9 installments to include interest on the remaining amount at the Prime Rate calculated from the date of such first payment and to continue until fully paid. Parallel provisions for the listed SPMs are included in the SPM Addendum hereto. In the event that an offset due under this subparagraph could not be credited without exceeding Kentucky's share of the relevant companies' payment under Section IX(c) of the MSA for the year in question, the offset will carry forward with interest at the Prime Rate. The final settlement agreement referenced in Paragraph 8 will include provisions specifying the operation and order of the offset.

(ii) If there is a ruling as to the 2004 NPM Adjustment described in the introductory sentence of this subparagraph (b), both that introductory sentence and the entirety of subparagraph (b)(i) would apply to the 2005 NPM Adjustment as well, with any amounts owed being in addition to those owed with respect to the 2004 NPM Adjustment. However, if the 2004 Arbitration Panel rules that Kentucky's settlement gives rise to the same method of reduction in the 2004 NPM Adjustment that may be applied to Non-Signatory States as does the settlement of the Initial Signatory States and that ruling is not vacated or modified in such a way as results in a ruling described in the introductory sentence of this subparagraph (b), then the provisions of subparagraph (b)(ii) shall not apply in any subsequent NPM Adjustment arbitration. In no event are the provisions of Paragraph 7 applicable to any other NPM Adjustment arbitration other than the 2004 NPM Adjustment and the 2005 NPM Adjustment.

8. The final settlement agreement as referenced in Section IV.F of the Term Sheet will reflect the provisions set forth above as to Kentucky. The PMs will allow Kentucky to participate in the completion of the drafting of the final settlement agreement along with the other Signatory States.

9. If a PM enters into a settlement with a State that was found non-diligent for 2003 that settles the 2003 NPM Adjustment as to that State (including, but not limited to, if the settlement also settles any or all of the 2004-2012 NPM Adjustments) and the settlement contains overall terms more relatively favorable to that State than the terms set forth above as to Kentucky, then the overall terms of this agreement will be revised as to that PM so that Kentucky will obtain with respect to that PM overall terms substantially equal (on an Allocable Share basis) to those obtained by that State in all respects, including but not limited to the financial terms of the agreement. For example, if a PM enters into a settlement with a State that was found non-diligent for 2003 that settles the 2003-2012 NPM Adjustments and provides for the PM to receive any less for those Adjustments than the total of (a) 65% of the non-diligent State's allocated and reallocated share of the 2003 NPM Adjustment, plus interest and earnings, as reflected in the Independent Auditor's Revised Final Calculations for the MSA payment due on April 15, 2014 (Notice ID: 0414); and (b) 55% of the non-diligent State's Allocable Share of the OPMs' full 2004-2012 NPM Adjustments, plus interest and earnings, this agreement shall be revised as to that PM so that Kentucky will obtain the same percentages. Furthermore, if a PM settles with a State that was found to be non-diligent for 2003 on terms with respect to the subject matter of Paragraph 7 of this agreement that are more favorable to that State (on an Allocable Share basis) than the terms of Paragraph 7, this agreement shall be promptly revised as to that PM so that Kentucky will also obtain the same terms (on an Allocable Share basis).

10. All capitalized terms not otherwise defined herein have the meaning given those terms in the MSA, the Term Sheet or the Stipulated Award.

Sincerely,

Jack Conway
Kentucky Attorney General

SPM ADDENDUM TO KENTUCKY JOINDER AGREEMENT

1. Pursuant to Paragraph 1 of the letter to which this SPM Addendum is attached, and subject to confirmation by the Independent Auditor under the procedures set out in MSA § XI(d) that each of the below listed amounts are accurate and correct, each SPM shall receive the following amounts under clause (a) and clause (b) of Paragraph 1 and in total from Kentucky pursuant to the settlement:

SPM	Clause (a)	Clause (b)	Total
Commonwealth Brands, Inc.	2,028,993.01	2,478,485.30	4,507,478.31
Monte Paz	730.60	7,113.22	7,843.82
Daughters & Ryan, Inc.	1,313.49	2,627.93	3,941.42
Farmers Tobacco Co.	257,167.15	213,087.73	470,254.88
House of Prince A/S	303,945.45	88.94	304,034.38
Japan Tobacco International U.S.A., Inc.	59,779.35	69,734.36	129,513.71
King Maker Marketing, Inc.	87,206.30	70,406.78	157,613.08
Kretek International	8,222.78	10,699.49	18,922.26
Lane Limited	0.00	14,366.16	14,366.16
Liggett Group LLC	630,441.57	738,297.68	1,368,739.26
Lignum-2, Inc.	0.00	61,474.64	61,474.64
Peter Stokkebye Tobaksfabrik A/S	22,911.86	11,613.64	34,525.50
Premier Manufacturing, Inc.	0.00	64,320.57	64,320.57
P.T. Djarum	29,446.37	39,306.06	68,752.43
Reemtsma Cigarettenfacbriken Gmbh	0.00	3.01	3.01
Santa Fe Natural Tobacco Company, Inc.	121,996.87	405,155.35	527,152.22
Sherman 1400 Broadway N.Y.C., Inc.	9,448.78	10,936.88	20,385.65
TABESA	0.00	26,552.99	26,552.99
Top Tobacco, L.P.	89,004.10	125,374.25	214,378.35
U.S. Flue-Cured Tobacco Growers, Inc.	0.00	34,653.76	34,653.76
Vector Tobacco Inc.	0.00	33,023.69	33,023.69
Von Eicken Group	1,132.86	1,196.77	2,329.63
Wind River Tobacco Company, LLC	0.00	1,817.83	1,817.83
Total	**3,651,740.53**	**4,420,337.01**	**8,072,077.55**

2. (a) It is recognized that the following amounts under Paragraph 1 (net of reimbursement paid under the Agreement Regarding Arbitration) were conferred on the SPMs by means of offsets and/or releases from the Disputed Payments Account ("DPA") in connection with the April 15, 2014 MSA payment and subsequent releases from the DPA:

SPM	Amount Already Received by SPM
Commonwealth Brands, Inc.	2,497,222.17
Monte Paz	899.20
Daughters & Ryan, Inc.	1,616.60
Farmers Tobacco Co.	$124,821.19[2]
House of Prince A/S	374,086.70[3]
Japan Tobacco International U.S.A., Inc.	73,574.59
King Maker Marketing, Inc.	107,330.83
Kretek International	10,120.34
Lane Limited	0.00
Liggett Group LLC	775,928.09
Lignum-2, Inc.	0.00
Peter Stokkebye Tobaksfabrik A/S	28,199.21
Premier Manufacturing, Inc.	0.00
P.T. Djarum	36,241.69
Reemtsma Cigarettenfacbriken Gmbh	0.00
Santa Fe Natural Tobacco Company, Inc.	150,149.99
Sherman 1400 Broadway N.Y.C., Inc.	11,629.26
TABESA	0.00
Top Tobacco, L.P.	109,543.51
U.S. Flue-Cured Tobacco Growers, Inc.	0.00
Vector Tobacco Inc.	0.00
Von Eicken Group	1,394.29
Wind River Tobacco Company, LLC	0.00
Total	**4,302,757.67**

(b) Accordingly, subject to confirmation by the Independent Auditor under the procedures set out in MSA § XI(d) that each of the below listed amounts are accurate and correct, the remaining amounts under Paragraph 1 will be conferred on the SPMs in the manner provided in Appendix A and the SPM Addendum (along with Exhibit A thereto) to the Term Sheet and the SPM Appendix to the Stipulated Award with the following modifications:

(i) Each SPM will retain the amount already received in Paragraph 2(a), except that the credit of $374,086.70 that remains for House of Prince to carry forward or transfer with respect to Kentucky shall be reduced by $70,052.32 to reflect House of Prince's total settlement amount of $304,034.38;

(ii) The following SPMs will receive a credit against the MSA annual payment due to Kentucky on April 15, 2015 in the amount set out below (plus interest at the Prime Rate calculated from April 15, 2014), with the provisions in Appendix A and the SPM

[2] Represents interest amounts taken as an offset against April 2014 payment. See also Paragraph 2(b)(v).

[3] House of Prince's 2003 NPM Adjustment credit was not used against a payment or transferred, so remains available for carry forward and/or transfer.

Addendum (along with Exhibit A thereto) to the Term Sheet and the SPM Appendix to the Stipulated Award regarding carry forward and/or transfer of SPM credits governing as applicable:

SPM	**Credit Amount**
Commonwealth Brands, Inc.	2,010,256.14
Monte Paz	6,944.62
Daughters & Ryan, Inc.	2,324.82
Farmers Tobacco Co.	0.00
House of Prince A/S	0.00
Japan Tobacco International U.S.A., Inc.	55,939.12
King Maker Marketing, Inc.	50,282.25
Kretek International	8,801.92
Lane Limited	14,366.16
Liggett Group LLC	0.00
Lignum-2, Inc.	61,474.64
Peter Stokkebye Tobaksfabrik A/S	6,326.29
Premier Manufacturing, Inc.	64,320.57
P.T. Djarum	32,510.74
Reemtsma Cigarettenfacbriken Gmbh	3.01
Santa Fe Natural Tobacco Company, Inc.	7,995.67
Sherman 1400 Broadway N.Y.C., Inc.	8,756.39
TABESA	26,552.99
Top Tobacco, L.P.	104,834.84
U.S. Flue-Cured Tobacco Growers, Inc.	34,653.76
Vector Tobacco Inc.	0.00
Von Eicken Group	935.34
Wind River Tobacco Company, LLC	1,817.83
Total	**2,499,097.10**

(iii) Santa Fe Natural Tobacco Company, Inc. will receive the percentage reductions as to Kentucky under Paragraph 4(iii) of the SPM Addendum to the Term Sheet in connection with the annual payments under Section IX(c)(1) of the MSA due in each of April 2015-2017 (with the interest on such reductions specified in Paragraph 3(A)(ii) of Appendix A to the Term Sheet calculated from April 15, 2014);

(iv) Kentucky's Allocable Share of the amount that Liggett Group LLC ("Liggett") and Vector Tobacco Inc. (Vector Tobacco") withheld with respect to the NPM Adjustments in various years from 2004-2010 is larger than the remaining amount these companies are to receive under the settlement for the NPM Adjustment claims for 2003-2012 and the Transition Year credit for 2013 after the offset they received as described in Paragraph 2(a) above. Accordingly Liggett and Vector will receive no credit against their MSA

payments from the settlement as it relates to the NPM Adjustment claims for 2003-2012 and the Transition Year credit for 2013 and instead will receive those remaining benefits of the settlement and address previously withheld amounts for the 2004-2010 adjustments as follows: No later than April 15, 2015, each of those companies will pay to Kentucky the excess of (a) $44,098,631 (for Liggett) or $2,624,630 (for Vector Tobacco) multiplied by Kentucky's Allocable Share over (b) the remaining amount to which that company is entitled under this settlement for the NPM Adjustments for 2003-12 ($592,811.17 for Liggett and $33,023.69 for Vector Tobacco) and the amount to which that company is entitled under this settlement for the Transition Year credit for 2013 ($58,831.89 for Liggett and $4,610.61 for Vector Tobacco); plus (c) 12.8090288% of $27,185,288 (for Liggett) or $1,834,639 (for Vector Tobacco) multiplied by Kentucky's Allocable Share. That payment amount shall be $152,096.62 for Liggett and $10,485.42 for Vector Tobacco. Following these payments, the amount Liggett and Vector Tobacco have withheld with respect to NPM Adjustments shall be reduced by $44,098,631 (for Liggett) and $2,624,630 (for Vector Tobacco) multiplied by Kentucky's Allocable Share, plus the amount of all accrued interest on those amounts, reflecting the settlement between Liggett and Vector Tobacco and Kentucky with respect to Liggett and Vector Tobacco's claims for the NPM Adjustment.

(v) Farmers Tobacco Company of Cynthiana, Inc. ("Farmers") withheld money with respect to the NPM Adjustments from 2003 through 2009 from its April 15, 2011 MSA payment and also with respect to the NPM Adjustments from 2010 to 2012 from its April 15, 2013 MSA payment but only on the allocable shares of the Initial Non-Signatory States. Kentucky's Allocable Share of the amount that Farmers withheld with respect to the NPM Adjustments is larger than the amount Farmers is to receive under the settlement for the NPM Adjustment claims for 2003-2012 as described in Paragraph 2(a) above and the Transition Year credit for 2013. Accordingly Farmers will receive no credit against its MSA payment from the settlement as it relates to the NPM Adjustment claims for 2003-2012 or the Transition Year credit for 2013 and instead will receive these benefits of the settlement and address previously withheld amounts as follows: [4]

(A) *2003 NPM Adjustment*: Non-Signatory States' Allocable Share of 2003 NPM Adjustment of $2,257,291.41 plus interest from April 15, 2004 to April 15, 2011 of $1,040,385.27 ($3,297,676. 68) multiplied by Kentucky's allocable share pursuant to the Final Awards of 11.9975934% ($395,641.76) multiplied by 65% ($257,167.15); less Kentucky's allocable share (11.9975934%) of interest of $1,040,385.27 ($124,821.17); less Kentucky's post-judgment portion of the 2003 NPM Adjustment amount withheld by Farmers of $4,185,243.25 ($270,820.59), subtotal of -$138,474.62;

(B) *2004-2012 NPM Adjustment [IX(c)(1)]*: Kentucky's Allocable Share of 2004-2012 NPM Adjustment of $21,391,708.30 [IX(c)(1)] multiplied by Kentucky's allocable share of 1.7611586% ($376,741.91) multiplied

[4] The parties agree that Farmers Tobacco's payment obligation to Kentucky under the Agreement Regarding Arbitration is satisfied with the payment described herein.

by 55% ($207,208.05); less Kentucky's Allocable Share (1.7611586%) of 2004-2012 NPM Adjustment amount withheld by Farmers of $21,391,708.30 [IX(c)(1)] ($376,741.91), subtotal of -$169,533.86;

(C) *2004-2012 NPM Adjustment [IX(c)(2)]*: Kentucky's Allocable Share of 2004-2012 NPM Adjustment of $1,416,057.32 [IX(c)(2)] multiplied by Kentucky's allocable share of 0.7549361% ($10,690.33) multiplied by 55% ($5,879.68); less Kentucky's Allocable Share (0.7549361%) of 2004-2012 NPM Adjustment amount withheld by Farmers of $1,416,057.32 [IX(c)(2)] ($10,690.33), subtotal of -$4,810.65;

(D) plus the amount to which that company is entitled under this settlement for the Transition Year credit for 2013 ($7,302.07), for a net amount due from Farmers of $305,517.06.

No later than April 15, 2015, Farmers will pay this amount, $305,517.06, to Kentucky. Following this payment, the amount Farmers has withheld with respect to NPM Adjustments shall be reduced by $270,820.65 ($2,257,291.41, the Non-Signatory States' Allocable Share of 2003 NPM Adjustment, multiplied by Kentucky's allocable share pursuant to the Final Awards of 11.9975934%) for 2003, $376,741.91 for 2004-2012 [IX(c)(1)], and $10,690.33 for 2004-2012 [IX(c)(2)], plus the amount of all accrued interest on those amounts, reflecting the settlement between Farmers and Kentucky with respect to Farmers' claims for the NPM Adjustment.

(vi) If the Independent Auditor makes determinations that materially increase or decrease the value of a credit, offset, or benefit reflected in Paragraph 2(a) above, the affected SPM and Kentucky agree to discuss in good faith mechanisms to ensure that both parties receive the expected benefits under this settlement.

3. Kentucky will receive releases of its Allocable Share of the SPMs' NPM Adjustment amounts currently in the DPA in the manner provided in Paragraph 3 of the SPM Addendum to the Term Sheet with the following modifications: (i) amounts attributable to the 2003 NPM Adjustment will not be included (as they have already been released to SPMs); (ii) amounts in the DPA attributable to the 2012-2013 NPM Adjustments will be included; and (iii) Kentucky may choose to have these DPA releases spread over 2014-2018. Kentucky's Allocable Share of amounts to be paid into the DPA attributable to NPM Adjustments for 2014 and thereafter will be governed by the provisions of Section III.5 of the Stipulated Award.

4. The Transition Year adjustment for 2013 for each SPM shall be as follows:

SPM	Transition Year Credit Amount
Commonwealth Brands, Inc.	78,610.71
Monte Paz	0.00
Daughters & Ryan, Inc.	0.00
Farmers Tobacco Co.	7,302.07
House of Prince A/S	0.00
Japan Tobacco International U.S.A., Inc.	5,231.51
King Maker Marketing, Inc.	1,310.83
Kretek International	59.12
Lane Limited	1,028.26[5]
Liggett Group LLC	58,831.89
Lignum-2, Inc.	6,261.64
Peter Stokkebye Tobaksfabrik A/S	152.94
Premier Manufacturing, Inc.	795.20
P.T. Djarum	0.00
Reemtsma Cigarettenfacbriken Gmbh	0.00
Santa Fe Natural Tobacco Company, Inc.	51,546.60
Sherman 1400 Broadway N.Y.C., Inc.	522.50
TABESA	876.81
Top Tobacco, L.P.	0.00
U.S. Flue-Cured Tobacco Growers, Inc.	2,412.67
Vector Tobacco Inc.	4,610.61
Von Eicken Group	9.53
Wind River Tobacco Company, LLC	68.65
Total	**219,631.53**

5. If the condition regarding a different method of reduction with respect to Kentucky's settlement set forth in Paragraph 7 of the letter to which this SPM Addendum is attached applies with respect to the OPMs, Kentucky will also pay to each SPM an amount equal to the lesser of (A) 50% of the additional reduction in the 2004 NPM Adjustment (plus 50% of the additional reduction of interest and earnings) produced by application of such different method of reduction with respect to Kentucky's settlement; or (B) the amount set forth below:

SPM	Potential Amount Owed to SPM
Commonwealth Brands, Inc.	1,135,973.46
Monte Paz	409.04
Daughters & Ryan, Inc.	735.38
Farmers Tobacco Co.	143,980.31
House of Prince A/S	170,170.11
Japan Tobacco International U.S.A., Inc.	33,468.70
King Maker Marketing, Inc.	48,824.24
Kretek International	4,451.24
Lane Limited	0.00

[5] Lane is also entitled to $1,613.81 in Transition Year Credit as included in the OPM Transition Year credit total in Paragraph 4 of the letter to which this SPM Addendum is attached.

Liggett Group LLC	352,965.68
Lignum-2, Inc.	0.00
Peter Stokkebye Tobaksfabrik A/S	12,827.68
Premier Manufacturing, Inc.	0.00
P.T. Djarum	16,486.16
Reemtsma Cigarettenfacbriken Gmbh	0.00
Santa Fe Natural Tobacco Company, Inc.	68,302.46
Sherman 1400 Broadway N.Y.C., Inc.	5,290.09
TABESA	0.00
Top Tobacco, L.P.	49,830.78
U.S. Flue-Cured Tobacco Growers, Inc.	0.00
Vector Tobacco Inc.	0.00
Von Eicken Group	634.26
Wind River Tobacco Company, LLC	0.00
Total	**2,044,349.58**

That amount would be paid as an offset against each SPM's annual MSA payment under Section IX(c) of the MSA in 10 equal annual installments beginning with the first such payment following application of the different method of reduction, with the 9 installments to include interest on the remaining amount at the Prime Rate calculated from the date of such first payment and to continue until fully paid, except that any SPM that is entitled to $300,000 or less shall be entitled to the full amount as an offset against each SPMs' annual NPM payment in the next year. The provisions for carry forwards and transfer of SPM credits in Appendix A and the SPM Addendum (along with Exhibit A thereto) to the Term Sheet and the SPM Appendix to the Stipulated Award shall apply.

EXHIBITI

OREGON JOINDER LETTER

Signatory State	Date of Sign-On
Oregon	April 5, 2017

ELLEN F. ROSENBLUM
ATTORNEY GENERAL

FREDERICK M. BOSS
DEPUTY ATTORNEY GENERAL

DEPARTMENT OF JUSTICE

Justice Building
1162 Court Street NE
Salem, Oregon 97301-4096
Telephone: (503) 378-6002

April 05, 2017

Via Email and U.S. Mail

Jeffrey M. Wintner
Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, NY 10019

Elizabeth B. McCallum
BakerHostetler
1050 Connecticut Ave., NW
Suite 1100
Washington, DC 20036-5403

Elli Leibenstein
Greenberg Traurig, LLP
77 West Wacker Drive, Suite 3100
Chicago, IL 60601

Re: **In The 2004 NPM Adjustment Proceedings**
State of Oregon v. Philip Morris Inc., et al.
Multnomah County Circuit Court Case No. 9706-04457

Dear Jeff, Beth and Elli:

This will confirm that the State of Oregon and the listed Participating Manufacturers (the "PMs") have agreed to settle the NPM Adjustment disputes for MSA years 2004 through 2015 inclusive. The terms of the settlement are those set forth in the November 14, 2012 Term Sheet for settlement of NPM Adjustment disputes ("Term Sheet"), with the modifications as stated in Jeff Wintner's letter to Lisa Udland of March 20, 2017 (attached as Exhibit 1 to this letter).

As used in this letter, the listed PMs include the PMs listed in footnote 4 of the March 12, 2013 Stipulated Partial Settlement and Award, except for Farmer's Tobacco Co. of Cynthiana, Inc., and Wind River Tobacco Company, which the parties anticipate may join the settlement later, and also include Tabacalera Del Esta S/A (TABESA), and U.S. Flue Cured Tobacco Growers, Inc.

Except as set forth in Exhibit 1, the provisions of the Term Sheet will apply to Oregon. As a result of Oregon joining the Term Sheet, the listed PMs and Oregon will jointly instruct the Independent Auditor to release the amounts currently held in the Disputed Payments Account to Oregon on April 19, 2017, pursuant to the Term Sheet and Exhibit 1.

All capitalized terms not otherwise defined herein have the meaning given to those terms in the MSA, the Term Sheet or the Stipulated Award.

Sincerely,

Fredk M Boss

FREDERICK M. BOSS
Deputy Attorney General

attachment
8162723

WACHTELL, LIPTON, ROSEN & KATZ

51 WEST 52ND STREET
NEW YORK, N.Y. 10019-6150
TELEPHONE: (212) 403-1000
FACSIMILE: (212) 403-2000

March 20, 2017

Via Electronic Mail

Lisa M. Udland
Chief Counsel
Civil Enforcement Division
Oregon Department of Justice
1162 Court St. NE
Salem, OR 97301-4096
Lisa.udland@doj.state.or.us

Re: Oregon potential joinder

Dear Lisa:

Per your request, this will summarize the terms that Oregon and the PMs have discussed on which Oregon would join the November 14, 2012 Term Sheet for settlement of NPM Adjustment disputes ("Term Sheet") before the April 17, 2017 MSA Payment Due Date. Oregon would join the Term Sheet on the conditions set forth below. Except as set forth below, the provisions of the Term Sheet would apply to Oregon.

(1) Oregon would be given the applicable settlement value percentage under Paragraph 2(A) of Appendix A to the Term Sheet (46%) and not the increased settlement value percentage that would otherwise apply under Paragraph 2(B) of that Appendix for Settling States that sign the Term Sheet after the initial sign-on date.

Ex. 1 - Boss Letter
Page 1 of 2

(2) Oregon would not pay any amount for 2003.

(3) For the 2013-2014 transition years, in lieu of the amounts set forth in Section II.C of the Term Sheet, the PMs would receive 46% of Oregon's Allocable Share (as defined in the MSA) of the 2013-2014 NPM Adjustments. The amount due to the OPMs under this paragraph would be paid as follows: 50% as a credit against the OPMs' MSA annual payment due on April 17, 2017; and the remainder through reductions in the OPMs' annual MSA payments due in April 2018-2021, plus interest on the amount of each reduction at the Prime Rate calculated from April 17, 2017, in the manner described in Paragraph 3 of Appendix A to the Term Sheet.

(4) For 2015, in lieu of the 2015 NPM Adjustment (and application of and potential amounts under Section III.C of the Term Sheet), the PMs would receive 25% of Oregon's Allocable Share (as defined in the MSA) of the 2015 NPM Adjustment (and application of and potential amounts under Section II.B of the Term Sheet). The amount due to a PM under this paragraph would be paid, at that PM's election, as a credit against that PM's MSA annual payment due on April 17, 2017 or MSA annual payment due on April 16, 2018.

(5) The OPMs confirm that, based on the Independent Auditor's February 3, 2017 summary of amounts in the Disputed Payments Account as of April 19, 2016, they understand that Oregon's share of principal amounts in the DPA on account of the OPMs' 2004-2013 NPM Adjustments is $78,714,010.15, and that this principal amount (plus associated earnings), would be released to Oregon as provided in the Term Sheet, subject to the Independent Auditor (i) confirming the above amount and (ii) acting in conformity with the Term Sheet..

As used herein, "PMs" includes the Participating Manufacturers listed in footnote 4 of the March 12, 2013 Stipulated Partial Settlement and Award[1] (except for Farmer's Tobacco Co. of Cynthiana, Inc., which the parties anticipate may join the settlement later), as well as Tabacalera Del Esta S/A (TABESA), U.S. Flue Cured Tobacco Growers, Inc., and possibly Wind River Tobacco Company LLC, which also may join the settlement later. This summary itself is not a binding document; Oregon's joinder in the Term Sheet would be effected through a joinder letter reflecting the terms and conditions set forth above.

Sincerely,

Jeffrey M. Wintner

cc: Elli Leibenstein
Elizabeth McCallum

[1] Two PMs listed in footnote 4 have changed their names. Lignum-2, Inc. is now ITG Brands, LLC. Sherman 1400 Broadway N.Y.C., Inc. is now Sherman 1400 Broadway N.Y.C., LLC.

Ex. 1 - Boss Letter
Page 2 of 2

EXHIBIT J

RHODE ISLAND JOINDER LETTER

Signatory State	Date of Sign-On
Rhode Island	March 24, 2017

State of Rhode Island and Providence Plantations

DEPARTMENT OF ATTORNEY GENERAL
150 South Main Street • Providence, RI 02903
(401) 274-4400 - TDD (401) 453-0410

Peter F. Kilmartin, Attorney General

March 24, 2017

Via Electronic and U.S. Mail

Jeffrey M. Wintner
Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, NY 10019
jmwintner@wlrk.com

Elli Leibenstein
Greenberg Traurig LLP
77 West Wacker Drive, Suite 3100
Chicago, IL 60601
leibensteine@gtlaw.com

Alexander Shaknes
Arnold & Porter Kaye Scholer LLP
250 West 55th Street
New York, NY 10019
alex.shaknes@apks.com

Elizabeth B, McCallum
Baker Hostetler LLP
1050 Connecticut Avenue, N.W.
Washington, DC 20036
emccallum@bakerlaw.com

Re: Term Sheet for Settlement of NPM Adjustment Disputes

Dear Counsel:

I am authorized by the State of Rhode Island to agree to Rhode Island's joinder in the November 14, 2012 Term Sheet for settlement of NPM Adjustment disputes ("Term Sheet") on the terms and conditions set forth in the letter from Jeffrey M. Wintner dated September 14, 2016 (the "Letter") attached hereto. Rhode Island's joinder will be effective upon written approval of the foregoing on behalf the PMs listed in the Letter (other than Farmer's Tobacco Co. of Cynthiana, Inc., which may indicate its participation later).

Sincerely,

Peter F. Kilmartin

Peter F. Kilmartin
Attorney General

CONFIDENTIAL
SETTLEMENT DISCUSSIONS

WACHTELL, LIPTON, ROSEN & KATZ

51 WEST 52ND STREET
NEW YORK, N.Y. 10019-6150
TELEPHONE: (212) 403-1000
FACSIMILE: (212) 403-2000

September 14, 2016

Via Electronic Mail

Maria Corvese-Lenz
Office of the Attorney General
State of Rhode Island
150 South Main Street
Providence, RI 02903
Maria.Lenz@riag.ri.gov

Re: Rhode Island potential joinder

Dear Maria:

Per your request for use in obtaining internal approvals, this will summarize the terms that Rhode Island and the PMs have discussed on which Rhode Island would join the November 14, 2012 Term Sheet for settlement of NPM Adjustment disputes ("Term Sheet"). Rhode Island would join the Term Sheet on the conditions set forth below. Except as set forth below, the provisions of the Term Sheet would apply to Rhode Island.

(1) Rhode Island would be given the applicable settlement value percentage under Paragraph 2(A) of Appendix A to the Term Sheet (46%) and not the increased settlement value percentage that would otherwise apply under Paragraph 2(B) of that Appendix for Settling States that sign the Term Sheet after the initial sign-on date.

(2) Because Rhode Island's diligent enforcement for 2003 was uncontested, under Section I.B of the Term Sheet, Rhode Island would not pay any amount for 2003.

(3) For the 2013-2014 transition years, in lieu of the amounts set forth in Section II.C of the Term Sheet, the signatory PMs would receive 46% of Rhode Island's Allocable Share (as defined in the MSA) of the 2013-2014 NPM Adjustments. The amount due to the OPMs under this paragraph would be paid as follows: 50% as a credit against the OPMs' MSA annual payment due on April 17, 2017; and the remainder through reductions in the OPMs' annual MSA payments due in April 2018-2021, plus interest on the amount of each reduction at the Prime Rate calculated from April 17, 2017, in the manner described in Paragraph 3 of Appendix A to the Term Sheet.

(4) The PMs would agree that the May 24, 2013 letter [redacted] attached hereto would apply to Rhode Island as well.

As used herein, "PMs" includes the Participating Manufacturers listed in footnote 4 of the March 12, 2013 Stipulated Partial Settlement and Award[1] (except for Farmer's Tobacco Co. of Cynthiana, Inc., which the parties anticipate may join the settlement later), as well as Tabacalera Del Esta S/A (TABESA) and U.S. Flue Cured Tobacco Growers, Inc. This summary itself is not a binding document; Rhode Island's joinder in the Term Sheet would be effected through a joinder letter reflecting the terms and conditions described forth above.

Sincerely,

Jeffrey M. Wintner

cc: Elli Leibenstein
Elizabeth McCallum

[1] One PM listed in footnote 4, Lignum-2, Inc., has changed its name and is now ITG Brands, LLC.

WACHTELL, LIPTON, ROSEN & KATZ

51 WEST 52ND STREET
NEW YORK, N.Y. 10019-6150
TELEPHONE: (212) 403-1000
FACSIMILE: (212) 403-2000

May 24, 2013

Via Electronic and U.S. Mail

[redacted]

Re: Term Sheet for Settlement of NPM Adjustment Disputes

Dear [redacted]:

This is written on behalf of the OPMs, Commonwealth Brands, Inc. and Liggett Group (collectively, "the PMs").

The PMs understand that [redacted] is interested in joining the settlement referenced in the March 12, 2013 Stipulated Partial Settlement and Award and has requested clarification of Section III.C.2 of the Term Sheet with respect to diligent enforcement determinations for 2015 and subsequent years. In connection with [redacted] joinder, the PMs agree that, for purposes of Section III.C.2 of the Term Sheet, if the number of FET-paid NPM cigarettes sold in [redacted] on which escrow was not deposited, but about which the arbitrators determine the

State could reasonably have known, was *de minimis*, that fact will be relevant to the diligent enforcement determination as to [redacted] with respect to the year in which the escrow on those cigarettes was due. The PMs agree that the foregoing clarification will be reflected in the final settlement agreement.

Sincerely,

Jeffrey M. Wintner

cc: Elli Leibenstein
Charles Coble
Robert J. Brookhiser

EXHIBIT K

OPTIONAL "DE MINIMIS" AGREEMENT

The PMs and the Signatory State agree that, if the number of FET-paid NPM Cigarettes sold in the State on which escrow was not deposited, but about which the arbitrators determine the State could reasonably have known, was *de minimis*, that fact will be relevant to the diligent enforcement determination as to the State with respect to the year in which the escrow on those Cigarettes was due.

EXHIBIT L

OKLAHOMA SIDE LETTER

Signatory State	Date of Sign-On
Oklahoma	April 12, 2013

JONES DAY

77 WEST WACKER • CHICAGO, ILLINOIS 60601.1692
TELEPHONE: +1.312.782.3939 • FACSIMILE: +1.312.782.8585

Direct Number: (312) 269 4368
eleibenstein@jonesday.com

JP015026 April 12, 2013
629000-605003

Tom Bates
First Assistant Attorney General
State of Oklahoma
313 NE 21st Street
Oklahoma City, OK 73105

Re: Side Letter Agreement between the Participating Manufacturers and the State of Oklahoma

Dear Mr. Bates:

As we discussed, the OPMs and Commonwealth Brands, Inc. (collectively, the "PMs") agree that, for purposes of clause (ii) of footnote 6 of the Term Sheet, (1) the word "reservation" shall also include Indian Country as defined by federal law, and (2) the word "owned" shall mean owned by more than 50 percent. All other words and phrases in footnote 6 of the Term Sheet remain the same.

In addition, the PMs understand that Oklahoma currently collects tax and escrow on NPM sales on or through the tribal reservations by means of compacts. PMs also understand that Oklahoma has raised a concern about what happens if one or more of these compacts are rescinded by tribes in the future through no fault of Oklahoma. To address that concern, PMs agree that if (i) a compact under which tax and escrow are currently collected on NPM sales is rescinded through no fault of Oklahoma and despite Oklahoma's best efforts to avoid that result and (ii) tax is no longer collected on those NPM sales, then the fact that the compact was rescinded will be relevant to the diligent enforcement determination for a period of twelve (12) months following the rescission.

Very truly yours,

Elli Leibenstein /pro

Elli Leibenstein

CHI-1886426v1

ALKHOBAR • ATLANTA • BEIJING • BOSTON • BRUSSELS • CHICAGO • CLEVELAND • COLUMBUS • DALLAS • DUBAI
DÜSSELDORF • FRANKFURT • HONG KONG • HOUSTON • IRVINE • JEDDAH • LONDON • LOS ANGELES • MADRID
MEXICO CITY • MILAN • MOSCOW • MUNICH • NEW YORK • PARIS • PITTSBURGH • RIYADH • SAN DIEGO
SAN FRANCISCO • SÃO PAULO • SHANGHAI • SILICON VALLEY • SINGAPORE • SYDNEY • TAIPEI • TOKYO • WASHINGTON

EXHIBIT M

APPROVAL OF THE PSS CREDIT AMENDMENT

Signatory State	Date of Approval
Alabama	October 30, 2008
Arizona	November 17, 2008
Arkansas	December 9, 2008
Connecticut	October 31, 2008
D.C.	November 20, 2008
Georgia	November 13, 2008
Indiana	November 24, 2008
Kansas	November 12, 2008
Kentucky	November 13, 2008
Michigan	November 13, 2008
Nebraska	November 13, 2008
Nevada	October 30, 2008
New Hampshire	October 30, 2008
North Carolina	October 31, 2008
Oklahoma	November 6, 2008
Oregon	November 12, 2008
Rhode Island	February 11, 2009
South Carolina	June 20, 2013
Tennessee	October 30, 2008
West Virginia	January 29, 2009
Wyoming	November 20, 2008
Puerto Rico	December 22, 2008

EXHIBIT N

DATA CLEARINGHOUSE FUND PROTOCOL

The Data Clearinghouse Fund ("Fund") is established by the Attorneys General of the 2016 Signatory States and those Settling States that are Subsequent-Joining Signatory States as of the Effective Date, in cooperation with NAAG, pursuant to subsections IV.A.4 and IV.C.2 of the Settlement Agreement. The following shall be the primary and mandatory protocol for the administration of the Fund.

1. Upon the establishment of the Fund, the Signatory States shall jointly instruct the Independent Auditor to disburse any monies previously paid into the Disputed Payments Account pursuant to sections IV.A.4 and IV.C.2 of the Settlement Agreement, plus any applicable earnings, to the Fund.

2. The NAAG Executive Committee shall direct the investment of the Fund consistent with Investment Policy guidelines established for that purpose in consultation with the Finance and Investment Committee and the NAAG Director of Finance.

3. The NAAG Executive Committee shall authorize disbursements from the account consistent with the Data Clearinghouse Agreement between Certain Settling States and NAAG (the "NAAG Data Clearinghouse Agreement"), as that Agreement may be executed and amended.

4. The NAAG Executive Committee shall annually report to the Attorneys General of the Signatory States on disbursements made from the Fund.

5. No later than February 1st of each year, the NAAG Executive Committee or its assigns may assess an additional amount that the Committee determines will assure the stability and liquidity of the Fund until the following year's Payment Due Date. This assessment shall be allocated among the Signatory States pro rata in proportion to their respective Allocable Shares. Absent other arrangement by a Signatory State, each year, prior to the Payment Due Date, the Signatory States will jointly instruct the Independent Auditor to withhold each Signatory States' allocated portion of that year's assessment, plus any associated transfer fees, from their respective apportioned Annual Payment amounts and to transfer the remainder of the assessment to the Fund.

6. If a Signatory State incurs state-specific expenses not otherwise authorized by the Settlement Agreement, the NAAG Data Clearinghouse Agreement, or this Protocol, such Signatory State will be responsible for making appropriate arrangements for any additional payment obligations incurred (see subsections VI.J.3-4).

7. The Signatory States shall be responsible for all expenses associated with the establishment and operation of the Fund. The NAAG Executive Committee is authorized by this Protocol to deduct such expenses from the Fund, including for those expenses incurred by the NAAG Executive Committee or its assigns.

EXHIBIT O

SIGNATORY STATE REPORTING RULES IN EFFECT AS OF THE EFFECTIVE DATE

Signatory State	SET Deemed Paid
Alabama	STAMP APPLIED
Arizona	STAMP APPLIED
Arkansas	PACKAGE SOLD
California	PACKAGE SOLD
Connecticut	PACKAGE SOLD
D.C.	STAMP APPLIED
Georgia	STAMP APPLIED
Indiana	STAMP APPLIED
Kansas	STAMP APPLIED
Kentucky	STAMP APPLIED
Louisiana	PACKAGE SOLD
Michigan	PACKAGE SOLD
Nebraska	PACKAGE SOLD
Nevada	STAMP APPLIED
New Hampshire	STAMP APPLIED
New Jersey	PACKAGE SOLD
North Carolina	NO STAMP; PACKAGE RECEIVED OR PACKAGE SOLD
Oklahoma	PACKAGE SOLD
Oregon	PACKAGE SOLD
Rhode Island	PACKAGE SOLD
South Carolina	NO STAMP; PACKAGE RECEIVED OR PACKAGE SOLD
Tennessee	STAMP APPLIED

Signatory State	SET Deemed Paid
Virginia	STAMP APPLIED
West Virginia	PACKAGE SOLD
Wyoming	STAMP APPLIED
Puerto Rico	PACKAGE SOLD

EXHIBIT P

CONFIDENTIALITY AGREEMENT BETWEEN THE PMS AND THE SIGNATORY STATES

CONFIDENTIALITY AGREEMENT AMONG THE SIGNATORY PARTIES TO <u>THE NPM ADJUSTMENT SETTLEMENT AGREEMENT</u>

This Confidentiality Agreement is entered into by the undersigned PMs and Signatory States that are signatories to the NPM Adjustment Settlement Agreement (the "Settlement Agreement"). The PMs and the Signatory States (each, a "Party," and collectively, the "Parties") enter into this agreement to protect from further disclosure any confidential information provided to the Parties or by the Parties to the Data Clearinghouse pursuant to the Settlement Agreement.

WHEREAS, the Signatory States and the PMs are parties to the Master Settlement Agreement (or the "MSA");

WHEREAS, the Signatory States and the PMs have entered into the Settlement Agreement to resolve certain disputes under the MSA;

WHEREAS, pursuant to the Settlement Agreement, the Parties will provide certain documents and data to each other and to a Data Clearinghouse selected by the Parties, as provided in Section VI of the Settlement Agreement;

WHEREAS, Section VI of the Settlement Agreement specifies the information that will be provided by the Parties to the Data Clearinghouse and to each other, the conditions under which such information will be provided, the representatives of the Parties that may receive the information, and the permissible uses (and limitations on use) of the information by the Parties;

WHEREAS, the Parties recognize the highly confidential nature of the information they are to disclose pursuant to Section VI of the Settlement Agreement and seek to protect it from further disclosure by entering into this Confidentiality Agreement;

NOW, THEREFORE, THE PARTIES AGREE AS FOLLOWS:

1. The terms and conditions of this Confidentiality Agreement shall be binding upon the Parties, and it shall govern the use and dissemination of all information, documents, or materials that are subject to this Agreement.

2. The provisions of Section VI of the Settlement Agreement governing the disclosure and use of information are incorporated by reference and form an integral part of this Confidentiality Agreement.

3. The term "Confidential Information" means information, documents, data or other materials disclosed by a PM or a Signatory State pursuant to subsections VI.E-G of the Settlement Agreement that the disclosing party reasonably and in good faith believes contain information that, if disclosed, would cause substantial harm to the competitive position of any person or business entity; contain trade secrets or other confidential and non-public research, product development, commercial or financial information; contain non-public personal information; contain other information for which a good faith claim of the need for protection

from disclosure can be made under applicable law; and/or contain information the disclosure of which is restricted by constitution, statute, rule, policy, or common law.

4. The terms information, documents, data or other materials shall include writings, drawings, graphs, charts, photographs, electronically created data, and other compilations of data from which information can be obtained or translated.

5. A Party disclosing Confidential Information to the Data Clearinghouse or to another Party or Parties shall designate such information "Confidential."

6. Confidential Information may be disclosed only to the Data Clearinghouse and to those representatives of the Parties specifically identified in, and in compliance with, Section VI of the Settlement Agreement.

7. The designated counsel for the PMs and the Signatory States shall require each individual to whom Confidential Information is provided to acknowledge that she/he has read this Confidentiality Agreement and subsection VI.K of the Settlement Agreement, and agreed to be bound by their terms. Acknowledgments shall be in writing in the form attached hereto (the "Confidentiality Acknowledgment") and shall remain in the custody of the respective Party.

8. If any Party wishes to disclose any Confidential Information to a person not specifically designated in subsection VI.K of the Settlement Agreement, such Party must request in writing from the designating Party permission to so disclose. Such permission may be given or withheld in the sole discretion of the designating Party. If such designating Party does not permit the proposed disclosure, no such disclosure shall be made. If such designating Party permits the proposed disclosure, the person to whom Confidential Information is shown must agree to be bound by the terms of this Confidentiality Agreement by executing the Confidentiality Acknowledgment.

9. Any person to whom Confidential Information is provided shall use the Confidential Information only for those purposes specifically provided under section VI of the Settlement Agreement.

10. Nothing in this Confidentiality Agreement shall preclude a designating Party from using or disclosing in any way and in its sole discretion its own Confidential Information so designated by such Party. If a designating Party publicly discloses any Confidential Information it so designated, that same information will no longer be subject to this Confidentiality Agreement.

11. The Parties shall maintain Confidential Information such that physical and electronic access to it is restricted to those individuals identified in paragraph 6 above. Whenever electronic Confidential Information is copied, all copies shall be marked "Confidential."

12. Any summary, compilation, notes, copy, electronic image, or database, or any other document containing Confidential Information, shall be marked by the person preparing

the document with the Confidential designation, and the document shall be subject to the terms of this Agreement to the same extent as the information on which such document is based, from which it is derived or which it contains.

13. In the event of a public records request, the Signatory State shall notify the designating Party within five (5) business days and shall cooperate with the designating Party in taking reasonable steps to protect Confidential Information from public disclosure consistent with applicable law.

14. If Confidential Information is subject to a subpoena in an arbitration, judicial, legislative, or administrative proceeding, the subpoenaed Party shall serve and/or file a timely response objecting to production of Confidential Information consistent with this Agreement and applicable law. Within five (5) business days of receiving the subpoena, the subpoenaed Party shall notify the designating Party in writing of the pendency of the subpoena, unless the subpoena may not be disclosed under applicable law. If the subpoena may not be disclosed under applicable law, the subpoenaed Party shall file a timely motion in the proceeding to allow the subpoenaed Party to give notice of the subpoena to the designating Party. The subpoenaed Party shall cooperate with the designating Party in reasonable steps that the designating Party may take to protect Confidential Information from production pursuant to the subpoena consistent with applicable law. If the designating Party seeks an order blocking production of Confidential Information, the subpoenaed Party shall not voluntarily produce such information pending final resolution of the designating Party's request.

15. If there is a claimed violation of this Confidentiality Agreement, the Party that claims the violation may apply to the relevant MSA Court to enforce the terms of this Confidentiality Agreement.

16. This Confidentiality Agreement shall not preclude the Parties from applying to the appropriate court or courts for further protective orders.

17. This Confidentiality Agreement shall not be construed as an agreement by any Party to disclose or provide any document or information other than as required by Section VI of the Settlement Agreement, or as a waiver by any Party of its right to object to the disclosure of any document or information other than as required by Section VI of the Settlement Agreement, or as a waiver of any claim of privilege with regard to the disclosure of any such document or information.

18. The Parties will jointly ensure that the Data Clearinghouse also enters into a confidentiality agreement with the Parties that is fully consistent with the provisions of Section VI of the Settlement Agreement and this Confidentiality Agreement.

19. The obligations imposed by this Confidentiality Agreement shall survive any determination by the Data Clearinghouse pursuant to Section VI of the Settlement Agreement and shall remain in effect unless otherwise expressly agreed to in writing by the Parties.

20. Any dispute with respect to a Signatory State regarding the terms of this Agreement shall be construed in accordance with the laws of such Signatory State, including but not limited to those governing the disclosure of public records in response to duly submitted requests and the laws of such Signatory State regarding the retention of records.

21. All capitalized terms not defined herein shall have the meanings ascribed to them in the Settlement Agreement.

NPM ADJUSTMENT SETTLEMENT AGREEMENT

CONFIDENTIALITY ACKNOWLEDGMENT

STATE OF)
)
COUNTY OF)

I, __________________________, being duly sworn on oath, state the following:

1. I have read the Confidentiality Agreement to which this Confidentiality Acknowledgment is attached and attest to my understanding that my access to information, documents or other materials designed as "Confidential Information" as a representative or employee of _____________________________ is subject to the terms and conditions in the Confidentiality Agreement. I hereby agree to be bound by the terms of the Confidentiality Agreement and to refrain from using or disclosing to others Confidential Information except in accordance with the Confidentiality Agreement.

2. I understand that I and the entity I represent or am employed by are subject to all available judicial remedies for any noncompliance with the Confidentiality Agreement and hereby submit to the jurisdiction of _______________________________ for the purpose of enforcement of the Confidentiality Agreement and this Confidentiality Acknowledgment.

Date: ___________, 20__ Signature: ___________________________________

Printed Name: ________________________________

Subscribed and sworn to before me on _________________, 20__,

Witness my hand and official seal.

Notary Public: ________________________________

My commission expires: ____________________, 20__. _____________________________

[THIS PAGE INTENTIONALLY LEFT BLANK]

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX C-2

ALASKA JOINDER TO NPM ADJUSTMENT SETTLEMENT AGREEMENT

THIS PAGE INTENTIONALLY LEFT BLANK

THE STATE
of ALASKA
GOVERNOR BILL WALKER

Department of Law

CIVIL DIVISION

1031 West 4th Avenue, Suite 200
Anchorage, Alaska 99501
Main: 907-269-5100
Fax: 907-276-3697

March 12, 2018

Via Electronic and U.S. Mail

Jeffrey M. Wintner
Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, NY 10019
jmwintner@wlrk.com

Elli Leibenstein
Greenberg Traurig LLP
77 West Wacker Drive, Suite 3100
Chicago, IL 60601
leibensteine@gtlaw.com

Alexander Shaknes
Arnold & Porter Kaye Scholer LLP
250 West 55th Street
New York, NY 10019
alex.shaknes@arnoldporter.com

Elizabeth B. McCallum
Baker Hostetler LLP
1050 Connecticut Avenue, N.W.
Washington, DC 20036
emccallum@bakerlaw.com

Re: Settlement of NPM Adjustment Disputes

Dear Counsel:

I am authorized by the State of Alaska to agree to Alaska becoming a signatory to the October 2017 NPM Adjustment Settlement Agreement ("Settlement Agreement") for settlement of the NPM Adjustment disputes on the terms and conditions set forth in that Agreement and the proposal for joinder attached as Exhibit A (the "Joinder"). All provisions of the Settlement Agreement will apply to Alaska except as set forth in the Joinder (including the inapplicability to Alaska of the provisions of the Settlement Agreement applicable to years after 2017 unless the Deductibility Condition described in the Joinder is satisfied) and in this letter.

The Joinder's apportionment of the 2004 NPM Adjustment is inapplicable to Alaska due to the no contest of Alaska's diligent enforcement for 2004. Alaska will receive 100% of its 2004 adjustment. Alaska's final joinder is subject to an affirmation by July 31, 2018 of current ratings on the outstanding Tobacco Settlement Asset-Backed Bonds, 2006 Series A, B and C, of the Northern Tobacco Securitization Corporation, which were issued to securitize a portion of Alaska's MSA payments. Alaska's joinder will not be effective, no credits to the PMs pursuant to the Settlement Agreement will be conferred, and no funds in the Disputed Payments Account will be released to Alaska pursuant to the Settlement Agreement until that affirmation is received.

If the Deductibility Condition is satisfied, and the provisions of the Settlement Agreement applicable to years 2018 and beyond apply to Alaska, the PMs and Alaska agree that Exhibit K of the Settlement Agreement shall apply to Alaska. Specifically, if the number of FET-paid NPM cigarettes sold in Alaska on which escrow was not deposited, but about which the arbitrators determine Alaska could reasonably have known, was *de minimis*, that fact will be relevant to the diligent enforcement determination as to Alaska with respect to the year in which the escrow on those cigarettes was due.

Alaska will become a signatory to the Settlement Agreement effective upon the approval of the foregoing on behalf of PMs with aggregate Market Share in 2017 equal to at least 93% of the aggregate Market Share of all the PMs.

Sincerely,

JAHNA LINDEMUTH
ATTORNEY GENERAL

By: Jahna Lindemuth
Attorney General

EXHIBIT A

February 16, 2018

Privileged and Confidential
Protected by Rule of Evidence 408

Settlement Proposal

The Participating Manufacturers ("PMs") propose that the following terms and conditions would apply to any arbitrating State that was not found non-diligent for 2003 and that becomes a signatory to the NPM Adjustment Settlement Agreement ("Settlement Agreement") by March 16, 2018 (the "New-Joining States"):

- The New-Joining States would not pay any amount for 2003.
- The PMs would receive 46% of the New-Joining States' respective allocable shares of the 2004 through 2012 NPM Adjustments, with the New-Joining States receiving the balance (54%).
- The percentage of the New-Joining States' respective allocable shares of the 2013 and 2014 NPM Adjustments the PMs would receive would be based on the number of States that join the Settlement Agreement by March 16, 2018. If only one New-Joining State joins the Settlement Agreement, the percentage would be 46%; if two to three New-Joining States join the Settlement Agreement, the percentage would be 42%; if four to five New-Joining States join the Settlement Agreement, the percentage would be 38%; and if six or more New-Joining States join the Settlement Agreement, the percentage would be 34%. The percentage would not be reduced below 34% regardless of the number of New-Joining States that join the Settlement Agreement. The New-Joining States would receive the balance of their respective allocable shares of the 2013 and 2014 NPM Adjustments (100% less the percentage described above).
- The years 2015-2017 would be treated as "transition years," such that the PMs would receive 25% of the New-Joining States' respective allocable shares of the 2015-2017 NPM Adjustments, with the New-Joining States receiving the balance (75%). For these

transition years, the adjustment under Sections V.B and V.C of the Settlement Agreement would not be applicable.

- The provisions of the Settlement Agreement applicable to years after 2017 (as modified as described below) would be applicable to the New-Joining States if by December 31, 2020 the PMs receive a ruling from the Internal Revenue Service, satisfactory to the PMs in their sole discretion, or the PMs otherwise in their discretion determine, that the agreement to such provisions between a PM and a New-Joining State would not affect the deductibility of MSA payments for federal income tax purposes (the "Deductibility Condition"). Unless the Deductibility Condition is satisfied by December 31, 2020, the provisions of the Settlement Agreement applicable to years after 2017 will not apply to the New-Joining States. Agreement as to satisfaction of the Deductibility Condition by PMs with an aggregate Market Share (as defined in the MSA) in 2017 equal to at least 93% of the aggregate Market Share of all the PMs shall be sufficient and shall bind any remaining PMs.
- If the Deductibility Condition is satisfied, the years 2018-2019 would be treated as "transition years," including if the Deductibility Condition is satisfied after any of those years. For these transition years: the PMs would receive 25% of the New-Joining States' respective allocable shares of the 2018-2019 NPM Adjustments, with the New-Joining States receiving the balance (75%); the adjustment under Section V.B of the Settlement Agreement would be applicable; but the adjustment under Section V.C of the Settlement Agreement would not be applicable.
- If the Deductibility Condition is satisfied, any New-Joining State shall be entitled to have, at its option, up to three additional years (2020, 2021, and 2022) treated as

transition years. To have one or more of these years treated as transition years, a New-Joining State shall, within three months of receiving notification that the Deductibility Condition has been satisfied, notify the PMs as to which year or years will be treated as transition years for such New-Joining State. For any such transition year or years: the PMs would receive 25% of the New-Joining State's allocable share of the NPM Adjustments for the transition year or years, with the New-Joining State receiving the balance (75%); the adjustment under Section V.B of the Settlement Agreement would be applicable; but the adjustment under Section V.C of the Settlement Agreement would not be applicable.

- The PMs would provide the New-Joining States with written assurances that:
  - In the event that a New-Joining State is required to provide to the PMs documents "reasonably necessary . . . to substantiate" that New-Joining State's diligent enforcement (as set forth in Section VIII.F. of the Settlement Agreement), the PMs shall not require the New-Joining State to provide documents 1) covered by the attorney-client privilege and/or the work product doctrine; and 2) communications between and among other states and/or NAAG, including any documents that are privileged by virtue of a common interest between one or more states. Additionally, the New-Joining States shall have no obligation to review documents maintained by NAAG but instead shall only be required to produce documents from the States' own files. New-Joining States shall have no obligation to produce deponents or witnesses from NAAG,
  - If the Deductibility Condition is satisfied, the diligent enforcement standard set forth in Paragraph V.C.5. shall not apply to NPM cigarettes sold in a New-Joining

State bearing the excise tax stamp of another state that has signed the Settlement Agreement.

- If the Deductibility Condition is satisfied, the following will apply. Each PM will make good-faith efforts to report to the New-Joining State within a reasonable period of time any information identifying the location or venue of the sale of substantial volumes of non-SET-paid contraband or Internet NPM cigarettes in the New-Joining State that the PM obtained in the ordinary course of its business. If a PM fails to make such good-faith efforts to report any such information to the New-Joining State, that fact will be relevant to whether the New-Joining State's failure to collect escrow on non-SET-paid contraband or Internet NPM Cigarettes sold through the location or venue involved constitutes a lack of diligent enforcement. "Internet" cigarettes sold in the State means cigarettes sold via the Internet into the State; and "non-SET-paid" means cigarettes that do not bear the excise tax stamp of any state (or, with respect to sales in a state that does not have an excise tax stamp, cigarettes as to which there is no reason to believe that state excise tax was paid). Information obtained "in the ordinary course of business" means information the PM obtained through any program that the PM may from time to time in its discretion have in effect intended, in whole or part, to gather information on or monitor cigarette sales by other companies, but does not include (1) information obtained from the State, agents of the State, federal law enforcement authorities in the context of supporting an investigation or enforcement action, or from public records or reports or (2) information developed by experts or consultants as work product in anticipation of litigation or arbitration.

- If a New-Joining State so requests, the PMs will meet at least annually with the New-Joining State to discuss, in good faith, measures the New-Joining State could take to identify any contraband and/or Internet NPM sales which may be occurring in the New-Joining State.
- If the Deductibility Condition is satisfied and the New-Joining State thereafter so requests, and once all other settlement terms have been agreed upon, the PMs shall promptly provide to the State STARS data reflecting shipments of NPM cigarettes by distributors to retailers located in that New-Joining State for the two years commencing four years prior to the year in which the Deductibility Condition is satisfied. For example, if the Deductibility Condition is satisfied in 2019, the PMs shall provide STARS data for the years 2015 and 2016. The PMs shall provide the STARS data in a form and manner to be discussed and consistent with the relevant provisions of Section VI of the Settlement Agreement.
- The PMs shall provide to all Notice Parties (as defined in the MSA): (1) notice of the satisfaction of the Deductibility Condition within 30 days of the ruling or determination referenced above, or (2) if the Deductibility Condition has not been satisfied by December 31, 2020, notice to that effect on December 31, 2020.
- The PMs and the New-Joining States acknowledge and agree that the Settlement Agreement (and the New-Joining States' joinder in it on the terms and conditions set forth above) constitutes a negotiated resolution of disputes related to the 2004-2017 NPM Adjustments. The PMs and the New-Joining States further acknowledge and agree that, with respect to 2018 and future years, the MSA remains fully binding on the parties and

the Settlement Agreement does not clarify or affect the application of any of its terms unless the Deductibility Condition is satisfied.

APPENDIX C-3

2018 THROUGH 2022 NPM ADJUSTMENTS SETTLEMENT AGREEMENT

THIS PAGE INTENTIONALLY LEFT BLANK

**2018 THROUGH 2022 NPM ADJUSTMENTS
SETTLEMENT AGREEMENT**

I. RECITALS

WHEREAS, the undersigned Signatory Parties are parties to the tobacco Master Settlement Agreement ("MSA") and among the signatories to the NPM Adjustment Settlement Agreement, the 2016 and 2017 NPM Adjustments Settlement Agreement, and Joinder Agreements accepting the February 16, 2018 Settlement Proposal.

WHEREAS, on March 12, 2020, the Deductibility Condition set forth in the Joinder Agreements was satisfied, triggering provisions related to the resolution of disputes as among the Signatory Parties to the Joinder Agreements;

WHEREAS, the undersigned Signatory Parties have disputes concerning the 2018 and 2019 NPM Adjustments and anticipate similar disputes with respect to the 2020 through 2022 NPM Adjustments;

NOW, THEREFORE, in consideration for the payments and credits provided for in this Settlement Agreement and such other consideration as described in this Settlement Agreement, the sufficiency of which is hereby acknowledged, the undersigned Signatory Parties, acting by and through their authorized representatives, memorialize and agree as follows:

II. DEFINITIONS

A. "Term Sheet Settlements" refers collectively to the NPM Adjustment Settlement Agreement, the 2016 and 2017 NPM Adjustments Settlement Agreement, and the Joinder Agreements accepting the February 16, 2018 Settlement Proposal executed between the PMs and certain Signatory States.

B. "Undersigned Signatory States" means all Settling States that are signatories to (a) any of the Term Sheet Settlements and (b) this Settlement Agreement.

C. "Undersigned Signatory States in Group I" means any of the following States that become Undersigned Signatory States: Alabama, Arizona, Arkansas, California, Connecticut, the District of Columbia, Georgia, Indiana, Kansas, Kentucky, Louisiana, Michigan, Nebraska, Nevada, New

Hampshire, New Jersey, North Carolina, Oklahoma, Oregon, Rhode Island, South Carolina, Tennessee, Virginia, West Virginia, Wyoming, and Puerto Rico.

D. "Undersigned Signatory States in Group II" means any of the following States that become Undersigned Signatory States: Alaska, Colorado, Delaware, Hawaii, Maine, North Dakota, South Dakota, Utah, and Vermont.[1]

E. All capitalized terms not otherwise defined in this Settlement Agreement shall be defined as in the MSA and/or the Term Sheet Settlements.

III. ADJUSTMENTS FOR 2018 THROUGH 2022

A. No Modification without Joinder. In accordance with certain provisions of the Term Sheet Settlements, the undersigned Signatory Parties agree to extend the terms of the Term Sheet Settlements as among them for the 2018 and subsequent NPM Adjustments as provided in this Settlement Agreement. Except as provided in this Settlement Agreement or other existing agreements among the Signatory Parties, the provisions of the Term Sheet Settlements continue to apply to those Signatory Parties that are signatories to the Term Sheet Settlement(s) at issue.

B. Transition Years. The transition period described in section V of the NPM Adjustment Settlement Agreement shall be extended as among the PMs and the Undersigned Signatory States for all sales years through 2022 as set forth herein. During this transition period, subsection V.C.1 of the NPM Adjustment Settlement Agreement shall not apply; the Undersigned Signatory States shall not be subject to any NPM Adjustment with respect to the sales years addressed by this Settlement Agreement (i.e., 2018 through 2022).

1. No Withholding of Potential Maximum NPM Adjustment Amounts with Respect to the Undersigned Signatory States. With respect to the NPM Adjustments for 2020-2022, if a PM disputes the Independent Auditor's failure to apply the NPM Adjustment for a year in question, that PM

[1] The Undersigned Signatory States in Group II have previously settled the 2018-2019 NPM Adjustments pursuant to the terms of their respective Joinder Agreements. The terms of this Settlement Agreement clarify and extend, but do not modify or replace, the terms of those Joinder Agreements.

shall deposit into the Disputed Payments Account the Undersigned Signatory States' aggregate Allocable Share of that PM's Potential Maximum NPM Adjustment for that year. Then, following the Independent Auditor's confirmation that it will apply the settlement credits and reductions set forth in this section III, the Undersigned Signatory States and that PM shall jointly instruct the Independent Auditor to release such deposited amounts and to allocate those released amounts solely to and among the Undersigned Signatory States as they direct.

2. Return of Released IV.B.2 Amounts. On or before the 2021 Payment Due Date, each PM shall repay into the Disputed Payments Account all amounts previously released to or retained by the PM under subsection IV.B of the NPM Adjustment Settlement Agreement attributable to its 2018 NPM Adjustment dispute with any of the Undersigned Signatory States. On or before the 2022 Payment Due Date, each PM shall repay into the Disputed Payments Account all amounts previously released to or retained by the PM under subsection IV.B of the NPM Adjustment Settlement Agreement attributable to its 2019 NPM Adjustment dispute with any of the Undersigned Signatory States. The PMs and the Undersigned Signatory States shall jointly instruct the Independent Auditor to release such repaid amounts from the Disputed Payments Account and to allocate those released amounts solely to and among the Undersigned Signatory States as they direct.

3. Transition Year Adjustment Credits. In lieu of the 2018 through 2022 NPM Adjustments applicable to the Undersigned Signatory States, each PM will receive a "Transition Year" adjustment to its Annual Payment, allocated solely to and among the Undersigned Signatory States as they direct. Subject to the final sentence of Section III(B)(5) below, each PM's annual Transition Year adjustment with respect to each Undersigned Signatory State will be calculated once and applied as a credit against a single Annual Payment, beginning with the application of the 2018 adjustment as a credit against the PMs' 2021 Annual Payment for the Undersigned Signatory States in Group I, and against the PMs' 2022 Annual Payment for the Undersigned Signatory States in Group II. The application of such adjustments will continue annually, through the application of the 2022 adjustment as a credit against the PMs' 2025 Annual Payment for such Group I or 2026 Annual Payment for such Group II. As to each PM,

the amount of its Transition Year adjustment credit for a sales year applied in a given year as per above shall equal the product of (a) the Potential Maximum NPM Adjustment allocated to that PM (as calculated by the Independent Auditor in the Final Notice for such sales year as revised in the year immediately preceding application of the credit), (b) the aggregate Allocable Share of the Undersigned Signatory States in the respective Group I or Group II, and (c) 25%. The undersigned Signatory Parties agree that the amounts of such credits shall not change regardless of any subsequent revision of the Final Notice by the Independent Auditor.

4. SET-Paid Adjustment Credits. For each of these 2018 through 2022 Transition Years, the SET-Paid Adjustment set out in subsection V.B of the NPM Adjustment Settlement Agreement will continue to apply and the adjustment described in subsection V.C of the NPM Adjustment Settlement Agreement will not apply. The Undersigned Signatory States and the PMs shall continue to discuss in good faith on an ongoing basis whether there are improvements or modifications to the SET-Paid Adjustment and Data Clearinghouse process set out in subsections V.B and VI of the NPM Adjustment Settlement Agreement that should be made.

5. Release of Repaid Amounts; Transfer of Transition Year and SET-Paid Adjustment Credits. The Undersigned Signatory States and the PMs shall provide the Independent Auditor with joint instructions specifying the dollar amounts to be repaid and released to the Undersigned Signatory States as set forth in subsection III.B.2 and to be used for each credit set forth in subsections III.B.3 and III.B.4. The Undersigned Signatory States agree that the aggregate amount of any Transition Year adjustment for R.J. Reynolds Tobacco Company, Philip Morris USA Inc., ITG Brands, LLC, and Scandinavian Tobacco Group Lane Ltd, as such adjustments are determined for each of them pursuant to section III.B.3 above, may be allocated among them as they direct. The Undersigned Signatory States and the PMs further agree that the credit amount allocated to any SPM may be transferred or carried forward pursuant to the terms of subsection IX.K of the NPM Adjustment Settlement Agreement.

C. Releases. Effective upon implementation of all credits due from an Undersigned Signatory State under subsection III.B of this Agreement, all PMs also absolutely and unconditionally release and discharge that State from any further Claims directly or indirectly based on, arising out of or in any way related, in whole or in part, to the 2018 through 2022 NPM Adjustments. Subject to the preceding sentence, the releases and all other provisions in section IV of the 2016 and 2017 NPM Adjustments Settlement Agreement are incorporated by reference and shall apply as part of this Agreement to the 2018 through 2022 NPM Adjustments and disputes regarding the application thereof.

IV. OTHER TERMS

A. Subsequent NPM Adjustments. No determination that an Undersigned Signatory State failed to diligently enforce a Qualifying Statute in 2023 or any subsequent year shall be based at all on NPM Cigarettes sold in or before sales year 2017.

B. Miscellaneous Terms. Arbitration Provisions VII.D through VII.F and Miscellaneous Provisions IX.E through IX.F and IX.M through IX.BB of the NPM Adjustment Settlement Agreement are hereby incorporated as substantive terms of this Settlement Agreement, substituting original references to the Signatory States for the Undersigned Signatory States, original references to the NPM Adjustment Settlement Agreement for this Settlement Agreement, and extending the applicable years through 2022.

C. Optional Terms. Each Undersigned Signatory State shall have the option, but is not required, to enter into additional agreements with the PMs, set forth in Exhibits K to L of the NPM Adjustment Settlement Agreement and Exhibits A to E of this Settlement Agreement. This subsection IV.C provides for a continuing option; execution of these additional agreements may be exercised at any time.

IN WITNESS THEREOF, each undersigned Signatory Party, through its authorized representative, has agreed to this Settlement Agreement on the respective date indicated below.

//

EXHIBIT A

OPTIONAL INTERDICTED CONTRABAND AGREEMENT

The PMs and the Undersigned Signatory State agree that the diligent enforcement standard set forth in subsection V.C.5 of the NPM Adjustment Settlement Agreement shall not apply to contraband NPM Cigarettes and/or contraband NPM RYO that, as part of that Signatory State's interdiction efforts, including interdictions in cooperation with other State, City, County, or Federal Law Enforcement Agencies, are seized prior to being sold to an individual consumer in a face-to-face transaction, where such contraband is not returned by the State to the party from which the contraband was seized or to any person or entity associated with that party. Similarly, the same diligent enforcement standard shall not apply if the specified contraband is returned to an individual consumer in any bona fide consumer quantities pursuant to the authority granted to Federal agencies.

EXHIBIT B

OPTIONAL DOCUMENT PRODUCTION AGREEMENT

The PMs and the Undersigned Signatory State agree that the production of documents "reasonably necessary … to substantiate" diligent enforcement (as set forth in subsection VIII.F of the NPM Adjustment Settlement Agreement) does not require the State to provide documents (a) covered by the attorney-client privilege and/or the work product doctrine; or (b) communications between and among other States and/or NAAG, including any documents that are privileged by virtue of a common interest between one or more States. Additionally, the State shall have no obligation to review documents maintained by NAAG but instead shall only be required to produce documents from its own files. The State shall have no obligation to produce deponents or witnesses from NAAG.

EXHIBIT C

OPTIONAL BOOTLEG AGREEMENT

The PMs and the Undersigned Signatory State agree that the diligent enforcement standard set forth in subsection V.C.5 of the NPM Adjustment Settlement Agreement shall not apply to NPM Cigarettes sold in the State bearing the excise tax stamp of another State that has signed a Term Sheet Settlement. Such Cigarettes shall not be counted as non-SET-Paid NPM Cigarettes for the purposes of subsection V.C.5.

EXHIBIT D

OPTIONAL REPORTING AGREEMENT

The PMs and the Undersigned Signatory State agree that each PM will report to the State within a reasonable period of time (presumptively 90 days) any information it receives regarding substantial volumes of sales of non-SET-paid NPM Cigarettes within that State, including (to the extent known) identifying the parties to such sales, location or venue of the sales, and estimated volume of such sales, that the PM obtained in the ordinary course of its business. The PM reporting such information shall reasonably cooperate with the State to answer questions related to interpreting or evaluating the information. If a PM fails to report any such information to the State or to reasonably cooperate in answering questions from the State regarding such information, that fact will be relevant to an arbitration panel's assessment of the State's escrow enforcement with respect to the non-SET-paid NPM Cigarettes at issue.

For the purposes of this Reporting Agreement, information obtained "in the ordinary course of business" means information the PM obtained through any program that the PM may in its discretion have in effect intended, in whole or part, to gather information on or monitor cigarette sales by other companies, but does not include (i) information obtained from the State, agents of the State, federal law enforcement authorities in the context of supporting an investigation or enforcement action, or from public records or reports or (ii) information developed by experts or consultants as work product in anticipation of litigation or arbitration. Information that meets the foregoing definition and is then provided to, as opposed to developed by, experts or consultants in anticipation of litigation or arbitration, will still be considered information obtained in the ordinary course of business.

EXHIBIT E

OPTIONAL TRIBAL COMPACTING AGREEMENT

The PMs and the Undersigned Signatory State agree that if the State, despite using best efforts to the contrary, is unable to reach a compact or similar cooperative agreement with a tribe in the State with which it does not have such an agreement, that fact will be relevant to the diligent enforcement determination as to the State in a favorable manner with respect to NPM sales made on that tribe's reservation. If a current compact or similar cooperative agreement under which the State currently collects tax and escrow on NPM sales is rescinded despite the State's best efforts to avoid that result, then the fact that the compact or cooperative agreement was rescinded will be relevant to the diligent enforcement determination as to the State for a period of twelve months following the rescission with respect to NPM sales made on that tribe's reservation. For avoidance of doubt, the preceding sentences do not mean that the diligent enforcement standard does not apply to such sales or that the State does not have to pursue enforcement with respect to them as part of diligent enforcement.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

THIS PAGE INTENTIONALLY LEFT BLANK

Upon delivery of the Series 2021 Bonds, Kutak Rock LLP proposes to deliver its approving opinion in substantially the following form:

___________, 2021

Northern Tobacco Securitization Corporation
4300 Boniface Parkway
Anchorage, Alaska 99504

$282,480,482.50
Northern Tobacco Securitization Corporation
Tobacco Settlement Asset-Backed Bonds, Series 2021

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and sale of $282,480,482.50 aggregate principal amount of Northern Tobacco Securitization Corporation, Tobacco Settlement Asset - Backed Bonds, Series 2021 (the "Bonds"), which include the Series 2021A Class 1 Senior Current Interest Bonds, the Series 2021B-1 Class 2 Senior Current Interest Bonds and the Series 2021B-2 Class 2 Senior Capital Appreciation Bonds. The Bonds will be issued pursuant to a resolution of NTSC dated June 15, 2021, and the Amended and Restated Trust Indenture (the "Trust Indenture"), dated as of July 1, 2021, and the Series Supplement, dated as of July 1, 2021 (the "Supplement" and, together with the Trust Indenture, the "Indenture"), each by and between the Northern Tobacco Securitization Corporation ("NTSC"), a nonprofit corporation organized as a subsidiary of the Alaska Housing Finance Corporation ("AHFC"), and U.S. Bank Trust National Association, as trustee, authorizing the issuance of the Bonds. Capitalized terms not otherwise defined herein are used as defined in the Indenture.

In connection with the issuance of the Bonds, we have examined the Indenture, the Tax Certificate as to Arbitrage and the Provisions of Section 103 and 141-150 of the Internal Revenue Code of 1986 (the "Tax Certificate") of NTSC and such other opinions, documents, certificates and letters as we deem relevant and necessary in rendering this opinion.

We have also examined the Constitution and laws of the State of Alaska (the "State") and a record of proceedings relating to the issuance of the Bonds by NTSC.

In such examinations, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity with originals of all documents submitted to us as copies thereof. We have relied, to the extent we deemed such reliance proper, on certificates and opinions provided to us.

Subject to the foregoing, we are of the opinion that:

1. NTSC is duly organized and existing under the laws of the State as a nonprofit corporation and a subsidiary of the AHFC, constituting a government instrumentality of the State, with the right and lawful authority and power to enter into the Indenture and to perform the duties and obligations of NTSC under the Indenture, and to issue the Bonds.

2. The Indenture has been duly and lawfully authorized, executed and delivered by NTSC, is in full force and effect and is the legal, valid and binding agreement of NTSC, enforceable in accordance with its terms.

3. The Indenture creates the valid pledge of, and first priority lien on, the revenues, monies, accounts, contract rights, general intangibles and other personal property (including, without limitation, the Corporation Tobacco Assets) that it purports to create.

4. The Bonds have been duly and validly authorized and issued by NTSC in accordance with provisions of the Indenture and are valid and binding special obligations of NTSC.

5. The Indenture is enforceable against NTSC in accordance with its terms, except as may be limited by federal bankruptcy law or by other law affecting the enforceability of creditors' rights.

6. NTSC has validly included the pledges and agreements of the State to honor the pledge expressed in the Indenture and not to alter, limit or impair the rights of NTSC to fulfill the terms of its agreements with or for the benefit of the holders of the Bonds, as more particularly set forth in the Indenture.

7. Assuming compliance with certain covenants which are designed to meet the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), under existing laws, regulations, rulings and judicial decisions, (i) interest on the Bonds (including any original issue discount properly allocable to the owner of a Bond) is *excluded* from gross income for federal income tax purposes and (ii) interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax imposed under the Code; and interest on the Bonds is free from taxation by the State under existing law (*except* that no opinion is expressed as to such exemption from State estate and inheritance taxes and taxes of transfers by or in anticipation of death).

We express no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Certain requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions may be taken, upon the advice or with the opinion of counsel. Except to the extent of our concurrence therewith, we express no opinion as to any Bond, or the interest thereon, if any change occurs or action is taken upon the advice or approval of other counsel.

Very truly yours,

APPENDIX E-1

FORM OF AMENDED AND RESTATED INDENTURE

THIS PAGE INTENTIONALLY LEFT BLANK

FORM OF AMENDED AND RESTATED INDENTURE

AMENDED AND RESTATED TRUST INDENTURE
between the

NORTHERN TOBACCO SECURITIZATION CORPORATION,
as Issuer

and

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

Dated as of July 1, 2021

Amending and restating that Trust Indenture, dated as of August 1, 2006, between the Northern Tobacco Securitization Corporation and U.S. Bank National Association.

TABLE OF CONTENTS

Page

TABLE OF CONTENTS
(continued)

Page

TABLE OF CONTENTS
(continued)

Page

ARTICLE IX

DEFAULT AND REMEDIES

ARTICLE X

MISCELLANEOUS

AMENDED AND RESTATED TRUST INDENTURE

THIS AMENDED AND RESTATED TRUST INDENTURE, made and dated as of the 1st day of July 2021 (this "Amended and Restated Indenture") by and between **NORTHERN TOBACCO SECURITIZATION CORPORATION** (the "Issuer"), a nonprofit public corporation and government instrumentality of the State of Alaska, created and existing under AS 18.56 (the "Act") and AS 10.20, and **U.S. BANK NATIONAL ASSOCIATION**, a national banking association organized and existing and authorized to accept and execute trusts of the character herein set forth under and by virtue of the laws of the United States of America, as Trustee (the "Trustee").

RECITALS:

WHEREAS, the Trust Indenture, dated as of August 1, 2006 (the "**Original Indenture**"), as supplemented by that Series 2006 Supplement, dated as of August 1, 2006 (the "**Series 2006 Supplement**"), each between the Issuer and the Trustee, were executed and delivered in connection with the issuance of the Series 2006 Bonds (as defined herein);

WHEREAS, the Issuer decided to provide for the issuance of its bonds under the Original Indenture for the purpose of financing capital projects of the State of Alaska and for the purpose of defeasing and redeeming all of the currently outstanding bonds of the Issuer; and

WHEREAS, to provide revenues to pay debt service on the Bonds, the Issuer entered into amendments to its existing agreements with the State of Alaska relating to the Corporation Tobacco Assets (as defined in this Amended and Restated Indenture); and

WHEREAS, in order to achieve interest rate savings, the Issuer desires to refund through redemption and defeasance (i) all of the Outstanding Series 2006 Senior Bonds (as defined herein), (ii) all of the Outstanding Series 2006 First Subordinate Bonds (as defined herein), and (iii) all of the Outstanding Series 2006 Second Subordinate Bonds (as defined herein) (such refunded bonds, collectively, the "**Series 2006 Refunded Bonds**"), and the Issuer also desires to provide moneys to fund a State capital project in Fairbanks, Alaska, and/or such other public use project(s) as may be duly appropriated by the Alaska State Legislature, and for those purposes the Issuer has determined to issue its Tobacco Settlement Asset-Backed Bonds, Series 2021 Senior Bonds, consisting of Series 2021A Class 1 Senior Bonds, Series 2021B-1 Class 2 Senior Bonds, and Series 2021B-2 Class 2 Senior Bonds (collectively, the "**Series 2021 Senior Bonds**") pursuant to a Series 2021 Supplement to this Amended and Restated Trust Indenture, dated as of July 1, 2021 (the "**Series 2021 Supplement**"), between the Issuer and the Trustee, which amends and restates the Original Indenture (the Original Indenture, as amended and restated by the Amended and Restated Indenture, collectively with the Series 2006 Supplement and the Series 2021 Supplement, are hereafter referred to herein as the "**Indenture**"); and

WHEREAS, this Amended and Restated Indenture and Series 2021 Supplement are intended to provide for the issuance of a portion of the Series 2021 Senior Bonds as Refunding Bonds, and a portion of the Series 2021 Senior Bonds to provide new moneys for various State capital projects and Additional Bonds under the Original Indenture; and

WHEREAS, the Series 2021 Senior Bonds will be payable from and secured solely by the Collateral pledged under the Original Indenture (with the Series 2021A Class 1 Senior Bonds to be further secured by amounts on deposit in the Class 1 Senior Liquidity Reserve Subaccount, and the Series 2021B-1 Class 2 Senior Bonds to be further secured by amounts on deposit in the Class 2 Senior Liquidity Reserve Subaccount); and

WHEREAS, Section 3.01(b)(1) of the Original Indenture provides that Refunding Bonds may be issued to refund all Outstanding Series 2006 Bonds in whole (including the funding of defeasance escrows and deposits to Accounts in connection with such issuance) and Additional Bonds may be issued to fund State capital projects; and

WHEREAS, Section 10.01(a)(i) of the Original Indenture provides that the Original Indenture may be supplemented or amended in writing by the Issuer and the Trustee under certain conditions; and

WHEREAS, the Issuer has determined that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and the entering into of this Amended and Restated Indenture do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Amended and Restated Indenture;

NOW, THEREFORE, the parties hereto agree, as follows:

ARTICLE I

INTRODUCTION AND DEFINITIONS

Section 1.01 This Indenture and the Parties. This Amended and Restated Indenture is between the Issuer and the Trustee and their respective successors or assigns.

Section 1.02 Definitions and Interpretation. In addition to terms defined elsewhere in this Indenture, the following words and terms as used in this Indenture shall have the following meanings unless the context or use clearly indicates another or different meaning or intent:

“1934 Act” has the meaning given to such term in Section 6.10 of this Indenture.

“Accounts” means the accounts established under the provisions of this Indenture.

“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 (to and excluding the Maturity Date or earlier redemption date of such Bond, or in the case of a Convertible Bond, to and excluding the applicable Conversion Date or earlier redemption date of such Bond) at the “original issue yield” for such Bond, as set forth in the related Series Supplement or in an exhibit thereto; provided, however, that the Issuer 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 by straight line interpolation of the Accreted Values as of the immediately preceding and succeeding Distribution Dates. In performing such calculation, the Issuer 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 "original issue yield" means, with respect to any particular Bond, the yield to the applicable Maturity Date of such Bond from the initial date of delivery thereof calculated on the basis of semiannual compounding on each Distribution Date.

"Additional Bonds" means Bonds issued pursuant to Section 3.01 hereof other than the Series 2021 Bonds.

"Authorized Denomination" means the authorized denomination of any Series of Bonds as set forth in the applicable Series Supplement.

"Authorized Officer" means, (i) in the case of the Issuer, the Chair, the President, the Secretary, the Treasurer and any Vice President, and any other person authorized to act hereunder by appropriate Written Notice from an Authorized Officer of the Issuer to the Trustee or by resolution of the Issuer, and (ii) in the case of the Trustee, any officer assigned to the Corporate Trust Office including any managing director, vice president, assistant vice president, assistant treasurer, assistant secretary or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and having direct responsibility for the administration of this 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.

"Basic Documents" means this Indenture, the Purchase and Sale Agreement, the Issuer Tax Certificate, or any similar documents relating to Additional Bonds, Refunding Bonds, Subordinate Bonds or bonds issued by the Issuer to refund the Bonds.

"Board of Directors" means the governing board of the Issuer.

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

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

"Bonds" means the outstanding Series 2021 Senior Bonds, any Additional Bonds, any Refunding Bonds and any Subordinate Bonds.

"Book-Entry System" means a book-entry system established and operated for the recording of the Owners of the Bonds pursuant to Section 3.05(a) of this Indenture.

"Business Day" means any day other than a Saturday, a Sunday, or a day on which banking institutions in New York, New York, Anchorage, Alaska, or the city in which the Corporate Trust Office is located are required or authorized by law to be closed.

"Capital Appreciation Bond" means a Bond (including, as the context requires, a Convertible Bond prior to the applicable Conversion Date), the interest on which is compounded on each Distribution Date, commencing on the first Distribution Date after its issuance to and excluding the Maturity Date or earlier redemption date of such Bond in the case of a Capital Appreciation Bond which is not a Convertible Bond, or to and excluding the Conversion Date or earlier redemption date in the case of a Convertible Bond.

"Capitalized Interest Subaccount" means the subaccount of the Senior Debt Service Account held by the Trustee pursuant to Section 5.01(b) of this Indenture.

"Class 1 Senior Bonds" means the Series 2021A Bonds and any Additional Bonds or Refunding Bonds identified as Class 1 Senior Bonds in a Series Supplement.

"Class 1 Senior Liquidity Reserve Requirement" means, for as long as any Series 2021A Bonds are Outstanding, an amount equal to $10,874,150, and otherwise $0; provided, however, that at the option of the Issuer, with a Rating Confirmation for any Bonds which are then rated by a Rating Agency, the Class 1 Senior Liquidity Reserve Requirement applicable on and after June 1, 2031 may be changed to an amount equal to Maximum Annual Class 1 Senior Bond Debt Service each year for as long as any Class 1 Senior Bonds are Outstanding, and otherwise $0.

"Class 1 Senior Liquidity Reserve Subaccount" means the respective subaccount so named within the Senior Liquidity Reserve Account established by the Trustee pursuant to Section 5.01(e) of this 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 2021B-1 Bonds, Series 2021B-2 Bonds and any Additional Bonds or Refunding Bonds identified as Class 2 Senior Bonds in a Series Supplement.

"Class 2 Senior Liquidity Reserve Requirement" means an amount equal to $1,137,500 for so long as any Series 2021B-1 Bonds are Outstanding or otherwise $0, which amount may (but is not required to) be amended upon the issuance of Additional Bonds or Refunding 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 Section 5.01(e) of this Indenture. The Series 2021B-1 Bonds are secured by the Class 2 Senior Liquidity Reserve Subaccount, and the Series 2021B-2 Bonds are not secured by the Class 2 Senior Liquidity Reserve Subaccount.

"Closing Date" means July 1, 2021.

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

"Collateral" has the meaning ascribed thereto in Section 2.01 of this Indenture.

"Collections" means all funds collected with respect to TSRs, plus amounts paid to the Issuer under any Swap Contract.

"Collections Account" means the Account held by the Trustee pursuant to Section 5.01(a) of this Indenture.

"Consent Decree" means the "Consent Decree and Final Judgment," resulting from the settlement of State of Alaska v. Phillip Morris, Incorporated, et al., Case No. 1JU-97-915 CI, entered by the Superior Court of the State, First Judicial District, in and for Alaska, on December 9, 1998 in Case No. J.C.C.P. 4041.

"Continuing Disclosure Undertaking" means, as applicable, (i) that undertaking specified in Section 6.10 hereof, with the Trustee as dissemination agent, (ii) that Continuing Disclosure Certificate, dated the Closing Date, for the Series 2021 Senior Bonds, as originally executed and as it may be amended or supplemented from time to time in accordance with the terms thereof, and (iii) any undertaking with respect to a Series of Bonds subject to the Rule as required by Section 6.10 hereof or as set forth in the applicable Series Supplement.

"Conversion Date" means the date set forth in the applicable Series Supplement on and after which a Convertible Bond is deemed a Current Interest Bond and after which the Owners shall be entitled to current payments of interest on each Distribution Date.

"Convertible Bond" means a Capital Appreciation Bond which is deemed to be a Current Interest Bond after the applicable Conversion Date.

"Corporate Trust Office" means the office of the Trustee at which the corporate trust business of the Trustee related hereto shall, at any particular time, be principally administered, which office is, at the date of this Indenture, located at 1420 Fifth Avenue, Seventh Floor, Seattle, Washington 98101, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

"Corporation Tobacco Assets" has the meaning ascribed thereto in the Purchase and Sale Agreement.

"Costs of Issuance" means any item of expense directly or indirectly payable or reimbursable by the Issuer and related to the authorization, sale and issuance of Bonds, including, but not limited to, underwriting fees, auditors' or accountants' fees, printing costs, costs of reproducing documents, filing and recording fees, fees and expenses of fiduciaries, including 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, initial charges to acquire liability insurance and other costs, charges, and fees in connection with the foregoing.

"Costs of Issuance Account" means the account held by the Trustee pursuant to Sections 5.01(i) and 7.07 of this Indenture, or a similar account held by the Trustee pursuant to a Series Supplement in connection with Additional Bonds, Refunding Bonds or Subordinate Bonds.

"Counsel" means nationally recognized bond counsel or such other counsel as may be selected by the Issuer for a specific purpose hereunder.

"Current Interest Bond" means a Bond (including, as the context requires, a Convertible Bond on and after the applicable Conversion Date), the interest on which is payable currently on each Distribution Date after the applicable Conversion Date.

"Dealer" has the meaning given to such term in Section 6.10 of this Indenture.

"Default Rate" means (i) with respect to the Series 2021 Senior Bonds, that rate of interest per annum that accrues and is payable on a Capital Appreciation Bond from and after its Maturity Date as set forth in the Series 2021 Supplement; and (ii) with respect to any Additional Bonds, Refunding Bonds or Subordinate Bonds that constitute Capital Appreciation Bonds, the rate of interest per annum set forth in a 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; and (b) obligations, the timely payment of the principal and interest on which are unconditionally guaranteed by the United States government;

(b) (i) 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; (ii) notes, bonds, debentures, mortgages and other evidences of indebtednesses, issued or guaranteed at the time of the investment by Fannie Mae, FHLMC or the Federal Farm Credit System, or any other United States government sponsored agency; or (iii) 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) or (ii) 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.

"Defeased Bonds" means Bonds that remain in the hands of their Owners but are no longer deemed Outstanding because they have been defeased in accordance with the provisions of Section 2.02 of this Indenture.

"Defeased Turbo Term Bonds" means Turbo Term Bonds for which a defeasance escrow has been established pursuant to Section 2.02(c) of this Indenture.

"Deposit Date" means the date of actual receipt by the Trustee of any Collections relating to the TSRs.

"Depository" means DTC and any substitute for or successor to such depository that shall, at the request of the Issuer, maintain a Book-Entry System with respect to the Bonds.

"Depository Nominee" means the Depository or the nominee of the Depository in whose name the Bonds are registered during the continuation with such Depository of participation in its Book Entry System.

"Distribution Date" means each June 1 and December 1, commencing on December 1, 2021, and with respect to the interest on Bonds being redeemed, each redemption date and with respect to the interest on Bonds being tendered for purchase, each mandatory tender date.

"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.

"DTC Letter" means the Issuer's Blanket Letter of Representations to DTC.

"Eligible Bank" means any (i) bank or trust company organized under the laws of any state of the United States of America, (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 under the laws of the United States, or (iv) federal branch or agency as defined in 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.

"Electronic Instructions Officer" has the meaning given to such term in Section 7.02(j) of this Indenture.

"Electronic Means" means 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.

"Eligible Investments" means, with respect to the Accounts and to the extent permitted by law:

(a) (i) Bonds, notes and other evidences of indebtedness of the State, and securities unconditionally guaranteed as to the payment of principal and interest by the State;

(ii) Revenue bonds, revenue notes or other evidences of revenue indebtedness issued by agencies or authorities of the State; and

(iii) Bonds, notes and other evidences of indebtedness of any county, city, district, authority or other public body in the State, provided that such bonds, notes and other evidences of indebtedness are (x) direct legal obligations of the public body, for the payment of which the public body has pledged its full faith and credit and unlimited taxing power, or (y) unconditionally guaranteed as to the payments of principal and interest by the public body.

In every case referred to in paragraphs (a)(i), (ii), or (iii) above, such bonds, notes or other evidences of indebtedness shall be rated in one of the three highest rating categories of at least one Rating Agency and not rated in a category lower than the three highest rating categories of any Rating Agency. Determination of an obligation's rating in one of the three highest rating categories shall be made without regard to any refinement or gradation of such rating category by numerical or other modifier. In addition, the remaining maturity of such bonds, notes or other evidences of indebtedness shall not be greater than five years.

(iv) Bonds, notes and other obligations of the United States, and securities unconditionally guaranteed as to the payment of principal and interest by the United States with a remaining maturity not greater than five years, except in the case of savings bonds, which may have a longer maturity. The obligations enumerated in this paragraph (iv) may be held directly or in the form of repurchase agreements collateralized by such obligations or in the form of securities of any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, provided that the portfolio of such investment company or investment trust is limited to such obligations or repurchase agreements collateralized by such obligations, or securities of other such investment companies or investment trusts whose portfolios are so restricted;

(v) Savings accounts, time deposits or certificates of deposit in any bank, savings bank, trust company, savings and loan association or credit union authorized to do business as such in the State, but only to the extent that such accounts, deposits or certificates are fully insured by the Federal Deposit Insurance Corporation or any successor to it or by the National Credit Union Share Insurance Fund or any successor to it; and

(b) (i) Defeasance Collateral;

(ii) direct obligations of, or obligations guaranteed as to timely payment of principal and interest by, FHLMC, Fannie Mae, FHLB, the Federal Farm Credit System or the Tennessee Valley Authority, provided, however, that such direct obligations or guaranteed obligations shall be rated in one of the two highest rating categories of at least one Rating Agency and not rated in a category lower than the two highest rating categories of any Rating Agency. Determination of an obligation's rating in one of the two highest rating categories shall be made without regard to any refinement or gradation of such rating category by numerical or other modifier;

(iii) demand and time deposits in or certificates of deposit of, or bankers' acceptances issued by, any bank (including the institution acting as 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 three months after the date of issuance thereof, if such deposits or instruments are rated "A-1+" by S&P, "P-1" by Moody's or "F 1" by Fitch;

(iv) certificates, notes, warrants, bonds, obligations, or other evidences of indebtedness of a state or a political subdivision thereof rated by each Rating Agency maintaining a rating thereon in one of its three highest ratings categories;

(v) commercial or finance company paper (including both noninterest-bearing discount obligations and interest bearing obligations payable on demand or on a specified date not more than 270 days after the date of issuance thereof) that is rated "A-1" by S&P, "P-1" by Moody's or "F1" by Fitch;

(vi) repurchase obligations with respect to any security described in paragraphs (b)(i), (ii) or (iii) above entered into with a primary dealer, depository institution, or trust company (acting as principal) rated "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 each Rating Agency maintaining a rating thereon in one of its two highest long term rating categories, or collateralized by securities described in paragraphs (b)(i), (ii) or (iii) above with any registered broker-dealer or with any domestic commercial bank whose long-term debt obligations are rated "investment grade" by each Rating Agency, provided that (1) a 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 has 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 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 equal to at least 102% or, if greater, the amount then required by S&P in order that the ratings then assigned by S&P to the Bonds will not be lowered or suspended;

(vii) securities bearing interest or sold at a discount (payable on demand or on a specified date no more than three months after the date of issuance thereof) that are issued by any corporation incorporated under the laws of the United States of America or any state thereof and rated "A-1+" by S&P, "P-1" by Moody's or "F 1" 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 to exceed 20% of the aggregate principal amount of all Eligible Investments then held;

(viii) units of taxable or tax-exempt money market funds which funds are regulated investment companies and seek to maintain a constant net asset value per share and have been rated by each Rating Agency maintaining a rating thereon in one of its three highest rating categories, including, if so rated, any such fund which the institution acting as Trustee or an affiliate thereof receives and retains a fee for services provided to the fund, whether as a custodian, transfer agent, investment advisor or otherwise;

(ix) investment agreements or guaranteed investment contracts rated, or with any financial institution or corporation whose senior long-term debt obligations are rated, or guaranteed by a financial institution whose senior long-term debt obligations are rated, at the time such agreement or contract is entered into, by each Rating Agency maintaining a rating thereon in one of its three highest rating categories, if the Issuer 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 (b)(i), (ii) or (iii) 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 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 has 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 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 equal to at least 102% or, if greater, the amount then required by

S&P in order that the ratings then assigned by S&P to the Bonds will not be lowered or suspended;

(x) [Reserved]; and

(xi) other obligations or securities that are non-callable and that are acceptable to each Rating Agency; provided, that no Eligible Investment may (i) except for Defeasance Collateral, evidence the right to receive only interest with respect to the obligations underlying such instrument, (ii) 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, or (iii) be issued by or an obligation of the Issuer. Any references to a Rating Agency in this definition will apply only if and to the extent that the obligations described are then rated by such Rating Agency. Ratings of Eligible Investments referred to herein shall be determined at the time of purchase of such Eligible Investment.

"EMMA" means the MSRB's Electronic Municipal Markets Access system, the current Internet Web address of which is www.emma.msrb.org.

"Event of Default" means an event specified in Section 9.01 of this Indenture.

"Fannie Mae" means the Federal National Mortgage Association.

"FHLB" means a Federal Home Loan Bank.

"FHLMC" means the Federal Home Loan Mortgage Corporation.

"Fiduciary" means the Trustee, each Paying Agent and the Registrar.

"Fiscal Year" means the 12-month period ending each June 30, or such other 12-month period as the Board of Directors may determine from time to time to be the Issuer's fiscal year. In the event that the Board of Directors changes the Issuer's Fiscal Year, the Issuer shall deliver an Officer's Certificate to the Trustee stating such change.

"Fitch" means Fitch Inc., its successors and assigns and, if such corporation shall no longer perform the functions of a securities rating agency, the term "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer by notice to the Trustee. References to Fitch are effective for so long as Fitch is a Rating Agency rating all or a portion of the Outstanding Bonds.

"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 in Section 2.03 of this Indenture.

"Indenture" means this Amended and Restated Indenture and the Series 2021 Supplement, as originally executed and as it may be amended or supplemented from time to time in accordance with the terms hereof.

"Indemnified Person" has the meaning given to such term in Section 7.09 of this Indenture.

"Indirect Participant" means a broker-dealer, bank or other financial institution who holds Bonds through a Participant.

"Instructions" has the meaning given to such term in Section 7.02(j) of this Indenture.

"Issuer" means the Northern Tobacco Securitization Corporation, a nonprofit public corporation and government instrumentality of the State, and its successors or assigns.

"Issuer Tax Certificate" means the Tax Certificate executed by the Issuer at the time of issuance of the Series 2021 Senior Bonds, and each subsequent Series of Tax-Exempt Bonds, each as originally executed and as it may be amended or supplemented from time to time in accordance with the provisions thereof.

"Kroll" means Kroll Bond Rating Agency, its successors and assigns and, if such corporation shall no longer perform the functions of a securities rating agency, the term "Kroll" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer by notice to the Trustee. References to Kroll are effective for so long as Kroll is a Rating Agency rating all or a portion of the Outstanding Bonds.

"Lump Sum Payment" means a payment from a Participating Manufacturer that results in, or is due to, a release of that Participating Manufacturer from all or a portion of its future payment obligations under the MSA. For the purposes of the Indenture (and not for purposes of the Purchase and 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. (For the avoidance of doubt, the Corporation Tobacco Assets include, without limitation, all Lump Sum Payments and all Total Lump Sum Payments.)

"Lump Sum Payment Account" means the Account held by the Trustee pursuant to Section 5.01(c) of this Indenture.

"Majority in Interest" means the Owners of a majority of the Bond Obligation of Outstanding Bonds eligible to act on a matter.

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

"Maturity Value" means, with respect to any Capital Appreciation Bond, its Accreted Value on its Maturity Date and with respect to any Convertible Bond, its Accreted Value on its Conversion Date.

"Maximum Annual Class 1 Senior Bond Debt Service" means, as of any date, the greatest aggregate amount payable in the then-current calendar year or any future calendar year in respect of principal, Fixed Sinking Fund Installments and interest on Class 1 Senior Bonds.

"Moody's" means Moody's Investors Service, its successors and assigns and, if such corporation shall no longer perform the functions of a securities rating agency, the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer by notice to the Trustee. References to Moody's are effective for so long as Moody's is a Rating Agency rating all or a portion of the Outstanding Bonds.

"MSA" means the Master Settlement Agreement entered into on November 23, 1998, among the attorneys general of 46 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, America Soma and the Commonwealth of the Northern Mariana Islands and the OPMs, as originally executed and as it may be amended or supplemented from time to time.

"MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

"Officer's Certificate" means a certificate signed by an Authorized Officer of the Issuer or, if so specified, of the Trustee.

"Operating Account" means the Account held by the Trustee pursuant to Section 5.01(d) of this Indenture.

"Operating Cap" means (i) $202,694.03 for the Fiscal Year ending June 30, 2023, inflated in each following Fiscal Year by the percentage representing the fraction "1+x" over "1+y," where "x" equals the Inflation Adjustment Percentage (as defined in the MSA) applicable to MSA payments due in the calendar year ending in such Fiscal Year, and "y" equals the Inflation Adjustment Percentage applicable to MSA payments due in the preceding Fiscal Year, plus (ii) in each Fiscal Year, Tax Obligations specified in an Officer's Certificate.

"Operating Contingency Account" means the Account held by the Trustee pursuant to Section 5.01(f) of this Indenture.

"Operating Expenses" means the reasonable operating and administrative expenses of the Issuer (including, without limitation, the cost of preparation of accounting and other reports, costs of maintenance of the ratings on the Bonds, insurance premiums, deductibles and retention payments, and costs of meetings or other required activities of the Issuer or the Issuer), legal fees and expenses of the Issuer, its respective directors, officers and employees, fees and expenses incurred for professional consultants and fiduciaries (including, but not limited to, computation of the amount of Tax Obligations and related computations), the fees, expenses, and disbursements of the Trustee, including the fees and expenses of counsel to the Trustee, Termination Payments, the costs incurred, as determined by the Issuer, in order to preserve the tax-exempt status of any Tax-Exempt Bonds, the costs related to enforcement of the Issuer's rights under the MSA, the costs related to the Issuer's or the Issuer's or the Trustee's enforcement rights with respect to the Basic Documents, and all Operating Expenses so identified in this Indenture. The term "Operating Expenses" does not include the Costs of Issuance.

"Opinion of Counsel" means a written opinion of Counsel.

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

"Original Indenture" means the Indenture, dated as of August 1, 2006, between the Issuer and the Trustee, executed and delivered in connection with the issuance of the Series 2006 Bonds.

"Outstanding," when used as of any particular time with respect to any Bonds, means all Bonds issued under this Indenture, excluding: (i) Bonds that have been exchanged or replaced, or delivered to the Trustee for credit against the principal or Accreted Value; (ii) Bonds that have been paid; (iii) Bonds that have become due and for the payment of which money has been duly provided; (iv) Bonds the payment of which shall have been provided for pursuant to Section 2.02 of this Indenture or which are Fully Paid pursuant to Section 2.03 of this Indenture; and (v) for purposes of any consent or other action to be taken by the Owners of a Majority in Interest or specified percentage of Bonds hereunder, Bonds held by or for the account of the Issuer, or any Person controlling, controlled by, or under common control with the Issuer. For the purposes of this definition, "control," when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Owners" and similar terms mean the registered owners of the Bonds from time to time as shown on the books of the Trustee. Unless and until Bonds have been issued to Owners other than the Depository, all references to "Owners" of the Bonds are qualified by reference to Section 3.05 of this Indenture.

"Participant" means a broker-dealer, bank or other financial institution for which the Depository holds Bonds.

"Participating Manufacturer" has the meaning given to such term in the Master Settlement Agreement.

"Paying Agent" means each Paying Agent designated from time to time pursuant to Section 7.03 of this 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; and

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

Each clause above is referred to in this Indenture as a "Payment Priority."

"Person" means any individual, corporation, estate, partnership, joint venture, association, joint stock company, limited liability company, trust, unincorporated organization, government or any agency or political subdivision thereof, or any other entity of any type, whether or not a legal entity.

"Pledged Accounts" means the Collections Account (except to the extent that money therein is allocable to the Operating Account, the Operating Contingency Account or the Rebate Account), the Senior Debt Service Account, the Lump Sum Payment Account, the Senior Liquidity Reserve Account, the Senior Turbo Redemption Account and the Subordinate Turbo Redemption Account. The term "Pledged Accounts" shall also include all subaccounts contained in the named accounts, but does not include the Surplus Account.

"Pro Rata" means, for an allocation of available amounts to any payment of interest, Accreted Value, principal or Swap Payments to be made under this Indenture, the application of a fraction to such available amounts (a) the numerator of which is equal to the amount due to the respective Owners and any party who has entered into a Swap Contract with the Issuer to whom such payment is owing, and (b) the denominator of which is equal to the total amount due to all Owners and Swap Contract counterparties to whom such payment is owing.

"Pro Rata Defeasance Redemptions" means payments pursuant to the Pro Rata Defeasance Redemption Schedule.

"Pro Rata Defeasance Redemption Schedule" shall have the meaning set forth therefor in Section 2.02(c) of this Indenture.

"Projected Turbo Redemption" means, for a Series of Bonds, each respective Turbo Redemption projected to be made pursuant to Section 5.04(d) of this 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 Outstanding balances of such Turbo Term Bonds set forth in the related Series Supplement or in an exhibit thereto.

"Purchase and Sale Agreement" means the Amended and Consolidated Purchase and Sale Agreement dated as of August 17, 2006 between the State and the Issuer, as it may be amended or supplemented from time to time in accordance with the terms thereof.

"Rating Agency" means, with respect to any Series of Bonds, Moody's, Standard & Poor's, Kroll or Fitch, or any national securities rating service which, upon the request of the Issuer, provides a rating for such Series of Bonds; provided, however, that the Issuer may request any such Rating Agency to withdraw its ratings on any Series of Bonds and, upon delivery of such request to such Rating Agency, such Rating Agency shall no longer be considered to be a "Rating Agency" with respect to such Series of Bonds, so long as there is at all times at least one "Rating Agency" remaining with respect to such Series of Bonds.

"Rating Confirmation" means evidence that no rating that has been requested by the Issuer and is then in effect from a Rating Agency with respect to a Bond will be withdrawn, reduced, or suspended solely as a result of an action to be taken hereunder, provided that this determination must be made without giving effect to the rating conferred by or attributable to any credit enhancement then in effect with respect to such Bond.

"Rebate Account" means the Account, if any, established and maintained by the Trustee pursuant to Sections 5.01(h) and 5.03 of this Indenture.

"Rebate Requirement" shall have the meaning ascribed thereto in the Issuer Tax Certificate.

"Record Date" means the 15th day of the calendar month immediately preceding the calendar month in which a Distribution Date occurs whether or not such day is a Business Day. The Issuer or the Trustee may in its discretion establish special record dates for the determination of the Owners for various purposes hereof, including giving consent or direction to the Trustee.

"Refunding Bonds" means Bonds issued pursuant to Section 3.01 of this Indenture for the purposes of refunding any Outstanding Bonds.

"Registrar" means an agent designated by the Issuer to maintain the registration books for the Bonds.

"Required Defeasance Amortization" means the mandatory redemption of Defeased Turbo Term Bonds required by the provisions of Section 2.02(c) of this Indenture.

"Residual Certificate" means an instrument or instruments in the form attached to the Purchase and Sale Agreement.

"Rule" has the meaning given to such term in Section 6.10 of this Indenture.

"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 and, if such entity shall no longer perform the functions of a securities rating agency, the term "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer by notice to the Trustee. References to S&P are effective for so long as S&P is a Rating Agency rating all or a portion of the Outstanding Bonds.

"SEC" has the meaning given to such term in Section 6.10 of this Indenture.

"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 within a maturity, by lot in accordance with Section 5.04(g) of this Indenture; 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 Section 5.04(g) of this Indenture.

"Senior Bonds" means the Series 2021 Senior Bonds and Additional Bonds and Refunding Bonds identified as Senior Bonds in a Series Supplement.

"Senior Capital Appreciation Bond" means a Capital Appreciation Bond that is identified as a Senior Bond in a Series Supplement.

"Senior Convertible Bond" means a Convertible Bond that is identified as a Senior Bond in a Series Supplement.

"Senior Current Interest Bond" means a Current Interest Bond that is identified as a Senior Bond in a Series Supplement.

"Senior Debt Service Account" means the Account held by the Trustee pursuant to Section 5.01(b) of this Indenture.

"Senior Liquidity Reserve Account" means the Account held by the Trustee pursuant to Section 5.01(e) of this 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, which amount may (but is not required to) be amended upon the issuance of Additional Bonds that constitute Senior Bonds in accordance with the applicable Series Supplement.

"Senior Turbo Redemption Account" means the Account held by the Trustee pursuant to Section 5.01(g) of this Indenture.

"Serial Bonds" means those Bonds identified as Serial 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.

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

"Series 2006 Bonds" means the Series 2006 Senior Bonds, the Series 2006 First Subordinate Bonds and the Series 2006 Second Subordinate Bonds issued pursuant to the Original Indenture and the Series 2006 Supplement.

"Series 2006 First Subordinate Bonds" means the Issuer's Tobacco Settlement Asset-Backed Bonds, Series 2006B First Subordinate Capital Appreciation Bonds.]

"Series 2006 Refunded Bonds" means, (i) all of the Series 2006 Senior Bonds, (ii) all of the Series 2006 First Subordinate Bonds, and (iii) all of the Series 2006 Second Subordinate Bonds.

"Series 2006 Second Subordinate Bonds" means the Issuer's Tobacco Settlement Asset-Backed Bonds, Series 2006C Second Subordinate Capital Appreciation Bonds.

"Series 2006 Senior Bonds" means the Series 2006A Senior Current Interest Bonds.

"Series 2006 Supplement" means the Series Supplement authorizing the Series 2006 Bonds. References to the Indenture in the Series 2006 Supplement shall mean this Indenture.

"Series 2006A Senior Bonds" means the Issuer's Tobacco Settlement Asset-Backed Bonds, Series 2006A Senior Current Interest Bonds.

"Series 2021 Bonds" means the Series 2021A Bonds and Series 2021B Bonds.

"Series 2021 Senior Bonds" means the Series 2021A Bonds and Series 2021B Bonds.

"Series 2021 Supplement" means the Series 2021 Supplement, dated as of July 1, 2021, between the Issuer and the Trustee, relating to the Series 2021 Senior Bonds.

"Series 2021A Bonds" means $152,825,000 aggregate principal amount of the Issuer's Tobacco Settlement Asset-Backed Bonds, Series 2021A Class 1 Senior Current Interest Bonds.

"Series 2021B Bonds" means the Series 2021B-1 Bonds and Series 2021B-2 Bonds.

"Series 2021B-1 Bonds" means $35,000,000 aggregate principal amount of the Issuer's Tobacco Settlement Asset-Backed Bonds, Series 2021B-1 Class 2 Senior Current Interest Bonds.

"Series 2021B-2 Bonds" means $94,655,482.50 aggregate initial principal amount of the Issuer's Tobacco Settlement Asset-Backed Bonds, Series 2021B-2 Class 2 Senior Capital Appreciation Bonds.

"Series Supplement" means the Series 2021 Supplement, and any other Supplemental Indenture providing for the issuance of a Series of Additional Bonds, Refunding Bonds or Subordinate Bonds in accordance with Section 3.01 of this Indenture.

"State" means the State of Alaska.

"Subordinate Bonds" means any Bonds and Additional Bonds, in each case identified as such in the applicable Series Supplement.

"Subordinate Bonds" has the meaning given to such term in Section 3.01(c) of this Indenture.

"Subordinate Capital Appreciation Bond" means a Capital Appreciation Bond that is identified as a Subordinate Bond in a Series Supplement.

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

"Subordinate Turbo Redemption Account" means the Account held by the Trustee pursuant to Section 5.01(h) of this Indenture.

"Supplemental Indenture" means a Series Supplement or other supplement hereto or amendment hereof executed and delivered in accordance with the terms hereof. Any provision that may be included in a Series Supplement or a Supplemental Indenture is also eligible for inclusion in the other subject to the provisions hereof.

"Surplus Account" means the Account, if any, established and maintained by the Trustee pursuant to Sections 5.01(j) and 5.07 of this Indenture.

"Swap Contract" means an interest rate exchange, cap, collar, hedge or similar agreement entered into by the Issuer in connection with Senior Bonds.

"Swap Payment" means any payment with respect to a Swap Contract, other than any Termination Payment with respect to a Swap Contract.

"Taxable Bonds" means all Bonds other than Tax-Exempt Bonds.

"Tax-Exempt Bonds" means all Bonds identified as Tax-Exempt Bonds in any Series Supplement.

"Tax Obligations" means 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 Bond Maturity" means the payment of principal or Accreted Value required to be made upon the Maturity Date of any Term Bond, as such schedule is set forth in a Series Supplement.

"Term Bonds" means those Bonds identified as Term Bonds in a Series Supplement.

"Termination Payment" means any payment made by the Issuer with respect to a loss under or the termination of a Swap Contract, investment agreement or forward purchase agreement relating to any Account.

"Tobacco Settlement Revenues" or "TSRs" means, without duplication, the portion of the Collateral that consists of payments received pursuant to the Purchase and Sale Agreement, the MSA and the Consent Decree.

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

"Trustee" means U.S. Bank National Association, acting in its capacity as trustee under this Indenture, or its successor, as provided in this Indenture.

"Turbo Redemptions" means (a) 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 Section 5.04(d) of this Indenture and (b) with respect to Turbo Term Bonds that are Subordinate Bonds, the redemption of such Turbo Term Bonds from amounts on deposit in the Subordinate Turbo Redemption Account pursuant to Section 5.04(d) of this Indenture.

"Turbo Term Bond Maturity" means the payment of principal or Accreted Value required to be made upon the Maturity Date of any Turbo Term Bond, as such schedule is set forth in a Series Supplement.

"Turbo Term Bonds" means the Term Bonds identified as Turbo Term Bonds in a Series Supplement.

"2021 Amendments to Purchase and Sale Agreement" means the 2021 Amendments to the Amended and Consolidated Purchase and Sale Agreement, dated as of July 1, 2021, between the Issuer and the State, pursuant to which the Issuer agrees to provide funds to the State to finance more State capital projects.

"Written Notice," "written notice" or "notice in writing" means notice in writing which may be delivered by hand or first class mail, overnight delivery, or by Electronic Means.

(a) Articles and Sections referred to by number shall mean the corresponding Articles and Sections of this Indenture.

(b) Words of the masculine gender shall mean and include correlative words of the feminine and neuter genders and words importing the singular number shall mean and include the plural number and vice versa.

(c) The terms "hereby," "hereof," "herein," "hereunder" and any similar terms, as used in this Indenture, refer to this Indenture; and the term "date hereof" means on, the term "hereafter" means after, and the term "heretofore" means before, the date of execution and delivery of this Indenture.

(d) The word "including" means "including without limitation."

(e) The word "or" is used in its inclusive sense.

(f) The captions of the Articles and Sections of this Indenture and any table of contents shall be solely for convenience of reference, and shall not affect the meaning, construction or effect of this Indenture.

(g) As used in this Indenture and in any certificate or other document made or delivered pursuant hereto or thereto, accounting terms not defined in this Indenture or in any such certificate or other document, and accounting terms partly defined in this Indenture or in any such certificate or other document to the extent not defined, shall have the respective meanings given to them under generally accepted accounting principles. To the extent that the definitions of accounting terms in this Indenture or in any such certificate or other document are inconsistent with the meanings of such terms under generally accepted accounting principles, the definitions contained in this Indenture or in any such certificate or other document shall control.

Section 1.03 No Liability on Bonds.

(a) Neither the directors or officers of the Issuer nor any person executing Bonds or other obligations of the Issuer shall be liable personally thereon or be subject to any personal liability or accountability solely by reason of the issuance thereof.

(b) The Bonds are limited obligations of the Issuer, payable solely from certain funds held under this Indenture, including the Collections. The Bonds do not constitute a charge (except with respect to Collections) against the general credit of the Issuer and under no circumstances will the Issuer be obligated to pay the interest on or principal or Accreted Value of or redemption premiums, if any, on the Bonds except from Collections and balances held in the Senior Liquidity Reserve Account (where applicable, and, to the extent available). The Bonds and other obligations of the Issuer are not a debt, liability or other obligation of the State or of any of its political subdivisions or instrumentalities, other than the Issuer, and neither the State nor any such instrumentalities or other subdivisions, other than the Issuer, shall be liable for the payment of the principal or Accreted Value of or interest on the Bonds or such other obligations. The Issuer has no taxing power.

ARTICLE II

GRANT OF SECURITY INTEREST

Section 2.01 Security Interest and Pledge. In order to secure payment of the Bonds and the Swap Payments, all with the respective priorities specified herein, the Issuer hereby pledges to the Trustee, and grants to the Trustee a first priority lien and security interest in, all of the Issuer's right, title, and interest, whether now owned or hereafter acquired, in, to, and under: (i) the Corporation Tobacco Assets; (ii) the Pledged Accounts, all money, instruments, investment property, and other property credited to or on deposit in the Pledged Accounts, and all investment earnings thereon; (iii) any payment received by the Issuer pursuant to a Swap Contract; (iv) all present and future claims, demands, causes and things in action in respect of any or all of the foregoing and all payments on or under and all proceeds of every kind and nature whatsoever in respect of any or all of the foregoing, including all proceeds of the conversion, voluntary or involuntary, into cash or other liquid property, all cash proceeds, accounts, general intangibles, notes, drafts, acceptances, chattel paper, checks, deposit accounts, insurance proceeds, condemnation awards, rights to payment of any and every kind, and other forms of obligations and receivables, instruments, payment intangibles and other property that at any time constitute all or part of or are included in the proceeds of any of the foregoing; and (v) all proceeds of the foregoing. The property described in the preceding sentence is referred to herein as the "Collateral." The Collateral does not include the rights of the Issuer pursuant to provisions for consent or other action by the Issuer, notice to the Issuer, indemnity or the filing of documents with the Issuer, or otherwise for its benefit and not for that of the Owners. The Issuer covenants and agrees that it will implement, protect, and defend the security interest and pledge made in this Section 2.01 by all appropriate action for the benefit of the Owners and any party that has entered into a Swap Contract, the cost thereof to be an Operating Expense.

The pledge of Collateral shall be valid and binding from the date of execution of this Indenture, and amounts so pledged and thereafter received shall immediately be subject to the lien of the pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Issuer, irrespective of whether such parties have notice thereof and this Indenture need not be recorded or filed to perfect such pledge.

None of the proceeds of the Bonds or any earnings therefrom, unless deposited into one of the Pledged Accounts, shall in any way be pledged to the payment of the Bonds. Such amounts shall not be part of the Collateral.

Section 2.02 Defeasance.

(a) *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 Section 5.04 of this Indenture, all obligations to Owners in whole (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 this Indenture or irrevocable instructions to give notice shall have been given to the Trustee, (iii) all the rights hereunder of the Fiduciaries and counterparties to Swap Contracts have been provided for and all Operating Expenses have been satisfied in accordance with Section 2.03(c) of this 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 Issuer to the Trustee, such Owners and counterparties to Swap Contracts shall cease to be entitled to any benefit or security under this 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 hereof, this Indenture and the lien, rights and security interests created by this Indenture (except in such funds and investments) shall terminate and become null and void, and the Issuer and the Trustee shall execute and deliver such instruments as may be necessary to discharge the Trustee's lien, rights and security interests (except in such funds and investments) created hereunder. 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 Section 5.06 of this Indenture, and money held for defeasance shall be invested only as provided above in this section 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 Issuer. Upon the discharge of the Trustee's lien and security interests created hereunder, the Trustee and the Issuer shall cooperate in transferring the TSRs to or upon the order of the registered owner of the Residual Certificate.

(b) *Partial Defeasance*. Subject to the requirements of Section 6.03 of this Indenture, the Issuer may create a defeasance escrow for the retirement and defeasance of any Bonds subject to and in accordance with Section 2.02(a) of this Indenture. Thereafter, the Owners of such Defeased Bonds and counterparties to such related Swap Contracts shall cease to be entitled to any benefit or security under this 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 hereof of this Indenture.

(c) *Defeasance of Turbo Term Bonds*. For each Defeased Turbo Term Bond of the same Maturity Date and Series, the Issuer must determine a "Pro Rata Defeasance Redemption Schedule" as described in Sections 2.02(c)(i) and 2.02(c)(ii) below. In establishing the defeasance escrow, the Defeased Turbo Term Bonds may not be redeemed more slowly than the Pro Rata 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. 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 "Pro Rata Defeasance Redemption Schedule."

(ii) For each Defeased Turbo Term Bond of the same Maturity Date and Series, the Trustee shall establish a defeasance escrow which: (a) redeems on the earliest possible date the Pro Rata Defeasance Redemptions which were originally projected to occur prior to the date of the defeasance, if any; and (b) thereafter, redeems the Pro Rata Defeasance Redemptions according to their 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 and permanently subtract the Pro Rata Defeasance Redemption Schedule from such schedule of Projected Turbo Redemptions Adjusted for Prior Payments.

(iv) The provisions of this Section 2.02(c) shall not be construed to limit the optional redemption of Bonds of a Series pursuant to the applicable Series Supplement.

Section 2.03 Payment of Bonds; Satisfaction and Discharge of Indenture.

(a) Whenever all Bonds have been Fully Paid, all Swap Payments have been paid and the requirements of Section 2.03(c) have been met, then, upon Written Notice from the Issuer to the Trustee (and subject to Section 2.02 of this Indenture for Bonds that are deemed Fully Paid in accordance with Section 2.03(b)(iv) of this Indenture), this

Indenture and the lien, rights and security interests created by this Indenture shall terminate and become null and void, and the Issuer and the Trustee shall execute and deliver such instruments as may be necessary to discharge the Trustee's lien and security interests created hereunder. 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 Issuer.

(b) 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 Section 3.04 of this 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 Section 3.04(b) of this Indenture; or

(iv) such Bond has been defeased as provided in subsection (a), (b) or (c) of Section 2.02 of this Indenture (whether as part of a defeasance of all or less than all of the Bonds).

(c) Prior to any satisfaction and discharge of this Indenture, the Issuer shall satisfy all Operating Expenses.

ARTICLE III

THE BONDS

Section 3.01 Bonds of the Issuer.

(a) By Series Supplements complying procedurally and in substance with this Indenture, the Issuer may authorize, issue, sell and deliver Bonds, including the Series 2021 Senior Bonds and one or more Series of Additional Bonds, Refunding Bonds or Subordinate Bonds from time to time with such principal amounts and Accreted Values at maturity as the Issuer shall determine. The Bonds of each Series shall bear such dates, mature at such times, be subject to such terms of payment, bear interest or accrete at such rates, be in such form and Authorized Denomination, carry such registration privileges and transfer restrictions, if any, 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 Issuer may provide herein and in the related Series Supplement. The proceeds of the Series 2021 Bonds shall be applied as provided in Section 4.01 of this Indenture and the proceeds of each other Series of Bonds shall be applied as provided in Sections 4.02 and 4.03 of this Indenture and the related Series Supplement. The Series Supplement shall identify whether the

Bonds of any Series are Senior Bonds (including whether such Bonds are Class 1 Senior Bonds or Class 2 Senior Bonds) or Subordinate Bonds and whether such Bonds are Current Interest Bonds or Capital Appreciation Bonds or Convertible Bonds, and if such Bonds are Class 2 Senior Bonds, whether such Class 2 Senior Bonds are secured by the Class 2 Senior Liquidity Reserve Subaccount.

(b) (i) 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). Nothing in this Indenture is intended to limit the ability of the Issuer to issue Refunding Bonds to refund all Bonds in whole pursuant to this Amended and Restated Indenture or a new indenture. Refunding Bonds include Bonds purchased by the Issuer pursuant to Section 5.04(f) which are not simultaneously presented to the Trustee for cancellation. Such Refunding Bonds may be remarketed and bear or accrete at fixed rates of interest and have Maturity Dates, redemption dates and other repayment terms that differ from the Bonds so purchased pursuant to the terms of a Supplemental Indenture.

(ii) 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 Issuer, but only if upon the issuance of such Bonds and/or Additional Bonds: (A) the amount on deposit in the applicable subaccounts in the Senior Liquidity Reserve Account following the issuance of such Refunding Bonds and/or Additional Bonds will be at least equal to (i) with respect to Bonds that are Class 1 Senior Bonds, the Class 1 Senior Liquidity Reserve Requirement and (ii) with respect to Bonds that are Class 2 Senior Bonds, the Class 2 Senior Liquidity Reserve Requirement, as applicable; (B) no Event of Default shall have occurred and be continuing; (C) the 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 issuance of the Refunding Bonds and/or Additional Bonds will not exceed (x) the remaining average life of each such Turbo Term Bond as computed by the Issuer 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 Additional Bonds or the Refunding Bonds which are then rated by a Rating Agency.

(c) One or more Series of Bonds (the "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. Subordinate Bonds may be issued to refund all or a portion of the Bonds without satisfying the requirements of Section 3.01(b)(ii) of this Indenture.

(d) The Bonds shall be executed in the name of the Issuer by the manual or facsimile signature of an Authorized Officer of the Issuer, and attested by the manual or facsimile signature of an Authorized Officer of the Issuer, or as otherwise provided in the resolution of the Issuer which authorizes the issuance of such Bonds. Obligations executed as set forth above shall be valid and binding obligations when duly delivered, notwithstanding the fact that before the delivery thereof the persons executing the same shall have ceased holding such office or others may have been designated to perform such functions.

(e) The Issuer may from time to time request the authentication and delivery of a Series of Bonds by providing to the Trustee (at or prior to such authentication and delivery) the following: (i) copies of the applicable Series Supplement; (ii) in the case of Additional Bonds or Refunding Bonds, an Officer's Certificate showing compliance with Section 3.01(b); (iii) an opinion of Counsel (A) as to the due execution and delivery by the Issuer of this Indenture and each relevant Supplemental Indenture, (B) to the effect that the Bonds being issued are valid and binding obligations of the Issuer payable from the sources specified in the Indenture, (C) to the effect that the Indenture creates the valid pledge of the Collateral (including, without limitation, the TSRs), and (D) in the case of Refunding Bonds, to the effect that the issuance of such Refunding Bonds will not, in and of itself, adversely affect the exclusion of interest on the Tax-Exempt Bonds from gross income for federal income tax purposes; (iv) such other documents as may be required by the applicable Series Supplement; and (v) an Officer's Certificate to the effect that the applicable conditions to the issuance of Bonds set forth herein and in each applicable Series Supplement have been met, and requesting the Trustee's authentication of the Series of Bonds.

(f) The principal and Accreted Value of, redemption premium, if any, and the interest on the Bonds shall be payable in lawful currency of the United States.

While the Book-Entry System is in effect with respect to any Bonds, notwithstanding any other provisions set forth herein, payments of principal and Accreted Value of, redemption premium, if any, and interest on the Bonds shall be made to the Depository Nominee, by wire transfer in immediately available funds to the account specified by the Depository without the necessity of the presentation and surrender of the Bonds. Without notice to or the consent of the Owners, the Paying Agent, with the consent of the Issuer and the Depository, may agree in writing to make payments of principal and Accreted Value of, redemption premium, if any, and interest in a manner different from that set out herein. In such event, the Paying Agent shall make payments with respect to the Bonds in the manner determined in the preceding sentence.

Upon the discontinuance of the maintenance of the Bonds under a Book-Entry System, the principal and Accreted Value of, redemption premium, if any, and the interest on the Bonds shall be payable at the principal office of the Paying Agent upon presentation and surrender of the Bonds. Payments of interest on the Current Interest Bonds will be mailed on each Distribution Date to the persons in whose names the Current Interest Bonds are registered at the close of business on the Record Date next preceding such Distribution Date; provided, any Owner of a Current Interest Bond or Bonds in an aggregate principal amount of not less than $1,000,000 may, by prior written instructions filed with the Paying Agent (which instructions shall remain in effect until revoked by subsequent written instructions), instruct that interest payments for any period be made by wire transfer to an account in the continental United States or other means acceptable to the Paying Agent.

Each Current Interest Bond shall accrue interest from its dated date, which interest is payable currently on each Distribution Date until the Maturity Date or earlier redemption date of such Bond as provided herein. Interest on each Current Interest Bond shall be computed as provided in the Series Supplement to which such Current Interest Bond relates. For the avoidance of doubt, in the event a Current Interest Bond remains Outstanding after its Maturity Date, such Bond will continue to accrue and pay interest at its stated interest rate.

Each Capital Appreciation Bond shall accrete interest from its dated date, which interest shall be compounded on each Distribution Date, commencing with the first Distribution Date after its issuance through and including the Maturity Date or earlier redemption date of such Bond. For the avoidance of doubt, in the event that a Capital Appreciation Bond remains Outstanding after its Maturity Date, such Bond will accrue and pay interest at its Default Rate from its Maturity Date.

Each Convertible Bond shall accrete interest from its dated date, which interest shall be compounded on each Distribution Date, commencing with the first Distribution Date after its issuance through and excluding the Conversion Date or earlier redemption date of such Bond. On and after the applicable Conversion Date, such Convertible Bond shall become a Current Interest Bond with a principal amount equal to the Accreted Value at such Conversion Date as set forth in a Series Supplement, the interest on which shall be payable currently on each Distribution Date after the Conversion Date until the Maturity Date or earlier redemption date of such Bond as provided herein. For the avoidance of doubt, in the event a Convertible Bond remains Outstanding after its Maturity Date, such Bond will continue to accrue and pay interest at its stated interest rate.

Section 3.02 Serial Maturities. The Serial Bonds shall mature in the years and in the principal amounts or Accreted Values at maturity, and shall bear interest as specified in the applicable Series Supplement.

Section 3.03 Term Bond and Turbo Term Bond Maturities. The Term Bonds (excluding all Turbo Term Bonds) shall mature in the years and in the principal amounts at maturity, shall bear interest and shall have Fixed Sinking Fund Installments, if any, as specified in the applicable Series Supplement. The Turbo Term Bonds shall mature in the years and in the principal amounts or Accreted Values at maturity and shall bear interest as specified in the applicable Series Supplement.

Section 3.04 Transfer and Replacement of Bonds.

(a) *Transfer*. A registered Bond shall be transferable upon presentation to the Registrar with a written transfer of title of the Owner. Such transfer shall be dated, and signed by such Owner, or such Owner's legal representative, and shall be signature guaranteed by a guarantor institution participating in a guarantee program acceptable to the Registrar. The name of the transferee shall be entered in the books kept by the Registrar and:

(i) the transferee shall be provided with a new Bond of substantially the same form and tenor as the Bond presented;

(ii) the new Bond shall be signed and attested by the manual or facsimile signatures of Authorized Officers of the Issuer;

(iii) the new Bond shall be executed as of the date of the Bond presented and shall be authenticated as of the date of delivery of the new Bond;

(iv) the Bond presented shall be cancelled and destroyed and a certificate of destruction shall be filed with the Issuer;

(v) no interest shall be paid on a Bond issued in registered form until the name of the payee has been inserted therein and such Bond has been registered as provided herein;

(vi) the principal or Accreted Value of, redemption premium, if any, and interest on a Bond which has been registered shall be payable only to the Owner, or its legal representatives, successors, or transferees;

(vii) the transferee shall pay a charge sufficient to reimburse the Registrar for any tax, fee, or other governmental charge required to be paid with respect to such registration;

(viii) the Registrar shall not be obliged to make any transfer of the Bonds (i) during the 15 calendar days preceding the date of sending notice, or the first publication of notice, of any proposed redemption of the Bonds, or (ii) with respect to any particular Bond, after such Bond has been called for redemption; and

(ix) Prior to any transfer of the Bonds outside the book-entry system (including, but not limited to, the initial transfer outside the book-entry system) the transferor shall provide or cause to be provided to the Trustee all information necessary to allow the Trustee to comply with any applicable tax reporting obligations, including without limitation any cost basis reporting obligations under Internal Revenue Code Section 6045, as amended. The Trustee shall conclusively rely on the information provided to it and shall have no responsibility to verify or ensure the accuracy of such information.

(b) *Replacement*. The Issuer and the Registrar may issue a new Bond to replace one lost, stolen, destroyed, partially destroyed, or defaced, in accordance with the following:

(i) If the Bond is claimed to be lost, stolen or destroyed, the owner shall furnish:

(A) proof of ownership;

(B) proof of loss, theft or destruction;

(C) payment of the cost of preparing, issuing, mailing, shipping, and insuring the new Bond; and

(D) security or indemnity in a form acceptable to the Issuer and Registrar.

(ii) If the Bond is defaced or partially destroyed, the owner shall surrender such Bond and pay the cost of preparing and issuing the new Bond.

(iii) The new Bond shall be of substantially the same form and tenor as the one originally issued, and shall be signed and attested by the manual or facsimile signatures of Authorized Officers of the Issuer. The new Bond shall be authenticated in the manner provided herein. If the Bond is issued in the place of one claimed to be lost, stolen or destroyed, it shall in addition state upon the back thereof that it is issued in the place of such Bond claimed to have been lost, stolen or destroyed, and, where applicable, that adequate security or indemnity for its payment in full at its Maturity Date is filed with the Registrar. The Registrar shall make an appropriate entry in its records of any new Bond issued pursuant to this section.

Section 3.05 Securities Depositories.

(a) *Immobilized Bonds*. The Bonds shall initially be issued pursuant to a Book-Entry System administered by the Depository with no physical distribution of bond certificates to be made except as provided in Section 3.05(b) of this Indenture.

So long as a Book-Entry System is being used, one or more word-processed bonds for each Maturity Date of Bonds of a Series as required by the Depository, in the aggregate principal amount or Accreted Value at maturity or the Conversion Date, as the case may be, of such Maturity Date and Series and registered in the name of the Depository Nominee, will be issued and required to be deposited with the Depository (or a custodian for the Depository) and held in its custody. The Book-Entry System will be maintained by the Depository, the Participants and the Indirect Participants and will evidence beneficial ownership of the Bonds of a Series in Authorized Denominations, with transfers of ownership effected on the records of the Depository, the Participants, and the Indirect Participants pursuant to rules and procedures established by the Depository, the Participants and the Indirect Participants.

Transfer of principal, Accreted Value and interest payments or notices to Participants and Indirect Participants will be the responsibility of the Depository, and transfer of principal, Accreted Value and interest payments or notices to Owners will be the responsibility of the Participants and the Indirect Participants. No other party will be responsible or liable for such transfers of payments or notices or for maintaining, supervising or reviewing such records maintained by the Depository, the Participants, or the Indirect Participants.

DTC is hereby appointed as the Depository. To the extent permitted by law, the Issuer may at any time provide for the replacement of the Depository with another qualified depository. If any depository is replaced as the depository for the Bonds with another qualified Depository, the Registrar will issue to the successor Depository replacement Bonds, registered in the name of the successor Depository Nominee.

Each Depository and the Participants, and the Indirect Participants, and the Owners of the Bonds, by their acceptance of the Bonds, agree that neither the Issuer nor any Fiduciary shall have any liability for the failure of any Depository to perform its obligation to any Participant, any Indirect Participant, or any Owner of any Bonds, nor shall the Issuer or any Fiduciary be liable for the failure of any Participant, Indirect Participant, or other nominee of any Owner of any Bonds to perform any obligation that such Participant, Indirect Participant, or other nominee may incur to any Owner of the Bonds.

A Fiduciary may rely upon the information provided by the Depository with respect to the identity of, and any other information relating to, any Participants, and may accept communications made by a Participant on behalf of an Owner.

(b) *Discontinuance of Book-Entry System*. Upon the discontinuance of the maintenance of the Bonds of any Series under a Book-Entry System, the Registrar will issue Bonds of such Series in Authorized Denominations directly to the Owners of Bonds as further described below. In such event, the Registrar shall make provisions to notify the Participants, the Indirect Participants and the Owners of the Bonds, by mailing an appropriate notice to the Depository, or by other means deemed appropriate by the Registrar in its discretion, that Bonds will be directly issued to the Owners of the Bonds as of a date set forth in such notice, which shall be a date at least ten calendar days after the date of mailing of such notice (or such fewer number of days as shall be acceptable to the Depository).

In the event that Bonds are to be issued to Owners of the Bonds, the Registrar, at the expense of the Issuer, shall promptly have prepared Bonds in certificated form in Authorized Denominations registered in the names of the Owners of Bonds provided to the Registrar, as of the date set forth in the notice described above. Neither the Issuer nor the Trustee shall be liable for any delay in delivery of such instructions and may conclusively rely on, and shall be fully protected in relying on, such instructions.

(c) *DTC Letter*. The Trustee shall comply with the requirements of the DTC Letter applicable to it.

ARTICLE IV

APPLICATION OF BOND PROCEEDS

Section 4.01 Use of Series 2021 Senior Bond Proceeds and Certain Other Moneys. Upon the delivery of the Series 2021 Bonds and receipt of the amount of the purchase price thereof ($316,718,995.71, comprised of the initial principal amount of the Series 2021 Bonds, plus net premium of $36,087,198.35 and less underwriters' discount of $1,848,685.14) and other moneys (including moneys in all funds and accounts in the original Trust Indenture dated as of August 1, 2006, immediately prior to this Indenture becoming effective in the amount of $34,770,893.73, including $7,150,581.78 from the Senior Debt Service Account, $27,619,810.33 from the Senior Liquidity Reserve Account, $449.27 from the Collections Account and $52.35 from the Senior Turbo Redemption Account), such amount shall be disposed of as follows:

(a) the sum of $3,215,770.83 shall remain deposited into the Senior Debt Service Account;

(b) the sum of $503,761.52, corresponding to the Costs of Issuance (exclusive of underwriter's discount) shall be deposited into the Costs of Issuance Account and used for the purpose of paying the Costs of Issuance until as contemplated by Section 7.07 of this Indenture an Authorized Officer of the Issuer shall certify to the Trustee that all Costs of Issuance have been paid in full at which time the Trustee shall transfer any balance remaining in such Account to the Collections Account;

(c) the sum of $12,011,650, representing the Senior Liquidity Reserve Requirement, shall be deposited into the Senior Liquidity Reserve Account with $10,874,150 deposited in the Class 1 Senior Liquidity Reserve Subaccount and $1,137,500 deposited in the Class 2 Senior Liquidity Reserve Subaccount;

(d) the sum of $316,773,707.09 shall be transferred to U.S. Bank National Association, as trustee and escrow agent for the Series 2006 Bonds for deposit in the escrow fund related to the defeasance of the Series 2006 Bonds;

(e) the sum of $18,985,000 shall be paid to or on the order of the Issuer to be deposited with the escrow agent under the 2021 Custodial Agreement between the Issuer and the Trustee as escrow agent thereunder; and

(f) any remaining sum shall be deposited into the Costs of Issuance Account.

Upon the delivery of the Series 2021 Senior Bonds and receipt of the purchase price thereof, such amount shall be deposited and transferred as provided in Section 2.02 of the Series 2021 Supplement.

Section 4.02 Use of Additional Bond and Refunding Bond Proceeds. Upon the delivery of any Additional Bond and Refunding Bonds and receipt of the net proceeds thereof, such proceeds shall be disposed of in accordance with the applicable Series Supplement and consistent with Sections 2.02 and 3.01 hereof, as applicable and any excess proceeds shall be paid to the holder of the Residual Certificate.

Section 4.03 Use of Subordinate Bond Proceeds. Upon the delivery of any Subordinate Bonds and receipt of the net proceeds thereof, such proceeds shall be disposed of in accordance with the applicable Series Supplement and consistent with Sections 2.02 and 3.01 hereof, as applicable.

ARTICLE V

ACCOUNTS; FLOW OF FUNDS

Section 5.01 Establishment of Accounts. The Trustee shall establish, hold and maintain the following segregated trust accounts in the Trustee's name:

(a) the Collections Account;

(b) the Senior Debt Service Account, and within the Senior Debt Service Account a Capitalized Interest Subaccount;

(c) the Lump Sum Payment Account;

(d) the Operating Account;

(e) 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;

(f) the Operating Contingency Account;

(g) the Senior Turbo Redemption Account;

(h) the Rebate Account;

(i) the Costs of Issuance Account; and

(j) the Surplus Account.

Section 5.02 Application of Collections.

(a) All Collections received by the Trustee shall be promptly deposited by the Trustee into the Collections Account. All Collections that have been identified by an Officer's Certificate as consisting of Lump Sum Payments or Total Lump Sum Payments received by the Trustee shall be transferred promptly (and in any event, no later than the Business Day immediately preceding the next Distribution Date) to the Lump Sum Payment Account and applied as described in subsections (e) and (f) of this Section 5.02, in accordance with the instructions received by the Trustee pursuant to an Officer's Certificate.

(b) 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, and in either case after the transfer of amounts from the Senior Liquidity Reserve Account to the Senior Debt Service Account pursuant to Section 5.05(b) of this Indenture, the Trustee shall withdraw the funds on deposit in the Collections Account and transfer such amounts as follows:

(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 Section 6.02(b) of this Indenture in order to pay, for the twelve-month period applicable to such Officer's Certificate, (x) the Operating Expenses (excluding any Termination Payments) to the extent that the amount thereof does not exceed clause (i) of the definition of Operating Cap, and (y) the Tax Obligations;

(ii) to the Senior Debt Service Account, an amount sufficient to cause the amount therein (taking into account earnings on such amount scheduled to be received prior to the applicable Distribution Date if such amount is invested in fixed rate Eligible Investments as well as any amounts on deposit therefor in the Capitalized Interest Subaccount) to equal the sum of (x) interest on the Outstanding Class 1 Senior Bonds and all Swap Payments 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 1 Senior Bonds and Swap Payments 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 Section 5.02(b)(ii) shall be calculated assuming that principal on the Bonds will have been paid as described in clauses (ii), (iii) and (iv) of Section 5.02(c) of this Indenture;

(iii) to the Senior Debt Service Account, an amount sufficient to cause the amount therein (taking into account earnings on such amount scheduled to be received prior to the applicable Distribution Date if such amount is invested in fixed rate Eligible Investments) 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 Maturity, Fixed Sinking Fund Installment, or Term Bond Maturity due for Class 1 Senior Bonds in or scheduled for the next succeeding Bond Year, plus (b) any such Serial Maturities, Fixed Sinking Fund Installments, or Term Bond Maturities unpaid from prior Distribution Dates, provided that the amount of each Term Bond Maturity shall first be adjusted as described in Section 5.04(e) of this Indenture;

(iv) unless an Event of Default has occurred (in which case the provisions of Section 5.02(d) shall apply), 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 on deposit 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, including a Termination Payment) equals or exceeds the principal or Accreted Value of and interest on all Outstanding Class 1 Senior Bonds, the amount on deposit in the Class 1 Senior Liquidity Reserve Subaccount first may, at the direction of the Issuer, be applied to the optional clean-up call for the Class 1 Senior Bonds, and second shall be transferred to the Collections Account;

(v) to the Senior Debt Service Account, an amount sufficient to cause the amount therein (taking into account earnings on such amount scheduled to be received prior to the applicable Distribution Date if such amount is invested in fixed rate Eligible Investments as well as any amounts on deposit therefor in the Capitalized Interest Subaccount) 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 Section 5.02(b)(v) shall be calculated assuming that principal on the Bonds will have been paid as described in clauses (ii), (iii), and (iv) of Section 5.02(c) of this Indenture;

(vi) to the Senior Debt Service Account, an amount sufficient to cause the amount therein (taking into account earnings on such amount scheduled to be received prior to the applicable Distribution Date if such amount is invested in fixed rate Eligible Investments) 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 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 Section 5.04(e) of this Indenture;

(vii) unless a Class 2 Payment Default has occurred, 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, including a Termination Payment) 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 Collections Account;

(viii) to the Operating Contingency 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 Section 6.02(b) of this Indenture in order to pay, for the twelve-month period applicable to such Officer's Certificate, the Operating Expenses in excess of the Operating Cap;

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

(x) provided that there are no Outstanding Class 2 Senior Bonds or Subordinate Bonds and no obligations to make Swap Payments under a Swap

Contract, to the Surplus Account, all amounts remaining in the Collections Account.

(c) Unless an Event of Default has occurred, 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 (including amounts in the Capitalized Interest Subaccount held therefor) 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) from the Senior Debt Service Account to pay Swap Payments due on such Distribution Date or unpaid from prior Distribution Dates;

(iv) if a Class 2 Payment Default has occurred, first, from the Senior Debt Service Account and the Class 2 Senior Liquidity Reserve Subaccount (only with respect to Class 2 Senior Bonds secured thereby), in that order, 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 and the Senior Turbo Redemption 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 Capital Appreciation Bond will accrue interest payable at a rate per annum equal to the Default Rate therefor set forth in the applicable Series Supplement;

(v) from the Senior Debt Service Account (including amounts in the Capitalized Interest Subaccount held therefor) and the Class 2 Senior Liquidity Reserve Subaccount (only with respect to Class 2 Senior Bonds secured thereby), in that order, to pay interest on Outstanding Class 2 Senior Bonds due on such Distribution Date or unpaid from prior Distribution Dates;

(vi) from the Senior Debt Service Account and the Class 2 Senior Liquidity Reserve Subaccount (only with respect to Class 2 Senior Bonds secured thereby), 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, including by reason of Fixed Sinking Fund Installment, and Pro Rata within such a principal due date;

(vii) from the Senior Turbo Redemption Account, to redeem Senior Bonds which are Turbo Term Bonds on such Distribution Date (or a special redemption date pursuant to Section 5.04(c) of this Indenture) in accordance with clause (1) of the Payment Priorities; and

(viii) from the Lump Sum Payment Account, but only as directed in an Officer's Certificate delivered by the Issuer and accompanied by Rating Confirmation with respect to any Senior Bonds which are then rated by a Rating Agency, to redeem Turbo Term Bonds on such Distribution Date (or a special redemption date pursuant to Section 5.04(c) of this Indenture) in accordance with Section 5.04(d) of this Indenture, provided that any redemptions shall redeem Bonds in accordance with the Payment Priorities.

(d) Upon the occurrence of any Event of Default and continuing on each succeeding Distribution Date commencing with the Distribution Date following the Event of Default:

(i) (A) until the Class 1 Senior Bonds are no longer Outstanding, the Trustee shall apply all funds in the Senior Debt Service Account, the Class 1 Senior Liquidity Reserve Subaccount and the Lump Sum Payment Account to pay Pro Rata, first, the accrued and unpaid interest on the Class 1 Senior Bonds (including Senior Convertible Bonds after the Conversion Date) and Swap Payments (including, in each case, interest at the stated rate on any unpaid interest, to the extent legally permissible) and, second, the due and past due principal or Accreted Value on all Class 1 Senior Bonds;

(B) until the Class 2 Senior Bonds are no longer Outstanding, the Trustee shall apply all funds in the Senior Debt Service Account, the Class 2 Senior Liquidity Reserve Subaccount (only with respect to Class 2 Senior Bonds secured thereby), the Lump Sum Payment Account and the Senior Turbo Redemption Account to pay Pro Rata, first, the accrued and unpaid interest on the Class 2 Senior Bonds (including Senior Convertible Bonds after the Conversion Date) (including, in each case, interest at the stated rate on any unpaid interest, to the extent legally permissible) and, second, Bond Obligation on all Class 2 Senior Bonds without regard to their order of maturity. For this purpose and for the avoidance of doubt, "total amount due" to all Owners of Class 2 Senior Bonds described in part (b) of the definition of Pro Rata is equal to the Bond Obligation of such Class 2 Senior Bonds as of such Distribution Date; and

(ii) the application of funds with respect to Subordinate Bonds shall be in accordance with the provisions of the applicable Series Supplement.

(e) 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 subsection (b)(i) of this Section 5.02, 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 and Swap Payments, Pro Rata;

(iii) to pay principal or Accreted Value 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; and

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

(f) Upon the receipt of a sum that has been identified by an Officer's Certificate as a Total Lump Sum Payment, the Trustee shall, after making provision for the amounts required to be deposited pursuant to subsection (b)(i) of this Section 5.02, 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 and Swap Payments, Pro Rata;

(iii) to pay principal or Accreted Value 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; and

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

(g) After making all deposits and payments set forth above, and provided that there are no Outstanding Bonds and no obligations to make Swap Payments under a Swap Contract, the Trustee shall deliver any amounts remaining in a Fund or Account in accordance with the order of the Issuer and in accordance with the Residual Certificate.

(h) Funds in the Operating Account shall be applied by the Trustee at any time, in accordance with directions in an Officer's Certificate pursuant to Section 6.02(b), to pay Operating Expenses (other than Termination Payments), or to fund an account of the Issuer free and clear of this Indenture for purposes of paying such Operating Expenses.

(i) Funds in the Operating Contingency Account shall be applied by the Trustee at any time, in accordance with directions in an Officer's Certificate pursuant to Section 6.02(b), to pay Operating Expenses not otherwise paid from the Operating Account, or to fund an account of the Issuer free and clear of this Indenture for purposes of paying such Operating Expenses.

Section 5.03 Rebate. The Trustee shall establish and maintain when required an account separate from any other account established and maintained hereunder designated as the Rebate Account. Subject to the transfer provisions provided in paragraph (d) below, all money at any time deposited in the Rebate Account shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined, computed, and provided to the Trustee in accordance with the Issuer Tax Certificate), for payment to the federal government of the United States of America. Neither the Issuer nor any Owners shall have any rights in or claim to such money. Unless the Issuer delivers an opinion of Counsel to the effect that another use is not inconsistent with the Issuer's covenants contained in Section 6.03 of this Indenture, all amounts deposited into or on deposit in the Rebate Account shall be governed by this Section, by Section 6.03 of this Indenture, and by the Issuer Tax Certificate. The Trustee shall be deemed conclusively to have complied with such provisions if it follows such written directions of the Issuer, including supplying all necessary information specified in the Issuer Tax Certificate but solely to the extent the Trustee possesses such information in the manner provided in the Issuer Tax Certificate, and shall have no liability or responsibility to enforce compliance by the Issuer with the terms of the Issuer Tax Certificate.

(a) The Trustee shall withdraw from the Operating Account and transfer to the Rebate Account at the times and in the amounts specified in an Officer's Certificate an amount sufficient to cause the balance in the Rebate Account to equal the Rebate Requirement. Computations of the Rebate Requirement shall be furnished by or on behalf of the Issuer in accordance with the Issuer Tax Certificate. The Trustee shall supply upon request to the Issuer all necessary information in the manner provided in the Issuer Tax Certificate to the extent such information is reasonably available to the Trustee.

(b) The Trustee shall have no obligation to rebate any amounts required to be rebated pursuant to this Section other than from moneys held in the Rebate Account created under this Indenture.

(c) The Trustee shall invest all amounts held in the Rebate Account in Eligible Investments as directed by an Officer's Certificate, subject to the restrictions set forth in the Issuer Tax Certificate. Moneys shall not be transferred from the Rebate Account except as provided in paragraph (d) below. The Trustee shall not be liable for any consequences arising from such investment.

(d) When so directed by an Officer's Certificate, the Trustee shall remit part or all of the balances in the Rebate Account to the United States, as so directed. In addition, the Trustee shall deposit money into or transfer money out of the Rebate Account from or into such Accounts as directed by an Officer's Certificate; provided, that only moneys in excess of the Rebate Requirement may be transferred out of the Rebate Account to such other accounts or funds or to anyone other than the United States in satisfaction of the arbitrage rebate obligation. Any funds remaining in the Rebate Account not expected to be needed to pay any future Rebate Requirement (as represented in an Officer's Certificate) after each five-year remittance to the United States, redemption and payment of all of the Bonds, and payment and satisfaction of any Rebate Requirement, or provision made therefor satisfactory to the Trustee, shall be withdrawn and transferred to such Accounts as directed by such Officer's Certificate.

(e) Notwithstanding any other provision of this Indenture, the obligation to remit the Rebate Requirement to the United States and to comply with all other requirements of this Section, Section 6.03 hereof, and the Issuer Tax Certificate shall survive the defeasance or payment in full of the Bonds.

Section 5.04 Redemption and Mandatory Tender of the Bonds.

(a) *Generally*. When Current Interest Bonds are called for redemption, the accrued interest thereon shall be due on the redemption date. When Capital Appreciation Bonds or Convertible Bonds prior to the Conversion Date are called for redemption, the Accreted Value thereof shall be due on the redemption date. With respect to any optional redemptions pursuant to subsection (f) of this Section 5.04, the Issuer shall deposit with the Trustee on or prior to the redemption date a sufficient sum to pay principal or Accreted Value of, redemption premium, if any, and accrued interest on, the Bonds to be redeemed on such redemption date. If notice of redemption has been duly given as herein provided 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 accrete, and the Owners of such Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof, which payment shall be secured by the lien of this Indenture.

(b) *Notice of Redemption*. Except as otherwise provided in a Series Supplement, when a Bond is to be redeemed prior to its Maturity Date, the Trustee shall give notice to the Owner thereof and as required by Section 6.09 of this Indenture in the name of the Issuer, which notice shall identify the Bond to be redeemed, state the date fixed for redemption, 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 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 that money therefor having been deposited with the Trustee or Paying Agent, from and after such date, interest thereon shall cease to accrue or accrete. The Trustee shall give at least 20 days' notice by mail, or otherwise transmit the redemption notice in accordance with any appropriate provisions hereof, to the Owners of any Bonds which are to be redeemed, at their addresses shown on the registration books of the Issuer. Such notice may be waived by any Owners holding Bonds to be redeemed. Failure by a particular Owner to receive notice, or any defect in the notice to such Owner, shall not affect the redemption of any other Bond. Any notice of redemption given pursuant to this Indenture may be rescinded by Written Notice to the Trustee by the Issuer no later than 5 days prior to the date specified for redemption. 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 in this subsection (b). In making the determination as to how much money will be available in the Senior Turbo Redemption Account, the Subordinate Turbo Redemption Account on any Distribution Date for the purpose of giving notice of redemption under this subsection (b), the Trustee shall take into account investment earnings and amounts to be transferred from the respective subaccount of the Senior Liquidity Reserve Account to the Senior Debt Service Account, which it reasonably expects to be available for application pursuant to Section 5.02 and Section 5.05(b) hereof.

(c) *Turbo Term Bond Maturities*. The Turbo Term Bonds shall be redeemed in whole or in part prior to their Maturity Date on any Distribution Date (or on a special redemption date as set forth below), following notice of such redemption in accordance with Section 5.04(b) hereof, in accordance with the Payment Priorities. If less than all of the Turbo Term Bonds are to be redeemed pursuant to this subsection, the Owners of the Turbo Term Bonds shall be paid in accordance with subsection (g) of this Section 5.04. The Trustee may specify a special redemption date for purposes of redeeming Turbo Term Bonds if amounts are available therefor pursuant to Section 5.04(d) of this Indenture and if the Trustee is instructed to do so by the Issuer in an Officer's Certificate.

(d) *Turbo Redemptions*. The Turbo Term Bonds which are 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 pursuant to Section 5.04(c) of this Indenture), following notice of such redemption in accordance with Section 5.04(b) hereof, at the principal amount, together with accrued interest, or Accreted Value thereof, without premium; applied first, to the Turbo Redemption of all Outstanding Class 2 Senior Bonds that are Turbo Term Bonds, and second shall be transferred to the Subordinate Turbo Redemption Account and applied to the Turbo Redemption of Outstanding Subordinate Bonds. Thereafter, the Turbo Term Bonds which are Subordinate Bonds shall be redeemed in whole or in part prior to their Maturity Date from amounts on deposit in the Subordinate Turbo Redemption Account on any Distribution Date (or on a special redemption date pursuant to Section 5.04(c) of this

Indenture), following notice of such redemption in accordance with Section 5.04(b) hereof, at the principal amount, together with accrued interest, or Accreted Value thereof, without premium. Turbo Redemptions shall be credited as described in subsection (e) of this Section 5.04. If less than all of the Turbo Term Bonds are to be redeemed pursuant to this subsection, the Owners of such Turbo Term Bonds shall be paid in accordance with subsection (g) of this Section 5.04. Moneys in any Pledged Account shall not be used to make open market purchases of Turbo Term Bonds.

(e) *Application of Redemptions on Fixed Sinking Fund Installments and Turbo Term Bond Maturities*. For all purposes of this Indenture, including without limitation calculating the deposits required by Section 5.02(b)(iii) hereof, calculating the payments required by Section 5.02(c)(ii) hereof, and determining whether an Event of Default has occurred pursuant to Section 9.01(b) hereof, all redemptions made hereunder shall be credited as follows:

(i) 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 applicable Series Supplement;

(ii) the amount of any Fixed Sinking Fund Installments made hereunder shall be credited as follows 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 or purchase of Term Bonds in part shall be credited against any Fixed Sinking Fund Installment, if any, as directed by the Issuer.

(f) *Optional Redemption and Mandatory Tender*. The Bonds shall be subject to redemption, or mandatory tender and purchase, in whole or in part, at the option of the Issuer as set forth in the applicable Series Supplement. The Trustee shall be provided with 30 days prior notice of any optional redemption or tender and purchase (or such lesser amount of time acceptable to the Trustee). All Bonds redeemed or purchased and cancelled pursuant to this subsection (f) shall be credited as described in subsection (e) of this Section 5.04. If less than all of the Bonds of any Maturity Date of a Series are to be redeemed or tendered and purchased pursuant to this subsection, the Owners of the Bonds of such Maturity Date and Series shall be paid in accordance with subsection (g) of this Section 5.04. Notwithstanding the foregoing, if the Bonds to be tendered for purchase are Tax-Exempt Bonds and are to be remarketed as Tax-Exempt Bonds, an Opinion of Counsel that the mandatory tender and remarketing of such Bonds will not, in and of themselves, adversely affect the exclusion of interest on such Bonds from gross income for federal income tax purposes, addressed to the Issuer and the Trustee, will be required for the mandatory tender for purchase and remarketing of the Bonds. Any Bonds purchased by the Issuer pursuant to a mandatory tender for purchase shall be cancelled by the Trustee unless the Issuer otherwise so directs in writing. Additional provisions regarding mandatory tender for purchase and remarketing shall be set forth in a Series Supplement with respect to the applicable Series of Bonds.

(g) *Selection of Bonds for Redemption or Purchase*. Unless otherwise specified herein or by Series Supplement, if less than all the Outstanding Bonds of like Series, interest rate and Maturity Date are to be redeemed or tendered and purchased, the particular Bonds to be redeemed or purchased shall be selected by the Trustee by such method as it shall deem fair and appropriate, including by lot, and which may provide for the selection for redemption or purchase of portions (equal to any Authorized Denominations) of the principal or Maturity Value of Bonds of a denomination larger than the minimum Authorized Denomination.

(h) *Optional Clean-Up Call of Class 1 Senior Bonds*. The Class 1 Senior Bonds and any Bonds secured on parity with the Class 1 Senior Bonds are subject to optional redemption 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 from the available amounts on deposit in the Pledged Accounts allocable to the Class 1 Senior Bonds at any time that such amounts exceed the aggregate principal amount of, and accrued interest on, all Outstanding Class 1 Senior Bonds.

(i) *Mandatory Clean-Up Call of Class 2 Senior Bonds Secured by the Class 2 Senior Liquidity Reserve Subaccount*. The Class 2 Senior Bonds and any 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 from the available amounts on deposit in the Pledged Accounts allocable to the Class 2 Senior Bonds at any time that such amounts exceed the aggregate principal amount of, and accrued interest on, all such Outstanding Class 2 Senior Bonds.

(j) *Mandatory Clean-Up Call of Subordinate Bonds*. The Subordinate Bonds are subject to mandatory redemption in whole at a redemption price equal to 100% of the principal amount 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 Subordinate Bonds exceed the aggregate principal amount of, and accrued interest on, all Outstanding Subordinate Bonds.

(k) *Mandatory Redemption of Defeased Turbo Term Bonds*. The Defeased Turbo Term Bonds shall be 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 Pro Rata Defeasance Redemption Schedule provisions contained in Section 2.02(c) of this Indenture.

Section 5.05 Investments.

(a) *Generally*. Pending its use under this Indenture, money in the Accounts held by the Trustee may be invested by the Trustee in Eligible Investments maturing or redeemable at the option of the Issuer on or before each next succeeding Distribution Date, except in the case of the Capitalized Interest Subaccount or to the extent that other Eligible Investments timely mature or are so redeemable in an amount sufficient to make payments in respect of interest, Serial Maturities, Fixed Sinking Fund Installments and Turbo Term Bond Maturities under clauses (i) through (vii) of Section 5.02(c) of this Indenture on such next succeeding Distribution Dates. Except with respect to the Senior Liquidity Reserve Account as described in subsection (b) of this Section 5.05, investments and any income realized therefrom shall be held by the Trustee in the respective Accounts and shall be sold or redeemed to the extent necessary to make payments or transfers from each Account. In the absence of negligence or bad faith on its part, the Trustee shall not be liable for any losses on investments made at the direction of the Issuer. The Trustee may conclusively rely upon the Issuer'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 Issuer shall have failed to give written investment directions to the Trustee, then the Trustee shall notify the Issuer and shall hold such moneys uninvested until receipt of such written directions.

(b) *Senior Liquidity Reserve Account*. Not later than five Business Days prior to each Distribution Date, 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 this Section 5.05. Except as provided in Sections 5.02(b)(iv) and 5.02(b)(vii) of this Indenture, any amounts in the Class 1 Senior Liquidity Reserve Subaccount and the Class 2 Senior Liquidity Reserve Subaccount in excess of the Class 1 Senior Liquidity Reserve Requirement and the Class 2 Senior Liquidity Reserve Requirement, respectively, shall be transferred to the Senior Debt Service Account. If after receipt of any TSRs, the Trustee determines that a withdrawal from the Senior Liquidity Reserve Account will be required on December 1 of any year, the Trustee shall notify the provider under any forward purchase agreement at least ten (10) Business Days prior to the Business Day next preceding June 1 of such year, of the amount of money in the Senior Liquidity Reserve Account that must be invested in securities maturing prior to such December 1.

(c) *Valuation*. In computing the amount in any Account, the value of Eligible Investments shall be calculated as follows:

(i) as to investments the bid and asked prices of which are published on a regular basis in a recognized pricing service subscribed to by the Trustee, or *The Wall Street Journal* (or, if not there, then in *The New York Times*), the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination;

(ii) as to investments the bid and asked prices of which are not published on a regular basis in a recognized pricing service subscribed to by the Trustee, or in *The Wall Street Journal* or *The New York Times*, the average bid price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;

(iii) as to certificates of deposit and bankers acceptances, the face amount thereof, plus accrued interest;

(iv) as to any investment not specified above, the value thereof established by prior agreement between the Issuer and the Trustee (with Written Notice to each Rating Agency); and

(v) alternatively, the value of the above investments shall be determined as of the end of each month by the manner currently employed by the Trustee or any other manner consistent with industry standard.

(d) *Notice of Uninvested Funds*. The Trustee shall promptly notify the Issuer of any funds that become uninvested under this Indenture and shall request the Issuer to provide applicable instructions as to how to invest such funds.

(e) Unless otherwise specified herein income from any funds shall be transferred to the Collections Account.

(f) The Issuer acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Issuer the right to receive brokerage confirmations of security transactions as they occur, the Issuer specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Issuer periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder.

Section 5.06 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 principal or Accreted Value of, or interest or premium, if any, on any Bond remains unclaimed for two years after such principal or Accreted Value, interest, or premium has become due and payable, the Fiduciary shall pay over to or on the order of the Issuer the amount so deposited and thereupon the Fiduciary shall be released from all liability hereunder with respect to the payment of principal or Accreted Value, interest, or premium and the Owner of such Bond shall be entitled (subject to any applicable statute of limitations) to look only to the Issuer as an unsecured creditor for the payment thereof.

Section 5.07 Surplus Account.

(a) The Trustee shall establish and maintain when required an account separate from any other account established and maintained hereunder designated as the Surplus Account. Subject to the transfer provisions provided herein, all money at any time deposited in the Surplus Account shall be held by the Trustee in trust, provided that funds held in the Surplus Account are not pledged as security for the Owners and the Owners shall have no rights in or claim to such money. All amounts deposited into or on deposit in the Surplus Account shall be governed by this Section. The Trustee shall be deemed conclusively to have complied with such provisions if it follows such written directions of the Issuer.

(b) The Trustee shall invest all amounts held in the Surplus Account in Eligible Investments as directed by an Officer's Certificate, subject any the restrictions set forth in the Issuer Tax Certificate. The Trustee shall not be liable for any consequences arising from such investment. Moneys shall not be transferred from the Surplus Account except as provided in paragraph (c) below.

(c) When so directed by an Officer's Certificate, the Trustee shall (i) use part or all of the moneys in the Surplus Account for the redemption or purchase of Bonds, which may include the open market purchase of Class 1 Senior Bonds whereupon any Class 1 Senior Bonds so purchased shall be delivered to the Trustee for cancellation, or (ii) transfer part or all of such moneys into other Accounts created hereunder. Any moneys deposited into the Surplus Account not so used within one year shall be paid to the holder of the Residual Certificate.

ARTICLE VI

COVENANTS AND REPRESENTATIONS OF THE ISSUER

Section 6.01 Contract; Obligations to Owners; Representations of the Issuer.

(a) In consideration of the purchase and acceptance of any or all of the Bonds by those who shall hold the same from time to time, the provisions of this Indenture shall be a part of the contract of the Issuer with the Owners. The pledge and grant of a security interest made in this Indenture and the covenants herein set forth to be performed by the Issuer shall be for the equal benefit, protection, and security of the Owners. All of the Bonds of the same priority, regardless of the time or times of their maturity, shall be of equal rank without preference, priority, or distinction of any thereof over any other except as expressly provided pursuant hereto.

(b) The Issuer covenants to pay when due all sums payable on the Bonds, but only from the Collateral and subject to the limitations set forth in Section 1.03 of this Indenture. The obligation of the Issuer to pay principal or Accreted Value, interest, and redemption premium, if any, to the Owners shall be absolute and unconditional, shall be binding and enforceable in all circumstances whatsoever, and shall not be subject to setoff, recoupment, or counterclaim.

(c) The Issuer represents and warrants that (i) it is duly authorized pursuant to law to issue the Bonds, and to execute, deliver, and perform the terms of this Indenture; (ii) all action on its part required for or relating to the issuance of the Bonds and the execution and delivery of this Indenture has been duly taken; (iii) the Bonds, upon the issuance and authentication thereof, and this Indenture, upon the execution and delivery hereof, shall be valid and enforceable obligations of the Issuer in accordance with their terms; (iv) it has not heretofore conveyed, assigned, pledged, granted a security interest in, or otherwise disposed of the Collateral except for the benefit of the Series 2006 Refunded Bonds; and (v) the execution, delivery, and performance of this Indenture and the issuance of the Bonds are not in contravention of law or any agreement, instrument, indenture, or other undertaking to which it is a party or by which it is bound and no other approval, consent, or notice from any governmental agency is required on the part of the Issuer in connection with the issuance of the Bonds.

(d) This Indenture creates a valid and binding security interest in the Collateral in favor of the Trustee as security for the payment of the Bonds, enforceable by the Trustee in accordance with the terms hereof.

(e) The Issuer has not heretofore made a pledge of, granted a lien on or security interest in, or made an assignment or sale of the Collateral that ranks on a parity with or prior to the security interest granted hereby except for the benefit of the Series 2006 Refunded Bonds. The Issuer shall not hereafter make or suffer to exist any pledge or assignment of, lien on, or security interest in the Collateral that ranks prior to or on a parity with the pledge and security interest granted hereby except in accordance with Section 3.01 hereof.

Section 6.02 Operating Expenses.

(a) *Covenant to Pay*. The Issuer shall pay its Operating Expenses to the parties entitled thereto, to the extent that funds are available therefor, but solely to the extent provided herein. Termination Payments shall be made only from the Operating Contingency Account.

(b) *Officer's Certificate with respect to Operating Expenses*. On or before April 1 of each year during which Bonds are Outstanding (beginning April 1, 2022 for the Fiscal Year ending June 30, 2023), the Issuer shall deliver an Officer's Certificate to the Trustee estimating the Operating Expenses and the Tax Obligations that will be incurred or paid by the Issuer during the next succeeding twelve-month period commencing on the first day of the next succeeding Fiscal Year. The Officer's Certificate may also set forth Operating Expenses that have already been incurred by the Issuer but that have not yet been repaid, provided that the Operating Cap shall nonetheless continue to apply to all such amounts. The Issuer may at any time submit a supplemental Officer's Certificate setting forth Operating Expenses in excess of the Operating Cap. Such excess shall be deposited in the Operating Contingency Account pursuant to Section 5.02(b)(v) of this Indenture if, but only if, all of the deposits required by Section 5.02(b)(i) through (iv) have been fully funded. In the event that the Issuer fails to deliver an Officer's Certificate on or prior to any April 1, the Issuer shall be deemed to have delivered an Officer's Certificate certifying that the amount of the Operating Expenses and the Tax Obligations for the next succeeding Fiscal Year be the same as in the then-current Fiscal Year.

Section 6.03 Tax Covenants. The Issuer shall at all times do and perform all acts and things permitted by law and this Indenture which are necessary or desirable in order to assure that interest paid on the Tax-Exempt Bonds will be excluded from gross income for federal income tax purposes and shall take no action that would result in such interest not being excluded from gross income for federal income tax purposes. Without limiting the generality of the foregoing, the Issuer agrees that it will comply with the provisions of the Issuer Tax Certificate. This covenant shall survive defeasance or redemption of the Tax-Exempt Bonds.

Section 6.04 Accounts and Reports and Swap Contract Information.

(a) The Issuer shall (1) as specified herein, instruct the Trustee to keep books of account in which complete and accurate entries shall be made of its transactions relating to all funds and accounts hereunder, which books shall at all reasonable times be subject to the inspection of the Owners of an aggregate of not less than 25% in Bond Obligation of Bonds then Outstanding or their representatives duly authorized in writing; and (2) annually, within 270 days after the close of each Fiscal Year, deliver to the Trustee and each Rating Agency, a copy of its financial statements for such Fiscal Year, as audited by an independent certified public accountant or accountants. The Trustee shall have no duty to review, verify or analyze such report 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. The Issuer shall further report to the Rating Agencies on an annual basis, but only to the extent that such information is not included in the Issuer's financial statements, (a) the amounts and, to the extent available, the types of payments constituting TSRs that were received during the preceding 12-month period, and (b) whether, to the knowledge of the Issuer, any litigation is then pending against the State or the Issuer seeking to invalidate or overturn the MSA, the Consent Decree, the Purchase and Sale Agreement or the proceedings pursuant to which the Bonds are issued.

(b) The Issuer shall provide to the Trustee copies of all Swap Contracts and related information and schedules of payments thereunder as the Trustee may reasonably request for it to perform its duties hereunder.

(c) The Issuer shall not enter into a Swap Contract as long as the Series 2021 Bonds are outstanding.

Notwithstanding the foregoing, any provision of such reports and information as may be required hereunder shall be deemed satisfied if posted to EMMA in conjunction with the Issuer's SEC 15c2-12 continuing disclosure requirements per Section 6.10 hereunder.

Section 6.05 Ratings. The Issuer shall pay such reasonable fees and provide such available information as may be necessary to obtain and keep in effect ratings on all the Bonds from the number of nationally recognized securities rating services which rated the Bonds of a given Maturity Date of given Series on the date of issuance thereof.

Section 6.06 Affirmative Covenants.

(a) *Maintenance of Existence*. The Issuer shall keep in full effect its corporate existence and all of its rights and powers.

(b) *Protection of Collateral*. The Issuer shall from time to time authorize, execute or authenticate, deliver and file all documents and instruments, and will take such other action, as is necessary or advisable to: (1) maintain or preserve the lien, pledge and security interest of this Indenture; (2) perfect or protect the validity of any grant made or to be made by this Indenture; (3) preserve and defend title to the Collateral and the rights of the Trustee in the Collateral against the claims of all Persons and parties, including the challenge by any party to the validity or enforceability of the Basic Documents or the performance by any party thereunder; (4) enforce the Purchase and Sale Agreement; (5) pay any and all taxes levied or assessed upon all or any part of the Collateral; or (6) carry out more effectively the purposes of this Indenture.

(c) *Performance of Obligations*. The Issuer (1) shall diligently pursue any and all actions to enforce its rights in the Collateral and under each instrument or agreement included therein, and (2) shall not take any action and will use its best efforts not to permit any action to be taken by others that would release any Person from any of such Person's covenants or obligations under any such instrument or agreement or that would result in the amendment, hypothecation, subordination, termination, or discharge of, or impair the validity or effectiveness of, any such instrument or agreement, except, in each case, as expressly provided in the Basic Documents.

(d) *Notice of Events of Default*. The Issuer shall give the Trustee and Rating Agencies prompt Written Notice of each Event of Default that is known to the Issuer.

(e) *Other*. The Issuer shall:

(i) conduct its own business in its own name and not in the name of any other Person and correct any known misunderstanding regarding its separate identity;

(ii) maintain or contract for a sufficient number of employees and compensate all employees, consultants and agents directly, from the Issuer's bank accounts, for services provided to the Issuer by such employees, consultants and agents and, to the extent any employee, consultant or agent of the Issuer is also an employee, consultant or agent of another Person, allocate the compensation of such employee, consultant or agent between the Issuer and such Person on a basis that reflects the services rendered to the Issuer and such Person;

(iii) have a separate telephone number, which will be answered only in its name and separate stationery, invoices and checks in its own name;

(iv) conduct all transactions with any other Person strictly on an arm's-length basis, allocate all overhead expenses (including, without limitation, telephone and other utility charges) for items shared between the Issuer and such Person on the basis of actual use to the extent practicable and, to the extent such allocation is not practicable, on a basis reasonably related to actual use;

(v) at all times have a Board of Directors consisting of at least three members;

(vi) observe all formalities as a distinct entity, and ensure that all actions relating to (1) the dissolution or liquidation of the Issuer or (2) the initiation of, participation in, acquiescence in or consent to any bankruptcy, insolvency, reorganization or similar proceeding involving the Issuer, are duly authorized by unanimous vote of its Board of Directors;

(vii) maintain its books and records separate from those of any other Person and maintain its assets readily identifiable as its own assets rather than assets of any other Person and not commingle its assets with those of any other Person;

(viii) maintain its own separate records and accounts, and prepare financial statements in accordance with generally accepted accounting principles, consistently applied, and susceptible to audit; to the extent it is included in consolidated financial statements or consolidated tax returns, such financial statements and tax returns will make clear the separateness of the respective entities and make clear that the assets of the Issuer are not assets of any other Person and are not available to satisfy the debts of any other Person;

(ix) only maintain bank accounts or other depository accounts to which the Issuer alone is the account party, and from which only the Issuer has the power to make withdrawals;

(x) pay all of the Issuer's operating expenses from the Issuer's own assets (except for expenses incurred prior to the date of issuance of the Bonds); and

(xi) operate its business and activities such that it does not engage in any business or activity of any kind, or enter into any transaction or indenture, mortgage, instrument, agreement, contract, lease or other undertaking, other than the transactions contemplated and authorized by the Basic Documents; and does not create, incur, guarantee, assume or suffer to exist any indebtedness or other liabilities, whether direct or contingent, other than (1) as a result of the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business, (2) the incurrence of obligations contemplated and authorized by the Basic Documents, and (3) the incurrence of operating expenses in the ordinary course of business of the type otherwise contemplated by the Basic Documents.

Section 6.07 Negative Covenants.

(a) *Sale of Assets*. Except as expressly permitted by this Indenture, the Issuer shall not sell, transfer, exchange, or otherwise dispose of any of its properties or assets that are subject to the lien of this Indenture.

(b) *Termination*. The Issuer shall not terminate its existence or engage in any action that would result in the termination of the Issuer.

(c) *Limitation of Liens*. The Issuer shall not (1) permit the validity or effectiveness of this Indenture to be impaired, or permit the security interest created by this

Indenture to be amended, hypothecated, subordinated, terminated, or discharged, or permit any Person to be released from any covenants or obligations with respect to the Bonds under this Indenture except as may be expressly permitted hereby, (2) permit any lien, charge, excise, claim, security interest, mortgage, or other encumbrance (other than the security interest created by this 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 (3) permit the security interest created by this Indenture not to constitute a valid first priority security interest in the Collateral.

(d) *Payments Restricted*. The Issuer shall not, directly or indirectly, make distributions from the Collections Account except in accordance with this Indenture.

(e) *No Setoff*. The Issuer will not claim any credit on, or make any deductions from the principal or Accreted Value of or premium, if any, or interest due in respect of, the Bonds or assert any claim against any present or former Owner by reason of the payment of taxes levied or assessed upon any part of the Collateral.

(f) *Limitations on Consolidation, Merger, Sales of Assets, etc*. Except as otherwise provided in this Indenture, the Issuer will not consolidate or merge with or into any other Person, or convey or transfer all or substantially all of its properties or assets, or be succeeded by any other person, unless:

(i) the person surviving such consolidation or merger (if other than the Issuer), or such transferee, or such successor, as applicable, is organized and existing by virtue of or under the laws of the United States or any state and expressly assumes the due and punctual payment of the principal or Accreted Value of and premium, if any, and interest on all Bonds and the performance or observance of every agreement and covenant of the Issuer in this Indenture;

(ii) immediately after giving effect to such transaction, no Event of Default has occurred and is continuing under this Indenture;

(iii) the Issuer has received a Rating Confirmation with respect to any Outstanding Bonds which are then rated by a Rating Agency;

(iv) the Issuer has received an opinion of Counsel to the effect that such transaction will not have material adverse tax consequences to the Issuer and will not, in and of itself, cause interest on any Tax-Exempt Bonds to be included in gross income for federal income tax purposes;

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

(vi) the Issuer has delivered to the Trustee an Officer's Certificate and an opinion of Counsel to the effect that such transaction complies with this Indenture and that all conditions precedent to such transaction have been complied with.

(g) *Swap Contracts*. The Issuer shall not enter into any Swap Contract until it has first obtained a Rating Confirmation with respect to all Outstanding Bonds which are then rated by a Rating Agency with respect to such Swap Contract, nor shall it enter into any Swap Contract unless such Swap Contract provides that any payments to be made to or for the benefit of the Issuer shall be made to the Trustee for deposit into the Collections Account.

Section 6.08 Covenants of the State. Pursuant to the Purchase and Sale Agreement, the State authorized the following pledges made by the State to be included herein by the Issuer:

(a) The State pledges and agrees with the Issuer that the State shall take all actions as may be required by law fully to preserve, maintain, defend, protect and confirm the interest of the Issuer in the Corporation Tobacco Assets and in the revenues thereof and that the State will not take any action that will adversely affect the Issuer's legal right to receive the Corporation Tobacco Assets.

(b) The State pledges to and agrees with the Issuer, that the State will not limit or alter the rights of the Issuer to fulfill the terms of its agreements with the Owners, or in any way impair the rights and remedies of the Owners or the security for the Series 2021 Bonds until the Series 2021 Bonds, together with the interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of the Owners, are fully paid and discharged.

(c) The State promises to honor the pledge of the Issuer as described in this Indenture.

Section 6.09 Prior Notice. The Trustee shall give each Rating Agency 15 days prior Written Notice of any amendment to this Indenture or the defeasance, redemption or mandatory tender of Bonds or the issuance of Additional Bonds, Refunding Bonds or Subordinate Bonds.

Section 6.10 Continuing Disclosure Undertaking for Series 2021 Senior Bonds, Additional Bonds, Refunding Bonds and Subordinate Bonds. If (and to the extent that) a Series of Bonds is subject to the Rule, the Issuer covenants to comply with and carry out all of the provisions of the applicable Continuing Disclosure Undertaking for the sole benefit of the Owners (and, to the extent specified in this Section 6.10 and therein, the beneficial owners) of the Outstanding Bonds of each such Series and subject (except to the extent otherwise expressly provided in Section 6.10) to the remedial provisions of this Indenture.

ARTICLE VII

THE FIDUCIARIES

Section 7.01 Trustee's Organization, Authorization, Capacity, and Responsibility.

(a) The Trustee represents and warrants that it is duly organized and validly existing under the laws of the jurisdiction of its organization, having the authority to execute the trusts and perform its obligations hereunder, including 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 this Indenture.

(b) The duties and responsibilities of the Trustee shall be as provided by law and as set forth herein. Notwithstanding the foregoing, no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability 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; provided, that the Trustee shall perform its duties under Article V of this Indenture and, subject to Section 7.09 of this Indenture, make the payments and distributions required by this Indenture without requiring that any indemnity be provided to it. Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Article.

(c) As Trustee hereunder:

(i) the Trustee may conclusively rely and shall be fully protected in acting or refraining from acting upon any Officer's Certificate, opinion of counsel (or both), resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness, or other paper or document believed by it to be genuine and to have been signed or presented by the proper person or persons. The Trustee need not investigate any fact or matter stated in the 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 good faith in reliance on such certificate or opinion. Whenever in the administration of the trusts of this 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 herein specifically prescribed) may, in the absence of negligence or bad faith on the part of the Trustee, be deemed to be conclusively proved and established by an Officer's Certificate delivered to the Trustee, and such certificate, in the absence of negligence or bad faith 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 this Indenture upon the faith thereof;

(iii) any request, direction, order, or demand of the Issuer mentioned herein shall be sufficiently evidenced by an Officer's Certificate (unless other evidence in respect thereof be herein specifically prescribed); and any Issuer resolution may be evidenced to the Trustee by a copy thereof certified by the secretary or an assistant secretary of the Issuer;

(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, opinion of Counsel, resolution, statement, instrument, opinion, report, notice, request, consent, order, approval, appraisal, bond, debenture, note, coupon, security, or other paper or document unless requested in writing so to do by a Majority in Interest of the Bonds affected and then Outstanding, and 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 this Indenture, the Trustee may require indemnity satisfactory to it against such expenses or liabilities as a condition to proceeding; and

(v) prior to an Event of Default or after a cure or waiver of an Event of Default, the Trustee undertakes to perform only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations may be read into this Indenture against the Trustee and during all other times the Trustee shall use the same degree of care and skill in the exercise of the rights and powers vested in it by this Indenture as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

Section 7.02 Rights and Duties of the Fiduciaries.

(a) All money and investments received by the Fiduciaries under this Indenture shall be held in trust, in a segregated trust account in the trust department of such Fiduciary, not commingled with any other funds, and applied solely pursuant to the provisions hereof.

(b) The Fiduciaries shall keep proper accounts of their transactions hereunder (separate from its other accounts), which shall be open to inspection on reasonable notice by the Issuer and its representatives duly authorized in writing.

(c) The Fiduciaries shall not be required to monitor the financial condition of the Issuer 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 Owners.

(d) Each Fiduciary shall be entitled to the advice of counsel (who may be counsel for any party) and shall not be liable for any action taken in good faith in reliance on such advice. Each Fiduciary may rely conclusively on any notice, certificate, or other document furnished to it under this Indenture and reasonably believed by it to be genuine. A Fiduciary shall not be liable for any error in judgment, 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 this Indenture or omitted to be taken by it by reason of the lack of direction or instruction required for such action. When any payment or consent or other action by a Fiduciary is called for by this Indenture, the Fiduciary may defer such action pending receipt of such evidence, if any, as it may reasonably require in support thereof; except that the Trustee shall make the payments and distributions required by this Indenture without requiring that any further evidence be provided to it. A permissive right or power to act shall not be construed as a requirement to act.

(e) No recourse shall be had for any claim based on this Indenture or the Bonds against any director, officer, agent, or employee of any Fiduciary unless such claim is based upon the bad faith, negligence, willful misconduct, fraud or deceit of such person.

(f) Nothing in this Indenture shall obligate any Fiduciary to pay any debt or meet any financial obligations to any Person in relation to the Bonds except from money received for such purposes under the provisions hereof or from the exercise of the Trustee's rights hereunder.

(g) The Fiduciaries may be or become the owner of or trade in the Bonds and transact business generally with the Issuer and related entities with the same rights as if they were not the Fiduciaries.

(h) The Fiduciaries shall not be required to furnish any bond or surety.

(i) Nothing herein shall relieve any Fiduciary of responsibility for its negligence, bad faith or willful misconduct.

(j) The Trustee shall have the right to accept and act upon instructions, including funds transfer instructions ("Instructions") given pursuant to this Indenture and delivered using Electronic Means; provided, however, that the Issuer shall provide to the Trustee an incumbency certificate listing Authorized Officers with the authority to provide such Instructions ("Electronic Instructions Officers") and containing specimen signatures of such Electronic Instructions Officers, which incumbency certificate shall be amended by the Issuer whenever a person is to be added or deleted from the listing. If the Issuer 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 Issuer 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 Electronic Instructions Officer listed on the incumbency certificate provided to the Trustee have been sent by such Electronic Instructions Officer. The Issuer shall be responsible for ensuring that only Electronic Instructions Officers transmit such Instructions to the Trustee and that the Issuer and all Electronic Instructions 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 Issuer. 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 Issuer 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 Issuer; (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.

(k) The Trustee shall have no responsibility or liability with respect to any information, statements or recital in any offering circular, memorandum or other disclosure material prepared or distributed with respect to the issuance of the Bonds.

(l) The Trustee shall not be deemed to have knowledge of any Event of Default hereunder unless and until it shall have actual knowledge thereof, or shall have received written notice thereof at its Corporate Trust Office. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Bonds, or as to the existence of an Event of Default hereunder.

(m) The Trustee's rights to immunities and protection from liability hereunder and its rights to payment of its fees and expenses shall survive its resignation or removal and final payment or defeasance of the Bonds. All indemnifications and releases from liability granted herein to the Trustee shall extend to the directors, officers, employees and agents of the Trustee.

(n) The Trustee shall not be responsible for or accountable to anyone for the subsequent use or application of any moneys which shall be released or withdrawn in accordance with the provisions hereof.

(o) The Trustee may execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through attorneys, agents, affiliates, or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its duty hereunder, and the Trustee shall not be answerable for any willful misconduct or negligence on the part of any such attorney, agent, or receiver selected by it with reasonable care.

Section 7.03 Paying Agents. The Issuer designates the Trustee as Paying Agent. The Issuer 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 the Rating Agencies. The Issuer shall designate a successor if the Trustee ceases to serve as Paying Agent. Each successor Paying Agent shall be a state or national bank or trust company eligible under the laws of the State, and 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 Issuer shall give notice of the appointment of a successor to the Trustee as Paying Agent in writing to each Owner shown on the books of the Trustee. A Paying Agent may but need not be the same Person as the Trustee.

Section 7.04 Registrar. The Issuer designates the Trustee as Registrar. The Issuer shall designate a successor if the Trustee ceases to serve as Registrar and provide Written Notice to the Rating Agencies. Any successor Registrar shall be a state or national bank or trust company eligible under the laws of the State, and shall have a capital and surplus of not less than $50,000,000 and be a registered as a transfer agent with the Securities and Exchange Commission. The Issuer shall give notice of the appointment of a successor to the Trustee as Registrar in writing to each Owner shown on the registration books. The Registrar may but need not be the same Person as the Trustee. The Registrar shall act as transfer agent in accordance with Section 3.04.

Section 7.05 Resignation or Removal of the Trustee. The Trustee may resign on not less than 30 days Written Notice to the Issuer, the Owners, and the Rating Agencies. The Trustee will promptly certify to the Issuer that it has given Written Notice to all Owners and such certificate will be conclusive evidence that such notice was given as required hereby. The Trustee shall provide notice to the Issuer within two (2) Business Days of any changes in its ratings by the Rating Agencies and shall be removed if rated below investment grade by the Rating Agencies and each successor Trustee shall have an investment grade rating from the Rating Agencies. The Trustee may be removed by 30 days prior Written Notice from the Issuer (if not in default) or a Majority in Interest of the Outstanding Bonds to the Trustee and the Issuer. Such resignation or removal shall not take effect until a successor has been appointed and has accepted the duties of Trustee.

Section 7.06 Successor Fiduciaries.

(a) Any corporation or association which succeeds to the related corporate trust business of a Fiduciary 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 this Indenture, without any further act or conveyance.

(b) In case a Fiduciary resigns or is removed or becomes incapable of acting, or becomes bankrupt or insolvent, or if a receiver, liquidator, or conservator of a Fiduciary or of its property is appointed, or if a public officer takes charge or control of a Fiduciary, or of its property or affairs, then such Fiduciary (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 Issuer. The Issuer shall notify the Owners and the Rating Agencies of the appointment of a successor Trustee in writing within 20 days from the appointment. The Issuer will promptly certify to the successor Trustee that it has given such notice to all Owners and such certificate will be conclusive evidence that such notice was given as required hereby. If no appointment of a successor Trustee is made within 45 days after the giving of Written Notice in accordance with Section 7.05 or after the occurrence of any other event requiring or authorizing such appointment, the outgoing Trustee or any Owner may apply to any court of competent jurisdiction for the appointment of such a successor, and such court may thereupon, after such notice, if any, as such court may deem proper, appoint such successor. Any successor Trustee appointed under this section shall be a bank or trust company eligible under the laws of the State and shall have a capital and surplus of not less than $50,000,000. Any such successor Trustee shall notify the Issuer 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.

Section 7.07 Costs of Issuance Account. The Trustee shall establish and maintain a Costs of Issuance Account, which shall be funded in accordance with Section 4.01(b) and Section 2.02 of the Series 2021 Supplement and the relevant section of any Series Supplement authorizing the issuance of Additional Bonds, Refunding Bonds or Subordinate Bonds. The Trustee shall disburse funds from the Costs of Issuance Account as directed in writing by the Issuer. At such time as the Issuer notifies the Trustee that the Costs of Issuance have been fully paid, or at such time as no funds remain in the Costs of Issuance Account, the Trustee may close and terminate the Costs of Issuance Account. The funds remaining therein, if any, shall then be transferred to the Collections Account and applied as described in Section 5.02(a) of this Indenture. The Trustee is conclusively entitled to rely on all directions given by the Issuer with respect to the Costs of Issuance Account.

Section 7.08 Reports by Trustee to Owners and Rating Agency. The Trustee shall deliver to each Rating Agency, the Issuer and any Owner upon request, with respect to the Bonds, at least one Business Day prior to each Distribution Date therefor, a statement prepared by the Trustee with the assistance of the Issuer setting forth:

(a) the Outstanding Bonds of each Series on such Distribution Date;

(b) the amount of interest to be paid to Owners on such Distribution Date;

(c) any Serial Maturity, Turbo Term Bond Maturity or Fixed Sinking Fund Installment due on or scheduled for such Distribution Date and the Turbo Redemptions to be made as of that Distribution Date;

(d) the amount on deposit in the Pledged Accounts as of that Distribution Date, including the amount on deposit in the Lump Sum Payment Account;

(e) 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; and

(f) 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.

Section 7.09 Compensation and Expenses of the Fiduciaries.

(a) The Fiduciaries shall be entitled to payment and/or reimbursement for reasonable fees and costs for their services rendered hereunder and all advances, legal fees, and other expenses reasonably and necessarily made or incurred by them in connection with such services. Upon an Event of Default hereunder, but only upon such an Event of Default, the Fiduciaries shall have a right of payment prior to payment on account of principal or Accreted Value of, premium, if any, or interest on any Bond for the foregoing fees, costs, expenses and advances; provided, however, that in no event shall the Fiduciaries have any such prior right of payment or claim against any moneys or obligations deposited with or paid to the Fiduciaries for the redemption or payment of Bonds which are deemed to have been paid in accordance with Section 2.02 hereof.

(b) The Issuer hereby agrees, to the extent permitted by law, to assume liability for, and hereby indemnifies, protects, saves and holds harmless the Trustee (including in its individual capacity), and its officers, directors, successors, assigns, legal representatives, agents and servants (each an "Indemnified Person"), from and against any and all liabilities, obligations, losses, damages, penalties, taxes (excluding any taxes payable by the Trustee on or measured by any compensation received for its services as Trustee), claims, actions, investigations, proceedings, costs, expenses or disbursements (including, without limitation, reasonable fees and expenses including those of counsel and other professionals and consultants) of any kind and nature whatsoever which may be imposed on, incurred by or asserted at any time against an Indemnified Person (whether or not also indemnified against by any other person) in any way relating to or arising out of this Indenture or the enforcement of any of the terms thereof or the action or inaction of the Trustee under this Indenture, except where any such claim for indemnification has arisen as a result of the bad faith, willful misconduct or negligence on the part of Trustee in the performance or nonperformance of its duties under this Indenture.

Section 7.10 Nonpetition Covenant. Notwithstanding any prior termination of this Indenture, no Fiduciary (including in its individual capacity), beneficial owner or Owner shall, prior to the date which is one year and one day after the termination of this Indenture, acquiesce, petition, or otherwise invoke or cause the Issuer or the Issuer to invoke the process of any court or government authority for the purpose of commencing or sustaining a case against the Issuer or the Issuer 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 Issuer or the Issuer or any substantial part of its property, or ordering the winding up or liquidation of the affairs of the Issuer or the Issuer.

ARTICLE VIII

THE OWNERS

Section 8.01 Action by Owners. Any request, authorization, direction, notice, consent, waiver, or other action provided by this Indenture to be given or taken by Owners may be contained in and evidenced by one or more writings of substantially the same tenor signed by the requisite number of Owners 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 this Indenture (except as otherwise herein expressly provided) if made in the following manner, but the Issuer 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 Owner or its attorney of such instrument may be proved by the certificate or signature guarantee by a guarantor institution participating in a guarantee program acceptable to the Trustee, or of any notary public or other officer authorized to take acknowledgements of deeds to be recorded in the jurisdiction in which such notary public or other officer purports to act, that the person signing such request or other instrument acknowledged to such notary public or other officer the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. The authority of the person or persons executing any such instrument on behalf of a corporate Owner 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 shall be irrevocable and bind all future record and beneficial owners thereof.

Section 8.02 Registered Owners. The enumeration in Section 3.05(a) of this Indenture of certain provisions applicable to DTC as Owner of immobilized Bonds shall not be construed in limitation of the rights of the Issuer and each Fiduciary to rely upon the registration books in all circumstances and to treat the Owners of Bonds as the owners thereof for all purposes not otherwise specifically provided for by law or in this Indenture. Notwithstanding any other provisions hereof, any payment to the Owner of a Bond shall satisfy the Issuer's obligations thereon to the extent of such payment.

ARTICLE IX

DEFAULT AND REMEDIES

Section 9.01 Events of Default. "Event of Default" in this Indenture means any one of the events set forth below:

(a) failure to pay when due any Swap Payment or interest on any Class 1 Senior Bonds;

(b) failure to pay when due any Serial Maturity, Fixed Sinking Fund Installment or Term Bond Maturity for Class 1 Senior Bonds; or

(c) failure of the Issuer to observe or perform any other covenant, condition, agreement, or provision contained in the Senior Bonds or in this Indenture relating to Senior Bonds, which breach 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 Issuer by the Trustee or by the Owners of at least 25% in Bond Obligation of the Senior Bonds then Outstanding. In the case of a default specified in this subsection, if the default be such that it cannot be corrected within the said 60-day period, it shall not constitute an Event of Default if corrective action is instituted by the Issuer within said 60-day period and diligently pursued until the default is corrected.

Except as specified in subsections (a) and (b) of this Section 9.01, failure to make any payment or to make provision therefor, including any Projected Turbo Redemption, does not constitute an Event of Default to the extent that such failure results from the insufficiency of available Collateral to make such payment or provision therefor.

Notwithstanding anything herein to the contrary, neither a Class 2 Payment Default nor a Subordinate Payment Default is an Event of Default hereunder, provided that in the event of a Class 2 Payment Default or a Subordinate Payment Default, so long as no Series 2021B-1 Bonds or Class 1 Senior Bonds are Outstanding, Owners of Class 2 Senior Bonds (in the event of a Class 2 Payment Default) and Owners of Subordinate Bonds (in the event of a Subordinate Payment Default) shall have the respective specified remedies in Section 9.02(a)(v) of this Indenture.

Section 9.02 Remedies.

(a) *Remedies of the Trustee*. If an Event of Default occurs:

(i) The Trustee may, and upon written request of the Owners of at least 25% in Bond Obligation of the Senior Bonds Outstanding shall, in its own name by action or proceeding in accordance with law:

(A) enforce all rights of the Owners and require the Issuer to carry out its agreements under the Bonds and this Indenture;

(B) sue upon such Bonds;

(C) require the Issuer to account as if it were the trustee of an express trust for such Owners; and

(D) enjoin any acts or things which may be unlawful or in violation of the rights of such Owners.

(ii) The Trustee shall, in addition to the other provisions of this Section 9.02, have and possess all of the powers necessary or appropriate for the exercise of any functions incident to the general representation of Owners in the enforcement and protection of their rights.

(iii) Upon an Event of Default under Section 9.01(a) or 9.01(b), or a failure to make any other payment required under this Indenture within 7 days after the same becomes due and payable, the Trustee shall give Written Notice thereof to the Issuer. The Trustee shall give notice under paragraph (c) of Section 9.01 when instructed to do so by the written direction of another Fiduciary or the Owners of at least 25% in Bond Obligation of the Outstanding Senior Bonds. Upon the occurrence of an Event of Default, the Trustee shall proceed under Section 9.02 for the benefit of the Owners 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 this Indenture or any such remedies (not contrary to any such direction) as it deems appropriate for the protection of the Owners, and shall act for the protection of the Owners with the same promptness and prudence as would be expected of a prudent person in the conduct of such person's own affairs.

(iv) Upon the occurrence of an Event of Default, the Bonds and Swap Payments shall be paid as described in Section 5.02(d) of this Indenture.

(v) *Remedies for Class 2 Senior Bonds and Subordinate Bonds*. Only if the Class 1 Senior Bonds are no longer Outstanding, the Owners of Class 2 Senior Bonds may enforce the provisions of this Indenture for their benefit by appropriate legal proceedings in accordance with clause (1) of the definition of Payment Priorities. Only if the Senior Bonds are no longer Outstanding, the Owners of Subordinate Bonds may enforce the provisions of this Indenture for their benefit by appropriate legal proceedings in accordance with clauses (2) - (4) of the definition of Payment Priorities.

(A) The principal or Accreted Value, premium, if any, and interest on Subordinate Bonds will be subordinated in right of payment to principal or Accreted Value, premium, if any, and interest payments on the Senior Bonds. In any Event of Default, Owners of Senior Bonds will be entitled to receive payment thereof in full before the Owners of the Subordinate Bonds are entitled to receive payment thereof; and any payment or distribution of assets otherwise payable to Owners of the Subordinate Bonds will be paid to Owners of Senior Bonds until all Senior Bonds have been paid in full, and the Owners of the Subordinate Bonds will be subrogated to the rights of such Owners of Senior Bonds to receive payments or distributions of assets with respect thereto.

(b) *Individual Remedies*. No one or more Owners shall by its or their action affect, disturb, or prejudice the pledge created by this Indenture, or enforce any right under this Indenture, except in the manner herein provided, and all proceedings at law or in equity to enforce any provision of this Indenture shall be instituted, had, and maintained in the manner provided herein and for the equal benefit of all Owners of the same class, but nothing in this Indenture shall affect or impair the right of any Owner to enforce payment of the principal or Accreted Value of, premium, if any, or interest thereon at and after the same comes due pursuant to this Indenture, or the obligation of the Issuer to pay such principal or Accreted Value, premium, if any, and interest on each of the Bonds to the respective Owners thereof at the time, place, from the source, and in the manner expressed herein and in the Bonds.

(c) *Venue*. The venue of every action, suit, or special proceeding against the Issuer shall be laid in federal or state courts located in the State of Alaska, unless waived by the Issuer.

(d) *Waiver*. If the Trustee determines that any 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 Issuer, and shall do so upon written instruction of the Owners of at least 25% in Bond Obligation of the Outstanding Senior Bonds.

(e) *Owner*. For purposes of this Section, "Owners" shall not include the Issuer if it is an Owner of Bonds.

Section 9.03 Remedies Cumulative. The rights and remedies under this 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 Issuer 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 Issuer or of the right to exercise any remedy for the violation.

Section 9.04 Delay or Omission Not Waiver. No delay or omission of the Trustee or of any Owner 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 hereby or by law to the Trustee or to the Owners may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Owners, as the case may be.

ARTICLE X

MISCELLANEOUS

Section 10.01 Supplements and Amendments to this Indenture.

(a) This Indenture may be:

(i) supplemented or amended in writing by the Issuer and the Trustee to (a) provide for earlier or greater deposits into the Senior Debt Service Account, (b) subject any property to the security interest created hereby, (c) add to the covenants and agreements of the Issuer or surrender or limit any right or power of the Issuer, (d) identify particular Bonds for purposes not inconsistent herewith, including credit or liquidity support, remarketing, qualification for sale under the securities laws of any state or other jurisdiction of the United States 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 this Indenture under the Trust Indenture Act of 1939, as amended, (g) make any other changes to this Indenture that, as evidenced by a Rating Confirmation with respect to any Outstanding Bonds which are then rated by a Rating Agency, are not materially adverse to the Owners of Outstanding Bonds, or (h) provide for the issuance of the Series 2021 Bonds, Additional Bonds, Refunding Bonds and Subordinate Bonds in compliance with Section 3.01(b) hereof; or

(ii) amended in writing by the Issuer and the Trustee, (a) to add provisions that are not adverse to the Owners, (b) to adopt amendments that do not take effect unless and until such amendment is consented to by such Owners in accordance with the further provisions hereof, or (c) pursuant to the following paragraph (b).

(b) Except as provided in the foregoing paragraph (a), this Indenture may be amended:

(i) only with Written Notice to the Rating Agencies and the written consent of a Majority in Interest of each Series of Bonds to be Outstanding at the effective date thereof and affected thereby; but

(ii) only with the unanimous written consent of the affected Owners (not including the Issuer if the Issuer is an Owner) for any of the following purposes: (a) to extend the Maturity Date of any Bond, (b) to reduce the principal amount, Accreted Value, applicable premium, or interest rate of any Bond, (c) to make any Bond redeemable other than in accordance with its terms, (d) to create a preference or priority of any Bond over any other Bond of the same class or (e) to reduce the Bond Obligation of the Bonds required to be represented by the Owners giving their consent to any amendment.

(c) Any amendment of this Indenture shall be accompanied by an opinion of Counsel to the effect that the amendment is permitted by this Indenture and will not, in and of itself, cause interest on the Tax-Exempt Bonds to be included in gross income for federal income tax purposes.

(d) When the Issuer determines that the requisite number of consents have been obtained for an amendment hereto, it shall file a certificate to that effect in its records and give notice to the Trustee and the Owners. The Trustee will promptly certify to the Issuer that it has given such notice to all Owners and such certificate will be conclusive evidence that such notice was given in the manner required hereby. It shall not be necessary for the consent of Owners pursuant to this Section to approve the particular form of any proposed amendment, but it shall be sufficient if such consent shall approve the substance thereof.

Section 10.02 Notices. Unless otherwise expressly provided, all notices to the Issuer or the Trustee shall be in writing and shall be deemed sufficiently given if sent by registered or certified mail, postage prepaid and return receipt requested, or delivered during business hours as follows:

(a) to the Issuer at:

Northern Tobacco Securitization Corporation
4300 Boniface Parkway
Anchorage, Alaska 99504
Attention: Chair

(b) to the Trustee at:

U.S. Bank National Association
1420 Fifth Avenue, Seventh Floor
Seattle, Washington 98101
Attention: Corporate Trust Department

or, as to all of the foregoing, to such other address as the addressee shall have indicated by prior Written Notice to the one giving notice. All notices to an Owner shall be in writing and (without limitation) shall be deemed sufficiently given if sent by mail, postage prepaid, to the Owner at the address shown on the registration books. An Owner may direct the Registrar to change such Owner's address as shown on the registration books by Written Notice to the Registrar.

Any such communication also may be transmitted to the appropriate party by telephone and shall be deemed given or made at the time of such transmission if, and only if, such transmission of notice shall be confirmed by Written Notice as specified above.

Notice hereunder may be waived prospectively or retrospectively by the Person entitled to the notice, but no waiver shall affect any notice requirement as to other Persons.

Section 10.03 Beneficiaries. This Indenture is not intended for the benefit of and shall not be construed to create rights in parties other than the Issuer and the Trustee, the Owners and the counterparty to any Swap Contract to the extent specified herein.

Section 10.04 Successors and Assigns. All covenants and agreements in this Indenture and the Bonds by the Issuer shall bind its successors and assigns, whether so expressed or not. All agreements of the Trustee in this Indenture shall bind its successors.

Section 10.05 Severability. In case any provision in this Indenture or in the Bonds shall be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 10.06 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 this 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 or accrete for the period from and after any such nominal date.

Section 10.07 Governing Law. This Indenture shall be construed in accordance with the laws of the State, without reference to its conflict of law provisions, and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with such laws.

Section 10.08 Limitation of Liability. No member, director, officer, or employee of the Issuer shall be individually or personally liable for the payment of the interest on or principal or Accreted Value of or the redemption price, if any, on the Bonds, but nothing contained herein shall relieve any director, officer, or employee of the Issuer from the performance of any official duty provided by any applicable provisions of law or hereby.

Section 10.09 No Recourse to Issuer. Notwithstanding any provision of this Indenture or any Series Supplement or Bond to the contrary, (i) Owners shall have no recourse against the Issuer, but shall look only to the Collateral, with respect to any amounts due to the Owners hereunder and the holders of the Bonds shall have no recourse to the other assets of the Issuer, including but not limited to any assets pledged to secure payment of any other debt obligation of the Issuer; (ii) if, notwithstanding the limitation on recourse described in clause (i) above, any Bondholders are deemed to have an interest in any asset of the Issuer (other than the Collateral) pledged to the payment of another debt obligation of the Issuer, the Bondholders agree that their interest in such asset will be subordinate to the claims and rights of the holders of such other debt obligation and such agreement constitutes a subordination agreement for purposes of Section 510(a) of the U.S. Bankruptcy Code. In the event the Collateral has been exhausted and the Bonds have not been paid in full, then any and all amounts remaining due on the Bonds shall be extinguished and the Bonds cancelled.

Section 10.10 Signatures and Counterparts. This Indenture and each Supplemental Indenture may be executed and delivered in any number of counterparts, each of which shall be deemed to be an original, but such counterparts together shall constitute one and the same instrument. Delivery of an executed signature page of this Indenture or any such Supplemental Indenture by facsimile or email transmission shall be effective as delivery of a manually signed counterpart hereof or thereof.

Section 10.11 Effective Date. This Amended and Restated Indenture shall become effective upon its execution and delivery on the Closing Date.

Section 10.12 Electronic Signature. Each of the parties hereto agrees that the transaction consisting of this Amended and Restated Indenture may be conducted by electronic means. Each party agrees, and acknowledges that it is such party's intent, that if such party signs this Amended and Restated Indenture using an electronic signature, it is signing, adopting, and accepting this Amended and Restated Indenture and that signing this Amended and Restated Indenture using an electronic signature is the legal equivalent of having placed its handwritten signature on this Amended and Restated Indenture on paper. Each party acknowledges that it is being provided with an electronic or paper copy of this Amended and Restated Indenture in a usable format.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties have caused this Amended and Restated Indenture to be duly executed all as of the date first above written.

NORTHERN TOBACCO SECURITIZATION CORPORATION, as Issuer

By:___________________________________
Name: ________________________________
Title: _________________________________

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By:___________________________________
Name: Tom Zrust
Title: Vice President

[Signature Page to Amended and Restated Indenture]

EXHIBIT A

FORM OF SERIES SUPPLEMENT

[attached]

SERIES 2021 SUPPLEMENT

by and between the

NORTHERN TOBACCO SECURITIZATION CORPORATION,
as Issuer

and

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

AUTHORIZING THE ISSUANCE OF
$282,480,482.50
NORTHERN TOBACCO SECURITIZATION CORPORATION
TOBACCO SETTLEMENT ASSET-BACKED BONDS

$152,825,000 Series 2021A Class 1 Senior Current Interest Bonds
$535,000,000 Series 2021B-1 Class 2 Senior Current Interest Bonds
$94,655,482.50 Series 2021B-2 Class 2 Senior Capital Appreciation Bonds

Dated as of July 1, 2021

ARTICLE I

DEFINITIONS AND AUTHORITY

Section 1.01. Definitions. Terms used herein and not otherwise defined shall have the respective meanings given or referred to in the Indenture, dated as of July 1, 2021 (the "Indenture") by and between the Northern Tobacco Securitization Corporation (the "Issuer") and U.S. Bank National Association, as trustee (the "Trustee"). In addition, the following terms shall have the following meanings for purposes of this Series 2021 Supplement:

"Alaska Model Statute" means the Qualifying Statute (as such term is defined in the MSA) adopted by the State as Chapter 46, SLA 1999, codified as Chapter 53 of Title 45, Alaska Statutes.

"Authorizing Statutes" means Chapter 130, SLA 2000, Chapter 96, SLA 2001, Chapter 35, SLA 2006, AS 18.56.086 and AS 10.20.

"Capital Projects" means projects permitted to be funded pursuant to the Authorizing Statutes, including a state capital project in Fairbanks, Alaska, and/or such other public use project(s) as may be duly appropriated by the Alaska State Legislature.

"Custodial Agreement" means that custodial agreement dated as of July 1, 2021 among the State, the Issuer, and U.S. Bank National Association, as custodial agent, for the purpose of handling, investing and distributing funds for Capital Projects.

"Projected Turbo Redemption" means the projected turbo redemptions set forth in Exhibit 2 to this Series 2021 Supplement.

Section 1.02. Authority for this Series 2021 Supplement. This Series 2021 Supplement is executed and delivered pursuant to Sections 3.01(a) and 10.01(a) of the Indenture.

ARTICLE II

THE SERIES 2021 BONDS

Section 2.01. Principal Amount and Terms. Pursuant to the Indenture, three Series of Bonds are hereby authorized in the combined aggregate principal amount of $282,480,482.50. Such three Series of Bonds (collectively, the "Series 2021 Bonds") shall be distinguished by the following respective titles and shall have the following respective aggregate principal amounts:

> "$282,480,482.50 Northern Tobacco Securitization Corporation Senior Lien Tobacco Settlement Asset-Backed Bonds, Series 2021"
>
> "$152,825,000 Northern Tobacco Securitization Corporation Tobacco Settlement Asset-Backed Bonds, Series 2021A Senior Current Interest Bonds" (the "Series 2021A Bonds").

"$35,000,000 Northern Tobacco Securitization Corporation Tobacco Settlement Asset-Backed Bonds, Series 2021B-1 Class 2 Senior Current Interest Bonds" (the "Series 2021B-1 Bonds").

"$94,655,482.50 Northern Tobacco Securitization Corporation Tobacco Settlement Asset-Backed Bonds, Series 2021B-2 Class 2 Senior Capital Appreciation Bonds" (the "Series 2021B-2 Bonds").

(a) *Details of the Series 2021 Bonds*. The Series 2021 Bonds shall all be issued as Senior Bonds. The Series 2021A Bonds and Series 2021B-1 Bonds shall be issued as Senior Current Interest Bonds in the principal amounts and with the Fixed Sinking Fund Installments and the Maturity Dates set forth on Exhibit 1 hereto. The Series 2021B-2 Bonds shall be issued as Senior Capital Appreciation Bonds with the respective Maturity Dates, in the initial principal amounts and with the Accreted Values at the respective Maturity Dates as set forth on Exhibit 1 hereto. The Series 2021 Bonds shall be issued in fully registered form and shall be numbered from R-A/B-1/B-2-1 upwards. The Series 2021B-1 Bonds and Series 2021B-2 Bonds are Turbo Term Bonds. The Projected Turbo Schedule for the Series 2021B-1 Bonds and Series 2021B-2 Bonds is shown on Exhibit 2 hereto. The Series 2021A Bonds and Series 2021B-1 Bonds which are Current Interest Bonds shall be issued substantially in the form of Exhibit 3 hereto. The Series 2021B-2 Bonds which are Capital Appreciation Bonds shall be issued substantially in the form of Exhibit 4 hereto. The Series 2021 Bonds are Tax-Exempt Bonds.

(b) *Authorized Denominations* means (1) with respect to the Series 2021A and 2021B-1 Bonds, $5,000 or any integral multiple thereof; and (2) with respect to the Series 2021B-2 Bonds, denominations such that the Accreted Value thereof at the Conversion Date are in the denomination of $5,000 or any integral multiple thereof.

(c) *Optional Redemption and Mandatory Tender*.

(1) The Series 2021B-1 Bonds and the Series 2021B-2 Bonds are each subject to redemption or mandatory tender and purchase, from any source other than amounts in the Pledged Accounts that are required to secure any Bonds that will remain Outstanding after such redemption or purchase, at the option of the Issuer, (x) in the case of the Series 2021B-1 Bonds, at a redemption price or purchase price, as applicable, equal to one hundred percent (100%) of the principal amount being redeemed or purchased, as applicable, plus interest accrued to the redemption date or purchase date, as applicable, and (y) in the case of the Series 2021B-2 Bonds, at a redemption price or purchase price, as applicable, equal to one hundred percent (100%) of the Accreted Value being redeemed or purchased, as applicable, on the redemption date or purchase date, as applicable, in each case 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 as set forth in the Projected Turbo Redemption schedule but, as of the date of such redemption or purchase, as applicable, have not been paid with respect to such Series 2021B-1 Bonds or Series 2021B-2 Bonds, as applicable.

(2) In addition, the Series 2021 Bonds are each subject to redemption or mandatory tender and purchase, from any source other than amounts in the Pledged

Accounts that are required to secure any Bonds that will remain Outstanding after such redemption or purchase, at the option of the Issuer (x) in the case of the Series 2021A Bonds and the Series 2021B-1 Bonds, at a redemption price or purchase price, as applicable, equal to one hundred percent (100%) of the principal amount being redeemed or purchased, as applicable, plus interest accrued to the redemption date or purchase date, as applicable, and (y) in the case of the Series 2021B-2 Bonds, at a redemption price or purchase price, as applicable, equal to one hundred percent (100%) of the Accreted Value being redeemed or purchased, as applicable, on the redemption date or purchase date, as applicable, in each case in whole or in part on any date on or after June 1, 2031, and if in part, from any Maturity Date selected by the Issuer in its discretion.

(3) (A) Any Series 2021 Bonds purchased by the Issuer pursuant to a mandatory tender for purchase shall be cancelled by the Trustee unless the Issuer otherwise so directs in writing. Notwithstanding the foregoing, if the Series 2021 Bonds to be tendered for purchase are Tax-Exempt Bonds and are to be remarketed as Tax-Exempt Bonds, an Opinion of Counsel that the mandatory tender and remarketing of such Series 2021 Bonds will not, in and of themselves, adversely affect the exclusion of interest on such Series 2021 Bonds from gross income for federal income tax purposes, addressed to the Issuer and the Trustee, will be required for the mandatory tender for purchase and remarketing of such Series 2021 Bonds. If the remarketing is at a premium, the proceeds of the premium shall be used for any of the purposes specified in Section 4.01 (a), (b), (c) or (e) of the Amended and Restated Indenture dated as of July 1, 2021, as directed by an Authorized Officer of the Issuer.

(B) In the event of a mandatory tender and remarketing of Series 2021 Bonds, the Series 2021 Bonds so remarketed shall comply with the applicable requirements of Section 3.01 (except for Section 3.01(e)) as if such Series 2021 Bonds were Refunding Bonds or Additional Bonds.

(d) *Mandatory Redemption by Sinking Fund Installments*.

The Series 2021A Bonds maturing on June 1, 2050 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.

$47,755,000 Series 2021A Bonds due June 1, 2050

Date	**Fixed Sinking Fund Installment**	**Date**	**Fixed Sinking Fund Installment**
June 1, 2042	$5,505,000	June 1, 2047	$5,260,000
June 1, 2043	5,460,000	June 1, 2048	5,205,000
June 1, 2044	5,415,000	June 1, 2049	5,145,000
June 1, 2045	5,365,000	June 1, 2050†	5,085,000
June 1, 2046	5,315,000		

† Stated Maturity.

(e) *Other Redemption*. Other than as provided in subsections (c) and (d) above, the Series 2021 Bonds shall be redeemable prior to maturity in accordance with their terms and the terms of the Indenture.

(f) *Default Rate*. With respect to the Series 2021B-2 Bonds, "Default Rate" means the rate shown on the Table of Accreted Values shown on Exhibit 5 hereto.

(g) *Table of Accreted Values*. The Table of Accreted Values for the Series 2021B-2 Bonds is set forth in Exhibit 5 hereto.

Section 2.02. Application of Proceeds. Upon receipt of the amount of the purchase price of the Series 2021 Bonds of the Issuer, the Trustee shall apply such proceeds as specified in Section 4.01 of the Indenture.

Section 2.03. Mandatory Tender.

(a) Subject to 5.04(f) of the Indenture hereof and 2.01(c) of this Series 2021 Supplement, all or a portion of any Series of the Series 2021 Bonds are subject to mandatory tender for purchase (with no right to retain) on each mandatory tender date, at the option of the Issuer, at the purchase price, equal to 100% of the principal amount or Accreted Value, as applicable, plus accrued interest, if any, subject to the conditions described herein.

(b) In connection with any mandatory tender of a Series of Series 2021 Bonds upon a mandatory tender date, the Trustee must deliver a notice of mandatory tender, which may be a conditional notice, to Owners at least 15 days prior to the mandatory tender date, subject to the provisions of Section 5.04(f) of the Indenture with respect to such Series 2021 Bonds, stating that all Owners subject to the mandatory tender will be deemed to have tendered their Series 2021 Bonds upon that date and stating as follows:

(i) the proposed mandatory tender date;

(ii) that the applicable Series 2021 Bonds will be subject to mandatory tender (subject to the provisions hereof) on the mandatory tender date; and

(iii) that the Issuer may elect to cancel the mandatory tender, notice of which must be given to Owners at least seven calendar days prior to the proposed mandatory tender date.

The Trustee shall also give notice of any mandatory tender date to each Rating Agency then rating the Series 2021 Bonds.

(c) The Issuer may establish one or more mandatory tender dates on which all or a portion of a Series of the Series 2021 Bonds, unless earlier redeemed, are subject to mandatory tender for purchase (with no right to retain) at a price equal to 100% of the principal amount or Accreted Value, as applicable, thereof, plus interest accrued to the applicable mandatory tender date, without premium.

(d) If only a portion of a Series of Series 2021 Bonds will be subject to mandatory tender on such mandatory tender date, the Series 2021 Bonds of such Series that will and will not be subject to mandatory tender on such date will be selected by such method as it shall deem fair and appropriate, including by lot, by the Trustee. Holders of the Series 2021 Bonds that will be subject to mandatory tender for purchase on the mandatory tender date will receive notice of the mandatory tender as described in subsection (b) above.

(e) Notwithstanding the foregoing, so long as the book-entry-only system remains in effect for the Series 2021 Bonds, the particular Bonds of such Series 2021 Bonds (or subseries, if applicable, to be purchased will be selected by DTC by lot or in such other manner as DTC shall determine.

(f) Subseries of Series 2021 Bonds may be created on a mandatory tender date. Any Series 2021 Bond that is subject to mandatory tender on a mandatory tender date may be redeemed without notice on such date.

(g) Any Series 2021 Bonds subject to tender and, if the Book-Entry System is not in effect, not delivered, with all necessary endorsements for transfer and signature guarantees, to the Trustee at or prior to 2:30 p.m., New York City time, on its mandatory tender date for which there have been irrevocably deposited in trust with the Trustee the purchase price are "deemed tendered" and purchased for purposes of this Series 2021 Supplement and will cease to accrue interest on that mandatory tender date; that untendered bond ("Untendered Bonds") will cease to be Outstanding under the Indenture; and the Owner of that Untendered Bond will no longer be entitled to any payment or other benefits under the Indenture and this Series 2021 Supplement, except payment of the purchase price therefor from money and only from that money, held by the Trustee for that purpose upon presentation to the Trustee (with appropriate instrument of transfer) at its principal office at or prior to 3:00 p.m., New York City time, on any Business Day after the mandatory tender date. If the Book-Entry System is not then in effect, Bond certificates will be issued in place of Untendered Bonds and, after the issuance of the replacement Bond certificates, those Untendered Bonds will be deemed purchased, canceled, and no longer Outstanding unless the Issuer has otherwise provided direction that they shall not be canceled pursuant to Section 5.04(f) of the Indenture.

(h) So long as all of the Series 2021 Bonds are registered in the name of Cede & Co., as nominee for DTC, such notice will be delivered to DTC or its nominee as Registered Owner of such Series 2021 Bonds. DTC is responsible for notifying DTC Participants, and DTC Participants and Indirect Participants are responsible for notifying beneficial owners of the Series 2021 Bonds. Neither the Trustee nor the Issuer is responsible for sending notices to beneficial owners.

(i) If the Issuer elects not to proceed with the mandatory tender on the mandatory tender date, the Issuer will give notice of the cancellation of the mandatory tender to the Trustee at least nine calendar days prior to the proposed mandatory tender date and, thereafter, the Trustee will give notice to each holder of the Series 2021 Bonds of that cancellation of the proposed interest rate change at least seven calendar days prior to the proposed mandatory tender date for which the foregoing notice was given.

Section 2.04. Remarketing and Purchase of Series 2021 Bonds.

(a) On each date on which the Series 2021 Bonds are subject to mandatory tender for purchase, the remarketing agent shall use its best efforts to sell all Series 2021 Bonds, or portions thereof, for which notice of an mandatory tender date has been given pursuant to subsection 2.03(a) hereof, at a purchase price equal to 100% of the principal amount, plus accrued interest if any or Accreted Value, as applicable, unless otherwise directed by the Issuer.

(b) On each mandatory tender date, the remarketing agent shall notify the Trustee and the Issuer by electronic means no later than 10:00 a.m. New York City time, of the principal amount of Series 2021 Bonds which were successfully remarketed and the principal amount of Series 2021 Bonds which were not remarketed. The Trustee hereby agrees that it shall, authenticate new Series 2021 Bonds, as applicable, for the respective purchasers thereof which shall be available for delivery to the new Bondholders thereof not later than 3:30 p.m., New York City time.

(c) On or before 3:00 p.m., New York City time, on each mandatory tender date, if moneys sufficient to pay the purchase price of all Series 2021 Bonds subject to mandatory tender on that date will be held by the Trustee, the Trustee will purchase all those Series 2021 Bonds from the Holders at the purchase price. Funds for the payment of that purchase price will be derived solely from immediately available funds transferred by the remarketing agent to the Trustee, which funds shall be derived from the remarketing of the Series 2021 Bonds, or from funds of the Issuer as described below.

Notwithstanding the foregoing, the Issuer may, but will not be obligated to, transfer immediately available funds of the Issuer to the Trustee for the payment of the purchase price of any Series 2021 Bonds subject to mandatory tender for purchase on a mandatory tender date. None of the Issuer, the Trustee or the remarketing agent will have any liability or obligation to pay or, except from the sources identified in the preceding paragraph, make available the purchase price. In the case of a failure to pay the purchase price, none of the Series 2021 Bonds will be purchased, and the Series 2021 Bonds will remain and bear interest at the same rate until their purchase, redemption or maturity. Neither the Issuer nor any third party is obligated to make funds available for the purchase of Series 2021 Bonds. The failure to pay the purchase price is not an event of default under the Indenture. In the event that remarketing proceeds and any funds made available by the Issuer for those purposes, in its sole discretion, are insufficient to pay the purchase price of all Series 2021 Bonds subject to mandatory tender on that mandatory tender date, no Series 2021 Bonds will be purchased on that mandatory tender date, the Holders do not have the right to have those Series 2021 Bonds purchased upon tender, any tendered Series 2021 Bonds will be returned to the Holders thereof by the Trustee, the Trustee will return remarketing proceeds to the remarketing agent for return to the persons providing those moneys, and those Series 2021 Bonds will remain in the applicable term and will bear interest at the same rate or until such Series 2021 Bonds are redeemed or paid at maturity.

Section 2.05. Remarketing Agent.

(a) The Issuer will appoint a remarketing agent with respect to the Series 2021 Bonds prior to each mandatory tender date, if necessary. The remarketing agent will signify its acceptance of the duties and obligations imposed on it hereunder by duly executing and delivering a remarketing agreement.

(b) On any mandatory tender date, the remarketing agent will use its best efforts to sell all those Series 2021 Bonds to be tendered as set forth in this Series 2021 Supplement.

ARTICLE III

RESIDUAL CERTIFICATE

Section 3.01. Sources of Payment. Payments under or in respect of the Residual Certificate shall be payable only from the sources provided therefor under the Indenture and this Series 2021 Supplement and only upon the terms of this Series 2021 Supplement. Notwithstanding anything to the contrary in this Series 2021 Supplement or in the Residual Certificate, no amounts shall be due and payable through or in respect of the Residual Certificate, and the registered owner of the Residual Certificate shall have no right to, or interest of any kind in, the payment of any such amount, unless and until the Trustee shall determine that funds are available therefor in accordance with Section 2.02, Section 2.03, Section 4.02, Section 5.02 or 5.07 of the Indenture and the Trustee shall in fact withdraw funds from the Series 2021 Accounts and the Surplus Account for such payment and transfer the same to the registered owner of the Residual Certificate.

Section 3.02. Delivery to Trustee. The Residual Certificate has been delivered to the State and registered on the books of the Issuer kept by the Trustee.

IN WITNESS WHEREOF, the parties have caused this Series 2021 Supplement to be duly executed all as of the date first above written.

NORTHERN TOBACCO SECURITIZATION CORPORATION

By:_______________________________________
Name: ____________________________________
Title: _____________________________________

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By:_______________________________________
Name: ____________________________________
Title: _____________________________________

EXHIBIT 1
to Series 2021 Supplement

$152,825,000 Series 2021A Class 1 Senior Current Interest Bonds
Series 2021A Serial Bonds

Maturity Date (June 1)	Principal Amount	Interest Rate	Maturity Date (June 1)	Principal Amount	Interest Rate
2022	$3,680,000	3.00%	2032	$5,365,000	5.00%
2023	3,970,000	4.00	2033	5,390,000	5.00
2024	4,680,000	5.00	2034	5,400,000	4.00
2025	4,415,000	5.00	2035	5,360,000	4.00
2026	4,290,000	5.00	2036	5,600,000	4.00
2027	4,950,000	5.00	2037	5,850,000	4.00
2028	5,200,000	5.00	2038	6,005,000	4.00
2029	5,405,000	5.00	2039	6,115,000	4.00
2030	5,375,000	5.00	2040	6,235,000	4.00
2031	5,345,000	5.00	2041	6,440,000	4.00

$47,755,000 4.00% Series 2021A Term Bonds due June 1, 2050

Fixed Sinking Fund Installments for
Series 2021A Term Bonds due June 1, 2050:

Date (June 1)	Fixed Sinking Fund Installment	Date (June 1)	Fixed Sinking Fund Installment
2042	$5,505,000	2047	$5,260,000
2043	5,460,000	2048	5,205,000
2044	5,415,000	2049	5,145,000
2045	5,365,000	2050	5,085,000
2046	5,315,000		

$35,000,000 Series 2021B-1 Class 2 Senior Current Interest Bonds

$7,500,000 0.50% Series 2021B-1 Turbo Term Bonds due June 1, 2031

$27,500,000 4.00% Series 2021B-1 Turbo Term Bonds due June 1, 2050

$94,655,482.50 Series 2021B-2 Class 2 Senior Capital Appreciation Bonds
$94,655,482.50 Series 2021B-2 Capital Appreciation Turbo Term Bonds

Maturity Date (June 1)	Initial Principal Amount	Rate of Accretion	Initial Principal Amount per $5,000 Accreted Value at Maturity	Accreted Value at Maturity
2066	$94,655,482.50	3.40%	$1,099.75	$430,350,000

PROJECTED TURBO REDEMPTIONS

Series 2021B-1 Bonds due June 1, 2031

Turbo Redemption Date (June 1)	Amount Redeemed[(1)]	Cumulative Total[(2)]
2022	$4,435,000.00	$4,435,000.00
2023	3,065,000.00	7,500,000.00

Series 2021B-1 Bonds due June 1, 2050

Turbo Redemption Date (June 1)	Amount Redeemed[(1)]	Cumulative Total[(2)]
2023	$2,810,000.00	$2,810,000.00
2024	5,085,000.00	7,895,000.00
2025	5,725,000.00	13,620,000.00
2026	6,225,000.00	19,845,000.00
2027	7,655,000.00	27,500,000.00

---

(1) Assumes Turbo Redemptions are made based upon the receipt of Collections as set forth in and in accordance with the IHS Global Consumption Report's Base Case and other structuring assumptions.
(2) Represents the full amount of principal projected to be paid on the Series 2021B-1 Bonds from their date of issuance through and including the referenced date.

Series 2021B-2 Bonds due June 1, 2066

Turbo Redemption Date (June 1)	Amount Redeemed[1]	Cumulative Total[2]
2027	$ 361,817.75	$ 361,817.75
2028	5,617,523.00	5,979,340.75
2029	5,481,154.00	11,460,494.75
2030	5,524,044.25	16,984,539.00
2031	5,557,036.75	22,541,575.75
2032	5,547,139.00	28,088,714.75
2033	5,529,543.00	33,618,257.75
2034	5,499,849.75	39,118,107.50
2035	5,474,555.50	44,592,663.00
2036	5,276,600.50	49,869,263.50
2037	5,085,244.00	54,954,507.50
2038	4,956,573.25	59,911,080.75
2039	4,858,695.50	64,769,776.25
2040	4,757,518.50	69,527,294.75
2041	4,613,451.25	74,140,746.00
2042	5,028,057.00	79,168,803.00
2043	4,981,867.50	84,150,670.50
2044	4,932,378.75	89,083,049.25
2045	4,877,391.25	93,960,440.50
2046	695,042.00	94,655,482.50

---

(1) Represents the initial principal amount of the Series 2021B-2 Bonds and assumes Turbo Redemptions are made based upon the receipt of Collections set forth in and in accordance with the IHS Global Consumption Report's Base Case and other structuring assumptions.
(2) Represents the total based on the initial principal amount of the Series 2021B-2 Bonds.

EXHIBIT 3
to Series 2021 Supplement

FORM OF CURRENT INTEREST BOND

REGISTERED
NUMBER R-[A/B-1]

REGISTERED
$[ ]

NORTHERN TOBACCO SECURITIZATION CORPORATION
TOBACCO SETTLEMENT ASSET-BACKED BOND
SERIES [2021A/2021B-1] [CLASS 1/CLASS 2]
SENIOR CURRENT INTEREST BOND

INTEREST RATE	DATED	MATURITY DATE	CUSIP
[ ]%	Date of Delivery	[ ] 1, 20__	[ ]

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: [ ] DOLLARS ($[ ])

The Northern Tobacco Securitization Corporation (the "Issuer"), a nonprofit public corporation and government instrumentality of the State of Alaska, created and existing under and by virtue of the laws of the State, acknowledges itself indebted and for value received hereby promises to pay, solely as hereinafter provided, to the Registered Owner named above, or registered assigns (the "Owner"), on the payment date determined pursuant to the Indenture (as hereinafter defined) (subject to any right of prior redemption hereinafter provided), the principal amount set forth above, together with interest at the rate of interest set forth above from the date of authentication and delivery of this Bond, or from the most recent payment date to which interest has been paid, but if the date of authentication of this Bond is after the Record Date immediately preceding an interest payment date, interest will be paid from such interest payment date and if no interest has been paid on this Bond, interest will be paid from the Dated Date set forth above. Interest at such rate will be paid on June 1 and December 1 of each year, beginning December 1, 2021 (each, a "Distribution Date"), and at the date of payment of principal, as set forth herein, by wire transfer or by check mailed on the applicable Distribution Date to the address of the registered owner hereof as shown on the registration books of the Issuer as maintained by U.S. Bank National Association, as registrar (the "Registrar"), as of the close of business on the Record Date immediately preceding the applicable Distribution Date. Interest shall be calculated on the basis of a year of 360 days and twelve 30-day months.

THE BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER, PAYABLE SOLELY FROM CERTAIN FUNDS HELD UNDER THE INDENTURE, INCLUDING THE COLLECTIONS. THE BONDS ARE NOT SECURED BY THE PROCEEDS THEREOF, WITH THE EXCEPTION OF THE PROCEEDS DEPOSITED IN SENIOR LIQUIDITY RESERVE ACCOUNT, WHICH ONLY SECURE SERIES 2021 SENIOR

BONDS. THE BONDS DO NOT CONSTITUTE A CHARGE AGAINST THE GENERAL CREDIT OF THE ISSUER AND UNDER NO CIRCUMSTANCES WILL THE ISSUER BE OBLIGATED TO PAY THE INTEREST ON OR PRINCIPAL OR ACCRETED VALUE OF OR REDEMPTION PREMIUMS, IF ANY, ON THE BONDS EXCEPT FROM COLLECTIONS AND BALANCES HELD IN THE SENIOR LIQUIDITY RESERVE ACCOUNT (WHERE APPLICABLE, AND, TO THE EXTENT AVAILABLE). THE BONDS AND OTHER OBLIGATIONS OF THE ISSUER ARE NOT A DEBT LIABILITY OR OTHER OBLIGATION OF THE ALASKA HOUSING FINANCE CORPORATION OR THE STATE OR ANY OF ITS MUNICIPALITIES OR OTHER POLITICAL SUBDIVISIONS, OTHER THAN THE ISSUER, AND NEITHER THE STATE NOR ANY SUCH MUNICIPALITIES OR OTHER SUBDIVISIONS, OTHER THAN THE ISSUER, SHALL BE LIABLE FOR THE PAYMENT OF THE PRINCIPAL OR ACCRETED VALUE OF OR INTEREST ON THE BONDS OR SUCH OTHER OBLIGATIONS. THE ISSUER HAS NO TAXING POWER.

This Bond is one of a series of Bonds issued in the aggregate principal amount of $[ ]. The Bonds are issued pursuant to an Amended and Restated Indenture, dated as of July 1, 2021 and a Series 2021 Supplement, dated as of July 1, 2021, and both between the Issuer and U.S. Bank National Association, as trustee (together with any successor trustee, the "Trustee") (collectively and as amended and supplemented, the "Indenture"). Reference is made to the Indenture for a description of the funds pledged and to the rights, limitations of rights, duties, obligations, and immunities of the Issuer, the Trustee, and the Owners, including restrictions on the rights of the Owners to bring suit. Definitions given or referred to in the Indenture are incorporated herein by this reference. The Indenture may be amended to the extent and in the manner provided therein.

This Bond is a [Class 1/Class 2] Senior Current Interest Bond.

Principal of this Bond and applicable redemption premium, if any, and purchase price, as applicable, and the interest thereon are payable in lawful currency of the United States, upon presentation and surrender of this Bond when due and payable at the corporate trust agency office of the Trustee or of such other paying agent as may hereafter be designated by the Issuer (in either case, the "Paying Agent").

The Bonds are subject to redemption and mandatory tender prior to maturity on the terms, at the redemption prices or purchase prices, as applicable, in the manner, with the notice, and as otherwise set forth in the Indenture. If notice of redemption has been duly given as provided in the 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, and the Owners of such Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

The Bonds are issuable only in fully registered form in Authorized Denominations. The Issuer, the Trustee, and the Paying Agent may treat the registered owner as the absolute owner of this Bond for all purposes, notwithstanding any notice to the contrary. This Bond is transferable by the registered owner hereof in accordance with the Indenture.

The respective covenants of the Issuer with respect hereto shall be fully discharged and of no further force and effect at such time as this Bond, together with interest thereon, shall have been paid in full at maturity, or shall have otherwise been refunded, redeemed, defeased, or discharged.

Upon the occurrence of an Event of Default, the Trustee shall have the remedies to enforce payment of this Bond set forth in the Indenture.

This Bond shall not be valid or become obligatory for any purpose until the certificate of authentication hereon has been dated and manually signed by the Trustee.

It is hereby certified and recited that all conditions, acts, and things required to exist, to have happened, and to have been performed precedent to and in the issuance of this Bond, exist, have happened and have been performed.

Neither the directors or officers of the Issuer nor any person executing Bonds or other obligations of the Issuer shall be liable personally thereon or be subject to any personal liability or accountability solely by reason of the issuance thereof.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Issuer has caused this Bond to be executed in its name by an Authorized Officer and attested by an Authorized Officer by their manual or facsimile signatures as of the dated date set forth above.

NORTHERN TOBACCO SECURITIZATION CORPORATION

By:____________________________________
Authorized Officer

Attest:

By:____________________________________
Authorized Officer

CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds described in and issued in accordance with the Indenture.

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By:____________________________________
Name: __________________________________
Title: ___________________________________

Date of Authentication: _______________ __, 20__

ASSIGNMENT

For value received the undersigned hereby sells, assigns and transfers unto __________ (Taxpayer Identification Number: ______________) the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints _______________ attorney to transfer the within bond on the books kept for registration thereof, with full power of substitution in the premises.

By:______________________________________

Dated: ___________________

Note: The signature to this Assignment must correspond with the name as written on the face of the Bond in every particular, without alteration or enlargement or any change whatever.

Signature Guaranteed: _________________________

Notice: Signature must be guaranteed by an eligible guarantor institution. Signature guarantee shall be made by a guarantor institution participating in the Securities Transfer Agents Medallion Program or in such other guarantee program acceptable to the Trustee.

EXHIBIT 4
to Series 2021 Supplement

FORM OF CAPITAL APPRECIATION BOND

REGISTERED	**ACCRETED VALUE AT MATURITY DATE**
NUMBER R-B-2	**$430,350,000**

NORTHERN TOBACCO SECURITIZATION CORPORATION
TOBACCO SETTLEMENT ASSET-BACKED BOND
SERIES 2021B-2 CLASS 2 SUBORDINATE CAPITAL APPRECIATION BOND

YIELD TO MATURITY DATE	DATED	MATURITY DATE	CUSIP
3.400%	Date of Delivery	June 1, 2066	66585VCB9

REGISTERED OWNER: CEDE & CO.

INITIAL PRINCIPAL AMOUNT: NINETY FOUR MILLION SIX HUNDRED FIFTY FIVE THOUSAND FOUR HUNDRED EIGHTY TWO DOLLARS AND FIFTY CENTS ($94,655,482.50)

ACCRETED VALUE AT MATURITY DATE: FOUR HUNDRED THIRTY MILLION THREE HUNDRED FIFTY THOUSAND DOLLARS AND ZERO CENTS ($430,350,000.00)

The Northern Tobacco Securitization Corporation (the "Issuer"), a nonprofit public corporation and government instrumentality of the State of Alaska, created and existing under and by virtue of the laws of the State, acknowledges itself indebted and for value received hereby promises to pay, solely as hereinafter provided, to the Registered Owner named above, or registered assigns (the "Owner"), on the payment date determined pursuant to the Indenture (as hereinafter defined) (subject to any right of prior redemption hereinafter provided), the initial principal amount set forth above, together with interest accrued thereon to the Maturity Date identified above or such earlier redemption date at the yield to Maturity Date set forth above from the date of authentication and delivery of this Bond, compounded semiannually on June 1 and December 1 of each year, beginning December 1, 2021 (the "Accreted Value"). Interest shall be calculated on the basis of a year of 360 days and twelve 30-day months.

THE BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER, PAYABLE SOLELY FROM CERTAIN FUNDS HELD UNDER THE INDENTURE, INCLUDING THE COLLECTIONS. THE BONDS ARE NOT SECURED BY THE PROCEEDS THEREOF, WITH THE EXCEPTION OF THE PROCEEDS DEPOSITED IN SENIOR LIQUIDITY RESERVE ACCOUNT, WHICH ONLY SECURE SERIES 2021 SENIOR BONDS. THE BONDS DO NOT CONSTITUTE A CHARGE AGAINST THE GENERAL CREDIT OF THE ISSUER AND UNDER NO CIRCUMSTANCES WILL THE ISSUER BE OBLIGATED TO PAY THE INTEREST ON OR PRINCIPAL OR ACCRETED

VALUE OF OR REDEMPTION PREMIUMS, IF ANY, ON THE BONDS EXCEPT FROM COLLECTIONS AND BALANCES HELD IN THE SENIOR LIQUIDITY RESERVE ACCOUNT (WHERE APPLICABLE, AND, TO THE EXTENT AVAILABLE). THE BONDS AND OTHER OBLIGATIONS OF THE ISSUER ARE NOT A DEBT OR OBLIGATION OF THE STATE OR ANY OF ITS MUNICIPALITIES OR OTHER POLITICAL SUBDIVISIONS, OTHER THAN THE ISSUER, AND NEITHER THE STATE NOR ANY SUCH MUNICIPALITIES OR OTHER SUBDIVISIONS, OTHER THAN THE ISSUER, SHALL BE LIABLE FOR THE PAYMENT OF THE PRINCIPAL OR ACCRETED VALUE OF OR INTEREST ON THE BONDS OR SUCH OTHER OBLIGATIONS. THE ISSUER HAS NO TAXING POWER.

This Bond is one of a series of Bonds issued in the aggregate principal amount of $94,665,482.50. The Bonds are issued pursuant to an Amended and Restated Trust Indenture, dated as of July 1, 2021, and a Series 2021 Supplement, dated as of July 1, 2021, and both between the Issuer and U.S. Bank National Association, as trustee (together with any successor trustee, the "Trustee") (collectively and as amended and supplemented, the "Indenture"). Reference is made to the Indenture for a description of the funds pledged and to the rights, limitations of rights, duties, obligations, and immunities of the Issuer, the Trustee, and the Owners, including restrictions on the rights of the Owners to bring suit. Definitions given or referred to in the Indenture are incorporated herein by this reference. The Indenture may be amended to the extent and in the manner provided therein.

This Bond is a Class 2 Senior Subordinate Capital Appreciation Bond.

The Accreted Value of this Bond and applicable redemption premium, if any, and purchase price, as applicable, and the interest thereon are payable in any lawful currency of the United States, upon presentation and surrender of this Bond when due and payable at the office of the Trustee or of such other paying agent as may hereafter be designated by the Issuer (in either case, the "Paying Agent").

The Bonds are subject to redemption and mandatory tender prior to maturity on the terms, at the redemption prices or purchase prices, as applicable, in the manner, with the notice, and as otherwise set forth in the Indenture. If notice of redemption has been duly given as provided in the 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, and the Owners of such Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

The Bonds are issuable only in fully registered form in Authorized Denominations. The Issuer, the Trustee, and the Paying Agent may treat the registered owner as the absolute owner of this Bond for all purposes, notwithstanding any notice to the contrary. This Bond is transferable by the registered owner hereof in accordance with the Indenture.

The respective covenants of the Issuer with respect hereto shall be fully discharged and of no further force and effect at such time as this Bond, together with interest thereon, shall have been paid in full at maturity, or shall have otherwise been refunded, redeemed, defeased, or discharged.

Upon the occurrence of an Event of Default, the Trustee shall have the remedies to enforce payment of this Bond set forth in the Indenture.

This Bond shall not be valid or become obligatory for any purpose until the certificate of authentication hereon has been dated and manually signed by the Trustee.

It is hereby certified and recited that all conditions, acts, and things required to exist, to have happened, and to have been performed precedent to and in the issuance of this Bond, exist, have happened and have been performed.

Neither the directors or officers of the Issuer nor any person executing Bonds or other obligations of the Issuer shall be liable personally thereon or be subject to any personal liability or accountability solely by reason of the issuance thereof.

IN WITNESS WHEREOF, the Issuer has caused this Bond to be executed in its name by an Authorized Officer and attested by an Authorized Officer by their manual or facsimile signatures as of the dated date set forth above.

NORTHERN TOBACCO SECURITIZATION CORPORATION

By:____________________________________
Authorized Officer

Attest:

By:____________________________________
Authorized Officer

CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds described in and issued in accordance with the Indenture.

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By:____________________________________
Name: __________________________________
Title: ___________________________________

Date of Authentication: ____________ __, 20__

ASSIGNMENT

For value received the undersigned hereby sells, assigns and transfers unto __________ (Taxpayer Identification Number: _____________) the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints ______________ attorney to transfer the within bond on the books kept for registration thereof, with full power of substitution in the premises.

By:____________________________________

Dated: __________________

Note: The signature to this Assignment must correspond with the name as written on the face of the Bond in every particular, without alteration or enlargement or any change whatever.

Signature Guaranteed: ________________________

Notice: Signature must be guaranteed by an eligible guarantor institution. Signature guarantee shall be made by a guarantor institution participating in the Securities Transfer Agents Medallion Program or in such other guarantee program acceptable to the Trustee.

EXHIBIT 5
to Series 2021 Supplement

TABLE OF ACCRETED VALUES

(Accreted Values Shown Per $5,000 Maturity Amount)

Date	Series 2021B-2 (Class 2) Turbo CABs- Default Rate 3.4%
07/01/2021	1,099.75
12/01/2021	1,115.30
06/01/2022	1,134.25
12/01/2022	1,153.55
06/01/2023	1,173.15
12/01/2023	1,193.10
06/01/2024	1,213.40
12/01/2024	1,234.00
06/01/2025	1,255.00
12/01/2025	1,276.35
06/01/2026	1,298.05
12/01/2026	1,320.10
06/01/2027	1,342.55
12/01/2027	1,365.35
06/01/2028	1,388.60
12/01/2028	1,412.20
06/01/2029	1,436.20
12/01/2029	1,460.60
06/01/2030	1,485.45
12/01/2030	1,510.70
06/01/2031	1,536.35
12/01/2031	1,562.50
06/01/2032	1,589.05
12/01/2032	1,616.05
06/01/2033	1,643.55
12/01/2033	1,671.50
06/01/2034	1,699.90
12/01/2034	1,728.80
06/01/2035	1,758.20
12/01/2035	1,788.10
06/01/2036	1,818.45
12/01/2036	1,849.40
06/01/2037	1,880.85

12/01/2037	1,912.80
06/01/2038	1,945.30
12/01/2038	1,978.40
06/01/2039	2,012.00
12/01/2039	2,046.25
06/01/2040	2,081.00
12/01/2040	2,116.40
06/01/2041	2,152.35
12/01/2041	2,188.95
06/01/2042	2,226.20
12/01/2042	2,264.00
06/01/2043	2,302.50
12/01/2043	2,341.65
06/01/2044	2,381.45
12/01/2044	2,421.95
06/01/2045	2,463.10
12/01/2045	2,505.00
06/01/2046	2,547.60
12/01/2046	2,590.90
06/01/2047	2,634.95
12/01/2047	2,679.75
06/01/2048	2,725.30
12/01/2048	2,771.60
06/01/2049	2,818.75
12/01/2049	2,866.65
06/01/2050	2,915.40
12/01/2050	2,964.95
06/01/2051	3,015.35
12/01/2051	3,066.60
06/01/2052	3,118.75
12/01/2052	3,171.75
06/01/2053	3,225.70
12/01/2053	3,280.50
06/01/2054	3,336.30
12/01/2054	3,393.00
06/01/2055	3,450.70
12/01/2055	3,509.35
06/01/2056	3,569.00
12/01/2056	3,629.70
06/01/2057	3,691.40
12/01/2057	3,754.15
06/01/2058	3,817.95
12/01/2058	3,882.85
06/01/2059	3,948.90
12/01/2059	4,016.00
06/01/2060	4,084.30

12/01/2060	4,153.70
06/01/2061	4,224.35
12/01/2061	4,296.15
06/01/2062	4,369.20
12/01/2062	4,443.45
06/01/2063	4,519.00
12/01/2063	4,595.80
06/01/2064	4,673.95
12/01/2064	4,753.40
06/01/2065	4,834.20
12/01/2065	4,916.40
06/01/2066	5,000.00

APPENDIX E-2

PURCHASE AND SALE AGREEMENT AND FORM OF 2021 PURCHASE AND SALE AMENDMENTS

THIS PAGE INTENTIONALLY LEFT BLANK

AMENDED AND CONSOLIDATED PURCHASE AND SALE AGREEMENT

between

THE STATE OF ALASKA,

and

THE NORTHERN TOBACCO SECURITIZATION CORPORATION

Dated August 17, 2006

AMENDED AND CONSOLIDATED PURCHASE AND SALE AGREEMENT dated [ISSUANCE DATE], 2006, among the STATE OF ALASKA (the "State"), the NORTHERN TOBACCO SECURITIZATION CORPORATION (the "Corporation"), a nonprofit, public corporation and governmental instrumentality of the State of Alaska, and the ALASKA HOUSING FINANCE CORPORATION ("AHFC"), a public corporation and governmental instrumentality of the State of Alaska.

WHEREAS, the State, the Corporation, and AHFC entered into a Purchase and Sale Agreement dated October 12, 2000 (the "2000 Agreement") a copy of which is attached hereto as Appendix A; and

WHEREAS, the State and the Corporation entered into a Purchase and Sale Agreement dated August 1, 2001 (the "2001 Agreement" and, together with the 2000 Agreement, the "Prior Agreements") a copy of which is attached hereto as Appendix B; and

WHEREAS, the State, the Corporation, and AHFC now desire to amend certain provisions of the Prior Agreements; and

WHEREAS, it is the purpose and intent of this Amended and Consolidated Purchase and Sale Agreement (the "Consolidated Agreement") to effect the amendments to the 2000 Agreement desired by the State, the Corporation, and AHFC and to effect the amendments to the 2001 Agreement desired by the State and the Corporation; and

WHEREAS, the amendments to the Prior Agreements set forth herein are intended to enable the Corporation to issue its $411,987,859.60 Tobacco Settlement Asset-Backed Bonds, Series 2006 (the "2006 Bonds") and any Additional Bonds (as defined in the 2006 Indenture described in the amendments to the Prior Agreements contained in this Consolidated Agreement) secured by the Corporation Tobacco Assets (as defined in the 2001 Agreement as amended by this Consolidated Agreement).

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto agree as follows:

PART ONE
General Provisions

Section One. Intent. It is the intention of the parties to this Consolidated Agreement to effect certain amendments to the Prior Agreements for the purpose of enabling the Corporation to issue its 2006 Bonds and to pledge as security for the 2006 Bonds (and any Additional Bonds that may be issued under the 2006 Indenture, as defined in the amendments to the Prior Agreements contained in this Consolidated Agreement) the Corporation Tobacco Assets (as defined in the 2001 Agreement as amended by this Consolidated Agreement).

Section Two. Consolidation of Agreements. The parties hereto desire to consolidate the Prior Agreements into a single agreement. In furtherance of that desire, this Consolidated Agreement consists of (a) the amendments to the Prior Agreements set forth below in Part Two through Part Five of this Consolidated Agreement, (b) Appendix A consisting of the original 2000 Agreement, and (c) Appendix B consisting of the original 2001 Agreement.

Section Three. Parties. The parties to this Consolidated Agreement are the State, the Corporation, and AHFC. However, the State, the Corporation, and AHFC understand and agree that AHFC shall be a party to this agreement only to the extent necessary to, and only for the purpose of, effecting the amendment to the 2000 Agreement set forth in Part Two of this Consolidated Agreement. For all other purposes, the State and the Corporation are and shall be considered to be the only parties to this Consolidated Agreement (this sentence shall not be construed to limit or affect in any way any third party beneficiary rights that may have been created in the Prior Agreements or that may be created in this Consolidated Agreement).

PART TWO

Release of AHFC from 2000 Agreement

The State, the Corporation, and AHFC agree that AHFC shall be released from all rights, duties, and liabilities with respect to the 2000 Agreement and that, from and after the date hereof, AHFC shall not be considered to be a party to the 2000 Agreement for any purpose. AHFC represents and agrees that it has no interest in and will make no claim to any of the Corporation Tobacco Assets (as defined in the amendments to the 2001 Agreement set forth below in Part Five of this Consolidated Agreement) and has provided to the State and the Corporation an opinion of its counsel to the effect that AHFC has no interest in such Corporation Tobacco Assets.

PART THREE

Other Amendments to 2000 Agreement

The State, the Corporation, and AHFC agree that, in addition to the release of AHFC as set forth in Part Two of this Consolidated Agreement, the 2000 Agreement shall be amended as set forth in the following sections under this Part Two of this Consolidated Agreement.

Section One. Amendment to Section 1.01 of the 2000 Agreement. (a) Section 1.01 of the 2000 Agreement is amended by amending the definitions of the following terms as follows:

"Bondholders" means the Series 2006 Bondholders and the registered owners of any Additional Bonds.

"Bond Purchase Agreement" means any agreement between the Corporation and the purchaser of any Bonds directly from the Corporation setting forth the terms of such purchase and sale of such Bonds, including, but not limited to, the 2006 Bond Purchase Agreement.

"Tobacco Assets" means the right, title and interest to forty percent of the revenue (including but not limited to Lump Sum Payments, Partial Lump Sum Payments, Total Lump Sum Payments (as each such term is defined in the 2006 Indenture), and all other payments required to be made under the MSA) that the State has a right to receive from time to time under the MSA after June 30, 2001.

"Transaction Documents" means this Agreement, the Indenture, the 2006 Indenture, and any Bond Purchase Agreement.

(b) Section 1.01 of the 2000 Agreement is amended by adding the following new definitions:

"Additional Bonds" has the meaning provided in the 2006 Indenture.

"Bonds" means the Series 2006 Bonds and any Additional Bonds.

"Series 2006 Bondholders" means the registered owners of the Series 2006 Bonds.

"Series 2006 Bonds" means the Corporation's Tobacco Settlement Asset-Backed Bonds, Series 2006, being issued on the date of this Consolidated Agreement.

"2001 Agreement" means the Purchase and Sale Agreement between the State and the Corporation dated as of August 1, 2001, as amended.

"2006 Bond Purchase Agreement" means the Bond Purchase Agreement by and between the Corporation and Bear, Stearns & Co., Inc., as representative of the underwriters, relating to the sale of the Series 2006 Bonds, in such form as the parties thereto shall agree.

"2006 Custodial Agreement" means the Custodial Agreement dated as of August 1, 2006, and entered into by the State, AHFC, and U.S. Bank National Association, as Custodian.

"2006 Indenture" means the Trust Indenture relating to the 2006 Bonds dated as of August 1, 2006, and entered into by the Corporation and the 2006 Trustee.

"2006 Trustee" means U.S. Bank National Association, as Trustee under the 2006 Indenture, its successors in interest and any successor trustee under the 2006 Indenture.

Section Two. Amendment to Section 2.01 of the 2000 Agreement. (a) Subsection (c) of Section 2.01 of the 2000 Agreement is amended by deleting the phrase "Series 2000 Bonds" and replacing it with the word "Bonds."

(b) Section 2.01 of the 2000 Agreement is amended by adding a new subsection (e) to read as follows:

> (e) The State does hereby agree to the amendment to the Residual Certificate as set forth in Part Three of the Consolidated Agreement of which this Agreement is a part. As consideration for such agreement by the State, together with the corresponding agreement set forth in Section 2.01 of the 2001 Agreement, the Corporation does hereby promise to sell, transfer, assign, set over and otherwise convey to the State a portion of the proceeds of the Series 2006 Bonds on the date hereof in the amount set forth in the 2006 Indenture, and the State agrees that such amount constitutes sufficient consideration for such agreements by the State.

`Section Three. Amendment to Section 2.02 of the 2000 Agreement. Section 2.02 of the 2000 Agreement is amended to read: "The State shall cause the Escrow Agent (as defined in the MSA) to deliver the Tobacco Assets directly to the 2006 Trustee for the benefit of the Corporation."

Section Four. Amendment to Section 3.01 of the 2000 Agreement. (a) Section 3.01(a) of the 2000 Agreement is amended to read as follows:

> (a) Power and Authority. The Commissioner of Revenue is duly authorized by the State through Ch. 130 SLA 2000 to sell the Tobacco Assets on behalf of the State and has full power and authority to execute and deliver this Agreement and to carry out its terms. The Commissioner of Revenue is duly authorized by the State through Ch. 35 SLA 2006 to agree to the amendment of the Residual Certificate as provided in Section 2.01(e) of this Agreement and has full power and authority to execute and deliver the Consolidated Agreement of which this Agreement is a part.

(b) Section 3.01(e) of the 2000 Agreement is amended by deleting the words "Series 2000 Bonds" wherever they appear and inserting in their place the words "Series 2006 Bonds."

(c) Section 3.01(h) of the 2000 Agreement is amended to read as follows:

> (h) Assignment to Bondholders. The State acknowledges that the Corporation will assign to the 2006 Trustee for the benefit of the Bondholders all of its rights and remedies with respect to the breach of any obligations, representations and warranties of the State under this Agreement.

(d) Section 3.01 of the 2000 Agreement is amended by adding a new subsection to read as follows:

> (i) Confirmation of Representations with Respect to Series 2006 Bonds. The State confirms that each of the representations set forth in (a) through (e) and (g) of this Section is true and correct as of the date of issuance of the Series 2006 Bonds.

Section Five. Amendment to Section 4.01 of the 2000 Agreement. (a) Section 4.01(b) of the 2000 Agreement is amended to read as follows:

> (b) The State hereby pledges to and agrees with the Corporation that the State will not limit or alter the rights of the Corporation to fulfill the terms of its agreements with the Bondholders, or in any way impair the rights and remedies of the Bondholders or the security for the Bonds until all Bonds, together with the interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of the Bondholders, are fully paid and discharged.

(b) Section 4.01(c) of the 2000 Agreement is amended to read as follows:

> (c) The State hereby promises to honor the pledge of the Corporation as described in the 2006 Indenture.

(c) Section 4.01(d) of the 2000 Agreement is amended to read as follows:

> (d) The State hereby authorizes the Corporation to include in the 2006 Indenture all of the pledges made by the State in this Agreement.

Section Six. Amendment to Section 4.02 of the 2000 Agreement. Section 4.02 of the 2000 Agreement is amended to read as follows:

> SECTION 4.02 Protection of MSA. Without prior written consent of the Corporation and the 2006 Trustee, the State will not take any action and will use its best reasonable efforts not to permit any action to be taken by others that (a) would release any person from any of such person's covenants or obligations under the MSA or the Consent Decree or (b) would result in the amendment, hypothecation, subordination, termination or discharge of, or impair the validity or effectiveness of, the MSA, or the Consent Decree or waive timely performance or observance under such documents, in each case if the effect thereof would be materially adverse to the Bondholders; provided, however that if a Rating Confirmation is received relating to such proposed action, then such proposed action will be deemed not to be materially adverse to the Bondholders. The State shall deliver to the Corporation and to the 2006 Trustee written notice of any action described in (a) or (b) of the preceding sentence which it intends to take. The State shall deliver such written notice a reasonable period of time before taking any such action.

Section Seven. Amendment to Section 4.04 of the 2000 Agreement. Section 4.04 of the 2000 Agreement is amended by inserting the words "or any other Bonds (or any bonds issued by the Corporation to refund any Bonds)" immediately after the words "Series 2001 Bonds" in each place such words appear in such Section.

Section Eight. Amendment to Section 8.02 of the 2000 Agreement. Section 8.02 of the 2000 Agreement is amended to read as follows:

> SECTION 8.02 Use of the Purchase Price. The portion of the proceeds of the Series 2006 Bonds paid to the State as consideration for its agreement to amend the Residual Certificate shall be held in funds or accounts in accordance with the 2006 Custodial Agreement and may be expended only in accordance with the 2006 Custodial Agreement.

Section Nine. Amendment to Section 8.09 of the 2000 Agreement. Section 8.09 of the 2000 Agreement is amended to read as follows:

> SECTION 8.09 Assignment by the Corporation. The State hereby acknowledges and consents to any pledge, assignment and grant of a security interest by the Corporation to the 2006 Trustee pursuant to the 2006 Indenture for the benefit of the Bondholders of any or all right, title and interest of the Corporation in, to and under the Tobacco Assets or the assignment of any or all of the Corporation's rights and obligations hereunder to the 2006 Trustee.

PART FOUR
Amendments to 2000 and 2001 Residual Certificates

Section One. Amendment of 2000 and 2001 Residual Certificates. The first sentence of the 2000 Residual Certificate and the first sentence of the 2001 Residual Certificate are each amended to read as follows:

> The **NORTHERN TOBACCO SECURITIZATION CORPORATION** (the "Corporation"), a nonprofit, public corporation and governmental instrumentality of the State of Alaska (the "State"), for value received, promises to pay to the registered owner of this Residual Certificate, on each payment date determined pursuant to the Trust Indenture dated [ISSUANCE DATE OF 2006 BONDS], 2006, (as it may be amended and supplemented, the "Indenture") between the Corporation and U.S. Bank National Association, as trustee (the "Trustee") relating to the Corporation's Tobacco Settlement Asset-Backed Bonds (the "Bonds") and setting forth the rights of the holders of such Bonds (the "Bondholders"), all amounts then payable to the registered owner of this Residual Certificate pursuant to the Indenture, by wire transfer, at the discretion of the Corporation, or by check mailed to the address of the registered owner hereof as shown on the registration books of the Corporation as maintained by the Trustee, as of the close of business one business day prior to the applicable payment date.

Section Two. Exchange of Original Certificates for Amended Certificates. The State agrees that it will deliver, at the earliest time reasonably possible, the originals of the 2000 Residual Certificate and the 2001 Residual Certificate to the Corporation in exchange for an amended 2000 Residual Certificate and amended 2001 Residual Certificate, respectively, containing the amendment set forth in Section One of this Part Four of this Consolidated Agreement. The State further agrees that until such exchange occurs, the original 2000 Residual Certificate and the original 2001 Residual Certificate shall be deemed to contain the amendment set forth in Section One of this Part Four of this Consolidated Agreement.

PART FIVE
Amendments to 2001 Agreement

Section One. Amendment to Section 1.01 of the 2001 Agreement. (a) Section 1.01 of the 2001 Agreement is amended by amending the definitions of the following terms as follows:

"Bondholders" means the Series 2006 Bondholders and the registered owners of any Additional Bonds.

"Bond Purchase Agreement" means any agreement between the Corporation and the purchaser of any Bonds directly from the Corporation setting forth the terms of such purchase and sale of such Bonds, including, but not limited to, the 2006 Bond Purchase Agreement.

"2000 Tobacco Assets" means the right, title and interest to forty percent of the revenue (including but not limited to Lump Sum Payments, Partial Lump Sum Payments, Total Lump Sum Payments -- as each such term is defined in the 2006 Indenture -- and all other payments required to be made under the MSA) that the State has a right to receive from time to time under the MSA after June 30, 2001 as provided in a purchase and sale agreement originally entered into by and among the State, AHFC and the Corporation dated October 12, 2000.

"2001 Tobacco Assets" means the right, title and interest to forty percent of the revenue (including but not limited to Lump Sum Payments, Partial Lump Sum Payments, Total Lump Sum Payments -- as each such term is defined in the 2006 Indenture -- and all other payments required to be made under the MSA) that the State has a right to receive from time to time under the MSA after June 30, 2001. While the 2000 Tobacco Assets and the 2001 Tobacco Assets represent parity claims to revenue that the State has a right to receive, they are separate and distinct items of property.

"Transaction Documents" means this Agreement, the Indenture, the 2006 Indenture, and any Bond Purchase Agreement.

(b) Section 1.01 of the 2001 Agreement is amended by adding the following new definitions:

"Additional Bonds" has the meaning provided in the 2006 Indenture.

"Bonds" means the Series 2006 Bonds and any Additional Bonds.

"Corporation Tobacco Assets" means the 2000 Tobacco Assets and the 2001 Tobacco Assets.

"Series 2006 Bondholders" means the registered owners of the Series 2006 Bonds.

"Series 2006 Bonds" means the Corporation's Tobacco Settlement Asset-Backed Bonds, Series 2006, being issued on the date of this Consolidated Agreement.

"2006 Bond Purchase Agreement" means the Bond Purchase Agreement by and between the Corporation and Bear, Stearns & Co., Inc., as representative of the underwriters, relating to the sale of the Series 2006 Bonds, in such form as the parties thereto shall agree.

"2006 Custodial Agreement" means the Custodial Agreement dated as of August 1, 2006, and entered into by the State, AHFC, and U.S. Bank National Association, as Custodian.

"2006 Indenture" means the Trust Indenture relating to the 2006 Bonds dated as of August 1, 2006, and entered into by the Corporation and the 2006 Trustee.

"2006 Trustee" means U.S. Bank National Association, as Trustee under the 2006 Indenture, its successors in interest and any successor trustee under the 2006 Indenture.

Section Two. Amendment to Section 2.01 of the 2001 Agreement. (a) Subsection (c) of Section 2.01 of the 2000 Agreement is amended by deleting the phrase "Series 2000 Bonds" and replacing it with the word "Bonds."

(b) Section 2.01 of the 2001 Agreement is amended by adding a new subsection (d) to read as follows:

> (d) The State does hereby agree to the amendment to the Residual Certificate as set forth in Part Four of the Consolidated Agreement of which this Agreement is a part. As consideration for such agreement by the State, together with the corresponding agreement set forth in Section 2.01 of the 2000 Agreement, the Corporation does hereby promise to sell, transfer, assign, set over and otherwise convey to the State a portion of the proceeds of the Series 2006 Bonds

on the date hereof in the amount set forth in the 2006 Indenture, and the State agrees that such amount constitutes sufficient consideration for such agreements by the State.

Section Three. Amendment to Section 2.02 of the 2001 Agreement. Section 2.02 of the 2001 Agreement is amended to read: "The State shall cause the Escrow Agent (as defined in the MSA) to deliver the 2001 Tobacco Assets directly to the 2006 Trustee for the benefit of the Corporation."

Section Four. Amendment to Section 3.01 of the 2001 Agreement. (a) Section 3.01(a) of the 2001 Agreement is amended to read as follows:

> (a) Power and Authority. The Commissioner of Revenue is duly authorized by the State through Ch. 96 SLA 2001 to sell the 2001 Tobacco Assets on behalf of the State and has full power and authority to execute and deliver this Agreement and to carry out its terms. The Commissioner of Revenue is duly authorized by the State through Ch. 35 SLA 2006 to agree to the amendment of the Residual Certificate as provided in Section 2.01(d) of this Agreement and has full power and authority to execute and deliver the Consolidated Agreement of which this Agreement is a part.

(b) Section 3.01(e) of the 2001 Agreement is amended by deleting the words "Series 2000 Bonds" wherever they appear and inserting in their place the words "Series 2006 Bonds."

(c) Section 3.01(h) of the 2001 Agreement is amended to read as follows:

> (h) Assignment to Bondholders. The State acknowledges that the Corporation will assign to the 2006 Trustee for the benefit of the Bondholders all of its rights and remedies with respect to the breach of any obligations, representations and warranties of the State under this Agreement.

(d) Section 3.01 of the 2001 Agreement is amended by adding a new subsection to read as follows:

> (i) Confirmation of Representations with Respect to Series 2006 Bonds. The State confirms that each of the representations set forth in (a) through (e) and (g) of this Section is true and correct as of the date of issuance of the Series 2006 Bonds.

Section Five. Amendment to Section 4.01 of the 2001 Agreement. (a) Section 4.01(b) of the 2001 Agreement is amended to read as follows:

> (b) The State hereby pledges to and agrees with the Corporation that the State will not limit or alter the rights of the Corporation to fulfill the terms of its

agreements with the Bondholders, or in any way impair the rights and remedies of the Bondholders or the security for the Bonds until all Bonds, together with the interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of the Bondholders, are fully paid and discharged.

(b) Section 4.01(c) of the 2001 Agreement is amended to read as follows:

(c) The State hereby promises to honor the pledge of the Corporation as described in the 2006 Indenture.

(c) Section 4.01(d) of the 2001 Agreement is amended to read as follows:

(d) The State hereby authorizes the Corporation to include in the 2006 Indenture all of the pledges made by the State in this Agreement.

Section Six. Amendment to Section 4.02 of the 2001 Agreement. Section 4.02 of the 2001 Agreement is amended to read as follows:

SECTION 4.02 Protection of MSA. Without prior written consent of the Corporation and the 2006 Trustee, the State will not take any action and will use its best reasonable efforts not to permit any action to be taken by others that (a) would release any person from any of such person's covenants or obligations under the MSA or the Consent Decree or (b) would result in the amendment, hypothecation, subordination, termination or discharge of, or impair the validity or effectiveness of, the MSA, or the Consent Decree or waive timely performance or observance under such documents, in each case if the effect thereof would be materially adverse to the Bondholders; provided, however that if a Rating Confirmation is received relating to such proposed action, then such proposed action will be deemed not to be materially adverse to the Bondholders. The State shall deliver to the Corporation and to the Trustee written notice of any action described in (a) or (b) of the preceding sentence which it intends to take. The State shall deliver such written notice a reasonable period of time before taking any such action.

Section Seven. Amendment to Section 4.04 of the 2001 Agreement. Section 4.04 of the 2001 Agreement is amended by inserting the words "or any other Bonds (or any bonds issued by the Corporation to refund any Bonds)" immediately after the words "Series 2001 Bonds" in each place such words appear in such Section.

Section Eight. Amendment to Section 6.02 of the 2001 Agreement. Section 6.02 of the 2001 Agreement is amended to read as follows:

SECTION 6.02 Use of the Purchase Price. The portion of the proceeds of the Series 2006 Bonds paid to the State as consideration for its agreement to amend the Residual Certificate shall be held in funds or accounts in accordance with the 2006 Custodial Agreement and may be expended only in accordance with the 2006 Custodial Agreement.

Section Nine. Amendment to Section 6.09 of the 2001 Agreement. Section 6.09 of the 2001 Agreement is amended to read as follows:

SECTION 6.09 Assignment by the Corporation. The State hereby acknowledges and consents to any pledge, assignment and grant of a security interest by the Corporation to the 2006 Trustee pursuant to the 2006 Indenture for the benefit of the Bondholders of any or all right, title and interest of the Corporation in, to and under the Corporation Tobacco Assets or the assignment of any or all of the Corporation's rights and obligations hereunder to the 2006 Trustee.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective officers as of the day and year first above written.

STATE OF ALASKA

By______________________________
William A. Corbus
Commissioner of Revenue

NORTHERN TOBACCO SECURITIZATION CORPORATION

By:______________________________
Daniel R. Fauske
Vice President

ALASKA HOUSING FINANCE CORPORATION

By:______________________________
Michael Buller
Deputy Executive Director

Approved as to form:

DAVID W. MÁRQUEZ
ATTORNEY GENERAL

By:______________________________
Assistant Attorney General

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective officers as of the day and year first above written.

STATE OF ALASKA

By____
William A. Corbus
Commissioner of Revenue

NORTHERN TOBACCO SECURITIZATION CORPORATION

By: ____
Daniel R. Fauske
Vice President

ALASKA HOUSING FINANCE CORPORATION

By: ____
Michael Buller
Deputy Executive Director

Approved as to form:

DAVID W. MÁRQUEZ
ATTORNEY GENERAL

By: ________________________
Assistant Attorney General

PURCHASE AND SALE AGREEMENT

among

THE STATE OF ALASKA,

THE ALASKA HOUSING FINANCE CORPORATION

and

THE NORTHERN TOBACCO SECURITIZATION CORPORATION

Dated October 12, 2000

Table of Contents

Page

ARTICLE I
DEFINITIONS

ARTICLE II
CONVEYANCE OF TOBACCO ASSETS

ARTICLE III
THE STATE

ARTICLE IV
COVENANTS OF THE STATE

ARTICLE V
AHFC

ARTICLE VI
COVENANTS OF AHFC

ARTICLE VII
COVENANTS OF THE CORPORATION

ARTICLE VIII
MISCELLANEOUS

PURCHASE AND SALE AGREEMENT dated as of October 12, 2000, among the STATE OF ALASKA (the "State"), the ALASKA HOUSING FINANCE CORPORATION ("AHFC"), a public corporation and government instrumentality of the State of Alaska and the NORTHERN TOBACCO SECURITIZATION CORPORATION (the "Corporation"), a nonprofit, public corporation and governmental instrumentality of the State of Alaska.

WHEREAS, pursuant to Ch. 130 SLA 2000, AHFC desires to purchase from the State certain Tobacco Assets (as defined herein);

WHEREAS, the State is willing to sell such Tobacco Assets to AHFC;

WHEREAS, AHFC will sell to its subsidiary corporation, the Corporation, such Tobacco Assets purchased from the State; and

WHEREAS, the Corporation will purchase from AHFC such Tobacco Assets and will finance the purchase of such Tobacco Assets by selling the Series 2000 Bonds (as defined herein) pursuant to the Bond Purchase Agreement (as defined herein).

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS

SECTION 1.01 Definitions. Whenever used in this Agreement, the following words and phrases, unless the context otherwise requires, shall have the following meanings:

"Agreement" means this Purchase and Sale Agreement as from time to time amended in accordance with the terms hereof.

"AHFC" means the Alaska Housing Finance Corporation.

"AHFC Lien" means a security interest, lien, charge, pledge, equity or encumbrance of any kind, attaching to the interests of AHFC in and to the Tobacco Assets, whether or not as a result of any act or omission by AHFC.

"Bondholders" means the registered owners of outstanding Series 2000 Bonds.

"Bond Purchase Agreement" means the Bond Purchase Agreement by and between the Corporation and Bear, Stearns & Co., Inc., as representative of the underwriters, relating to the sale of the Series 2000 Bonds, in such form as the parties thereto shall agree.

"Closing Date" means the date of initial delivery of the Series 2000 Bonds by the Corporation pursuant to the Bond Purchase Agreement.

"Consent Decree" means the Consent Decree and Final Judgment of the Superior Court dated February 9, 1999 relating to the MSA, as the same has been and may be corrected, amended or modified, in the action entitled The State of Alaska v. Phillip Morris, Inc., et al., Case No. 1JU-97-915 CI (Alaska Super. 1997).

"Corporation" means the Northern Tobacco Securitization Corporation.

"Financing Costs" means (i) all costs, fees, expenses incurred by the Corporation in connection with the issuance of the Series 2000 Bonds; (ii) all proceeds of the Series 2000 Bonds deposited in any debt service reserve fund to secure the Series 2000 Bonds; and (iii) the cost of any credit or liquidity enhancement for the Series 2000 Bonds.

"Indenture" means the Indenture between the Corporation and the Trustee, as amended, supplemented and in effect from time to time.

"Master Settlement Agreement" or "MSA" means the Master Settlement Agreement identified in the Agreed Dismissal Order dated February 9, 1999 in the action entitled The State of Alaska v. Phillip Morris, Inc., et al., Case No. 1JU-97-915 CI (Alaska Super. 1997), including the related Escrow Agreement.

"Opinion of Counsel" means one or more written opinions of counsel who may be an employee of or counsel to the State, which counsel shall be acceptable to the Trustee.

"Rating Confirmation" means written confirmation from each national rating agency which, at the request of the Corporation, assigned a rating and continues to have a rating assigned to the Series 2000 Bonds, to the effect that the then-current rating assigned by such rating agency to the Series 2000 Bonds, without regard to any bond insurance or any other form of credit enhancement, will not be adversely affected by the proposed action for which a Rating Confirmation is sought.

"Residual Certificate" means that residual certificate issued, authenticated and delivered pursuant to the Indenture and substantially in the form attached as Appendix A hereto.

"Responsible Officer" means, with respect to the State, the Commissioner of Revenue, the Deputy Commissioner of Revenue for Treasury, or any other official of the State customarily performing functions similar to those performed by any of the above designated officials, and also with respect to a particular matter, any other official to whom such matter is referred because of such official's knowledge of and familiarity with the particular subject.

"Series 2000 Bonds" means the bonds, notes and other obligations issued by the Corporation under the Indenture, exclusive of bonds that the Corporation may issue to refund bonds of the Corporation, the net proceeds (after Financing Costs, capitalized interest and capitalized operating expenses of the Corporation) of which shall be used (directly or indirectly) by the Corporation to pay a portion of the purchase price to the State for the Tobacco Assets.

"State" means the State of Alaska.

"State Lien" means a security interest, lien, charge, pledge, equity or encumbrance of any kind, attaching to the interests of the State in and to the Tobacco Assets, whether or not as a result of any act or omission by the State.

"Tobacco Assets" means the right, title and interest to forty percent of the revenue (including but not limited to all payments required to be made under the MSA) that the State has a right to receive from time to time under the MSA after June 30, 2001.

"Transaction Documents" means this Agreement, the Indenture, and the Bond Purchase Agreement.

"Trustee" means U.S. Bank Trust National Association, its successors in interest and any successor trustee under the Indenture.

SECTION 1.02 Other Definitional Provisions.

(a) Capitalized terms used herein and not otherwise defined herein have the meanings assigned to them in the Indenture.

(b) All terms defined in this Agreement shall have the defined meanings when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined therein.

(c) As used in this Agreement and in any certificate or other document made or delivered pursuant hereto or thereto, accounting terms not defined in this Agreement or in any such certificate or other document, and accounting terms partly defined in this Agreement or in any such certificate or other document to the extent not defined, shall have the respective meanings given to them under generally accepted accounting principles. To the extent that the definitions of accounting terms in this Agreement or in any such certificate or other document are inconsistent with the meanings of such terms under generally accepted accounting principles, the definitions contained in this Agreement or in any such certificate or other document shall control.

(d) The words "hereof," "herein," "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement; Article, Section, Schedule and Exhibit references contained in this Agreement are references to Articles, Sections, Schedules and Exhibits in or to this Agreement unless otherwise specified; and the term "including" shall mean "including without limitation."

(e) The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such terms.

(f) Any agreement, instrument or statute defined or referred to herein or in any instrument or certificate delivered in connection herewith means such agreement, instrument or statute as from time to time amended, modified or supplemented and includes (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein; references to a Person are also to its permitted successors and assigns.

(g) The phrases "to the knowledge of the State," "to the State's knowledge," "to the best knowledge of the State" or other similar phrase used herein or in any certificate delivered pursuant hereto, shall mean that a Responsible Officer had actual knowledge with respect to the information referred to in connection with such phrase.

ARTICLE II
CONVEYANCE OF TOBACCO ASSETS

SECTION 2.01 Conveyance of Tobacco Assets.

(a) The State does hereby sell, transfer, assign, set over and otherwise convey to AHFC, without recourse (subject to certain continuing obligations herein), all right, title and interest of the State on the Closing Date in and to the Tobacco Assets. As consideration for such sale by the State to AHFC of the Tobacco Assets, AHFC does hereby promise to sell, transfer, assign, set over and otherwise convey to the State, without recourse, on the Closing Date, the net proceeds (after Financing Costs, capitalized interest and capitalized operating expenses of the Corporation) of the Series 2000 Bonds and the Residual Certificate.

(b) AHFC does hereby sell, transfer, assign, set over and otherwise convey to the Corporation, without recourse (subject to certain continuing obligations herein), all right, title and interest of AHFC on the Closing Date in and to the Tobacco Assets. As consideration for such sale by AHFC to the Corporation of the Tobacco Assets, the Corporation does hereby promise to sell, transfer, assign, set over and otherwise convey to AHFC, without recourse, on the Closing Date, the net proceeds (after Financing Costs, capitalized interest and capitalized operating expenses of the Corporation) of the Series 2000 Bonds and the Residual Certificate, in accordance with and subject to the terms and conditions of the Indenture.

(c) The right of the Corporation to receive payments as Tobacco Assets as described in (a) and (b) of this Section 2.01 is on a parity with and is not inferior or superior to the right of the State to receive other payments under the MSA not conveyed by the State under this Agreement. The intent of this Agreement is that each payment under the MSA shall be paid forty percent (40%) to the Corporation as Tobacco Assets and sixty percent (60%) to the State or its assigns. If payments under the MSA at any time are less than required to be paid under the terms of the MSA, neither the Corporation, nor AHFC, nor the Trustee on behalf of holders of the Series 2000 Bonds shall have any right to make a claim against State assets to make up the difference (including, without limitation, any claim that more than forty percent (40%) of any such MSA payment be designated as Tobacco Assets hereunder).

(d) The Series 2000 Bonds shall (1) be in an aggregate principal amount not exceeding $125,000,000; (2) bear a true interest cost not greater than eight percent; and (3) be for a term of not to exceed forty-five years. In addition, the amount of net proceeds of the Series 2000 Bonds referred to in (a) and (b) of this Section 2.01 shall be not less than $93,000,000.

SECTION 2.02 Payments to Trustee. The State shall cause the Escrow Agent (as defined in the MSA) to deliver the Tobacco Assets directly to the Trustee for the benefit of the Corporation.

SECTION 2.03 Benefits Provided. The State shall cooperate with the Corporation as necessary to assure receipt by the Corporation of all of the Tobacco Assets when and as due in accordance with the true intent and meaning of this Agreement and in furtherance thereof and without restriction the State agrees to provide to the Corporation a copy of all reports and materials received under the MSA, including but not limited to the reports of the Independent Auditor (as defined in the MSA) delivered pursuant to the MSA from time to time.

SECTION 2.04 Notice as to Representations and Warranties. Upon discovery by the State, AHFC, or the Corporation of a breach of any of the representations and warranties of any party hereto that materially and adversely affects the value of the Tobacco Assets, the party discovering such breach shall give prompt written notice thereof to the other parties.

ARTICLE III
THE STATE

SECTION 3.01 Representations of State. The State, as seller, makes the following representations on which AHFC and the Corporation are deemed to have relied in acquiring the Tobacco Assets. The representations are made as of the date of this Agreement and as of the Closing Date, and shall survive the sale of the Tobacco Assets to AHFC and the sale of the Tobacco Assets to the Corporation and the pledge of the Tobacco Assets to the Trustee pursuant to the Indenture.

(a) Power and Authority. The Commissioner of Revenue is duly authorized by the State through Ch. 130 SLA 2000 to sell the Tobacco Assets on behalf of the State and has full power and authority to execute and deliver this Agreement and to carry out its terms.

(b) Binding Obligation. This Agreement has been duly executed and delivered by the State and, assuming the due authorization, execution and delivery of this Agreement by AHFC and the Corporation, constitutes a legal, valid and binding obligation of the State enforceable in accordance with its terms.

(c) No Consents. No consent, approval, authorization, order, registration or qualification of or with any court or governmental agency or body is required for the consummation of the transactions contemplated by this Agreement, except for those which have been obtained and are in full force and effect.

(d) No Violation. The consummation by the State of the transactions contemplated by the Transaction Documents and the fulfillment of the terms hereof and thereof do not, to the State's knowledge, in any material way conflict with, result in any material breach of any of the material terms and provisions of, or constitute (with or without notice or lapse of time) a material default under any indenture, agreement or other instrument to which the State is a party or by which it shall be bound; nor violate any law or, to the State's knowledge, any order, rule or regulation applicable to the State of any court or of any federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the State or its property.

(e) No Proceedings. To the State's knowledge, except as disclosed in the Official Statement for the Series 2000 Bonds or in a schedule delivered to AHFC and the Corporation, there are no material proceedings or investigations pending against the State, before any court, regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the State: (i) asserting the invalidity of any of the Transaction Documents or the Series 2000 Bonds, (ii) seeking to prevent the issuance of the Series 2000 Bonds or the consummation of any of the transactions contemplated by any of the Transaction Documents, or (iii) seeking any determination or ruling that would materially and adversely affect the validity or enforceability of any of the Transaction Documents, the Series 2000 Bonds, the MSA or the Consent Decree.

(f) Title to Tobacco Assets. The State is the sole owner of the Tobacco Assets sold to AHFC.

(g) Absence of Liens on Tobacco Assets. The State is selling the Tobacco Assets free and clear of any and all State Liens, pledges, charges, security interests or any other statutory impediments to transfer of any nature encumbering the Tobacco Assets.

(h) Assignment to Bondholders. The State acknowledges that the Corporation will assign to the Trustee for the benefit of the Bondholders all of its rights and remedies with respect to the breach of any obligations, representations and warranties of the State under this Agreement.

SECTION 3.02 Limitation on Liability.

(a) The State and any officer or employee or agent of the State may rely in good faith on the advice of counsel or on any document of any kind, prima facie properly executed and submitted by any person respecting any matters arising hereunder. The State shall not be under any obligation to appear in, prosecute or defend any legal action that shall not be related to its obligations under this Agreement and that in its opinion may involve it in any expense or liability.

(b) Neither the State nor any of the officers or employees or agents of the State shall be under any liability to AHFC or the Corporation, except as provided under this Agreement, for any action taken or for refraining from the taking of any action pursuant to this Agreement or for errors in judgment; but this sentence shall not protect the State or any such person against any liability that would otherwise be imposed by reason of willful misfeasance, bad faith or negligence in the performance of duties or by reason of reckless disregard of obligations and duties under this Agreement. Notwithstanding the foregoing, no claim may be made against the State except as permitted by AS 09.50.250.

ARTICLE IV
COVENANTS OF THE STATE

SECTION 4.01 Pledges; Protection of Title; Non-Impairment Covenant.

(a) The State hereby pledges to and agrees with AHFC and the Corporation that the State shall take all actions as may be required by law fully to preserve, maintain, defend, protect and confirm the interest of AHFC and the Corporation in the Tobacco Assets and in the proceeds thereof and that the State will not take any action that will adversely affect the Corporation's legal right to receive the Tobacco Assets.

(b) The State hereby pledges to and agrees with AHFC and the Corporation, that the State will not limit or alter the rights of the Corporation to fulfill the terms of its agreements with the Bondholders, or in any way impair the rights and remedies of the Bondholders or the security for the Series 2000 Bonds until the Series 2000 Bonds, together with the interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of the Bondholders, are fully paid and discharged.

(c) The State hereby promises to honor the pledge of the Corporation as described in the Indenture.

(d) The State hereby authorizes the Corporation to include in the Indenture all of the pledges made by the State in this Agreement.

SECTION 4.02 Protection of MSA. Without prior written consent of AHFC, the Corporation and the Trustee, the State will not take any action and will use its best reasonable efforts not to permit any action to be taken by others that (a) would release any person from any of such person's covenants or obligations under the MSA or the Consent Decree or (b) would result in the amendment, hypothecation, subordination, termination or discharge of, or impair the validity or effectiveness of, the MSA, or the Consent Decree or waive timely performance or observance under such documents, in each case if the effect thereof would be materially adverse to the Bondholders; provided, however that if a Rating Confirmation is received relating to such proposed action, then such proposed action will be deemed not to be materially adverse to the Bondholders. The State shall deliver to the Corporation and to the Trustee written notice of any action described in (a) or (b) of the preceding sentence which it intends to take. The State shall deliver such written notice a reasonable period of time before taking any such action.

SECTION 4.03 Further Actions.

(a) Instruments and Acts. Upon request of AHFC, the Corporation or the Trustee, the State will execute and deliver such further instruments and do such further acts as the parties reasonably agree are reasonably necessary or proper to carry out more effectively the purposes of this Agreement. The State will immediately pay over to the Trustee the proceeds of any Tobacco Assets received by the State in error.

(b) Rights and Remedies. The State shall exercise each and every right and remedy under the MSA. All documents produced or received by the State under this subsection shall be provided to AHFC, the Corporation and the Trustee.

SECTION 4.04 Tax Covenant.

(a) The State shall at all times do and perform all acts and things permitted by law and necessary or desirable to assure that interest paid by the Corporation on the Series 2000 Bonds shall be excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Internal Revenue Code of 1986 as amended (the "Tax Code");

(b) The State will not directly or indirectly use or permit the use of any of the proceeds of the Series 2000 Bonds that would cause the Series 2000 Bonds to be "private activity bonds" within the meaning of Section 141(a) of the Tax Code or would cause interest on the Series 2000 Bonds to not be excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Tax Code; and

(c) The State agrees that no gross proceeds (as such term is defined in Section 1.148-1 of the Treasury Regulations promulgated under Section 148 of the Tax Code, as such Treasury Regulations and the Tax Code may be amended from time to time) of the Series 2000 Bonds shall at any time be used directly or indirectly to acquire securities or obligations the acquisition or holding of which would cause any Series 2000 Bond to be an "arbitrage bond" as defined in the Tax Code and any applicable Treasury Regulations promulgated thereunder.

ARTICLE V
AHFC

SECTION 5.01 Representations of AHFC. AHFC, as seller, makes the following representations on which the Corporation is deemed to have relied in acquiring the Tobacco Assets and on which the State is deemed to have relied in selling the Tobacco Assets. The representations are made as of the date of this Agreement and the Closing Date, and shall survive the sale of the Tobacco Assets to the Corporation and the pledge thereof to the Trustee pursuant to the Indenture.

(a) Power and Authority. AHFC is duly authorized by the State through Ch. 130 SLA 2000 to purchase the Tobacco Assets from the State and to sell the Tobacco Assets to the Corporation and has full power and authority to execute and deliver this Agreement and to carry out its terms.

(b) Binding Obligation. This Agreement has been duly executed and delivered by AHFC and, assuming the due authorization, execution and delivery of this Agreement by the State and the Corporation, constitutes a legal, valid and binding obligation of AHFC enforceable in accordance with its terms.

(c) No Consents. No consent, approval, authorization, order, registration or qualification of or with any court or governmental agency or body is required for the consummation of the transactions contemplated by this Agreement, except for those which have been obtained and are in full force and effect.

(d) No Violation. The consummation by AHFC of the transactions contemplated by the Transaction Documents and the fulfillment of the terms hereof and thereof do not, to AHFC's knowledge, in any material way conflict with, result in any material breach of any of the material terms and provisions of, or constitute (with or without notice or lapse of time) a material default under any indenture, agreement or other instrument to which AHFC is a party or by which it shall be bound; nor violate any law or, to AHFC's knowledge, any order, rule or regulation applicable to AHFC of any court or of any federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over AHFC or its property.

(e) No Proceedings. To AHFC's knowledge, except as disclosed in the Official Statement for the Series 2000 Bonds or in a schedule delivered to the State and the Corporation, there are no material proceedings or investigations pending against AHFC, before any court, regulatory body, administrative agency or other governmental instrumentality having jurisdiction over AHFC: (i) asserting the invalidity of any of the Transaction Documents or the Series 2000 Bonds, (ii) seeking to prevent the issuance of the Series 2000 Bonds or the consummation of any of the transactions contemplated by any of the Transaction Documents, or (iii) seeking any determination or ruling that would materially and adversely affect the validity or enforceability of any of the Transaction Documents, the Series 2000 Bonds, the MSA or the Consent Decree.

(f) Title to Tobacco Assets. At the time of the sale by AHFC, AHFC is the sole owner of the Tobacco Assets.

(g) Absence of Liens on Tobacco Assets. AHFC is selling the Tobacco Assets which AHFC purchased from the State free and clear of any and all AHFC Liens, pledges, charges, security interests or any other statutory impediments to transfer of any nature encumbering the Tobacco Assets.

(h) Assignment to Bondholders. AHFC acknowledges that the Corporation will assign to the Trustee for the benefit of the Bondholders all of its rights and remedies with respect to the breach of any obligations, representations and warranties of AHFC under this Agreement.

SECTION 5.02 Limitation on Liability.

(a) AHFC and any officer or employee or agent of AHFC may rely in good faith on the advice of counsel or on any document of any kind, prima facie properly executed and submitted by any person respecting any matters arising hereunder. AHFC shall not be under any obligation to appear in, prosecute or defend any legal action that shall not be related to its obligations under this Agreement and that in its opinion may involve it in any expense or liability.

(b) Neither AHFC nor any of the officers or employees or agents of AHFC shall be under any liability to the State or the Corporation, except as provided under this Agreement, for any action taken or for refraining from the taking of any action pursuant to this Agreement or for errors in judgment; but this sentence shall not protect AHFC or any such person against any liability that would otherwise be imposed by reason of willful misfeasance, bad faith or negligence in the performance of duties or by reason of reckless disregard of obligations and duties under this Agreement.

ARTICLE VI
COVENANTS OF AHFC

SECTION 6.01 Pledges; Protection of Title; Non-Impairment Covenant.

(a) AHFC hereby pledges to and agrees with the Corporation that AHFC shall take all actions as may be required by law fully to preserve, maintain, defend, protect and confirm the interest of the Corporation and the interests of the Trustee in the Tobacco Assets and in the proceeds thereof and that AHFC will not take any action that will adversely affect the Corporation's or the Trustee's ability to receive the Tobacco Assets.

(b) AHFC hereby pledges and agrees with the Corporation, and the Bondholders, that AHFC will not limit or alter the rights of the Corporation to fulfill the terms of its agreements with the Bondholders, or in any way impair the rights and remedies of the Bondholders or the security for the Series 2000 Bonds until the Series 2000 Bonds, together with the interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of the Bondholders, are fully paid and discharged.

(c) AHFC hereby authorizes the Corporation to include in the Indenture all of the pledges made by AHFC in this Agreement.

SECTION 6.02 Agreement To Not Amend. AHFC hereby pledges and agrees with the State, the Corporation and the Bondholders that AHFC will not agree to any amendment of the articles of incorporation or the bylaws of the Corporation that will materially adversely affect the Bondholders.

SECTION 6.03 Absence of Liens on Tobacco Assets. AHFC is selling the Tobacco Assets which AHFC purchased from the State free and clear of any and all AHFC Liens, pledges, charges, security interests or any other statutory impediments to transfer of any nature encumbering the Tobacco Assets.

SECTION 6.04 Further Actions. Upon request of the State, the Corporation or the Trustee, AHFC will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purposes of this Agreement. AHFC shall immediately pay to the Corporation any amounts in respect to the Tobacco Assets received by AHFC in error.

SECTION 6.05 Tax Covenant.

(a) AHFC shall at all times do and perform all acts and things permitted by law and necessary or desirable to assure that interest paid by the Corporation on the Series 2000 Bonds shall be excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Tax Code; and

(b) No funds of AHFC shall at any time be used directly or indirectly to acquire securities or obligations the acquisition or holding of which would cause any Series 2000 Bond to be an "arbitrage bond" as defined in the Tax Code and any applicable Treasury Regulations promulgated thereunder.

ARTICLE VII
COVENANTS OF THE CORPORATION

SECTION 7.01 Further Actions. Upon request of the State, AHFC or the Trustee, the Corporation will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purposes of this Agreement. The Corporation shall, as soon as practicable, pay to the State any amounts received by the Corporation in error.

ARTICLE VIII
MISCELLANEOUS

SECTION 8.01 Amendment. Prior to the issuance of the Series 2000 Bonds this Agreement may be amended by agreement of the State, AHFC and the Corporation. After issuance of the Series 2000 Bonds, this Agreement may be amended by agreement of the State, AHFC and the Corporation with the consent of the Trustee but without the consent of any of the Bondholders: (a) to amend Section 8.02 of this Agreement; (b) to cure any ambiguity; (c) to correct or supplement any provisions in this Agreement; (d) to correct or amplify the description of the Tobacco Assets; (e) to add additional covenants for the benefit of the Corporation; or (f) for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions in this Agreement that shall not, as evidenced by a Rating Confirmation delivered to the Trustee, adversely affect in any material respect the Series 2000 Bonds.

Except as otherwise provided in the preceding paragraph, this Agreement may also be amended from time to time by the State, AHFC and the Corporation with (a) the consent of the Trustee and (b) a Rating Confirmation for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Agreement or of modifying in any manner the rights of the Bondholders; but no such amendment shall reduce the aforesaid portion of the outstanding amount of the Series 2000 Bonds, the holders of which are required to consent to any such amendment, without the consent of all of the Bondholders.

It shall not be necessary for the consent of Bondholders pursuant to this Section to approve the particular form of any proposed amendment or consent, but it shall be sufficient if such consent shall approve the substance thereof.

Prior to the execution of any amendment to this Agreement, the Trustee shall be entitled to receive and rely upon an Opinion of Counsel stating that the execution of such amendment is authorized or permitted by this Agreement. Without the prior written consent of the Trustee, no amendment, supplement or other modification of this 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 this Agreement or otherwise.

SECTION 8.02 Use of the Purchase Price. The portion of the purchase price of the Tobacco Assets payable to the State pursuant to this Agreement corresponding directly or indirectly to the net proceeds (after Financing Costs, capitalized interest and capitalized operating expenses of the Corporation) of the Series 2000 Bonds shall be used by the State to finance a portion of the State's capital projects as provided for in Ch. 130 SLA 2000.

SECTION 8.03 Notices. All demands, notices and communications upon or to the State, AHFC, the Corporation, or the Trustee under this Agreement shall be in writing, personally delivered or mailed by certified mail, return receipt requested, and shall be deemed to have been duly given upon receipt at:

(a) in the case of the State:

State of Alaska
Department of Revenue
333 Willoughby Avenue
Juneau, Alaska 99811
Attention: Debt Manager
(907) 465-3750

And:

State of Alaska
Department of Law
P.O. Box 110300
Juneau, Alaska 99811
Attention: Attorney General
(907) 465-2133

(b) in the case of AHFC:

4300 Boniface Parkway
P.O. Box 101020
Anchorage, Alaska 99510-1020
Attention: Chief Administrative Officer
(907) 330-8453

(c) in the case of the Corporation:

4300 Boniface Parkway
P.O. Box 101020
Anchorage, Alaska 99510-1020
Attention: President
(907) 330-8453

(d) in the case of the Trustee,

U.S. Bank Trust National Association
1420 Fifth Avenue, 7th Floor
Seattle, Washington 98101
(206) 344-4687

As to each of the foregoing, at such other address as shall be designated by written notice to the other parties.

SECTION 8.04 Limitations on Rights of Others. The provisions of this Agreement are solely for the benefit of the State, AHFC, the Corporation, the Trustee, the owner of the Residual Certificate, and the Bondholders, and nothing in this Agreement, whether express or implied, shall be construed to give to any other Person any legal or equitable right, remedy or claim under or in respect of this Agreement or any covenants, conditions or provisions contained herein.

SECTION 8.05 Severability. Any provision of this Agreement that is prohibited or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof.

SECTION 8.06 Separate Counterparts. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

SECTION 8.07 Headings. The headings of the various Articles and Sections herein are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

SECTION 8.08 Governing Law. This Agreement shall be construed in accordance with the laws of the State of Alaska, without reference to its conflict of law provisions, and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with such laws.

The parties hereto agree that any and all claims asserted by or against any party under this Agreement or related thereto shall be heard and determined in the courts of the State of Alaska located in the City and Borough of Juneau.

SECTION 8.09 Assignment by the Corporation. The State hereby acknowledges and consents to any pledge, assignment and grant of a security interest by AHFC or the Corporation to the Trustee pursuant to the Indenture for the benefit of the Bondholders of any or all right, title and interest of AHFC or the Corporation in, to and under the Tobacco Assets or the assignment of any or all of AHFC's or the Corporation's rights and obligations hereunder to the Trustee.

SECTION 8.10 Limitation of Liability of the State. Notwithstanding anything contained herein to the contrary, no officer or employee of the State shall have any liability for the representations, warranties, covenants, agreements or other obligations of the State hereunder or in any of the certificates, notices or agreements delivered pursuant hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective officers as of the day and year first above written.

STATE OF ALASKA

By: ______________________
Wilson L. Condon
Commissioner of Revenue

ALASKA HOUSING FINANCE CORPORATION

By: ______________________
Daniel R. Fauske
Chief Executive Officer/Executive Director

NORTHERN TOBACCO SECURITIZATION CORPORATION

By: ______________________
Daniel R. Fauske
Vice President

Approved as to form:
BRUCE BOTELHO
ATTORNEY GENERAL

By: ______________________
James Baldwin
Assistant Attorney General

REGISTERED
NUMBER: 1

APPENDIX A

NORTHERN TOBACCO SECURITIZATION CORPORATION

RESIDUAL CERTIFICATE

REGISTERED OWNER: ALASKA HOUSING FINANCE CORPORATION

The **NORTHERN TOBACCO SECURITIZATION CORPORATION** (the "Corporation"), a nonprofit, public corporation and governmental instrumentality of the State of Alaska (the "State"), for value received, promises to pay to the registered owner of this Residual Certificate, on each payment date determined pursuant to the Indenture, dated as of October 1, 2000 (as it may be amended and supplemented, the "Indenture"), between the Corporation and U.S. Bank Trust National Association, as trustee (the "Trustee"), all amounts then payable to the registered owner of this Residual Certificate pursuant to the Indenture, by wire transfer, at the discretion of the Corporation, or by check mailed to the address of the registered owner hereof as shown on the registration books of the Corporation as maintained by the Trustee, as of close of business one business day prior to the applicable payment date. The registered owner of this Residual Certificate shall have no right or interest of any kind or nature in and to any part of the Trust Estate under the Indenture (including Collections and Bond proceeds) unless and until any such amounts are actually paid hereunder in accordance with the terms and provisions of the Indenture and then such registered owner shall only have the right to receive such amounts paid through this Residual Certificate. Capitalized terms used but not defined in this Residual Certificate shall have the meaning given to them in the Indenture.

This Residual Certificate shall not be a debt of either the State or the Alaska Housing Finance Corporation ("AHFC"), and neither the State nor AHFC shall be liable hereon, nor shall it be payable out of any funds other than those of the Corporation. Neither the Directors of the Corporation nor any person executing this Residual Certificate shall be liable personally thereon or be subject to any personal liability or accountability solely by reasons of the issuance hereof.

Reference is made to the Indenture for a description of the funds pledged and for the provisions with respect to the incurring of indebtedness and to the rights, limitations of rights, duties, obligations and immunities of the Corporation, the Trustee, the Bondholders, and the registered owner of this Residual Certificate.

This Residual Certificate is issuable only in fully registered form and may not be converted into bearer form. The Corporation and the Trustee may treat the registered owner as the absolute owner of this Residual Certificate for all purposes, notwithstanding any notice to the contrary.

This Residual Certificate shall not be valid or become obligatory for any purpose until the certificate of authentication hereon has been dated and manually signed by the Trustee.

IN WITNESS WHEREOF, the **NORTHERN TOBACCO SECURITIZATION CORPORATION** has caused this Residual Certificate to be executed in its name by its President, Vice President, Treasurer or Secretary as of the 26th day of October 2000.

NORTHERN TOBACCO SECURITIZATION CORPORATION

BY: ______________________________

CERTIFICATE OF AUTHENTICATION

This Residual Certificate is the Residual Certificate described in and issued in accordance with the within mentioned Indenture.

U.S. BANK TRUST NATIONAL ASSOCIATION,
as Trustee

By:______________________________
Authorized Officer

Date of Authentication: October 26, 2000

ASSIGNMENT

For value received the Alaska Housing Finance Corporation hereby sells, transfers, assigns, sets over and otherwise conveys to the State of Alaska, the within Residual Certificate.

Dated this 26th day of October, 2000.

ALASKA HOUSING FINANCE CORPORATION

By:____
Daniel R. Fauske
Chief Executive Officer/Executive Director

ACKNOWLEDGMENT

U.S. BANK TRUST NATIONAL ASSOCIATION, as Trustee hereby acknowledges the assignment set forth above.

Dated this 26th day of October, 2000.

U.S. BANK TRUST NATIONAL ASSOCIATION, as Trustee

By:____
Authorized Officer

EXECUTION COPY

PURCHASE AND SALE AGREEMENT

between

THE STATE OF ALASKA,

and

THE NORTHERN TOBACCO SECURITIZATION CORPORATION

Dated as of August 1, 2001

Table of Contents

PURCHASE AND SALE AGREEMENT dated as of August 1, 2001, between the STATE OF ALASKA (the "State") and the NORTHERN TOBACCO SECURITIZATION CORPORATION (the "Corporation"), a nonprofit, public corporation and governmental instrumentality of the State of Alaska.

WHEREAS, pursuant to Ch. 96 SLA 2001, the Corporation desires to purchase from the State certain 2001 Tobacco Assets (as defined herein);

WHEREAS, the State is willing to sell such 2001 Tobacco Assets to the Corporation;

WHEREAS, the Corporation is willing to purchase from the State such 2001 Tobacco Assets and will finance the purchase of such 2001 Tobacco Assets by selling the Series 2001 Bonds (as defined herein) pursuant to the Bond Purchase Agreement (as defined herein).

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS

SECTION 1.01 Definitions. Whenever used in this Agreement, the following words and phrases, unless the context otherwise requires, shall have the following meanings:

"Agreement" means this Purchase and Sale Agreement as from time to time amended in accordance with the terms hereof.

"AHFC" means the Alaska Housing Finance Corporation.

"Bondholders" means the registered owners of outstanding Series 2001 Bonds.

"Bond Purchase Agreement" means the Bond Purchase Agreement by and between the Corporation and Bear, Stearns & Co., Inc., as representative of the underwriters, relating to the sale of the Series 2001 Bonds, in such form as the parties thereto shall agree.

"Closing Date" means the date of initial delivery of the Series 2001 Bonds by the Corporation pursuant to the Bond Purchase Agreement.

"Consent Decree" means the Consent Decree and Final Judgment of the Superior Court dated February 9, 1999 relating to the MSA, as the same has been and may be corrected, amended or modified, in the action entitled The State of Alaska v. Phillip Morris, Inc., et al., Case No. 1JU-97-915 CI (Alaska Super. 1997).

"Corporation" means the Northern Tobacco Securitization Corporation.

"Financing Costs" means (i) all costs, fees, expenses incurred by the Corporation in connection with the issuance of the Series 2001 Bonds; (ii) all proceeds of the Series 2001 Bonds deposited in any debt service reserve fund to secure the Series 2001 Bonds; and (iii) the cost of any credit or liquidity enhancement for the Series 2001 Bonds.

"Indenture" means the Indenture between the Corporation and the Trustee, as amended, supplemented and in effect from time to time.

"Master Settlement Agreement" or "MSA" means the Master Settlement Agreement identified in the Agreed Dismissal Order dated February 9, 1999 in the action entitled The State of Alaska v. Phillip Morris, Inc., et al., Case No. 1JU-97-915 CI (Alaska Super. 1997), including the related Escrow Agreement.

"Opinion of Counsel" means one or more written opinions of counsel who may be an employee of or counsel to the State, which counsel shall be acceptable to the Trustee.

"Rating Confirmation" means written confirmation from each national rating agency which, at the request of the Corporation, assigned a rating and continues to have a rating assigned to the Series 2001 Bonds, to the effect that the then-current rating assigned by such rating agency to the Series 2001 Bonds, without regard to any bond insurance or any other form of credit enhancement, will not be adversely affected by the proposed action for which a Rating Confirmation is sought.

"Residual Certificate" means that residual certificate issued, authenticated and delivered pursuant to the Indenture and substantially in the form attached as Appendix A hereto.

"Responsible Officer" means, with respect to the State, the Commissioner of Revenue, the Deputy Commissioner of Revenue for Treasury, or any other official of the State customarily performing functions similar to those performed by any of the above designated officials, and also with respect to a particular matter, any other official to whom such matter is referred because of such official's knowledge of and familiarity with the particular subject.

"Series 2001 Bonds" means the bonds, notes and other obligations issued by the Corporation under the Indenture, exclusive of bonds that the Corporation may issue to refund bonds of the Corporation, the net proceeds (after Financing Costs, capitalized interest and capitalized operating expenses of the Corporation) of which shall be used (directly or indirectly) by the Corporation to pay a portion of the purchase price to the State for the 2001 Tobacco Assets.

"State" means the State of Alaska.

"State Lien" means a security interest, lien, charge, pledge, equity or encumbrance of any kind, attaching to the interests of the State in and to the 2001 Tobacco Assets, whether or not as a result of any act or omission by the State.

"2000 Tobacco Assets" means the right, title and interest to forty percent of the revenue (including but not limited to all payments required to be made under the MSA) that the State has a right to receive from time to time under the MSA after June 30, 2001 as provided in an purchase and sale agreement by and among the State, AHFC and the Corporation dated October 12, 2000.

"2001 Tobacco Assets" means the right, title and interest to forty percent of the revenue (including but not limited to all payments required to be made under the MSA) that the State has a right to receive from time to time under the MSA after June 30, 2001. While the 2000 Tobacco Assets and the 2001 Tobacco Assets represent parity claims to revenue that the State has a right to receive, they are separate and distinct items of property.

"Transaction Documents" means this Agreement, the Indenture, and the Bond Purchase Agreement.

"Trustee" means U.S. Bank Trust National Association, its successors in interest and any successor trustee under the Indenture.

SECTION 1.02 Other Definitional Provisions.

(a) Capitalized terms used herein and not otherwise defined herein have the meanings assigned to them in the Indenture.

(b) All terms defined in this Agreement shall have the defined meanings when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined therein.

(c) As used in this Agreement and in any certificate or other document made or delivered pursuant hereto or thereto, accounting terms not defined in this Agreement or in any such certificate or other document, and accounting terms partly defined in this Agreement or in any such certificate or other document to the extent not defined, shall have the respective meanings given to them under generally accepted accounting principles. To the extent that the definitions of accounting terms in this Agreement or in any such certificate or other document are inconsistent with the meanings of such terms under generally accepted accounting principles, the definitions contained in this Agreement or in any such certificate or other document shall control.

(d) The words "hereof," "herein," "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement; Article, Section, Schedule and Exhibit references contained in this Agreement are references to Articles, Sections, Schedules and Exhibits in or to this Agreement unless otherwise specified; and the term "including" shall mean "including without limitation."

(e) The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such terms.

(f) Any agreement, instrument or statute defined or referred to herein or in any instrument or certificate delivered in connection herewith means such agreement, instrument or statute as from time to time amended, modified or supplemented and includes (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein; references to a Person are also to its permitted successors and assigns.

(g) The phrases "to the knowledge of the State," "to the State's knowledge," "to the best knowledge of the State" or other similar phrase used herein or in any certificate delivered pursuant hereto, shall mean that a Responsible Officer had actual knowledge with respect to the information referred to in connection with such phrase.

ARTICLE II
CONVEYANCE OF 2001 TOBACCO ASSETS

SECTION 2.01 Conveyance of 2001 Tobacco Assets.

(a) The State does hereby sell, transfer, assign, set over and otherwise convey to the Corporation, without recourse (subject to certain continuing obligations herein), all right, title and interest of the State on the Closing Date in and to the 2001 Tobacco Assets. As consideration for such sale by the State to the Corporation of the 2001 Tobacco Assets, the Corporation does hereby promise to sell, transfer, assign, set over and otherwise convey to the State, without recourse, on the Closing Date, the net proceeds (after Financing Costs, capitalized interest and capitalized operating expenses of the Corporation) of the Series 2001 Bonds and the Residual Certificate in accordance with and subject to the terms and conditions of the Indenture.

(b) The right of the Corporation to receive payments as 2001 Tobacco Assets as described in (a) and (b) of this Section 2.01 is on a parity with and is not inferior or superior to the right of the Corporation to receive payments as 2000 Tobacco Assets, and the right of the State to receive other payments under the MSA not conveyed by the State under this Agreement or any previous agreement. The intent of this Agreement is that each payment under the MSA shall be paid forty percent (40%) to the Corporation as 2001 Tobacco Assets, forty percent (40%) to the Corporation as 2000 Tobacco Assets and twenty percent (20%) to the State or its assigns. If payments under the MSA at any time are less than required to be paid under the terms of the MSA, neither the Corporation, nor the Trustee on behalf of holders of the Series 2001 Bonds shall have any right to make a claim against the 2000 Tobacco Assets or State assets to make up the difference (including, without limitation, any claim that more than forty percent (40%) of any such MSA payment be designated as 2001 Tobacco Assets hereunder).

(c) The Series 2001 Bonds shall (1) be in an aggregate principal amount not exceeding $135,000,000; (2) bear a true interest cost not greater than eight percent; and (3) be for a term of not to exceed forty-five years. In addition, the amount of net proceeds of the Series 2001 Bonds referred to in (a) and (b) of this Section 2.01 shall be not less than $109,942,839.

SECTION 2.02 <u>Payments to Trustee</u>. The State shall cause the Escrow Agent (as defined in the MSA) to deliver the 2001 Tobacco Assets directly to the Trustee for the benefit of the Corporation.

SECTION 2.03 <u>Benefits Provided</u>. The State shall cooperate with the Corporation as necessary to assure receipt by the Corporation of all of the 2001 Tobacco Assets when and as due in accordance with the true intent and meaning of this Agreement and in furtherance thereof and without restriction the State agrees to provide to the Corporation a copy of all reports and materials received under the MSA, including but not limited to the reports of the Independent Auditor (as defined in the MSA) delivered pursuant to the MSA from time to time.

SECTION 2.04 <u>Notice as to Representations and Warranties</u>. Upon discovery by the State, or the Corporation of a breach of any of the representations and warranties of any party hereto that materially and adversely affects the value of the 2001 Tobacco Assets, the party discovering such breach shall give prompt written notice thereof to the other parties.

ARTICLE III
THE STATE

SECTION 3.01 Representations of State. The State, as seller, makes the following representations on which the Corporation is deemed to have relied in acquiring the 2001 Tobacco Assets. The representations are made as of the date of this Agreement and as of the Closing Date, and shall survive the sale of the 2001 Tobacco Assets to the Corporation and the pledge of the 2001 Tobacco Assets to the Trustee pursuant to the Indenture.

(a) Power and Authority. The Commissioner of Revenue is duly authorized by the State through Ch. 96 SLA 2001 to sell the 2001 Tobacco Assets on behalf of the State and has full power and authority to execute and deliver this Agreement and to carry out its terms.

(b) Binding Obligation. This Agreement has been duly executed and delivered by the State and, assuming the due authorization, execution and delivery of this Agreement by the Corporation, constitutes a legal, valid and binding obligation of the State enforceable in accordance with its terms.

(c) No Consents. No consent, approval, authorization, order, registration or qualification of or with any court or governmental agency or body is required for the consummation of the transactions contemplated by this Agreement, except for those which have been obtained and are in full force and effect.

(d) No Violation. The consummation by the State of the transactions contemplated by the Transaction Documents and the fulfillment of the terms hereof and thereof do not, to the State's knowledge, in any material way conflict with, result in any material breach of any of the material terms and provisions of, or constitute (with or without notice or lapse of time) a material default under any indenture, agreement or other instrument to which the State is a party or by which it shall be bound; nor violate any law or, to the State's knowledge, any order, rule or regulation applicable to the State of any court or of any federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the State or its property.

(e) No Proceedings. To the State's knowledge, except as disclosed in the Official Statement for the Series 2001 Bonds or in a schedule delivered to the Corporation, there are no material proceedings or investigations pending against the State, before any court, regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the State: (i) asserting the invalidity of any of the Transaction Documents or the Series 2001 Bonds, (ii) seeking to prevent the issuance of the Series 2001 Bonds or the consummation of any of the transactions contemplated by any of the Transaction Documents, or (iii) seeking any determination or ruling that would materially and adversely affect the validity or enforceability of any of the Transaction Documents, the Series 2001 Bonds, the MSA or the Consent Decree.

(f) Title to 2001 Tobacco Assets. The State is the sole owner of the 2001 Tobacco Assets sold to the Corporation.

(g) Absence of Liens on 2001 Tobacco Assets. The State is selling the 2001 Tobacco Assets free and clear of any and all State Liens, pledges, charges, security interests or any other statutory impediments to transfer of any nature encumbering the 2001 Tobacco Assets.

(h) Assignment to Bondholders. The State acknowledges that the Corporation will assign to the Trustee for the benefit of the Bondholders all of its rights and remedies with respect to the breach of any obligations, representations and warranties of the State under this Agreement.

SECTION 3.02 Limitation on Liability.

(a) The State and any officer or employee or agent of the State may rely in good faith on the advice of counsel or on any document of any kind, prima facie properly executed and submitted by any person respecting any matters arising hereunder. The State shall not be under any obligation to appear in, prosecute or defend any legal action that shall not be related to its obligations under this Agreement and that in its opinion may involve it in any expense or liability.

(b) Neither the State nor any of the officers or employees or agents of the State shall be under any liability to the Corporation, except as provided under this Agreement, for any action taken or for refraining from the taking of any action pursuant to this Agreement or for errors in judgment; but this sentence shall not protect the State or any such person against any liability that would otherwise be imposed by reason of willful misfeasance, bad faith or negligence in the performance of duties or by reason of reckless disregard of obligations and duties under this Agreement. Notwithstanding the foregoing, no claim may be made against the State except as permitted by AS 09.50.250.

ARTICLE IV
COVENANTS OF THE STATE

SECTION 4.01 Pledges; Protection of Title; Non-Impairment Covenant.

(a) The State hereby pledges to and agrees with the Corporation that the State shall take all actions as may be required by law fully to preserve, maintain, defend, protect and confirm the interest of the Corporation in the 2001 Tobacco

Assets and in the proceeds thereof and that the State will not take any action that will adversely affect the Corporation's legal right to receive the 2001 Tobacco Assets.

(b) The State hereby pledges to and agrees with the Corporation, that the State will not limit or alter the rights of the Corporation to fulfill the terms of its agreements with the Bondholders, or in any way impair the rights and remedies of the Bondholders or the security for the Series 2001 Bonds until the Series 2001 Bonds, together with the interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of the Bondholders, are fully paid and discharged.

(c) The State hereby promises to honor the pledge of the Corporation as described in the Indenture.

(d) The State hereby authorizes the Corporation to include in the Indenture all of the pledges made by the State in this Agreement.

SECTION 4.02 Protection of MSA. Without prior written consent of the Corporation and the Trustee, the State will not take any action and will use its best reasonable efforts not to permit any action to be taken by others that (a) would release any person from any of such person's covenants or obligations under the MSA or the Consent Decree or (b) would result in the amendment, hypothecation, subordination, termination or discharge of, or impair the validity or effectiveness of, the MSA, or the Consent Decree or waive timely performance or observance under such documents, in each case if the effect thereof would be materially adverse to the Bondholders; provided, however that if a Rating Confirmation is received relating to such proposed action, then such proposed action will be deemed not to be materially adverse to the Bondholders. The State shall deliver to the Corporation and to the Trustee written notice of any action described in (a) or (b) of the preceding sentence which it intends to take. The State shall deliver such written notice a reasonable period of time before taking any such action.

SECTION 4.03 Further Actions.

(a) Instruments and Acts. Upon request of the Corporation or the Trustee, the State will execute and deliver such further instruments and do such further acts as the parties reasonably agree are reasonably necessary or proper to carry out more effectively the purposes of this Agreement. The State will immediately pay over to the Trustee the proceeds of any 2001 Tobacco Assets received by the State in error.

(b) Rights and Remedies. The State shall exercise each and every right and remedy under the MSA. All documents produced or received by the State under this subsection shall be provided to the Corporation and the Trustee.

SECTION 4.04 Tax Covenant.

(a) The State shall at all times do and perform all acts and things permitted by law and necessary or desirable to assure that interest paid by the Corporation on the Series 2001 Bonds shall be excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Internal Revenue Code of 1986 as amended (the "Tax Code");

(b) The State will not directly or indirectly use or permit the use of any of the proceeds of the Series 2001 Bonds that would cause the Series 2001 Bonds to be "private activity bonds" within the meaning of Section 141(a) of the Tax Code or would cause interest on the Series 2001 Bonds to not be excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Tax Code; and

(c) The State agrees that no gross proceeds (as such term is defined in Section 1.148-1 of the Treasury Regulations promulgated under Section 148 of the Tax Code, as such Treasury Regulations and the Tax Code may be amended from time to time) of the Series 2001 Bonds shall at any time be used directly or indirectly to acquire securities or obligations the acquisition or holding of which would cause any Series 2001 Bond to be an "arbitrage bond" as defined in the Tax Code and any applicable Treasury Regulations promulgated thereunder.

ARTICLE V
COVENANTS OF THE CORPORATION

SECTION 5.01 Further Actions. Upon request of the State or the Trustee, the Corporation will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purposes of this Agreement. The Corporation shall, as soon as practicable, pay to the State any amounts received by the Corporation in error.

ARTICLE VI
MISCELLANEOUS

SECTION 6.01 Amendment. Prior to the issuance of the Series 2001 Bonds this Agreement may be amended by agreement of the State and the Corporation. After issuance of the Series 2001 Bonds, this Agreement may be amended by agreement of the State, and the Corporation with the consent of the Trustee but without the consent of any of the Bondholders: (a) to amend Section 6.02 of this

Agreement; (b) to cure any ambiguity; (c) to correct or supplement any provisions in this Agreement; (d) to correct or amplify the description of the 2001 Tobacco Assets; (e) to add additional covenants for the benefit of the Corporation; or (f) for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions in this Agreement that shall not, as evidenced by a Rating Confirmation delivered to the Trustee, adversely affect in any material respect the Series 2001 Bonds.

Except as otherwise provided in the preceding paragraph, this Agreement may also be amended from time to time by the State and the Corporation with (a) the consent of the Trustee and (b) a Rating Confirmation for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Agreement or of modifying in any manner the rights of the Bondholders; but no such amendment shall reduce the aforesaid portion of the outstanding amount of the Series 2001 Bonds, the holders of which are required to consent to any such amendment, without the consent of all of the Bondholders.

It shall not be necessary for the consent of Bondholders pursuant to this Section to approve the particular form of any proposed amendment or consent, but it shall be sufficient if such consent shall approve the substance thereof.

Prior to the execution of any amendment to this Agreement, the Trustee shall be entitled to receive and rely upon an Opinion of Counsel stating that the execution of such amendment is authorized or permitted by this Agreement. Without the prior written consent of the Trustee, no amendment, supplement or other modification of this 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 this Agreement or otherwise.

SECTION 6.02 Use of the Purchase Price. The portion of the purchase price of the 2001 Tobacco Assets payable to the State pursuant to this Agreement corresponding directly or indirectly to the net proceeds (after Financing Costs, capitalized interest and capitalized operating expenses of the Corporation) of the Series 2001 Bonds shall be used by the State to finance a portion of the State's capital projects as provided for in Ch. 96 SLA 2001.

SECTION 6.03 Notices. All demands, notices and communications upon or to the State, the Corporation, or the Trustee under this Agreement shall be in writing, personally delivered or mailed by certified mail, return receipt requested, and shall be deemed to have been duly given upon receipt at:

(a) in the case of the State:

State of Alaska
Department of Revenue
333 Willoughby Avenue
Juneau, Alaska 99811
Attention: Debt Manager
(907) 465-3750

And:

State of Alaska
Department of Law
P.O. Box 110300
Juneau, Alaska 99811
Attention: Attorney General
(907) 465-2133

(b) in the case of the Corporation:

4300 Boniface Parkway
P.O. Box 101020
Anchorage, Alaska 99510-1020
Attention: President
(907) 330-8453

(c) in the case of the Trustee,

U.S. Bank Trust National Association
1420 Fifth Avenue, 7th Floor
Seattle, Washington 98101
(206) 344-4687

As to each of the foregoing, at such other address as shall be designated by written notice to the other parties.

SECTION 6.04 Limitations on Rights of Others. The provisions of this Agreement are solely for the benefit of the State, the Corporation, the Trustee, the owner of the Residual Certificate, and the Bondholders, and nothing in this Agreement, whether express or implied, shall be construed to give to any other Person any legal or equitable right, remedy or claim under or in respect of this Agreement or any covenants, conditions or provisions contained herein.

SECTION 6.05 Severability. Any provision of this Agreement that is prohibited or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof.

SECTION 6.06 Separate Counterparts. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

SECTION 6.07 Headings. The headings of the various Articles and Sections herein are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

SECTION 6.08 Governing Law. This Agreement shall be construed in accordance with the laws of the State of Alaska, without reference to its conflict of law provisions, and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with such laws.

The parties hereto agree that any and all claims asserted by or against any party under this Agreement or related thereto shall be heard and determined in the courts of the State of Alaska located in the City and Borough of Juneau.

SECTION 6.09 Assignment by the Corporation. The State hereby acknowledges and consents to any pledge, assignment and grant of a security interest by the Corporation to the Trustee pursuant to the Indenture for the benefit of the Bondholders of any or all right, title and interest of the Corporation in, to and under the 2001 Tobacco Assets or the assignment of any or all of the Corporation's rights and obligations hereunder to the Trustee.

SECTION 6.10 Limitation of Liability of the State. Notwithstanding anything contained herein to the contrary, no officer or employee of the State shall have any liability for the representations, warranties, covenants, agreements or other obligations of the State hereunder or in any of the certificates, notices or agreements delivered pursuant hereto.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective officers as of the day and year first above written.

STATE OF ALASKA

By: Wilson L. Condon
Wilson L. Condon
Commissioner of Revenue

NORTHERN TOBACCO SECURITIZATION CORPORATION

By: Steven R. Tarola
Steven R. Tarola
President

By: Kevin Taylor
Kevin Taylor
Secretary

Approved as to form:

BRUCE BOTELHO
ATTORNEY GENERAL

By:__________________________
James Baldwin
Assistant Attorney General

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective officers as of the day and year first above written.

STATE OF ALASKA

By:______________________________
Wilson L. Condon
Commissioner of Revenue

NORTHERN TOBACCO SECURITIZATION CORPORATION

By:______________________________
Steven R. Tarola
President

By:______________________________
Kevin Taylor
Secretary

Approved as to form:

BRUCE BOTELHO
ATTORNEY GENERAL

By: James L. Baldwin
James Baldwin
Assistant Attorney General

REGISTERED NUMBER: 2

APPENDIX A

NORTHERN TOBACCO SECURITIZATION CORPORATION

RESIDUAL CERTIFICATE

REGISTERED OWNER: STATE OF ALASKA

The **NORTHERN TOBACCO SECURITIZATION CORPORATION** (the "Corporation"), a nonprofit, public corporation and governmental instrumentality of the State of Alaska (the "State"), for value received, promises to pay to the registered owner of this Residual Certificate, on each payment date determined pursuant to the Indenture, dated as of October 1, 2000 (as it may be amended and supplemented, the "Indenture"), between the Corporation and U.S. Bank Trust National Association, as trustee (the "Trustee"), all amounts then payable to the registered owner of this Residual Certificate pursuant to the Indenture, by wire transfer, at the discretion of the Corporation, or by check mailed to the address of the registered owner hereof as shown on the registration books of the Corporation as maintained by the Trustee, as of close of business one business day prior to the applicable payment date. The registered owner of this Residual Certificate shall have no right or interest of any kind or nature in and to any part of the Trust Estate under the Indenture (including Collections and Bond proceeds) unless and until any such amounts are actually paid hereunder in accordance with the terms and provisions of the Indenture and then such registered owner shall only have the right to receive such amounts paid through this Residual Certificate. Capitalized terms used but not defined in this Residual Certificate shall have the meaning given to them in the Indenture.

This Residual Certificate shall not be a debt of either the State or the Alaska Housing Finance Corporation ("AHFC"), and neither the State nor AHFC shall be liable hereon, nor shall it be payable out of any funds other than those of the Corporation. Neither the Directors of the Corporation nor any person executing this Residual Certificate shall be liable personally thereon or be subject to any personal liability or accountability solely by reasons of the issuance hereof.

Reference is made to the Indenture for a description of the funds pledged and for the provisions with respect to the incurring of indebtedness and to the rights, limitations of rights, duties, obligations and immunities of the Corporation, the Trustee, the Bondholders, and the registered owner of this Residual Certificate.

This Residual Certificate is issuable only in fully registered form and may not be converted into bearer form. The Corporation and the Trustee may treat the registered owner as the absolute owner of this Residual Certificate for all purposes, notwithstanding any notice to the contrary.

This Residual Certificate shall not be valid or become obligatory for any purpose until the certificate of authentication hereon has been dated and manually signed by the Trustee.

IN WITNESS WHEREOF, the **NORTHERN TOBACCO SECURITIZATION CORPORATION** has caused this Residual Certificate to be executed in its name by its President, Vice President, Treasurer or Secretary as of the 15th day of August 2001.

NORTHERN TOBACCO SECURITIZATION CORPORATION

By:_______________________________

CERTIFICATE OF AUTHENTICATION

This Residual Certificate is the Residual Certificate described in and issued in accordance with the within mentioned Indenture.

U.S. BANK TRUST NATIONAL ASSOCIATION,
as Trustee

By:______________________________________
Authorized Officer

Date of Authentication: August 15, 2001

CERTIFICATE

I, Daniel R. Fauske, Vice President of the Northern Tobacco Securitization Corporation (the "Corporation"), HEREBY CERTIFY that the attached Indenture was duly authorized by the Board of Directors of the Corporation at a meeting duly called and held on October 12, 2000, at which a quorum was present and acting throughout, and that said Indenture is in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand this 15th day of August 2001.

Daniel R. Fauske
DANIEL R. FAUSKE
Vice President

J:\DOCS\35983223\CertreIndenture.wpd

FORM OF 2021 PURCHASE AND SALE AMENDMENTS

2021 AMENDMENTS TO THE

AMENDED AND CONSOLIDATED
PURCHASE AND SALE AGREEMENT
dated August 17, 2006

between

THE STATE OF ALASKA,

and

THE NORTHERN TOBACCO SECURITIZATION CORPORATION

Dated July 1, 2021

2021 AMENDMENTS TO THE AMENDED AND CONSOLIDATED PURCHASE AND SALE AGREEMENT dated August 17, 2006, between the STATE OF ALASKA (the "State"), and the NORTHERN TOBACCO SECURITIZATION CORPORATION (the "Corporation"), a nonprofit, public corporation and governmental instrumentality of the State of Alaska.

WHEREAS, the State, the Corporation, and the Alaska Housing Finance Corporation("AHFC") entered into a Purchase and Sale Agreement dated October 12, 2000 (the "2000 Agreement") a copy of which is attached as Appendix A to the Consolidated Agreement (as hereinafter defined); and

WHEREAS, the State and the Corporation entered into a Purchase and Sale Agreement dated August 1, 2001 (the "2001 Agreement") a copy of which is attached as Appendix B to the Consolidated Agreement; and

WHEREAS, the State and the Corporation entered into amendments to the 2000 Agreement and the 2001 Agreement pursuant to an Amended and Consolidated Purchase and Sale Agreement dated August 17, 2006 (the "Consolidated Agreement") to effect the amendments to the 2000 Agreement desired by the State, the Corporation and AHFC, and to effect the amendments to the 2001 Agreement desired by the State and the Corporation, all to enable the Corporation to issue its Tobacco Settlement Asset-Backed Bonds, Series 2006 (the "2006 Bonds"); and

WHEREAS, the State and the Corporation now desire to clarify and amend certain provisions of the Consolidated Agreement and enter into certain additional agreements which are intended to enable the Corporation to issue its $282,480,482.50 Tobacco Settlement Asset-Backed Bonds, Series 2021 (the "2021 Bonds") and any Additional Bonds (as defined in the 2006 Indenture described in the amendments to the Prior Agreements contained in the Consolidated Agreement, including any amendments to and restatements of such 2006 Indenture) secured by the Corporation Tobacco Assets (as defined in the 2001 Agreement as amended by the Consolidated Agreement), to, in part, refund and redeem the 2006 Bonds, and to fund capital projects on behalf of the State.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto agree as follows:

PART ONE

Intent

It is the intention of the parties to this Agreement to effect certain clarifications and amendments to the Consolidated Agreement, and add certain agreements, for the purpose of confirming the Corporation's pledge as security for the 2021 Bonds (and any Additional Bonds that may be issued under the 2006 Indenture, as defined in the amendments contained in the

Consolidated Agreement) the Corporation Tobacco Assets (as defined in the 2001 Agreement as amended by the Consolidated Agreement).

PART TWO

In addition to the terms defined in the Whereas clauses hereto and in the Consolidated Agreements, the following definitions are added:

> "2021 Custodial Agreement" means the Custodial Agreement dated as of July 1, 2021, and entered into by the State, the Corporation and U.S. Bank National Association, as Custodian.
>
> "2021 Indenture" means the Amended and Restated Trust Indenture relating to the 2021 Bonds and any Additional Bonds, dated as of July 1, 2021, and entered into by the Corporation and the 2006 Trustee, as it may be further supplemented, amended or restated from time to time pursuant to the provisions thereof.

PART THREE

Amendments to Consolidated Agreement

The State and the Corporation agree that the Consolidated Agreement shall be amended as set forth in the following sections.

Section One. Part Five, Section Two (a) is amended and corrected by substituting "2001" for "2000" wherever they appear.

Section Two. Part Five, Section Four (b) is amended and corrected by substituting "2001" for "2000" wherever they appear.

PART FOUR

Confirmations

Section One. The State and the Corporation hereby agree and confirm, with respect to the Consolidated Agreement, that:

1. "Additional Bonds" includes the 2021 Bonds.
2. "Bond Purchase Agreement" includes the Bond Purchase Agreement with respect to the 2021 Bonds.
3. For avoidance of doubt, the 2021 Indenture is the 2006 Indenture as the same is amended and restated, pursuant to the provisions of the 2006 Indenture, and the 2006 Trustee is the Trustee under the 2021 Indenture.

Section Two. The State hereby agrees that:

1. The amended provisions set forth in Part Three, Sections Two (b), Four (a), (c) and (d), Five (a) and (b), Six and Nine of the Consolidated Agreement are also true as of the date hereof with respect to the 2021 Bonds.

2. The amended provisions set forth in Part Five, Sections Two (b), Four (a), (c) and (d), Five (a) and (b), Six and Nine of the Consolidated Agreement are also true as of the date hereof with respect to the 2021 Bonds.

PART FIVE

Further Agreements

As consideration for the agreements by the State contained herein, the Corporation does hereby promise to sell, transfer, assign, set over and otherwise convey to the State a portion of the proceeds of the 2021 Bonds on the date hereof in the amount set forth in the 2021 Indenture, to be deposited with U.S. Bank National Association, as Custodian, pursuant to the 2021 Custodial Agreement, and to be disbursed only in accordance with the provisions thereof, and the State agrees that such amount constitutes sufficient consideration for such agreements by the State.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective officers as of the day and year first above written.

STATE OF ALASKA

By ______________________________
LUCINDA MAHONEY
Commissioner of Revenue

NORTHERN TOBACCO SECURITIZATION CORPORATION

By ______________________________
Bryan D. Butcher
Vice President

Approved as to form:

TREG TAYLOR
ATTORNEY GENERAL

By ____________________
Assistant Attorney General

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 NTSC and the Underwriters take no responsibility for the completeness or accuracy thereof. NTSC 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 2021 Bonds, (b) certificates representing ownership interest in or other confirmation of ownership interest in the Series 2021 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2021 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 2021 Bonds. The Series 2021 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 2021 Bond certificate will be issued for each maturity of the Series 2021 Bonds of each series, each in the aggregate principal amount or final Accreted Value of such maturity 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 2021 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2021 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 2021 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 2021 Bonds, except in the event that use of the book-entry system for the Series 2021 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2021 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 2021 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 2021 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2021 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 2021 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2021 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2021 Bond documents. For example, Beneficial Owners of Series 2021 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 2021 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 2021 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to NTSC 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 2021 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 NTSC 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 NTSC, 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 2021 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 NTSC, 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 2021 BONDS FOR PREPAYMENT OR REDEMPTION.

DTC may discontinue providing its services as depository with respect to the Series 2021 Bonds at any time by giving reasonable notice to NTSC or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2021 Bond certificates are required to be printed and delivered. To the extent permitted by law, NTSC 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 Indenture relating, among other things, to payments on the Series 2021 Bonds and their registration of transfer and exchange, will apply.

So long as Cede & Co. is the registered owner of the Series 2021 Bonds, as nominee for DTC, references in the Offering Circular to Owners or registered owners of the Series 2021 Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2021 Bonds.

APPENDIX G

FORM OF CONTINUING DISCLOSURE UNDERTAKING

Upon the delivery of the Series 2021 Bonds, NTSC expects to execute the Continuing Disclosure Undertaking in substantially the form appearing on the following pages.

THIS PAGE INTENTIONALLY LEFT BLANK

FORM OF CONTINUING DISCLOSURE UNDERTAKING

This **CONTINUING DISCLOSURE AGREEMENT** dated as of July 1, 2021 (the "Continuing Disclosure Agreement") is executed and delivered by the **NORTHERN TOBACCO SECURITIZATION CORPORATION** (the "Corporation") for the benefit of the Beneficial Owners (as defined herein) from time to time of the Corporation's $282,480,482.50 aggregate principal amount of Tobacco Settlement Asset-Backed Bonds, Series 2021 Senior Bonds, consisting of $152,825,000 Series 2021A Class 1 Senior Current Interest Bonds, $35,000,000 Series 2021B-1 Class 2 Senior Current Interest Bonds, and $94,655,482.50 Series 2021B-2 Class 2 Senior Capital Appreciation Bonds (collectively the "Series 2021 Bonds" or the "Bonds").

RECITAL

The Corporation has determined to issue the Series 2021 Bonds pursuant to an Amended and Restated Trust Indenture and a Series 2021 Supplement (altogether, the "Indenture"), by and between the Corporation and the U.S. Bank National Association, as trustee (the "Trustee").

NOW, THEREFORE**,** The Corporation covenants and agrees as set forth in this Continuing Disclosure Agreement for the benefit of the Beneficial Owner of the Bonds and in order to assist the Participating Underwriters in complying with the Rule 15c2-12 of the Securities and Exchange Commission (the "Rule").

Section 1. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Continuing Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Corporation pursuant to and as described in Sections 2 and 3 of this Continuing Disclosure Agreement.

"Beneficial Owner" means any registered owner of any Bonds and any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Business Day" means any day except Saturday, Sunday or any day on which banks located in the city in which the principal corporate trust office of the Trustee is located, in Anchorage, Alaska, or in New York, New York, are required or authorized to remain closed.

"EMMA" means the MSRB's Electronic Municipal Market Access system, the current internet address of which is http://emma.msrb.org.

"Listed Events" means any of the events listed in **Section 4** of this Continuing Disclosure Agreement.

"MSRB" means the Municipal Securities Rulemaking Board and any successor agency performing similar functions as designated by the Securities and Exchange Commission in accordance with the Rule.

"**Offering Circular**" means the Offering Circular dated June 24, 2021, with respect to the Bonds.

"Participating Underwriters" means the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 2. Provision of Reports.

(a) The Corporation shall provide to the MSRB through EMMA, not later than nine months after the end of the Corporation's fiscal year (presently June 30), commencing with the fiscal year ending June 30, 2021, an Annual Report which is consistent with the requirements of Section 3 of this Continuing Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 3 of this Disclosure Agreement; provided that the audited financial statements of the Corporation may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Corporation's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 4.

(b) If the Corporation is unable to provide the Annual Report to the MSRB by the filing date specified in this Section, the Corporation shall, in a timely manner, send a notice of such failure to the MSRB.

Section 3. Financial Information. The Corporation's Annual Report shall be in a format suitable for filing with the MSRB and shall contain or include by reference the following:

(a) The audited financial statements of the Corporation for the prior fiscal year, prepared in accordance with generally accepted accounting principles applicable to the Corporation from time to time.

(b) An update of the information described below:

(i) actual results for the operating data found in the column "Total Annual Payments to Trustee" of the table included in the Offering Circular section captioned "PLEDGED TSRs PROJECTION METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS - Projection of Pledged TSRs to be Received by the Trustee" (as shown in either the Base Case or the Alternative Cases (Menthol Ban)), and

(ii) the actual debt service coverage ratio for the 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 2021A Bonds Debt Service and Projected Debt Service Coverage" (as shown in either the Base Case or the Alternative Cases (Menthol Ban)), and

(iii) total actual net debt service of the Series 2021 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 2021 Bonds Debt Service Schedule Incorporating Turbo Redemptions of the Series 2021B Bonds" (as shown in either the Base Case or the Alternative Cases (Menthol Ban)).

(c) It shall be sufficient for purposes of Section 2 hereof if the Corporation provides annual financial information by specific reference to documents (i) available to the public on the MSRB website (currently, www.emma.msrb.org) or (ii) filed with the Securities and Exchange Commission. The Corporation shall clearly identify each such other document so included by reference. The provisions of this Section 3(c) shall not apply to notices of Listed Events pursuant to Section 4 hereof.

Section 4. Reporting of Listed Events. In a timely manner not in excess of ten Business Days after the occurrence of the event, the Corporation shall provide to the MSRB notice of the occurrence of any of the following events with respect to the Bonds ("**Listed Events**"):

(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, if any, reflecting financial difficulties;

(5) substitution of credit or liquidity providers, if any, 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 Bonds, or other material events affecting the tax status of the Bonds;

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

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

(9) defeasances;

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

(11) rating changes;

(12) bankruptcy, insolvency, receivership or similar events of the Corporation; provided that for the purposes of the events described in this clause, such an event is considered to occur upon: the appointment of a receiver, fiscal agent or similar officer for the Corporation 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 Corporation, 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 Corporation;

(13) consummation of a merger, consolidation, or acquisition involving the Corporation or the sale of all or substantially all of the assets of the Corporation, 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 Corporation, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Corporation, any of which affect Bond holders, 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 Corporation, any of which reflect financial difficulties.

As used herein, the term "financial obligation" means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final offering circular has been provided to the MSRB consistent with the Rule.

Section 5. Provision of Information. Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to EMMA in an electronic format as prescribed by the MSRB, accompanied by such identifying information as is prescribed by the MSRB.

Section 6. Termination of Reporting Obligation. The Corporation's obligations under this Continuing Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If the Corporation's obligations under the Agreements are assumed in full by some other entity, such person shall be responsible for compliance with this Continuing Disclosure Agreement in the same manner as if it were the Corporation, and the Corporation shall have no further responsibility hereunder. If such termination or substitution occurs prior to the final maturity of the Bonds, the Corporation shall give notice of such termination or substitution in the same manner as for a Listed Event under Section 4.

Section 7. Dissemination Agent. The Corporation may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Continuing Disclosure Agreement, and may discharge any such agent, with or without appointing a successor dissemination agent.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Continuing Disclosure Agreement, the Corporation may amend this Continuing Disclosure Agreement and any provision of this Continuing Disclosure Agreement may be waived, provided that Bond Counsel or other counsel experienced in federal securities law matters provides the Corporation with its opinion that the undertaking of the Corporation contained herein, as so amended or after giving effect to such waiver, is in compliance with the Rule and all current amendments thereto and interpretations thereof that are applicable to this Continuing Disclosure Agreement.

In the event of any amendment or waiver of a provision of this Continuing Disclosure Agreement, the Corporation shall submit a report to the MSRB within ten (10) Business Days from the date of such amendment or waiver, which shall describe such amendment and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type of financial information or operating data being presented by the Corporation.

Section 9. Additional Information. Nothing in this Continuing Disclosure Agreement shall be deemed to prevent the Corporation from disseminating any other information, using the means of dissemination set forth in this Continuing Disclosure Agreement or any other means of communication, or including any other information in any report or notice of occurrence of a Listed Event, in addition to that which is required by this Continuing Disclosure Agreement. If the Corporation chooses to include any information in any report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Continuing Disclosure Agreement, the Corporation shall have no obligation under this Continuing Disclosure Agreement to update such information or include it in any future report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Corporation to comply with any provision of this Continuing Disclosure Agreement, the Trustee may (and, at the request of any Participating Underwriter or the owners of at least 25% aggregate principal amount of Outstanding Bonds, shall), or any Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Corporation to comply with its obligations under this Continuing Disclosure Agreement. A default under this Continuing Disclosure Agreement shall not be deemed an event of default under the Indenture, and the sole remedy under this Continuing Disclosure Agreement in the event of any failure of the Corporation to comply with this Continuing Disclosure Agreement shall be an action to compel performance.

Section 11. Beneficiaries. This Continuing Disclosure Agreement shall inure solely to the benefit of the Corporation, the Trustee, the Participating Underwriters, and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 12. Severability. If any provision in this Continuing Disclosure Agreement, the Indenture, or the Bonds shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 13. Counterparts. This Continuing Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 14. Governing Law. This Continuing Disclosure Agreement shall be governed by and construed in accordance with the laws of the State of Alaska.

IN WITNESS WHEREOF, the Corporation has caused this Continuing Disclosure Agreement to be executed by its duly authorized officer and delivered to the Participating Underwriters.

NORTHERN TOBACCO SECURITIZATION CORPORATION

By:________________________________
Name: Bryan D. Butcher
Title: Vice President

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX H

TABLE OF ACCRETED VALUES OF SERIES 2021B-2 BONDS

(Accreted Values Shown Per $5,000 Maturity Amount)

Rate of Accretion: 3.40%

Date	Accreted Value ($)
July 1, 2021*	1,099.75
December 1, 2021	1,115.30
June 1, 2022	1,134.25
December 1, 2022	1,153.55
June 1, 2023	1,173.15
December 1, 2023	1,193.10
June 1, 2024	1,213.40
December 1, 2024	1,234.00
June 1, 2025	1,255.00
December 1, 2025	1,276.35
June 1, 2026	1,298.05
December 1, 2026	1,320.10
June 1, 2027	1,342.55
December 1, 2027	1,365.35
June 1, 2028	1,388.60
December 1, 2028	1,412.20
June 1, 2029	1,436.20
December 1, 2029	1,460.60
June 1, 2030	1,485.45
December 1, 2030	1,510.70
June 1, 2031	1,536.35
December 1, 2031	1,562.50
June 1, 2032	1,589.05
December 1, 2032	1,616.05
June 1, 2033	1,643.55
December 1, 2033	1,671.50
June 1, 2034	1,699.90
December 1, 2034	1,728.80
June 1, 2035	1,758.20
December 1, 2035	1,788.10
June 1, 2036	1,818.45
December 1, 2036	1,849.40
June 1, 2037	1,880.85
December 1, 2037	1,912.80
June 1, 2038	1,945.30
December 1, 2038	1,978.40
June 1, 2039	2,012.00
December 1, 2039	2,046.25
June 1, 2040	2,081.00
December 1, 2040	2,116.40
June 1, 2041	2,152.35
December 1, 2041	2,188.95
June 1, 2042	2,226.20
December 1, 2042	2,264.00

* Closing Date.

Date	Accreted Value ($)
June 1, 2043	2,302.50
December 1, 2043	2,341.65
June 1, 2044	2,381.45
December 1, 2044	2,421.95
June 1, 2045	2,463.10
December 1, 2045	2,505.00
June 1, 2046	2,547.60
December 1, 2046	2,590.90
June 1, 2047	2,634.95
December 1, 2047	2,679.75
June 1, 2048	2,725.30
December 1, 2048	2,771.60
June 1, 2049	2,818.75
December 1, 2049	2,866.65
June 1, 2050	2,915.40
December 1, 2050	2,964.95
June 1, 2051	3,015.35
December 1, 2051	3,066.60
June 1, 2052	3,118.75
December 1, 2052	3,171.75
June 1, 2053	3,225.70
December 1, 2053	3,280.50
June 1, 2054	3,336.30
December 1, 2054	3,393.00
June 1, 2055	3,450.70
December 1, 2055	3,509.35
June 1, 2056	3,569.00
December 1, 2056	3,629.70
June 1, 2057	3,691.40
December 1, 2057	3,754.15
June 1, 2058	3,817.95
December 1, 2058	3,882.85
June 1, 2059	3,948.90
December 1, 2059	4,016.00
June 1, 2060	4,084.30
December 1, 2060	4,153.70
June 1, 2061	4,224.35
December 1, 2061	4,296.15
June 1, 2062	4,369.20
December 1, 2062	4,443.45
June 1, 2063	4,519.00
December 1, 2063	4,595.80
June 1, 2064	4,673.95
December 1, 2064	4,753.40
June 1, 2065	4,834.20
December 1, 2065	4,916.40
June 1, 2066	5,000.00

APPENDIX I

INDEX OF DEFINED TERMS

THIS PAGE INTENTIONALLY LEFT BLANK

NORTHERN TOBACCO SECURITIZATION CORPORATION • TOBACCO SETTLEMENT ASSET-BACKED BONDS, SERIES 2021 SENIOR BONDS

Mixed Sources
Product group from well managed forests, controlled sources and recycled wood or fiber.

Printed by: ImageMaster, LLC
www.imagemaster.com