GenOn Energy, Inc.
Form DEFM14A
October 09, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to Rule 14a-12

GENON ENERGY, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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TRANSACTION PROPOSED YOUR VOTE IS VERY IMPORTANT

Dear Stockholders:

Each of the boards of directors of NRG Energy, Inc. and GenOn Energy, Inc. has approved a strategic merger, combining NRG and GenOn and bringing together two organizations with complementary electric generating assets and a history of operating excellence to create a stronger, larger and more geographically diverse organization that will be well positioned to create greater value for all of our stockholders.

NRG and GenOn entered into an agreement and plan of merger on July 20, 2012. Subject to stockholder approvals and certain other customary closing conditions, NRG and GenOn will combine their businesses through the merger of GenOn with a newly formed, wholly owned subsidiary of NRG, with GenOn thereupon becoming a wholly owned subsidiary of NRG.

If the merger is completed, GenOn stockholders will receive 0.1216 shares of NRG common stock for each share of GenOn common stock. This exchange ratio is fixed and will not be adjusted to reflect stock price changes prior to the closing. NRG stockholders will continue to own their existing shares and the NRG common stock will not be affected by the merger. Upon completion of the merger, former GenOn stockholders will own approximately 29% of the then outstanding NRG common stock, based on the number of shares and equity awards of NRG and GenOn outstanding on July 18, 2012. The value of the merger consideration to be received in exchange for each share of GenOn common stock will fluctuate with the market value of NRG common stock until the merger is completed.

Based on the closing sale price for NRG common stock on July 20, 2012, the last trading day before public announcement of the merger, the 0.1216 exchange ratio represented a 20.6% premium to GenOn stockholders.

The common stock of NRG and GenOn are listed on the New York Stock Exchange under the symbols "NRG" and "GEN," respectively. We urge you to obtain current market quotations for the shares of common stock of NRG and GenOn.

Your vote is very important. The merger cannot be completed unless NRG stockholders approve the issuance of NRG common stock in the merger and the amendment to NRG's certificate of incorporation, and GenOn stockholders adopt the merger agreement. Each of GenOn and NRG is holding a special meeting of its stockholders to vote on the proposals necessary to complete the merger. Information about these meetings, the merger, the share issuance, the amendment to NRG's certificate of incorporation and the other business to be considered by stockholders at each of the special meetings is contained in this joint proxy statement/prospectus. We urge you to read this joint proxy statement/prospectus carefully. **You should also carefully consider the risks that are described in the "Risk Factors" section beginning on page 34.**

Whether or not you plan to attend your company's special meeting of stockholders, please submit your proxy as soon as possible to make sure that your shares are represented at that meeting.

The NRG board of directors recommends that NRG stockholders vote "FOR" the proposal to approve the issuance of NRG common stock in the merger and "FOR" the proposal to amend NRG's certificate of incorporation, which is necessary to complete the merger.

The GenOn board of directors recommends that GenOn stockholders vote "FOR" the proposal to adopt the merger agreement, which is necessary to complete the merger.

David Crane
President and Chief Executive Officer
NRG Energy, Inc.

Edward R. Muller
Chairman, President and Chief Executive Officer
GenOn Energy, Inc.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the merger or the other transactions described in this joint proxy statement/prospectus or the securities to be issued in connection with the merger or determined if this joint proxy statement/prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

This joint proxy statement/prospectus is dated October 5, 2012, and is first being mailed to stockholders of NRG and GenOn on or about October 10, 2012.

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON FRIDAY, NOVEMBER 9, 2012

To the Stockholders of NRG Energy, Inc.:

A special meeting of stockholders of NRG Energy, Inc. will be held at Princeton Marriott at Forrestal, 100 College Road East, Princeton, NJ 08540, on November 9, 2012 at 9:00 a.m., Eastern Time, for the following purposes:

1. To approve the issuance of NRG common stock, par value $0.01 per share, pursuant to the Agreement and Plan of Merger, dated as of July 20, 2012, by and among NRG Energy, Inc., Plus Merger Corporation and GenOn Energy, Inc., as the same may be amended from time to time, a copy of which is attached as Annex A to the joint proxy statement/prospectus accompanying this notice (the "Share Issuance" proposal).

2. To approve an amendment to NRG's amended and restated certificate of incorporation to fix the maximum number of directors that may serve on NRG's board of directors at 16 directors (the "Charter Amendment" proposal).

3. To approve any motion to adjourn the NRG special meeting, if necessary, to solicit additional proxies (the "NRG Adjournment" proposal).

Approval of the Share Issuance proposal and the Charter Amendment proposal is required to complete the merger.

NRG will transact no other business at the special meeting, except for business properly brought before the special meeting or any adjournment or postponement thereof.

The accompanying joint proxy statement/prospectus further describes the matters to be considered at the NRG special meeting.

The NRG board of directors has set October 5, 2012 as the record date for the NRG special meeting. Only holders of record of NRG common stock at the close of business on October 5, 2012 will be entitled to notice of and to vote at the NRG special meeting and any adjournments or postponements thereof. Any stockholder entitled to attend and vote at the NRG special meeting is entitled to appoint a proxy to attend and vote on such stockholder's behalf. Such proxy need not be a holder of NRG common stock.

Your vote is very important. To ensure your representation at the NRG special meeting, please complete and return the enclosed proxy card or submit your proxy by telephone or through the Internet. Please vote promptly whether or not you expect to attend the NRG special meeting. Submitting a proxy now will not prevent you from being able to vote in person at the NRG special meeting.

The NRG board of directors has approved the merger agreement and the transactions contemplated thereby and recommends that you vote "FOR" the Share Issuance proposal, "FOR" the Charter Amendment proposal and "FOR" the NRG Adjournment proposal.

By Order of the Board of Directors,

Brian Curci
Corporate Secretary and Assistant General Counsel
Princeton, New Jersey
October 5, 2012

PLEASE VOTE YOUR SHARES PROMPTLY. YOU CAN FIND INSTRUCTIONS FOR VOTING ON THE ENCLOSED PROXY CARD. IF YOU HAVE QUESTIONS ABOUT THE PROPOSALS OR ABOUT VOTING YOUR SHARES, PLEASE CALL MACKENZIE PARTNERS, INC. AT (800) 322-2885 (TOLL-FREE) OR (212) 929-5500 (COLLECT).

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON FRIDAY, NOVEMBER 9, 2012

To the Stockholders of GenOn Energy, Inc.:

A special meeting of stockholders of GenOn Energy, Inc. will be held at GenOn's corporate headquarters, 1000 Main Street, Houston, Texas 77002, on November 9, 2012 at 8:00 a.m., Central Time, for the following purposes:

1. To adopt the Agreement and Plan of Merger, dated as of July 20, 2012, by and among NRG Energy, Inc., Plus Merger Corporation and GenOn Energy, Inc. as the same may be amended from time to time, a copy of which is attached as Annex A to the joint proxy statement/prospectus accompanying this notice (the "Merger" proposal).

2. To conduct an advisory vote on the merger-related compensation arrangements of our named executive officers (the "Merger-Related Compensation" proposal).

3. To approve any motion to adjourn the GenOn special meeting, if necessary, to solicit additional proxies (the "GenOn Adjournment" proposal).

Approval of the Merger proposal is required for completion of the merger.

GenOn will transact no other business at the special meeting, except for business properly brought before the special meeting or any adjournment or postponement thereof.

The GenOn board of directors has set October 5, 2012 as the record date for the GenOn special meeting. Only holders of record of shares of GenOn common stock at the close of business on October 5, 2012 will be entitled to notice of and to vote at the GenOn special meeting and any adjournments or postponements thereof.

Your vote is very important. To ensure your representation at the GenOn special meeting, please complete and return the enclosed proxy card or submit your proxy by telephone or through the Internet. Please vote promptly whether or not you expect to attend the GenOn special meeting. Submitting a proxy now will not prevent you from being able to vote in person at the GenOn special meeting.

The GenOn board of directors has unanimously approved the merger agreement and the transactions contemplated thereby and recommends that you vote "FOR" the Merger proposal, "FOR" the Merger-Related Compensation proposal and "FOR" the GenOn Adjournment proposal.

By Order of the Board of Directors,

Michael L. Jines
Executive Vice President,
General Counsel and Corporate Secretary
and Chief Compliance Officer
Houston, Texas
October 5, 2012

PLEASE VOTE YOUR SHARES PROMPTLY. YOU CAN FIND INSTRUCTIONS FOR VOTING ON THE ENCLOSED PROXY CARD. IF YOU HAVE QUESTIONS ABOUT THE PROPOSALS OR ABOUT VOTING YOUR SHARES, PLEASE CALL INNISFREE M&A INCORPORATED TOLL-FREE AT (877) 800-5187 (BANKS AND BROKERS CALL COLLECT AT (212) 750-5833).

REFERENCES TO ADDITIONAL INFORMATION

This joint proxy statement/prospectus incorporates by reference important business and financial information about NRG and GenOn from other documents that are not included in or delivered with this joint proxy statement/prospectus. For a listing of the documents incorporated by reference into this joint proxy statement/prospectus, see "Where You Can Find More Information" beginning on page 170.

You can obtain any of the documents incorporated by reference into this joint proxy statement/prospectus by requesting them in writing or by telephone from MacKenzie Partners, Inc., NRG's proxy solicitor, or Innisfree M&A Incorporated, GenOn's proxy solicitor, at the following addresses and telephone numbers:

For NRG Stockholders:
MacKenzie Partners, Inc.
105 Madison Avenue
New York, New York 10016
(800) 322-2885 (toll-free)
(212) 929-5500 (collect)
Email: proxy@mackenziepartners.com

For GenOn Stockholders:
Innisfree M&A Incorporated
501 Madison Avenue, 20th Floor
New York, New York 10022
(877) 800-5187 (toll-free)
(212) 750-5833 (collect)

To receive timely delivery of the documents in advance of the special meetings, you should make your request no later than November 2, 2012.

You may also obtain any of the documents incorporated by reference into this joint proxy statement/prospectus without charge through the Securities and Exchange Commission, which is referred to as the SEC, website at www.sec.gov. In addition, you may obtain copies of documents filed by NRG with the SEC by accessing NRG's website at www.nrgenergy.com under the tab "Investors" and then under the heading "SEC Filings." You may also obtain copies of documents filed by GenOn with the SEC by accessing GenOn's website at www.genon.com under the tab "Investor Relations" and then under the heading "SEC Filings & Financials."

We are not incorporating the contents of the websites of the SEC, NRG, GenOn or any other entity into this joint proxy statement/prospectus. We are providing the information about how you can obtain certain documents that are incorporated by reference into this joint proxy statement/prospectus at these websites only for your convenience.

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETINGS

The following questions and answers briefly address some commonly asked questions about the NRG and GenOn special meetings. They may not include all the information that is important to stockholders of NRG and GenOn. Stockholders should carefully read this entire joint proxy statement/ prospectus, including the annexes and the other documents referred to herein.

Q:

What is the merger?

A:

NRG Energy, Inc., which is referred to as NRG, and GenOn Energy, Inc., which is referred to as GenOn, have entered into an Agreement and Plan of Merger, dated as of July 20, 2012, which is referred to as the merger agreement. A copy of the merger agreement is attached as Annex A to this joint proxy statement/prospectus. The merger agreement contains the terms and conditions of the proposed business combination of NRG and GenOn. Under the merger agreement, Plus Merger Corporation, a direct wholly owned subsidiary of NRG, will merge with and into GenOn, with GenOn continuing as the surviving entity and a wholly owned subsidiary of NRG, in a transaction which is referred to as the merger.

Q:

Why am I receiving these materials?

A:

NRG and GenOn are sending these materials to their respective stockholders to help them decide how to vote their shares of NRG or GenOn common stock, as the case may be, with respect to the merger and other matters to be considered at their respective special meetings.

The merger cannot be completed unless NRG stockholders approve the issuance of NRG common stock in the merger and the amendment to NRG's certificate of incorporation, and GenOn stockholders adopt the merger agreement. Each of NRG and GenOn is holding a special meeting of its stockholders to vote on the proposals necessary to complete the merger. Information about these special meetings, the merger and the other business to be considered by stockholders at each of the special meetings is contained in this joint proxy statement/prospectus.

This joint proxy statement/prospectus constitutes both a joint proxy statement of NRG and GenOn and a prospectus of NRG. It is a joint proxy statement because each of the boards of directors of NRG and GenOn are soliciting proxies from their respective stockholders. It is a prospectus because NRG will issue shares of its common stock in exchange for outstanding shares of GenOn common stock in the merger.

Q:

What will GenOn stockholders receive in the merger?

A:

In the merger, GenOn stockholders will receive 0.1216 shares of NRG common stock for each share of GenOn common stock, which is referred to as the exchange ratio, and will receive cash in lieu of fractional shares of NRG common stock. This exchange ratio is fixed and will not be adjusted to reflect changes in the stock price of either company before the merger is completed. NRG stockholders will continue to own their existing shares of NRG common stock and the NRG common stock will not be affected by the merger.

Q:

What will happen to the preferred share purchase rights attached to GenOn common stock?

A:

Prior to the completion of the merger, GenOn will terminate the rights agreement by and between GenOn and Computershare Trust Company, N.A., which is referred to as the GenOn Rights Agreement. In connection with such termination, all of the rights to purchase Series A Preferred Stock of GenOn will be cancelled without any consideration therefor.

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Q:
When do GenOn and NRG expect to complete the merger?

A:
NRG and GenOn are working to complete the merger as soon as practicable. We currently expect that the merger will be completed by the first quarter of 2013. Neither NRG nor GenOn can predict, however, the actual date on which the merger will be completed because it is subject to conditions beyond each company's control, including federal and state regulatory approvals. See "The Merger Agreement Conditions to Completion of the Merger" beginning on page 109.

Q:
What am I being asked to vote on and why is this approval necessary?

A:
NRG stockholders are being asked to vote on the following proposals:

1. to approve the issuance of NRG common stock, par value $0.01 per share, pursuant to the merger agreement, which is referred to as the "Share Issuance" proposal;

2. to approve an amendment to NRG's amended and restated certificate of incorporation to fix the maximum number of directors that may serve on NRG's board of directors at 16 directors, which is referred to as the "Charter Amendment" proposal; and

3. to approve any motion to adjourn the NRG special meeting, if necessary, to solicit additional proxies, which is referred to as the "NRG Adjournment" proposal.

Approval of the Share Issuance proposal and the Charter Amendment proposal by NRG stockholders is required to complete the merger.

GenOn stockholders are being asked to vote on the following proposals:

1. to adopt the merger agreement, a copy of which is attached as Annex A to this joint proxy statement/prospectus, which is referred to as the "Merger" proposal;

2. to conduct an advisory vote on the merger-related compensation arrangements of our named executive officers, which is referred to as the "Merger-Related Compensation" proposal; and

3. to approve any motion to adjourn the GenOn special meeting, if necessary, to solicit additional proxies, which is referred to as the "GenOn Adjournment" proposal.

Approval of the Merger proposal by GenOn stockholders is required for completion of the merger.

The Share Issuance proposal, the Charter Amendment proposal and the Merger proposal are collectively referred to as the "Merger-Related" proposals.

Q:
What vote is required to approve each proposal at the NRG Special Meeting?

A:
The Share Issuance proposal: The affirmative vote of a majority of the votes cast by NRG stockholders is required to approve the Share Issuance proposal, provided that the total votes cast on such proposal (including abstentions) represent a majority of total number of shares of NRG common stock outstanding on the record date for the NRG special meeting.

The Charter Amendment proposal: The affirmative vote of a majority of the shares of NRG common stock outstanding on the record date for the NRG special meeting is required to approve the Charter Amendment proposal.

The NRG Adjournment proposal: The affirmative vote of a majority of the shares of NRG common stock represented (in person or by proxy) and entitled to vote on the proposal is required to approve the NRG Adjournment proposal.

Q:

What vote is required to approve each proposal at the GenOn Special Meeting?

A:

The Merger proposal: The affirmative vote of a majority of the shares of GenOn common stock outstanding on the record date for the GenOn special meeting is required to approve the Merger proposal.

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The Merger-Related Compensation proposal: The affirmative vote of a majority of the shares of GenOn common stock represented (in person or by proxy) at the GenOn special meeting and entitled to vote on such proposal is required to approve the Merger-Related Compensation proposal. Because the vote on the Merger-Related Compensation proposal is advisory only, it will not be binding on either GenOn or NRG. Accordingly, if the merger agreement is adopted and the merger is completed, the compensation will be payable, subject only to the conditions applicable thereto, regardless of the outcome of the non-binding, advisory vote of GenOn's stockholders.

The GenOn Adjournment proposal: The affirmative vote of a majority of the shares of GenOn common stock represented (in person or by proxy) at the GenOn special meeting and entitled to vote on such proposal is required to approve the GenOn Adjournment proposal.

Q:

What constitutes a quorum?

A:

The representation of holders of at least a majority of the total number of shares of common stock outstanding as of the record date at the NRG special meeting or GenOn special meeting, as applicable, whether present in person or represented by proxy, is required in order to conduct business at each special meeting. This requirement is called a quorum. Abstentions, if any, which are described below, will be treated as present for the purposes of determining the presence or absence of a quorum for each special meeting.

Q:

How do the boards of directors of NRG and GenOn recommend that I vote?

A:

The board of directors of NRG, which is referred to as the NRG Board, recommends that holders of NRG common stock vote "**FOR**" the Share Issuance proposal, "**FOR**" the Charter Amendment proposal and "**FOR**" the NRG Adjournment proposal.

The board of directors of GenOn, which is referred to as the GenOn Board, recommends that GenOn stockholders vote "**FOR**" the Merger proposal and "**FOR**" the GenOn Adjournment proposal. In addition, the GenOn Board recommends that holders of GenOn common stock vote "**FOR**" the Merger-Related Compensation proposal to approve, on an advisory (non-binding) basis, any "golden parachute" compensation arrangement that may be paid or become payable, to GenOn's named executive officers that is based on or otherwise relates to the merger or contemplated by the merger agreement.

Q:

What do I need to do now?

A:

After carefully reading and considering the information contained in this joint proxy statement/prospectus, please vote your shares as soon as possible so that your shares will be represented at your respective company's special meeting. Please follow the instructions set forth on the proxy card or on the voting instruction form provided by the record holder if your shares are held in the name of your broker, bank or other nominee.

Please do not submit your GenOn stock certificates at this time. If the merger is completed, you will receive instructions for surrendering your GenOn stock certificates in exchange for shares of NRG common stock from the exchange agent.

Q:

How do I vote?

A:

If you are a stockholder of record of NRG as of October 5, 2012, which is referred to as the NRG record date, or a stockholder of GenOn as of October 5, 2012, which is referred to as the GenOn record date, you may submit your proxy before your respective company's special meeting in one of the following ways:

- use the toll-free number shown on your proxy card;

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visit the website shown on your proxy card to vote via the Internet; or

complete, sign, date and return the enclosed proxy card in the enclosed postage-paid envelope.

Stockholders of record may also cast your vote in person at your respective company's special meeting.

If your shares are held in "street name," through a broker, trustee or other nominee, that institution will send you separate instructions describing the procedure for voting your shares. "Street name" stockholders who wish to vote at the meeting will need to obtain a "legal proxy" form from their broker, trustee or other nominee.

Q:

When and where are the NRG and GenOn special meetings of stockholders? What must I bring to attend the special meeting?

A:

The special meeting of NRG stockholders will be held at Princeton Marriott at Forrestal 100 College Road East, Princeton, NJ 08540 at 9:00 a.m., Eastern Time, on November 9, 2012. Subject to space availability, all NRG stockholders as of the NRG record date, or their duly appointed proxies, may attend the meeting. Since seating is limited, admission to the meeting will be on a first-come, first-served basis. Registration and seating will begin at 8:30 a.m., Eastern Time.

The special meeting of GenOn stockholders will be held at GenOn's corporate headquarters, 1000 Main Street, Houston, Texas 77002 at 8:00 a.m., Central Time, on November 9, 2012. Subject to space availability, all GenOn stockholders as of the GenOn record date, or their duly appointed proxies, may attend the meeting. Since seating is limited, admission to the meeting will be on a first-come, first-served basis. Registration and seating will begin at 7:30 a.m., Central Time.

If you wish to attend your respective company's special meeting, you must bring photo identification. If you hold your shares through a bank, broker, custodian or other record holder, you must also bring proof of ownership such as the voting instruction form from your broker or other nominee or an account statement.

Q:

If my shares are held in "street name" by a broker, trustee or other nominee, will my broker, trustee or other nominee vote my shares for me?

A:

If your shares are held in "street name" in a stock brokerage account or by a bank, trustee or other nominee, you must provide the record holder of your shares with instructions on how to vote your shares. Please follow the voting instructions provided by your broker, trustee or other nominee. Please note that you may not vote shares held in street name by returning a proxy card directly to NRG or GenOn or by voting in person at your respective company's special meeting unless you provide a "legal proxy," which you must obtain from your broker, trustee or other nominee. Your broker, trustee, or nominee is obligated to provide you with a voting instruction card for you to use.

Under the rules of the New York Stock Exchange, which is referred to as the NYSE, brokers who hold shares in street name for a beneficial owner of those shares typically have the authority to vote in their discretion on "routine" proposals when they have not received instructions from beneficial owners. However, brokers are not allowed to exercise their voting discretion with respect to the approval of matters that the NYSE determines to be "non-routine" without specific instructions from the beneficial owner. It is expected that all proposals to be voted on at the NRG special meeting and the GenOn special meeting are such "non-routine" matters. Broker non-votes occur when a broker or nominee is not instructed by the beneficial owner of shares to vote on a particular proposal for which the broker does not have discretionary voting power.

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If you are an NRG stockholder and you do not instruct your broker, bank or other nominee on how to vote your shares:

- your broker, bank or other nominee may not vote your shares on the Share Issuance proposal, which broker non-votes will have no effect on the vote count for such proposal, but will make it more difficult to meet the NYSE requirement that the total votes cast on such proposal represent a majority of total number of shares of NRG common stock outstanding on the record date for the NRG special meeting;

- your broker, bank or other nominee may not vote your shares on the Charter Amendment proposal, which broker non-votes will have the same effect as a vote "AGAINST" such proposal; and

- your broker, bank or other nominee may not vote your shares on the NRG Adjournment proposal, which broker non-votes will have no effect on the vote count for this proposal.

If you are a GenOn stockholder and you do not instruct your broker, bank or other nominee on how to vote your shares:

- your broker, bank or other nominee may not vote your shares on the Merger proposal, which broker non-votes will have the same effect as a vote "AGAINST" this proposal; and

- your broker, bank or other nominee may not vote your shares on the Merger-Related Compensation and GenOn Adjournment proposals, which broker non-votes will have no effect on the vote count for either of these proposals.

Q:

What if I fail to vote or abstain?

A:

For purposes of each of the NRG special meeting and the GenOn special meeting, an abstention occurs when a stockholder attends the applicable special meeting in person and does not vote or returns a proxy with an "abstain" vote.

NRG

Share Issuance proposal: An abstention will have the same effect as a vote cast "AGAINST" the Share Issuance proposal. If an NRG stockholder is not present in person at the NRG special meeting and does not respond by proxy, it will have no effect on the vote count for the Share Issuance proposal, but it will make it more difficult to meet the NYSE requirement that the total votes cast on such proposal (including abstentions) represent a majority of the shares of NRG common stock outstanding as of the NRG record date.

Charter Amendment proposal: An abstention or failure to vote will have the same effect as a vote cast "AGAINST" the Charter Amendment proposal.

NRG Adjournment proposal: An abstention will have the same effect as a vote cast "AGAINST" the NRG Adjournment proposal. If an NRG stockholder is not present in person at the NRG special meeting and does not respond by proxy, it will have no effect on the vote count for the NRG Adjournment proposal (assuming a quorum is present).

GenOn

Merger proposal: An abstention or failure to vote will have the same effect as a vote cast "AGAINST" the Merger proposal.

Merger-Related Compensation proposal: An abstention will have the same effect as a vote cast "AGAINST" the Merger-Related Compensation proposal. If a GenOn stockholder is not present in person at the GenOn special meeting and does not respond by proxy, it will have no effect on the vote count for the Merger-Related Compensation proposal (assuming a quorum is present).

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GenOn Adjournment proposal: An abstention will have the same effect as a vote cast "AGAINST" the GenOn Adjournment proposal. If a GenOn stockholder is not present in person at the GenOn special meeting and does not respond by proxy, it will have no effect on the vote count for the GenOn Adjournment proposal (assuming a quorum is present).

Q:

What will happen if I return my proxy or voting instruction card without indicating how to vote?

A:

If you sign and return your proxy or voting instruction card without indicating how to vote on any particular proposal, the NRG common stock represented by your proxy will be voted as recommended by the NRG Board with respect to that proposal or the GenOn common stock represented by your proxy will be voted as recommended by the GenOn Board with respect to that proposal. Unless an NRG stockholder or a GenOn stockholder, as applicable, checks the box on its proxy card to withhold discretionary authority, the proxyholders may use their discretion to vote on other matters relating to the NRG special meeting or GenOn special meeting, as applicable.

Q:

What if I hold shares of both NRG common stock and GenOn common stock?

A:

If you are a stockholder of both NRG and GenOn, you will receive two separate packages of proxy materials. A vote as a GenOn stockholder will not constitute a vote as an NRG stockholder and vice versa. Therefore, please sign, date and return all proxy cards that you receive, whether from NRG or GenOn, or vote as both an NRG stockholder and as a GenOn stockholder by Internet or telephone.

Q:

May I change my vote after I have delivered my proxy or voting instruction card?

A:

Yes. If you are a record holder, you may change your vote at any time before your proxy is voted at the NRG or GenOn special meeting. You may do this in one of four ways:

- by sending a notice of revocation to the corporate secretary of NRG or GenOn, as applicable;
- by logging onto the Internet website specified on your proxy card in the same manner you would to submit your proxy electronically or by calling the telephone number specified on your proxy card, in each case if you are eligible to do so;
- by sending a completed proxy card bearing a later date than your original proxy card; or
- by attending the NRG or GenOn special meeting, as applicable, and voting in person.

If you choose any of the first three methods, you must take the described action no later than the beginning of the applicable special meeting.

If your shares are held in an account at a broker, bank or other nominee and you have delivered your voting instruction card to your broker, bank or other nominee, you should contact your broker, bank or other nominee to change your vote.

Q:

What are the material U.S. federal income tax consequences of the merger?

A:

It is a condition to the obligation of GenOn to complete the merger that GenOn receive a written opinion from Skadden, Arps, Slate, Meagher & Flom LLP, counsel to GenOn, which is referred to as Skadden, dated as of the closing date, to the effect that for U.S. federal income tax purposes the merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, which is referred to as the Code, and that NRG receive a written opinion from Kirkland &

Ellis LLP, counsel to NRG, which is referred to as Kirkland & Ellis, dated as of the closing date, to the effect that for U.S. federal income tax purposes the merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Code.

It is a condition to the obligation of NRG to effect the merger that NRG receive a written opinion from Kirkland & Ellis, dated as of the closing date, to the effect that for U.S. federal income tax

purposes the merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Code, and that GenOn receive a written opinion from Skadden, dated as of the closing date, to the effect that for U.S. federal income tax purposes the merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Code.

Provided that the merger so qualifies, a holder of GenOn common stock will not recognize any gain or loss for U.S. federal income tax purposes upon the exchange of the holder's shares of GenOn common stock for shares of NRG common stock in the merger, except with respect to cash received in lieu of a fractional share of NRG common stock.

Q:

Do I have appraisal rights in connection with the merger?

A:

No. Under Delaware law, neither GenOn stockholders nor NRG stockholders will be entitled to exercise any appraisal rights in connection with the merger or the other transactions contemplated by the merger agreement.

Q:

What if I hold GenOn stock options or restricted stock units?

A:

Upon completion of the merger:

- GenOn stock options (other than stock options granted in 2012) will vest in full and be converted into options with respect to NRG common stock based on the exchange ratio, and remain outstanding subject to the same terms and conditions (other than vesting conditions) as otherwise applicable to such stock options prior to the merger.

- GenOn stock options granted in 2012 will be converted into options in respect of NRG common stock based on the exchange ratio, and remain outstanding subject to the same terms and conditions (including vesting conditions) as otherwise applicable to such stock options prior to the merger.

- GenOn restricted stock units (other than restricted stock units granted in 2012) will vest in full and be converted into NRG common stock based on the exchange ratio (with cash paid in lieu of fractional shares).

- GenOn restricted stock units granted in 2012 will be converted into NRG restricted stock units based on the exchange ratio, and remain outstanding subject to the same terms and conditions as otherwise applicable to such restricted stock units prior to the merger, except that the extent of attainment of performance targets with respect to such restricted stock units will be determined by the GenOn Board (or a committee thereof) on an appropriate basis before closing.

Notwithstanding the foregoing, GenOn outstanding stock options and restricted stock units granted in 2012 will vest (to the extent not already fully vested) at the holder's termination date if the termination occurs within two years of completion of the merger under certain qualifying circumstances.

Q:

Whom should I contact if I have any questions about the proxy materials or voting?

A:

If you have any questions about the proxy materials or if you need assistance submitting your proxy or voting your shares or need additional copies of this joint proxy statement/prospectus or the enclosed proxy card, you should contact the proxy solicitation agent for the company in which you hold shares.

If you are an NRG stockholder, you should contact MacKenzie Partners, Inc., the proxy solicitation agent for NRG, at (800) 322-2885 (toll-free) or (212) 929-5500 (collect). If you are a GenOn stockholder, you should contact Innisfree M&A Incorporated, the proxy solicitation agent for GenOn, at (877) 800-5187 (toll-free) or (212) 750-5833 (collect).

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SUMMARY

This summary highlights selected information contained in this joint proxy statement/prospectus and does not contain all the information that may be important to you. NRG and GenOn urge you to read carefully this joint proxy statement/prospectus in its entirety, including the annexes. Additional, important information, which NRG and GenOn also urge you to read, is contained in the documents incorporated by reference into this joint proxy statement/prospectus. See "Where You Can Find More Information" beginning on page 170. Unless stated otherwise, all references in this joint proxy statement/prospectus to NRG are to NRG Energy, Inc., all references to GenOn are to GenOn Energy, Inc. and all references to the merger agreement are to the Agreement and Plan of Merger, dated as of July 20, 2012, by and among NRG, Plus Merger Corporation and GenOn, a copy of which is attached as Annex A to this joint proxy statement/prospectus.

The Parties

NRG

NRG is an integrated wholesale power generation and retail electricity company that aspires to be a leader in the way the industry and consumers think about, use, produce and deliver energy and energy services in major competitive power markets in the United States. First, NRG is a wholesale power generator engaged in the ownership and operation of power generation facilities; the trading of energy, capacity and related products; and the transacting in and trading of fuel and transportation services. Second, NRG is a retail electricity company engaged in the supply of electricity, energy services, and cleaner energy products to retail electricity customers in deregulated markets. Finally, NRG is focused on the deployment and commercialization of potential disruptive technologies, like electric vehicles, certain solar power projects and smart meter technology, which have the potential to change the nature of the power supply industry.

For the year ended December 31, 2011, NRG had total revenues of approximately $9.1 billion and net income of approximately $197 million.

NRG's principal offices are located at 211 Carnegie Center, Princeton, New Jersey 08540, and its telephone number is (609) 524-4500. NRG common stock is listed on the New York Stock Exchange, which is referred to as the NYSE, trading under the symbol "NRG."

GenOn

GenOn is principally a wholesale power generator engaged in the ownership and operation of power generation facilities in competitive energy markets. GenOn also operates integrated asset management and proprietary trading operations. GenOn's customers are principally independent system operators, regional transmission organizations and investor-owned utilities.

For the year ended December 31, 2011, GenOn had total revenues of approximately $3.6 billion and a net loss of approximately $189 million.

GenOn's principal offices are located at 1000 Main Street, Houston, Texas 77002 and its telephone number is (832) 357-3000. GenOn common stock is listed on the NYSE, trading under the symbol "GEN."

Merger Sub

Plus Merger Corporation, or Merger Sub, a wholly owned subsidiary of NRG, is a Delaware corporation formed on July 18, 2012, for the purpose of effecting the merger. Merger Sub has not conducted any activities other than those incidental to its formation and the matters contemplated by

the merger agreement, including the preparation of applicable regulatory filings in connection with the merger.

The Merger

NRG and GenOn have entered into the merger agreement, which provides that, subject to the terms and conditions of the merger agreement and in accordance with the Delaware General Corporation Law, which is referred to as the DGCL, Merger Sub will merge with and into GenOn, with GenOn continuing as the surviving entity and a direct wholly owned subsidiary of NRG.

Consideration to be Received in the Merger by GenOn Stockholders

In the merger, each share of GenOn common stock that is issued and outstanding immediately prior to the effective time of the merger (other than any shares of GenOn common stock owned or held directly or indirectly by NRG, GenOn, Merger Sub or any of their respective subsidiaries that will be cancelled upon completion of the merger) will be converted into the right to receive 0.1216 shares of NRG common stock, which is referred to as the exchange ratio. The exchange ratio will be adjusted appropriately to fully reflect the effect of any reclassification, stock split or combination, exchange or readjustment of shares, or any stock dividend or distribution with respect to the shares of either NRG common stock or GenOn common stock with a record date prior to completion of the merger. No fractional shares of NRG common stock will be issued in connection with the merger, and holders will be entitled to receive cash in lieu thereof. NRG stockholders will continue to own their existing shares, which will not be affected by the merger.

Treatment of Stock Options and Restricted Stock Units

GenOn

Upon completion of the merger, all outstanding GenOn stock options will be converted into stock options with respect to NRG common stock (with the number of shares subject to such options and the per share exercise price appropriately adjusted based on the exchange ratio) and remain outstanding, subject to the same terms and conditions as otherwise applicable to such stock options prior to the merger, except that all GenOn stock options other than those granted in 2012 will become vested upon the completion of the merger. GenOn stock options granted in 2012 will not be subject to accelerated vesting solely by reason of the completion of the merger and will remain subject to the vesting conditions applicable to such stock options prior to the merger.

All outstanding GenOn restricted stock units (other than restricted stock units granted in 2012) will immediately vest and be exchanged for the merger consideration upon completion of the merger (with cash paid in lieu of fractional shares). GenOn restricted stock units granted in 2012 will be converted into NRG restricted stock units (with the number of shares subject to such restricted stock units appropriately adjusted based on the exchange ratio and extent of performance goal attainment) and otherwise remain outstanding in accordance with their terms.

Notwithstanding the foregoing, GenOn outstanding stock options and restricted stock units granted in 2012 will vest (to the extent not already fully vested) at the holder's termination date if the termination is as a result of the merger and occurs within two years of completion of the merger under certain qualifying circumstances.

For a more complete discussion of the treatment of GenOn options and other stock-based awards, see "The Merger Agreement Treatment of GenOn Stock Options and Restricted Stock Units" on page 106. For further discussion of the treatment of GenOn options and other stock-based awards held by directors and executive officers of GenOn, see "The Merger Interests of Directors and Executive

Officers in the Merger Interests of Directors and Executive Officers of GenOn in the Merger" beginning on page 85.

NRG

The merger will not affect NRG's stock options, restricted stock or other equity awards of NRG. All such awards will remain outstanding subject to the same terms and conditions that are applicable prior to the merger.

Governance of NRG Following Completion of the Merger; Amendments to NRG's Certificate of Incorporation and Bylaws

Board of Directors. The parties have agreed that, immediately following completion of the merger:

The board of directors of NRG will have 16 members, consisting of (a) all 12 directors from the NRG Board, including Mr. Howard Cosgrove, the current Chairman of the NRG Board, and Mr. David Crane, the current President and Chief Executive Officer of NRG, and (b) four directors from the GenOn Board, consisting of Mr. Edward R. Muller, the current Chairman, President and Chief Executive Officer of GenOn, and Messrs. E. Spencer Abraham, Terry G. Dallas and Evan J. Silverstein.

Mr. Cosgrove will continue as the Chairman of the NRG Board.

Mr. Muller will become Vice Chairman of the NRG Board and hold such position until at least the 2014 annual meeting of NRG stockholders.

Management. GenOn and NRG expect that immediately following completion of the merger, the corporate leadership team of NRG will consist of Mr. Crane as President and Chief Executive Officer, Mr. Kirk Andrews as Chief Financial Officer, Mr. Mauricio Gutierrez as Chief Operating Officer, and Ms. Anne Cleary as the Chief Integration Officer.

Amendment to NRG's Certificate of Incorporation. In connection with the merger, Article Seven of NRG's amended and restated certificate of incorporation will be amended to fix the maximum number of directors that may serve on the NRG Board at 16 directors.

Amendment to NRG's Bylaws. In connection with the merger, NRG's bylaws will be amended and restated as of completion of the merger to reflect the governance arrangements contemplated by the merger agreement. The form of the amended and restated bylaws is included as Exhibit B to the merger agreement, which is attached as Annex A to this joint proxy statement/prospectus.

For a more complete discussion of the directors and executive officers of the combined company, see "The Merger Governance of NRG Following Completion of the Merger; Amendments to NRG's Certificate of Incorporation and Bylaws" beginning on page 84.

Headquarters

Upon completion of the merger, (i) the executive offices and commercial and financial headquarters of NRG will be located in Princeton, New Jersey, and (ii) the operations headquarters of NRG will be located in Houston, Texas.

Recommendations of the NRG Board of Directors

After careful consideration, the NRG Board recommends that holders of NRG common stock vote "**FOR**" the Share Issuance proposal, the Charter Amendment proposal and the NRG Adjournment proposal.

For a more complete description of NRG's reasons for the merger and the recommendations of the NRG Board, see "The Merger Rationale for the Merger" and "The Merger NRG Board of Directors' Recommendations and Its Reasons for the Merger" beginning on pages 48 and 50, respectively.

Recommendations of the GenOn Board of Directors

After careful consideration, the GenOn Board recommends that holders of GenOn common stock vote "**FOR**" the Merger proposal and the GenOn Adjournment proposal.

After careful consideration, the GenOn Board recommends that holders of GenOn common stock vote **"FOR"** the Merger-Related Compensation proposal to approve, on an advisory (non-binding) basis, any "golden parachute" compensation arrangement that may be paid or become payable, to GenOn's named executive officers that is based on or otherwise relates to the merger or contemplated by the merger agreement.

For a more complete description of GenOn's reasons for the merger and the recommendation of the GenOn Board, see "The Merger Rationale for the Merger" and "The Merger GenOn Board of Directors' Recommendation and Its Reasons for the Merger" beginning on pages 48 and 54, respectively.

Opinions of Financial Advisors

NRG's Financial Advisors

In connection with the merger, the NRG Board received separate written opinions, dated July 20, 2012, from NRG's financial advisors, Credit Suisse Securities (USA) LLC, referred to as Credit Suisse, and Morgan Stanley & Co. LLC, referred to as Morgan Stanley, as to the fairness, from a financial point of view and as of the date of such opinion, to NRG of the exchange ratio provided for in the merger. The full texts of Credit Suisse's and Morgan Stanley's respective written opinions, each dated July 20, 2012, are attached to this joint proxy statement/prospectus as Annex B and Annex C, respectively, and set forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Credit Suisse and Morgan Stanley in connection with such opinions. **The opinions were provided for the benefit of the NRG Board (in its capacity as such) in connection with, and for the purpose of, its evaluation of the exchange ratio from a financial point of view to NRG and did not address any other aspect of the merger. In addition, the opinions did not in any manner address the prices at which shares of NRG common stock or GenOn common stock would trade at any time, or any compensation or compensation agreements arising from the merger which benefit any officer, director or employee of NRG or GenOn, or any class of such persons. The opinions are addressed to the NRG Board and do not constitute advice or a recommendation to any stockholder as to how to vote or act with respect to the merger.** For a more complete description of Credit Suisse's and Morgan Stanley's respective opinions, see "The Merger Opinions of NRG's Financial Advisors" beginning on page 58. See also Annex B and Annex C to this joint proxy statement/prospectus.

GenOn's Financial Advisor

At a meeting of the GenOn Board held on July 20, 2012, J.P. Morgan Securities LLC, which is referred to as J.P. Morgan, delivered its opinion to the GenOn Board as to the fairness, from a financial point of view and as of such date, of the exchange ratio to holders of GenOn common stock. The full text of the written opinion of J.P. Morgan, dated July 20, 2012, which sets forth, among other things, the assumptions made, procedures followed, matters considered and qualifications and limitations on the opinion and the review undertaken in connection with rendering its opinion, is included as Annex D to this proxy statement/prospectus. **J.P. Morgan's written opinion was provided to the GenOn Board (solely in its capacity as such) in connection with its evaluation of the merger and**

addressed only the fairness, from a financial point of view, of the exchange ratio and no other matters. The opinion does not constitute a recommendation to any stockholder as to how any stockholder should vote with respect to the proposed merger or any other matter. For a more complete description of J.P. Morgan's opinion, see "The Merger Opinion of GenOn's Financial Advisor" beginning on page 73. See also Annex D to this proxy statement/prospectus.

Interests of Directors and Executive Officers in the Merger

You should be aware that some of the directors and executive officers of NRG and GenOn have interests in the merger that are different from, or are in addition to, the interests of stockholders generally, including without limitation the following:

For GenOn's Directors and Executive Officers: Treatment of equity-based compensation awards held by directors and executive officers of GenOn in the merger; the appointment of Edward R. Muller, currently GenOn's Chairman, President and Chief Executive Officer, as Vice Chairman of the NRG Board; the appointment of Mr. Muller and three other directors of GenOn as directors of NRG following the merger; the continued service of certain officers as officers of NRG following the merger; change-in-control severance arrangements covering certain executive officers of GenOn; and the indemnification of GenOn's directors and officers by NRG.

For NRG's Directors and Executive Officers: Mr. David Crane, currently NRG's President and Chief Executive Officer, will continue in those positions immediately following the completion of the merger; Mr. Howard E. Cosgrove, currently Chairman of the NRG Board, will continue in that position immediately following the completion of the merger; Mr. Crane, Mr. Cosgrove and ten other directors of NRG will continue to serve as directors of NRG immediately following the completion of the merger.

The NRG Board and the GenOn Board were aware of these additional interests by their respective directors and executive officers and considered these potential interests, among other matters, in evaluating and negotiating the merger agreement and the merger, in approving the merger agreement and in recommending the applicable Merger-Related proposals.

For a further discussion of the interests of GenOn and NRG directors and executive officers in the merger, see "The Merger Interests of Directors and Executive Officers in the Merger" beginning on page 85.

Material U.S. Federal Income Tax Consequences of the Merger

It is a condition to the obligation of GenOn to complete the merger that GenOn receive a written opinion from Skadden, counsel to GenOn, dated as of the closing date, to the effect that for U.S. federal income tax purposes the merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Code, and that NRG receive a written opinion from Kirkland & Ellis, counsel to NRG, dated as of the closing date, to the effect that for U.S. federal income tax purposes the merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Code. It is a condition to the obligation of NRG to effect the merger that NRG receive a written opinion from Kirkland & Ellis, dated as of the closing date, to the effect that for U.S. federal income tax purposes the merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Code, and that GenOn receive a written opinion from Skadden, dated as of the closing date, to the effect that for U.S. federal income tax purposes the merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Code. In addition, in connection with the Registration Statement of which this joint proxy statement/prospectus is a part being declared effective, each of Skadden and Kirkland & Ellis will deliver an opinion to GenOn and NRG, respectively, to the same effect as the opinions described above and to the effect that holders of GenOn common stock whose shares of GenOn common stock

are exchanged in the merger for shares of NRG common stock will not recognize gain or loss, except to the extent of cash, if any, received in lieu of a fractional share of NRG common stock.

The discussion of material U.S. federal income tax consequences of the merger contained in this joint proxy statement/prospectus is intended to provide only a general summary and is not a complete analysis or description of all potential U.S. federal income tax consequences of the merger. The discussion does not address tax consequences that may vary with, or are contingent on, individual circumstances. In addition, it does not address the effects of any foreign, state or local tax laws.

GenOn stockholders are strongly urged to consult with their tax advisors regarding the tax consequences of the merger to them, including the effects of U.S. federal, state, local, foreign and other tax laws.

For a more complete description of the material U.S. federal income tax consequences of the merger, see "The Merger Material U.S. Federal Income Tax Consequences" beginning on page 102.

Accounting Treatment of the Merger

The merger will be accounted for as an acquisition of GenOn by NRG under the acquisition method of accounting in accordance with accounting principles generally accepted in the U.S., or U.S. GAAP.

No Appraisal Rights

Under Section 262 of the DGCL, neither the holders of GenOn common stock nor the holders of NRG common stock have appraisal rights in connection with the merger.

Regulatory Matters

To complete the merger, GenOn and NRG must make filings with and obtain authorizations, approvals or consents from federal and state public utility, antitrust and other regulatory authorities. The material United States federal and state approvals, consents and filings include the following:

- the expiration or termination of the waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, which we refer to as the HSR Act, and the related rules and regulations;
- approval of the merger by the Federal Energy Regulatory Commission, which is referred to as the FERC, under the Federal Power Act;
- approval of the merger by the New York Public Service Commission, which is referred to as the NYPSC;
- approval of the merger by the Public Utility Commission of Texas, which is referred to as the PUCT;
- notice to the California Public Utilities Commission and the lapse of the associated notice period; and
- a threshold determination from the Nuclear Regulatory Commission, which is referred to as the NRC, that the merger does not require the prior approval of the NRC under the Atomic Energy Act of 1954.

For a more complete discussion of regulatory matters relating to the merger, see "The Merger Regulatory Approvals Required for the Merger" beginning on page 95.

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Litigation Related to the Merger

GenOn, members of the GenOn Board, NRG and Merger Sub are named defendants in three pending lawsuits, each purportedly brought on behalf of all of the public stockholders of GenOn. The complaints allege, among other things, that members of the GenOn Board have breached their fiduciary duties by failing to take steps to maximize the value of GenOn to its public stockholders, that the joint proxy statement contains incomplete and misleading disclosures, and that NRG and Merger Sub have aided and abetted GenOn directors' breaches of their fiduciary duties. The plaintiffs in these lawsuits seek, among other things, (i) a declaration that the merger agreement was entered into in breach of GenOn directors' fiduciary duties, (ii) an injunction enjoining the GenOn Board from consummating the merger, (iii) an order directing the GenOn Board to exercise their duties to obtain a transaction which is in the best interests of GenOn's stockholders, (iv) an order granting the class members any benefits allegedly improperly received by the defendants, (v) a rescission of the merger, in the event that it is consummated, and/or (vi) an order directing additional disclosure regarding the merger. NRG and GenOn believe the allegations of the complaints are without merit and intend to defend these lawsuits vigorously.

Conditions to Completion of the Merger

The parties expect to complete the merger after all of the conditions to the merger in the merger agreement are satisfied or waived, including after NRG and GenOn receive stockholder approvals at their respective special meetings and receive all required regulatory approvals. The parties currently expect to complete the merger by the first quarter of 2013. However, it is possible that factors outside of each company's control could require them to complete the merger at a later time or not to complete it at all.

The obligations of NRG and GenOn to complete the merger are each subject to the satisfaction (or waiver) of the following conditions:

- approval by NRG stockholders of the Share Issuance proposal and Charter Amendment proposal;
- approval by GenOn stockholders of the Merger proposal;
- absence of any law or injunction prohibiting the consummation of the merger;
- receipt of all required regulatory approvals, provided that none of these approvals (or any order issued, imposed or otherwise put into effect in connection with any of these approvals) constitutes or would reasonably be expected to constitute, cause or result in a material adverse effect on NRG or GenOn;
- authorization of the listing of the shares of NRG common stock to be issued in connection with the merger or reserved for issuance in connection with the merger on the NYSE, subject to official notice of issuance;
- effectiveness of the registration statement of which this joint proxy statement/prospectus forms a part and the absence of a stop order or proceedings threatened or initiated by the SEC for that purpose;
- accuracy of the other party's representations and warranties in the merger agreement, subject to certain exceptions;
- the prior performance by the other party, in all material respects, of its obligations under the merger agreement;
- receipt of a certificate executed by an executive officer of the other party as to the satisfaction of the conditions described in the preceding two bullets; and

receipt of a legal opinion from its counsel to the effect that the merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Code, and receipt of a copy of the legal opinion of counsel to the other party to the same effect.

The conditions set forth in the merger agreement may be waived by NRG or GenOn, subject to the agreement of the other party in certain circumstances. For a more complete discussion of the conditions to the merger, see "The Merger Agreement Conditions to Completion of the Merger" beginning on page 109.

Treatment of GenOn's Existing Debt; Financing

There are no financing conditions to the merger and the merger is not conditioned upon the completion of the Change in Control Offers, the NRG Debt Offers or the funding of the financing contemplated by the commitment letters, each as described herein.

In connection with the merger, the parties intend to terminate GenOn's existing senior secured term loan facility and revolving credit facility. In addition, at NRG's request and subject to the terms and conditions of the merger agreement, GenOn will commence a "change of control" tender offer for each series of GenOn's outstanding notes due 2014, 2017, 2018 and 2020 (the "Notes"), conditioned on the completion of the merger. We refer to these offers as the "Change in Control Offers." Further, subject to the terms and conditions of the merger agreement, NRG may, at its election following consultation with GenOn, commence a tender offer for cash or an exchange offer for securities for all or any portion of GenOn's outstanding Notes, conditioned on the completion of the merger. We refer to these offers as the "NRG Debt Offers." Also, NRG may, subject to the terms and conditions of the merger agreement, elect to undertake a consent solicitation to alter the terms of any of GenOn's Notes that remain outstanding after completion of the Change in Control Offers and the NRG Debt Offers.

NRG intends to finance the Change in Control Offers, the NRG Debt Offers, and the related fees, commissions and expenses with a combination of funds available at each of NRG and GenOn (including funds available under NRG's existing credit facilities) and, to the extent necessary, new financing. NRG has obtained commitment letters from Credit Suisse AG, Cayman Islands Branch and Morgan Stanley Senior Funding, Inc. to fund up to $1.6 billion under a new senior secured term loan facility, to the extent such funds are necessary to consummate the Change in Control Offers and the NRG Debt Offers.

The parties do not expect the merger to have any impact on the debt existing at GenOn's subsidiaries.

In addition to the Change in Control Offers and the NRG Debt Offers, NRG may otherwise pursue a refinancing of all or a portion of GenOn's existing indebtedness, provided that GenOn and its subsidiaries will not be required to incur any obligation with respect to such refinancing before the completion of the merger and such refinancing will not delay the completion of the merger.

For further information regarding the contemplated financing, see "The Merger Treatment of GenOn's Existing Debt; Financing" beginning on page 98 and "The Merger Agreement Financing" on page 121.

Timing of the Merger

The merger is expected to be completed by the first quarter of 2013.

No Solicitation of Other Offers

In the merger agreement, each of NRG and GenOn has agreed that it will not directly or indirectly:

- solicit, initiate, seek or knowingly encourage or facilitate any proposal that constitutes or would reasonably be expected to lead to an alternative acquisition proposal (as described in the section entitled "The Merger Agreement Non-Solicitation of Alternative Acquisition Proposals" beginning on page 115);
- furnish any non-public information, or afford access to properties, books and records in connection with or in response to an alternative acquisition proposal;
- engage or participate in any discussions or negotiations with any person regarding an alternative acquisition proposal; or
- adopt or approve any alternative acquisition proposal or enter into any letter of intent, memorandum of understanding, merger agreement or any other agreement providing for any alternative acquisition proposal.

The merger agreement does not, however, prohibit either party from considering an unsolicited acquisition proposal from a third party if certain specified conditions are met. For a discussion of the prohibition on solicitation of acquisition proposals from third parties, see "The Merger Agreement Non-Solicitation of Alternative Acquisition Proposals" beginning on page 115.

Termination of the Merger Agreement; Termination Fee and Expense Reimbursement

Generally, the merger agreement may be terminated and the merger may be abandoned at any time prior to completion of the merger, including after the required NRG stockholder approval or GenOn stockholder approval is obtained, as specified below:

- by mutual written consent of NRG and GenOn;
- by either party, if:
  - the merger has not been completed on or prior to March 30, 2013, which is referred to as the end date; provided that each party has the right to extend such end date up to July 31, 2013 if the only unsatisfied conditions to completion of the merger are those regarding the receipt of required regulatory approvals described above under "Summary Regulatory Matters;"
  - a law or order has been entered permanently restraining, enjoining or otherwise prohibiting completion of the merger and such injunction becomes final and non-appealable, provided that the party seeking to terminate the merger agreement for this reason has complied in all material respects with its obligation to use reasonable best efforts to obtain the required regulatory approvals;
  - in connection with any required regulatory approval, any governmental entity has issued any order that constitutes or would reasonably be expected to constitute, cause or result in a material adverse effect on NRG or GenOn, and such order becomes final and non-appealable;

the requisite approvals by the stockholders of NRG or GenOn have not been obtained at the respective stockholders' meeting (or at any adjournment or postponement thereof);

the other party has breached any representation, covenant or other agreement in the merger agreement in a way that the related condition to closing would not be satisfied, and this breach is either not cured within 30 days of notice or cannot be cured prior to the end date;

- the other party's board of directors changes its recommendation that its stockholders vote for, in the case of NRG, the Share Issuance proposal and the Charter Amendment proposal or, in the case of GenOn, the Merger proposal;

- the other party has breached its non-solicitation obligations under the merger agreement in any material respect;

- prior to obtaining approval by its stockholders, subject to compliance with certain conditions, such party terminates the merger agreement in order to enter into a definitive agreement with respect to a superior offer and concurrently pays the required termination fee to the other party; or

- the other party's board of directors or any committee of the board (a) fails to recommend against any alternative acquisition proposal within 10 business days after the commencement of such alternative acquisition proposal, provided that the terminating party must exercise such terminating right within five business days after the end of such 10 business day period; (b) fails to publicly reaffirm its recommendation, in the case of NRG, for the Share Issuance proposal and/or the Charter Amendment Proposal or, in the case of GenOn, the Merger proposal, in each case within 10 business days following written request by the terminating party, provided that the terminating party must exercise this termination right within five business days after the end of such 10 business day period; (c) grants any waiver under or terminates any standstill provision in any confidentiality or similar agreement with a third party; (d) approves any transaction under, or any third party becoming an "interested stockholder" under, Section 203 of the DGCL; or (e) in the case of GenOn only, renders certain restrictions set forth in GenOn's certificate of incorporation inapplicable to any alternative transaction, or renders the GenOn Rights Agreement inapplicable to any alternative transaction or exempts any third party from becoming an "acquiring person" for purposes of the GenOn Rights Agreement, or resolves, agrees or publicly announces an intention to take any of the actions referred to in the foregoing clauses (a) through (e).

The merger agreement provides that, upon a termination of the merger agreement under specified circumstances, GenOn is required to pay a termination fee of $60 million to NRG and, alternatively, NRG is required to pay a termination fee of $120 million to GenOn. In addition, if the merger agreement is terminated due to the failure to obtain the required stockholder approval of the Share Issuance proposal, the Charter Amendment proposal or the Merger proposal, then NRG or GenOn, as applicable, will be required to reimburse the other for its reasonable out-of-pocket fees and expenses incurred in connection with the merger agreement, subject to a cap of $10 million if no alternative acquisition proposal has been publicly announced and no third party has publicly announced or communicated an intention to make an alternative acquisition proposal prior to the stockholders' meeting, or $25 million in all other circumstances. Any termination fee payable by either party will be reduced by the amount of any expense reimbursement paid by such party prior to the payment of the termination fee.

For a more detailed discussion of each party's termination rights and the related termination fee and/or expense reimbursement obligations, see "The Merger Agreement Termination of the Merger Agreement" beginning on page 124 and "The Merger Agreement Effect of Termination; Termination Fees and Expense Reimbursement" beginning on page 125.

Matters to be Considered at the Special Meetings

NRG

At the NRG special meeting, NRG stockholders will be asked to consider and vote upon:

- the Share Issuance proposal;
- the Charter Amendment proposal; and
- the NRG Adjournment proposal.

Stockholder approval of both the Share Issuance proposal and the Charter Amendment proposal is required to complete the merger.

The affirmative vote of a majority of the votes cast by NRG stockholders is required to approve the Share Issuance proposal, provided that the total votes cast on such proposal (including abstentions) represent a majority of total number of shares of NRG common stock outstanding on the record date for the NRG special meeting.

The affirmative vote of a majority of the shares of NRG common stock outstanding on the record date for the NRG special meeting is required to approve the Charter Amendment proposal.

The affirmative vote of a majority of the shares of NRG common stock represented (in person or by proxy) and entitled to vote on the proposal is required to approve the NRG Adjournment proposal.

The NRG Board recommends that NRG stockholders vote **"FOR"** all of the proposals set forth above, as more fully described under "NRG Proposals" beginning on page 134.

GenOn

At the GenOn special meeting, GenOn stockholders will be asked to consider and vote upon:

- the Merger proposal;
- the Merger-Related Compensation proposal; and
- the GenOn Adjournment proposal.

Approval of the Merger proposal is required for completion of the merger.

The affirmative vote of a majority of the shares of GenOn common stock outstanding on the record date for the GenOn special meeting is required to approve the Merger proposal.

The affirmative vote of a majority of the shares of GenOn common stock represented (in person or by proxy) at the GenOn special meeting and entitled to vote on such proposal is required to approve the Merger-Related Compensation proposal and the GenOn Adjournment proposal.

The GenOn Board recommends that GenOn stockholders vote **"FOR"** all of the proposals set forth above, as more fully described under "GenOn Proposals" beginning on page 140.

Voting by NRG and GenOn Directors and Executive Officers

As of the NRG record date, directors and executive officers of NRG and their affiliates owned and were entitled to vote 3,580,068 shares of NRG common stock, representing approximately 1.57% of the total voting power of the shares of NRG common stock outstanding on that date. As of the GenOn record date, directors and executive officers of GenOn and their affiliates owned and were entitled to vote 2,427,694 shares of GenOn common stock, representing approximately 0.31% of the total voting power of the shares of GenOn common stock outstanding on that date.

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SELECTED HISTORICAL FINANCIAL DATA

The following selected historical financial information is being provided to assist you in your analysis of the financial aspects of the merger.

The NRG annual historical information is derived from the audited consolidated financial statements of NRG as of and for each of the years in the five-year period ended December 31, 2011.

The GenOn annual historical information is derived from the audited consolidated financial statements of GenOn as of and for each of the years in the five-year period ended December 31, 2011. On December 3, 2010, Mirant and RRI Energy completed a merger, accounted for as a reverse acquisition with Mirant as the accounting acquirer. As such, the selected historical financial information included below of GenOn includes the results of Mirant, from January 1, 2007 through December 3, 2010, and includes the results of the combined entities for the period from December 3, 2010 through December 31, 2011. The per share data has been retroactively adjusted to give effect to the applicable exchange ratio.

The data as of and for the six months ended June 30, 2012 and 2011 has been derived from the unaudited interim financial statements of both NRG and GenOn and, in the opinion of each company's management, includes all normal and recurring adjustments that are considered necessary for the fair presentation of the results for the interim period.

The information is only a summary and should be read in conjunction with each company's historical consolidated financial statements and related notes contained in the NRG and GenOn annual reports on Form 10-K for the year ended December 31, 2011 and quarterly reports on Form 10-Q for the period ended June 30, 2012, which have been incorporated by reference into this joint proxy statement/prospectus, as well as other information that has been filed with the SEC. See "Where You Can Find More Information" beginning on page 170 of this joint proxy statement/prospectus for information on where you can obtain copies of this information. The historical results included below and elsewhere in this joint proxy statement/prospectus are not necessarily indicative of the future performance of NRG, GenOn or the combined company.

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NRG Selected Historical Financial Information

	Six Months Ended June 30,		As of and for the Year Ended December 31,				
(in millions, except per share data)	**2012**	**2011**	**2011**	**2010**	**2009**	**2008**	**2007**
	(unaudited)						
Statement of operations data:							
Total operating revenues	$ 4,028	$ 4,273	$ 9,079	$ 8,849	$ 8,952	$ 6,885	$ 5,989
Income from continuing operations, net	53	361	197	476	941	1,053	556
Income from discontinued operations, net						172	17
Net income attributable to NRG Energy, Inc.	44	361	197	477	942	1,225	573
Per share data:							
Income attributable to NRG from continuing operations basic	$ 0.17	$ 1.45	$ 0.78	$ 1.86	$ 3.70	$ 4.25	$ 2.09
Income attributable to NRG from continuing operations diluted	0.17 Other	(267)	(227)				
Net cash provided by (used in) financing activities, continuing operations	812	(7,062)					
Net cash used in financing activities, discontinued operations		(1,648)					
Net cash provided by (used in) financing activities	812	(8,710)					
Effect of exchange rate changes on cash and cash equivalents:							
Discontinued operations	-	(126)					
Cash and cash equivalents, continuing operations:							
Decrease	(6,886)	(3,927)					
Balance at beginning of period	7,916	4,842					
Balance at end of period	$ 1,030	$ 915					

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1. Background and Basis of Presentation:

Background

At September 30, 2009, Altria Group, Inc. s wholly-owned subsidiaries included Philip Morris USA Inc. (PM USA), which is engaged in the manufacture and sale of cigarettes and certain smokeless products in the United States; UST LLC (UST), which through its subsidiaries is engaged in the manufacture and sale of smokeless products and wine; and John Middleton Co. (Middleton), which is engaged in the manufacture and sale of machine-made large cigars and pipe tobacco. Philip Morris Capital Corporation (PMCC), another wholly-owned subsidiary, maintains a portfolio of leveraged and direct finance leases. In addition, Altria Group, Inc. held a 27.3% economic and voting interest in SABMiller plc (SABMiller) at September 30, 2009. Altria Group, Inc. s access to the operating cash flows of its subsidiaries consists principally of cash received from the payment of dividends by its subsidiaries.

As discussed in Note 2. *UST Acquisition*, on January 6, 2009, Altria Group, Inc. acquired all of the outstanding common stock of UST, whose direct and indirect wholly-owned subsidiaries include U.S. Smokeless Tobacco Company LLC (USSTC) and Ste. Michelle Wine Estates (Ste. Michelle). As a result of the acquisition, UST has become an indirect wholly-owned subsidiary of Altria Group, Inc.

On March 28, 2008, Altria Group, Inc. distributed all of its interest in Philip Morris International Inc. (PMI) to Altria Group, Inc. s stockholders in a tax-free distribution. Altria Group, Inc. has reflected the results of PMI prior to the distribution date as discontinued operations on the condensed consolidated statements of earnings and the condensed consolidated statements of cash flows.

During the third quarter of 2009, Altria Group, Inc. s Board of Directors approved a 6.3% increase in the quarterly dividend to $0.34 per common share. The present annualized dividend rate is $1.36 per Altria Group, Inc. common share. Future dividend payments remain subject to the discretion of Altria Group, Inc. s Board of Directors.

During the second quarter of 2008, Altria Group, Inc. repurchased 53.5 million shares of its common stock at an aggregate cost of approximately $1.2 billion, or an average price of $21.81 per share. In September 2009, Altria Group, Inc. suspended indefinitely its $4.0 billion (2008 to 2010) share repurchase program, which is at the discretion of its Board of Directors.

In March 2008, Altria Group, Inc. sold its corporate headquarters building in New York City for $525 million and recorded a pre-tax gain of $404 million.

Basis of Presentation

The interim condensed consolidated financial statements of Altria Group, Inc. are unaudited. It is the opinion of Altria Group, Inc. s management that all adjustments necessary for a fair statement of the interim results presented have been reflected therein. All such adjustments were of a normal recurring nature. Net revenues and net earnings for any interim period are not necessarily indicative of results that may be expected for the entire year. As part of the preparation of the interim condensed consolidated financial statements, Altria Group, Inc. performed an evaluation of subsequent events occurring after the condensed consolidated balance sheet date of September 30, 2009, through October 29, 2009, the date the interim condensed consolidated financial statements were issued.

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

These statements should be read in conjunction with the consolidated financial statements and related notes, which appear in Altria Group, Inc. s Annual Report to Stockholders and which are incorporated by reference into Altria Group, Inc. s Annual Report on Form 10-K for the year ended December 31, 2008.

Balance sheet accounts are segregated by two broad types of businesses. Consumer products assets and liabilities are classified as either current or non-current, whereas financial services assets and liabilities are unclassified, in accordance with respective industry practices.

Beginning with the first quarter of 2009, Altria Group, Inc. revised its reportable segments to reflect the change in the way in which Altria Group, Inc. s management reviews the business as a result of the acquisition of UST. Altria Group, Inc. s segments, which are reflected in these financial statements, are cigarettes, smokeless products, cigars, wine, and financial services.

As disclosed in Altria Group, Inc. s Annual Report on Form 10-K for the year ended December 31, 2008, during the fourth quarter of 2008 Altria Group, Inc. identified that it had not recorded its share of other comprehensive earnings or losses of SABMiller. As a result, total comprehensive earnings for the nine months and three months ended September 30, 2008, which were previously overstated by $89 million and $199 million, respectively, were corrected. There was no impact to reported earnings from continuing operations, net earnings, net earnings attributable to Altria Group, Inc., earnings per share or cash flows.

Certain prior year amounts have been reclassified to conform with the current year s presentation, due to the adoption of the Financial Accounting Standards Board (FASB) authoritative guidance which requires transactions between an entity and a noncontrolling interest to be accounted for as equity transactions.

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 2. UST Acquisition:

On January 6, 2009, Altria Group, Inc. acquired all of the outstanding common stock of UST, in exchange for $69.50 in cash for each share of UST common stock. Additionally, each employee stock option of UST that was outstanding and unexercised was cancelled in exchange for the right to receive the difference between the exercise price for such option and $69.50. The transaction was valued at approximately $11.7 billion, which represented a purchase price of $10.4 billion and included the assumption of approximately $1.3 billion of debt, which together with acquisition-related costs and payments of approximately $0.6 billion (consisting primarily of financing fees, the funding of UST s non-qualified pension plans, investment banking fees and the early retirement of UST s revolving credit facility), represent a total cash outlay of approximately $11 billion.

In connection with the acquisition of UST, Altria Group, Inc. had in place a 364-day term bridge loan facility (the Bridge Facility). On January 6, 2009, Altria Group, Inc. borrowed the entire available amount of $4.3 billion under the Bridge Facility, which was used along with available cash of $6.7 billion, representing the net proceeds from the issuances of senior unsecured long-term notes in November and December 2008, to fund the acquisition of UST. As discussed in Note 8. *Debt*, in February 2009, Altria Group, Inc. issued $4.2 billion of senior unsecured long-term notes. The net proceeds from the issuance of these notes, along with available cash, were used to prepay all of the outstanding borrowings under the Bridge Facility. Upon such prepayment, the Bridge Facility was terminated.

UST s financial position and results of operations have been consolidated with Altria Group, Inc. as of January 6, 2009. The following unaudited supplemental pro forma data present consolidated information of Altria Group, Inc. as if the acquisition of UST had been consummated on January 1, 2008. The pro forma results are not necessarily indicative of what actually would have occurred if the acquisition and related borrowings had been consummated on January 1, 2008.

	Pro Forma Nine Months Ended September 30, 2008	Pro Forma Three Months Ended September 30, 2008
	(in millions, except per share data)	
Net revenues	$ 16,166	$ 5,723
Earnings from continuing operations	$ 2,079	$ 809
Net earnings	$ 3,980	$ 809
Net earnings attributable to Altria Group, Inc.	$ 3,918	$ 809
Per share data:		
Basic earnings per share:		
Continuing operations	$ 1.00	$ 0.39
Discontinued operations	0.88	
Net earnings attributable to Altria Group, Inc.	$ 1.88	$ 0.39
Diluted earnings per share:		
Continuing operations	$ 0.99	$ 0.39
Discontinued operations	0.88	

Net earnings attributable to Altria Group, Inc.	$	1.87	$	0.39

Pro forma results of Altria Group, Inc., for the nine months ended September 30, 2009 assuming the acquisition had occurred on January 1, 2009, would not be materially different from the actual results reported for the nine months ended September 30, 2009.

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

The pro forma amounts reflect the application of the following adjustments as if the acquisition had occurred on January 1, 2008:

additional depreciation and amortization expense that would have been charged assuming the fair value adjustments to property, plant and equipment, and intangible assets had been applied from January 1, 2008;

additional interest expense and financing fees that would have been incurred assuming all borrowing arrangements used to fund the acquisition had been in place as of January 1, 2008;

restructuring costs incurred to restructure and integrate UST operations;

transaction costs associated with the acquisition; and

increased cost of sales, reflecting the fair value adjustment of UST s inventory sold during the period.

The following amounts represent the preliminary estimates of the fair value of identifiable assets acquired and liabilities assumed in the UST acquisition, and are subject to revisions when appraisals are finalized, which is expected to occur during the fourth quarter of 2009 (in millions):

Cash and cash equivalents	$ 163
Inventories	796
Property, plant and equipment	688
Other intangible assets:	
Non-amortizable trademarks	9,059
Amortizable (20-year life)	60
Short-term borrowings	(205)
Current portion of long-term debt	(240)
Long-term debt	(900)
Deferred income taxes	(3,359)
Other assets and liabilities, net	(540)
Noncontrolling interests	(36)
Total identifiable net assets	5,486
Total purchase price	10,407
Goodwill	$ 4,921

The excess of the purchase price paid by Altria Group, Inc. over the fair value of identifiable net assets acquired in the acquisition of UST primarily reflects the value of adding USSTC and its subsidiaries to Altria Group, Inc. s family of tobacco operating companies (PM USA and Middleton), with leading brands in cigarettes, smokeless products and machine-made large cigars. The acquisition is anticipated to generate approximately $300 million in annual synergies by 2011, driven primarily by reduced selling, general and administrative, and corporate expenses. None of the goodwill or other intangible assets will be deductible for tax purposes.

The assets acquired, liabilities assumed, and noncontrolling interests of UST have been measured as of the acquisition date. For purposes of measuring the fair value, where applicable, Altria Group, Inc. has used the FASB s framework for measuring fair values. In valuing trademarks, Altria Group, Inc. estimated the fair

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

value using a discounted cash flow methodology. No material contingent liabilities were recognized as of the acquisition date because the acquisition date fair value of such contingencies cannot be determined, and the contingencies are not both probable and reasonably estimable. Additionally, costs incurred to effect the acquisition, as well as costs to restructure UST, are being recognized as expenses in the periods in which the costs are incurred. Altria Group, Inc. expects to incur approximately $0.5 billion during 2009 and 2010 in acquisition-related charges, as well as restructuring and integration costs. For the nine months and three months ended September 30, 2009, Altria Group, Inc. incurred acquisition-related charges, as well as restructuring and integration costs, consisting of the following:

	For the Nine Months Ended September 30, 2009	For the Three Months Ended September 30, 2009
	(in millions)	
Exit costs	$ 149	$ 24
Integration costs	36	6
Inventory adjustments	29	6
Structuring and arrangement fees	89	1
Transaction costs	60	
Total	$ 363	$ 37

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 3. Exit, Implementation and Integration Costs:

Pre-tax exit, implementation and integration costs for the nine months and three months ended September 30, 2009 and 2008 consisted of the following (in millions):

	For the Nine Months Ended September 30, 2009			
	Exit Costs	Implementation Costs	Integration Costs	Total
Cigarettes	$ 86	$ 94	$ -	$ 180
Smokeless products	146		33	179
Cigars			7	7
Wine	3		3	6
Financial services	3			3
General corporate	61			61
Total	$ 299	$ 94	$ 43	$ 436

	For the Nine Months Ended September 30, 2008			
	Exit Costs	Implementation Costs	Integration Costs	Total
Cigarettes	$ 44	$ 48	$ -	$ 92
Cigars			12	12
General corporate	250			250
Total	$ 294	$ 48	$ 12	$ 354

	For the Three Months Ended September 30, 2009			
	Exit Costs	Implementation Costs	Integration Costs	Total
Cigarettes	$ 52	$ 44	$ -	$ 96
Smokeless products	23		5	28
Wine	1		1	2
Financial services	3			3
General corporate	54			54
Total	$ 133	$ 44	$ 6	$ 183

	For the Three Months Ended September 30, 2008			
	Exit Costs	Implementation Costs	Integration Costs	Total
Cigarettes	$ 15	$ 16	$ -	$ 31

Cigars			9	9
General corporate	2			2
Total	$ 17	$ 16	$ 9	$ 42

Altria Group, Inc. and Subsidiaries

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(Unaudited)

The movement in the severance liability and details of exit costs for Altria Group, Inc. for the nine months ended September 30, 2009 was as follows:

	Severance	Other	Total
		(in millions)	
Severance liability balance, January 1, 2009	$ 348	$ -	$ 348
Charges	182	117	299
Cash spent	(222)	(74)	(296)
Liability recorded in pension and postretirement plans, and other		(43)	(43)
Severance liability balance, September 30, 2009	$ 308	$ -	$ 308

Other charges in the table above primarily represent other employee termination benefits including pension and postretirement.

Integration and Restructuring Program:

In December 2008, Altria Group, Inc. initiated a company-wide integration and restructuring program, pursuant to which, during 2009 and 2010, Altria Group, Inc. will restructure its corporate, manufacturing, and sales and marketing functions as it completes the integration of UST into its operations and continues to focus on optimizing company-wide cost structures in light of ongoing declines in U.S. cigarette volumes, including the projected impact of the federal excise tax (FET) increase enacted in the first quarter of 2009. In August 2009, Altria Group, Inc. expanded this program.

As a result of this program, Altria Group, Inc. expects to incur aggregate pre-tax charges of approximately $344 million in 2009 and $19 million in 2010. These charges are primarily related to employee separation costs, lease exit costs, relocation of employees, and other costs related to the integration of UST operations. Substantially all of these charges will result in cash expenditures.

For the nine months ended September 30, 2009, the cigarettes segment, smokeless products segment, wine segment, financial services segment and Altria Group, Inc. reported pre-tax charges for this program of $17 million, $179 million, $6 million, $3 million and $50 million, respectively, which included total exit costs of $219 million and integration costs of $36 million. For the three months ended September 30, 2009, the cigarettes segment, smokeless products segment, wine segment, financial services segment and Altria Group, Inc. reported pre-tax charges for this program of $15 million, $28 million, $2 million, $3 million and $44 million, respectively, which included total exit costs of $86 million and integration costs of $6 million.

The pre-tax integration costs were included in marketing, administration and research costs on Altria Group, Inc. s condensed consolidated statements of earnings for the nine months and three months ended September 30, 2009. Total pre-tax charges incurred since the inception of the program were $381 million. Pre-tax charges of approximately $89 million are expected for the remainder of 2009 for the program. Cash payments related to the program of $160 million and $57 million were made during the nine months and three months ended September 30, 2009, respectively, for a total of $160 million since inception.

Headquarters Relocation:

During 2008, in connection with the spin-off of PMI, which included the relocation of Altria Group, Inc. s corporate headquarters functions to Richmond, Virginia, Altria Group, Inc. restructured its corporate headquarters. During the nine months ended September 30, 2009 and 2008, pre-tax charges of $11 million and $195 million, respectively, were incurred for this program. Total pre-tax charges incurred since the inception

of this restructuring were $230 million as of September 30, 2009. These charges consist primarily

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

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of employee separation costs. Substantially all of the charges resulted in cash expenditures. Cash payments related to this restructuring of $50 million and $14 million were made during the nine months and three months ended September 30, 2009, respectively, for a total of $186 million since inception.

For the nine months ended September 30, 2008, corporate exit costs also included $55 million of investment banking and legal fees associated with the PMI spin-off.

Manufacturing Optimization Program:

PM USA ceased production at its Cabarrus, North Carolina cigarette manufacturing facility and completed the consolidation of manufacturing capacity into its Richmond, Virginia facility on July 29, 2009. PM USA took this action to address ongoing cigarette volume declines including the projected impact of the FET increase enacted in early 2009. PM USA expects to complete the de-commissioning of the Cabarrus facility during 2010.

As a result of this program, from 2007 through 2010, PM USA expects to incur total pre-tax charges of approximately $785 million. These pre-tax charges consist of employee separation costs of $353 million, accelerated depreciation of $284 million and other charges of $148 million, primarily related to the relocation of employees and equipment, net of estimated gains on sales of land and buildings. Approximately $400 million of the total pre-tax charges are expected to result in cash expenditures.

PM USA recorded pre-tax charges for this program as follows:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2009	2008	2009	2008
	(in millions)			
Exit costs	$ 69	$ 44	$ 37	$ 15
Implementation costs	94	48	44	16
Total	$ 163	$ 92	$ 81	$ 31

Pre-tax implementation costs related to this program were primarily related to accelerated depreciation and were included in cost of sales in the condensed consolidated statements of earnings for the nine months and three months ended September 30, 2009 and 2008, respectively. Total pre-tax charges incurred since the inception of the program were $652 million. Pre-tax charges of approximately $90 million are expected during the remainder of 2009 for the program. Cash payments related to the program of $138 million and $64 million were made during the nine months and three months ended September 30, 2009, respectively, for a total of $234 million since inception.

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

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Note 4. Benefit Plans:

Altria Group, Inc. sponsors noncontributory defined benefit pension plans covering substantially all employees, except that as of January 1, 2008, new employees (excluding participants in UST plans) are not eligible to participate in the defined benefit plans, but instead are eligible for a company match in a defined contribution plan. In addition, Altria Group, Inc. and its subsidiaries provide health care and other benefits to substantially all retired employees. In connection with the acquisition of UST, Altria Group, Inc. recorded net liabilities for UST s defined benefit pension plans and liabilities for UST s postretirement healthcare plans of $351 million and $85 million, respectively, at January 6, 2009.

Pension Plans

Components of Net Periodic Benefit Cost

Net periodic pension cost consisted of the following:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2009	2008	2009	2008
	(in millions)			
Service cost	$ 74	$ 73	$ 24	$ 23
Interest cost	261	228	88	75
Expected return on plan assets	(319)	(319)	(107)	(109)
Amortization:				
Net loss	87	46	32	12
Prior service cost	9	7	3	3
Other	3	40	12	2
Net periodic pension cost	$ 115	$ 75	$ 52	$ 6

Other pension cost shown in the table above primarily reflects termination benefits related to restructuring programs, which in 2009 were partially offset by curtailment gains related to the restructuring of UST s operations subsequent to the acquisition (see Note 3. *Exit, Implementation and Integration Costs*). The curtailment of UST s pension plans resulted in a decrease of $37 million to accrued pension costs, which is reflected in the September 30, 2009 condensed consolidated balance sheet.

Employer Contributions

Altria Group, Inc. presently makes, and plans to make, contributions, to the extent that they are tax deductible and to pay benefits that relate to plans for salaried employees that cannot be funded under Internal Revenue Service (IRS) regulations. Employer contributions of $46 million were made to Altria Group, Inc. s pension plans during the nine months ended September 30, 2009, which included $8 million related to UST plans. Currently, Altria Group, Inc. anticipates additional employer contributions during the remainder of 2009 of approximately $7 million to its pension plans, based on current tax law. However, these estimates are subject to change as a result of changes in tax and other benefit laws, as well as asset performance significantly above or below the assumed long-term rate of return on pension assets, or changes in interest rates.

Altria Group, Inc. and Subsidiaries

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(Unaudited)

Postretirement Benefit Plans

Net postretirement health care costs consisted of the following:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2009	2008	2009	2008
	(in millions)			
Service cost	$ 28	$ 29	$ 8	$ 10
Interest cost	100	87	27	29
Amortization:				
Net loss	26	18	6	5
Prior service credit	(6)	(6)	(2)	(2)
Other	40	9	21	1
Net postretirement health care costs	$ 188	$ 137	$ 60	$ 43

Other postretirement cost shown in the table above primarily reflects termination benefits related to restructuring programs, in addition to curtailment losses in 2009 related to the restructuring of UST s operations subsequent to the acquisition (see Note 3. *Exit, Implementation and Integration Costs*). The curtailment of UST s postretirement plans resulted in an increase in accrued postretirement health care costs of $7 million, which is reflected in the September 30, 2009 condensed consolidated balance sheet.

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Note 5. Goodwill and Other Intangible Assets, net:

Goodwill and other intangible assets, net, by segment were as follows (in millions):

	Goodwill		Other Intangible Assets, net	
	September 30, 2009	December 31, 2008	September 30, 2009	December 31, 2008
Cigarettes	$ -	$ -	$ 275	$ 283
Smokeless products	4,859		8,845	
Cigars	77	77	2,751	2,756
Wine	62		271	
Total	$ 4,998	$ 77	$ 12,142	$ 3,039

Intangible assets were as follows (in millions):

	September 30, 2009		December 31, 2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Non-amortizable intangible assets	$ 11,701		$ 2,642	
Amortizable intangible assets	464	$ 23	404	$ 7
Total intangible assets	$ 12,165	$ 23	$ 3,046	$ 7

Non-amortizable intangible assets substantially consist of trademarks from the January 2009 acquisition of UST ($9.1 billion) and the December 2007 acquisition of Middleton ($2.6 billion). Amortizable intangible assets consist primarily of customer relationships and certain cigarette trademarks. Pre-tax amortization expense for intangible assets during the nine months ended September 30, 2009 and 2008, was $16 million and $5 million, respectively, and during the three months ended September 30, 2009 and 2008, was $7 million and $2 million, respectively. Annual amortization expense for each of the next five years is estimated to be approximately $20 million, assuming no additional transactions occur that require the amortization of intangible assets.

Goodwill relates to the January 2009 acquisition of UST and the December 2007 acquisition of Middleton. The change in goodwill and gross carrying amount of other intangible assets from December 31, 2008 to September 30, 2009, is as follows (in millions):

	Goodwill	Other Intangible Assets
Balance at December 31, 2008	$ 77	$ 3,046
Changes due to:		
Acquisition of UST	4,921	9,119

Balance at September 30, 2009	$ 4,998	$ 12,165

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 6. Earnings from Equity Investment in SABMiller:

Earnings from Altria Group, Inc. s equity investment in SABMiller consisted of the following:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2009	2008	2009	2008
	(in millions)			
Equity earnings	$ 259	$ 344	$ 111	$ 54
Gains on issuances of common stock by SABMiller	183		8	
	$ 442	$ 344	$ 119	$ 54

Altria Group, Inc. s earnings from its equity investment in SABMiller for the nine months ended September 30, 2009 included pre-tax gains of $183 million due primarily to the issuance of 60 million shares of common stock by SABMiller in connection with its acquisition of the remaining noncontrolling interest in its Polish subsidiary.

Note 7. Divestitures:

As discussed in Note 1. *Background and Basis of Presentation*, on March 28, 2008, Altria Group, Inc. distributed all of its interest in PMI to Altria Group, Inc. stockholders in a tax-free distribution.

Summarized financial information for discontinued operations for the nine months ended September 30, 2008 was as follows (in millions):

	For the Nine Months Ended September 30, 2008
Net revenues	$ 15,376
Earnings before income taxes	$ 2,701
Provision for income taxes	(800)
Earnings from discontinued operations, net of income taxes	1,901
Earnings attributable to noncontrolling interests	(61)
Earnings from discontinued operations	$ 1,840

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Note 8. Debt:

At September 30, 2009, Altria Group, Inc. had in place a multi-year revolving credit facility (the Revolving Facility) in the amount of $3.4 billion, which expires April 15, 2010. The Revolving Facility is used to support the issuance of commercial paper to fund short-term cash needs. In June 2009, Altria Group, Inc. amended its Revolving Facility in order to terminate the $108 million commitment of Aurora Bank FSB (formerly known as Lehman Brothers Bank, FSB) (Aurora). Aurora s commitment was terminated without a ratable termination or reduction of the commitments of the other lenders.

At September 30, 2009, Altria Group, Inc. had no borrowings under the Revolving Facility nor was any commercial paper outstanding. Any commercial paper of Altria Group, Inc. and borrowings under the Revolving Facility are fully and unconditionally guaranteed by PM USA (see Note 16. *Condensed Consolidating Financial Information*).

Altria Group, Inc. expects to replace the Revolving Facility prior to its expiration in amounts and maturities based on market conditions at that time. Altria Group, Inc. believes it has adequate liquidity and access to financial resources to meet its anticipated obligations in the foreseeable future.

At September 30, 2009 and December 31, 2008, Altria Group, Inc. s long-term debt consisted of the following:

	September 30, 2009	December 31, 2008
	(in millions)	
Consumer products:		
Notes, 5.75% to 10.20% (average interest rate 9.1%), due through 2039	$ 11,917	$ 6,797
Debenture, 7.75%, due 2027	42	42
Other		135
	11,959	6,974
Less current portion of long-term debt	(775)	(135)
	$ 11,184	$ 6,839
Financial services:		
Eurodollar bonds, 7.50%, due 2009	$ -	$ 500

Altria Group, Inc. Senior Notes:

Altria Group, Inc. issued the following notes in February 2009:

$525 million at 7.75%, due 2014, interest payable semi-annually;

$2.2 billion at 9.25%, due 2019, interest payable semi-annually; and

$1.5 billion at 10.20%, due 2039, interest payable semi-annually.

The net proceeds from the issuance of these notes, along with available cash, were used to prepay all of the outstanding borrowings under the Bridge Facility (see Note 2. *UST Acquisition*). Upon such prepayment, the Bridge Facility was terminated. During the first quarter of 2009, Altria Group, Inc. incurred structuring and arrangement fees of $87 million related to the Bridge Facility. This amount is included in interest and other debt expense, net, in Altria Group, Inc. s condensed consolidated statements of earnings. The notes are

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(Unaudited)

Altria Group, Inc. s senior unsecured obligations and rank equally in right of payment with all of Altria Group, Inc. s existing and future senior unsecured indebtedness. The interest rate payable on each series of notes is subject to adjustment from time to time if the rating assigned to the notes of such series by Moody s Investors Service, Inc. (Moody s) or Standard & Poor s Ratings Services (Standard & Poor s) is downgraded (subsequently upgraded) as and to the extent set forth in the terms of the notes. Upon the occurrence of both (i) a change of control of Altria Group, Inc. and (ii) the notes ceasing to be rated investment grade by each of Moody s, Standard & Poor s and Fitch Ratings (Fitch) within a specified time period, Altria Group, Inc. will be required to make an offer to purchase the notes of each series at a price equal to 101% of the aggregate principal amount of such series, plus accrued interest to the date of repurchase as and to the extent set forth in the terms of the notes.

The obligations of Altria Group, Inc. under the notes are fully and unconditionally guaranteed by PM USA (see Note 16. *Condensed Consolidating Financial Information*).

UST Debt:

At September 30, 2009, UST s senior debt consisted of the following:

$600 million senior notes at 6.625%, due 2012, interest payable semi-annually; and

$300 million senior notes at 5.75%, due 2018, interest payable semi-annually.

UST senior notes of $200 million and $40 million matured and were repaid in June 2009. In addition, UST s revolving credit facility was prepaid and terminated in January 2009.

The UST notes are senior unsecured obligations and rank equally in right of payment with all of UST s existing and future senior unsecured and unsubordinated indebtedness. With respect to the $300 million senior notes, upon the occurrence of both (i) a change of control of UST and (ii) these notes ceasing to be rated investment grade by each of Moody s and Standard & Poor s within a specified time period, UST would be required to make an offer to purchase these notes at a price equal to 101% of the aggregate principal amount of such series, plus accrued and unpaid interest to the date of repurchase as and to the extent set forth in the terms of these notes.

Other Consumer Products Debt:

A subsidiary of PM USA repaid a $135 million term loan that matured in May 2009.

Financial Services Debt:

Financial services debt of $500 million matured and was repaid in July 2009.

Fair Value of Debt:

The aggregate fair value, based substantially on readily available quoted market prices, of Altria Group, Inc. s total debt at September 30, 2009 was $14.9 billion, as compared with its carrying value of $12.0 billion. The aggregate fair value, based substantially on readily available quoted market prices, of Altria Group, Inc. s total debt at December 31, 2008, was $8.6 billion, as compared with its carrying value of $7.5 billion.

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Tender Offer for Altria Group, Inc. Notes:

In connection with the spin-off of PMI, in the first quarter of 2008, Altria Group, Inc. and its subsidiary, Altria Finance (Cayman Islands) Ltd., completed tender offers to purchase for cash $2.3 billion of notes and debentures denominated in U.S. dollars, and 373 million in euro-denominated bonds, equivalent to $568 million in U.S. dollars.

As a result of the tender offers and consent solicitations, Altria Group, Inc. recorded a pre-tax loss of $393 million, which included tender and consent fees of $371 million, on the early extinguishment of debt in the first quarter of 2008.

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Altria Group, Inc. and Subsidiaries

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Note 9. Financial Instruments:

At September 30, 2009, a subsidiary of Altria Group, Inc. had a forward foreign exchange contract in connection with anticipated oak barrel purchases for Ste. Michelle s wine operations. This contract, which is not material and will expire in 2009, was designated as an effective cash flow hedge. During the second quarter of 2009, UST s interest rate swap contract, which was designated as an effective cash flow hedge, expired in conjunction with the maturity of UST s $40 million senior notes.

During the first quarter of 2008, Altria Group, Inc. purchased forward foreign exchange contracts to mitigate its exposure to changes in exchange rates from its euro-denominated debt. While these forward exchange contracts were effective as economic hedges, they did not qualify for hedge accounting treatment and, therefore, $21 million of gains for the nine months ended September 30, 2008 relating to these contracts were reported in interest and other debt expense, net, in Altria Group, Inc. s condensed consolidated statement of earnings. These contracts and the related debt matured in the second quarter of 2008.

Within currency translation adjustments during the nine months ended September 30, 2008, Altria Group, Inc. recorded losses, net of income taxes, of $85 million, which represented effective hedges of net investments. The accumulated losses recorded as net investment hedges of foreign operations were recognized and recorded in connection with the PMI distribution.

Hedging activity affected accumulated other comprehensive earnings (losses), net of income taxes, as follows:

	For the Nine Months Ended September 30,	
	2009	2008
	(in millions)	
Loss at beginning of period	$ -	$ (5)
Derivative losses transferred to earnings		93
Change in fair value		(270)
PMI spin-off		182
At end of period	$ -	$ -

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Note 10. Earnings Per Share:

Effective January 1, 2009, Altria Group, Inc. adopted FASB authoritative guidance that requires that unvested share-based payment awards containing nonforfeitable rights to dividends be included as participating securities in the earnings per share (EPS) calculation pursuant to the two class method.

The calculations of basic and diluted EPS reflect the adoption of this guidance and accordingly, prior period calculations have been adjusted retrospectively.

Basic and diluted EPS from continuing and discontinued operations were calculated using the following:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2009	2008	2009	2008
	(in millions)			
Earnings from continuing operations	$ 2,481	$ 2,411	$ 882	$ 867
Earnings from discontinued operations		1,840		
Net earnings attributable to Altria Group, Inc.	2,481	4,251	882	867
Less: Distributed and undistributed earnings attributable to unvested restricted and deferred shares	(9)	(12)	(3)	(3)
Earnings for basic EPS	2,472	4,239	879	864
Add: Undistributed earnings attributable to unvested restricted and deferred shares	2	4	1	-
Less: Undistributed earnings reallocated to unvested restricted and deferred shares	(2)	(4)	(1)	-
Earnings for diluted EPS	$ 2,472	$ 4,239	$ 879	$ 864
Weighted average shares for basic EPS	2,064	2,080	2,067	2,058
Add: Incremental shares from stock options	6	10	5	9
Weighted average shares for diluted EPS	2,070	2,090	2,072	2,067

For the nine months and three months ended September 30, 2009 computations, 0.9 million and 0.6 million stock options, respectively, were excluded from the calculation of weighted average shares for diluted EPS because their effects were antidilutive. For the nine months and three months ended September 30, 2008 computations, there were no antidilutive stock options.

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Note 11. Accumulated Other Comprehensive Earnings (Losses):

The following table sets forth the changes in each component of accumulated other comprehensive earnings (losses) (in millions):

	Currency Translation Adjustments	Changes in Net Loss and Prior Service Cost	Changes in Fair Value of Derivatives Accounted for as Hedges	Ownership of SABMiller s Other Comprehensive Earnings (Losses)	Accumulated Other Comprehensive Earnings (Losses)
Balances, January 1, 2008	$ 728	$ (960)	$ (5)	$ 348	$ 111
Period Change	233	(1,385)	(177)	(308)	(1,637)
Spin-off of Philip Morris International Inc.	(961)	124	182		(655)
Balances, December 31, 2008	-	(2,221)	-	40	(2,181)
Period Change	3	60		284	347
Balances, September 30, 2009	$ 3	$ (2,161)	$ -	$ 324	$ (1,834)

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Altria Group, Inc. and Subsidiaries

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Note 12. Segment Reporting:

As discussed in Note 1. *Background and Basis of Presentation*, beginning with the first quarter of 2009, Altria Group, Inc. revised its reportable segments. Altria Group, Inc. s reportable segments are cigarettes, smokeless products, cigars, wine, and financial services.

Altria Group, Inc. s management reviews operating companies income to evaluate segment performance and allocate resources. Operating companies income for the segments excludes corporate expenses and amortization of intangibles. Interest and other debt expense, net (consumer products), and provision for income taxes are centrally managed at the corporate level and, accordingly, such items are not presented by segment since they are excluded from the measure of segment profitability reviewed by Altria Group, Inc. s management. Information about total assets by segment is not disclosed because such information is not reported to or used by Altria Group, Inc. s chief operating decision maker. Segment goodwill and other intangibles, net are disclosed in Note 5. *Goodwill and Other Intangible Assets*, *net*.

Segment data were as follows:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2009	2008	2009	2008
	(in millions)			
Net revenues:				
Cigarettes	$ 15,546	$ 14,233	$ 5,626	$ 5,084
Smokeless products	1,023		352	
Cigars	386	290	153	98
Wine	271		102	
Financial services	316	179	67	56
Net revenues	$ 17,542	$ 14,702	$ 6,300	$ 5,238
Earnings from continuing operations before income taxes:				
Operating companies income:				
Cigarettes	$ 3,902	$ 3,746	$ 1,333	$ 1,369
Smokeless products	302		127	
Cigars	139	128	49	37
Wine	22		12	
Financial services	260	97	57	(7)
Amortization of intangibles	(16)	(5)	(7)	(2)
Gain on sale of corporate headquarters building		404		
General corporate expenses	(138)	(236)	(35)	(66)
Reduction of Kraft Foods Inc. receivable	(88)		(88)	
UST transaction costs	(60)			
Corporate exit costs	(61)	(250)	(54)	(2)
Operating income	4,262	3,884	1,394	1,329
Interest and other debt expense, net	(902)	(27)	(279)	(25)
Loss on early extinguishment of debt		(393)		

Earnings from equity investment in SABMiller	442	344	119	54
Earnings from continuing operations before income taxes	$ 3,802	$ 3,808	$ 1,234	$ 1,358

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Items affecting the comparability of net revenues and operating companies income for the segments were as follows:

Acquisition of UST In January 2009, Altria Group, Inc. acquired UST, the results of which are reflected in the smokeless products and wine segments (see Note 2. *UST Acquisition*).

UST Inventory Adjustment In connection with the acquisition of UST, Altria Group, Inc. s cost of sales included the following amounts relating to the fair value purchase accounting adjustment of UST s inventory at the acquisition date that was sold during the periods:

	For the Nine Months Ended September 30, 2009	For the Three Months Ended September 30, 2009
	(in millions)	
Smokeless products	$ 14	$ 1
Wine	15	5
Total	$ 29	$ 6

Exit, Implementation and Integration Costs See Note 3. *Exit, Implementation and Integration Costs* for a breakdown of these costs by segment.

Sales to PMI Subsequent to the PMI spin-off, during the nine months and three months ended September 30, 2008, PM USA recorded net revenues of $207 million and $97 million respectively, from contract volume manufactured for PMI under an agreement that terminated in the fourth quarter of 2008. For periods prior to the PMI spin-off, PM USA did not record contract volume manufactured for PMI in net revenues, but recorded the related profit, which was immaterial, for the nine months ended September 30, 2008, in marketing, administration and research costs on Altria Group, Inc. s condensed consolidated statement of earnings. These amounts are reflected in the cigarettes segment.

PMCC Allowance for Losses During the second quarter of 2009, PMCC increased its allowance for losses by $15 million as a result of assessing its portfolio, including its exposure to Motors Liquidation Company, formerly known as General Motors Corporation. PMCC increased its allowance for losses by $50 million, during the third quarter of 2008, as a result of credit rating downgrades of certain lessees and financial market conditions.

Note 13. Income Taxes:

The income tax rate of 34.7% for the nine months ended September 30, 2009 decreased 2.0 percentage points from 36.7% for the nine months ended September 30, 2008. The income tax rate of 28.5% for the three months ended September 30, 2009 decreased 7.7 percentage points from 36.2% for the three months ended September 30, 2008. The decreases were due primarily to lower state taxes and the reversal of tax reserves and associated interest resulting from the execution of a closing agreement with the IRS discussed below. The income tax rate for the nine

months ended September 30, 2009 was further impacted by certain costs incurred in the first quarter of 2009 related to the acquisition of UST that are not deductible for tax purposes.

In the third quarter of 2009, the IRS, Kraft Foods Inc. (Kraft), and Altria Group, Inc. (as the parent of, and as agent for, Kraft) executed a closing agreement that resolved certain Kraft tax matters arising out of the

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2000 to 2003 IRS audit of Altria Group, Inc. As a result of the closing agreement, income tax expense for the third quarter of 2009 included the benefit from the reversal of tax reserves and associated interest that are no longer required. This benefit was offset by a reduction in a corresponding receivable from Kraft that arose in connection with potential tax liabilities for which Kraft was responsible under a tax sharing agreement between Altria Group, Inc. and Kraft executed in connection with the 2007 spin-off of Kraft. The reduction in this receivable was recorded as an increase to marketing, administration and research costs on Altria Group, Inc. s condensed consolidated statements of earnings for the nine months and three months ended September 30, 2009. As a result, there was no impact on Altria Group, Inc. s net earnings.

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Note 14. Contingencies:

Legal proceedings covering a wide range of matters are pending or threatened in various United States and foreign jurisdictions against Altria Group, Inc. and its subsidiaries, including PM USA and UST and its subsidiaries, as well as their respective indemnitees. Various types of claims are raised in these proceedings, including product liability, consumer protection, antitrust, tax, contraband shipments, patent infringement, employment matters, claims for contribution and claims of distributors.

Litigation is subject to uncertainty and it is possible that there could be adverse developments in pending or future cases. An unfavorable outcome or settlement of pending tobacco-related or other litigation could encourage the commencement of additional litigation. Damages claimed in some tobacco-related and other litigation are or can be significant and, in certain cases, range in the billions of dollars. The variability in pleadings in multiple jurisdictions, together with the actual experience of management in litigating claims, demonstrate that the monetary relief that may be specified in a lawsuit bears little relevance to the ultimate outcome.

Although PM USA has historically been able to obtain required bonds or relief from bonding requirements in order to prevent plaintiffs from seeking to collect judgments while adverse verdicts have been appealed, there remains a risk that such relief may not be obtainable in all cases. This risk has been substantially reduced given that 43 states now limit the dollar amount of bonds or require no bond at all.

Altria Group, Inc. and its subsidiaries record provisions in the consolidated financial statements for pending litigation when they determine that an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. At the present time, while it is reasonably possible that an unfavorable outcome in a case may occur, except as discussed elsewhere in this Report on Form 10-Q: (i) management has concluded that it is not probable that a loss has been incurred in any of the pending tobacco-related cases; (ii) management is unable to estimate the possible loss or range of loss that could result from an unfavorable outcome in any of the pending tobacco-related cases; and (iii) accordingly, management has not provided any amounts in the consolidated financial statements for unfavorable outcomes, if any. Legal defense costs are expensed as incurred.

Altria Group, Inc. and its subsidiaries have achieved substantial success in managing litigation. Nevertheless, litigation is subject to uncertainty and significant challenges remain. It is possible that the consolidated results of operations, cash flows or financial position of Altria Group, Inc., 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. Altria Group, Inc. and each of its subsidiaries named as a defendant believe, and each has been so advised by counsel handling the respective cases, that it has valid defenses to the litigation pending against it, as well as valid bases for appeal of adverse verdicts. Each of the companies has defended, and will continue to defend, vigorously against litigation challenges. However, Altria Group, Inc. and its subsidiaries may enter into settlement discussions in particular cases if they believe it is in the best interests of Altria Group, Inc. to do so.

Overview of Altria Group, Inc. and/or PM USA Tobacco-Related Litigation

Types and Number of Cases

Claims related to tobacco products generally fall within the following categories: (i) smoking and health cases alleging personal injury brought on behalf of individual plaintiffs; (ii) smoking and health cases primarily alleging personal injury or seeking court-supervised programs for ongoing medical monitoring and purporting to be brought on behalf of a class of individual plaintiffs, including cases in which the aggregated claims of a number of individual plaintiffs are to be tried in a single proceeding; (iii) health care cost recovery cases

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brought by governmental (both domestic and foreign) and non-governmental plaintiffs seeking reimbursement for health care expenditures allegedly caused by cigarette smoking and/or disgorgement of profits; (iv) class action suits alleging that the uses of the terms Lights and Ultra Lights constitute deceptive and unfair trade practices, common law fraud, or violations of the Racketeer Influenced and Corrupt Organizations Act (RICO); and (v) other tobacco-related litigation described below. Plaintiffs theories of recovery and the defenses raised in pending smoking and health, health care cost recovery and Lights/Ultra Lights cases are discussed below.

The table below lists the number of certain tobacco-related cases pending in the United States against PM USA and, in some instances, Altria Group, Inc. as of October 26, 2009, November 1, 2008 and November 1, 2007.

Type of Case	Number of Cases Pending as of October 26, 2009	Number of Cases Pending as of November 1, 2008	Number of Cases Pending as of November 1, 2007
Individual Smoking and Health Cases (1)	93	98	195
Smoking and Health Class Actions and Aggregated Claims Litigation (2)	8	9	10
Health Care Cost Recovery Actions	3	3	3
Lights/Ultra Lights Class Actions	33	17	17
Tobacco Price Cases	2	2	2

(1) Does not include 2,595 cases brought by flight attendants seeking compensatory damages for personal injuries allegedly caused by exposure to environmental tobacco smoke (ETS). The flight attendants allege that they are members of an ETS smoking and health class action, which was settled in 1997. The terms of the court-approved settlement in that case allow class members to file individual lawsuits seeking compensatory damages, but prohibit them from seeking punitive damages. Also, does not include eight individual smoking and health cases brought against certain retailers that are indemnitees of PM USA. Additionally, does not include approximately 3,330 individual smoking and health cases (3,280 state court cases and 50 federal court cases) brought by or on behalf of approximately 9,019 plaintiffs in Florida (5,102 state court plaintiffs and 3,917 federal court plaintiffs) following the decertification of the *Engle* case discussed below. It is possible that some of these cases are duplicates and additional cases have been filed but not yet recorded on the courts dockets.

(2) Includes as one case the 693 civil actions (of which 393 are actions against PM USA) that are proposed to be tried in a single proceeding in West Virginia. Middleton and USSTC were named as defendants in this action but they, along with other non-cigarette manufacturers, have been severed from this case. The West Virginia Supreme Court of Appeals has ruled that the United States Constitution does not preclude a trial in two phases in this case. Issues related to defendants conduct, plaintiffs entitlement to punitive damages and a punitive damages multiplier, if any, would be determined in the first phase. The second phase would consist of individual trials to determine liability, if any, and compensatory damages. In November 2007, the West Virginia Supreme Court of Appeals denied defendants renewed motion for review of the trial plan. In December 2007, defendants filed a petition for *writ of certiorari* with the United States Supreme Court, which was denied in February 2008. The first phase of the trial is scheduled for February 1, 2010.

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International Tobacco-Related Cases

As of October 26, 2009, PM USA is a named defendant in Israel in a Lights class action, a health care cost recovery action, and an individual smoking and health action. PM USA is a named defendant in three health care cost recovery actions in Canada, two of which also name Altria Group, Inc. as a defendant. PM USA and Altria Group, Inc. are also named defendants in four smoking and health class action lawsuits filed in various Canadian provinces.

Pending and Upcoming Trials

As of October 26, 2009, 3 *Engle*-progeny cases against PM USA are set for trial in 2009 (1 of the 3 cases has a scheduled 2009 trial date). Cases against other tobacco companies are also scheduled for trial through the end of 2009. Trial dates are subject to change.

Trial Results

Since January 1999, verdicts have been returned in 51 smoking and health, Lights/Ultra Lights and health care cost recovery cases in which PM USA was a defendant. Verdicts in favor of PM USA and other defendants were returned in 31 of the 51 cases. These 31 cases were tried in California (5), Florida (11), Mississippi (1), Missouri (2), New Hampshire (1), New Jersey (1), New York (3), Ohio (2), Pennsylvania (1), Rhode Island (1), Tennessee (2), and West Virginia (1). A motion for a new trial was granted in one of the cases in Florida.

Of the 20 cases in which verdicts were returned in favor of plaintiffs, eight have reached final resolution and one case (*Williams* see below) has reached partial final resolution. A verdict against defendants in one health care cost recovery case has been reversed and all claims were dismissed with prejudice. In addition, a verdict against defendants in a purported Lights class action in Illinois (*Price*) was reversed and the case was dismissed with prejudice in December 2006. In December 2008, the plaintiff in *Price* filed a motion with the state trial court to vacate the judgment dismissing this case in light of the United States Supreme Court s decision in *Good* (see below for a discussion of developments in *Good* and *Price*). After exhausting all appeals, PM USA has paid judgments in these cases totaling $106.1 million and interest totaling $63.8 million.

The chart below lists the verdicts and post-trial developments in the twelve pending cases that have gone to trial since January 1999 in which verdicts were returned in favor of plaintiffs.

Date	Location of Court/ Name of Plaintiff	Type of Case	Verdict	Post-Trial Developments
August 2009	Florida/ *Campbell*	*Engle* progeny	On August 19, 2009, the jury in the *Campbell* trial (conducted in Escambia County) returned a verdict in favor of the plaintiff and against R.J. Reynolds, PM USA and Liggett Group. The jury awarded $7.8 million in compensatory damages. There	On August 31, 2009, defendants filed a joint motion to set aside the verdict, to enter judgment in accordance with defendants motion for directed verdict, or, in the alternative, to order a new trial or for remittitur of the jury s

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Date	Location of Court/ Name of Plaintiff	Type of Case	Verdict	Post-Trial Developments
			was no punitive damages award. On September 14, 2009, the trial court entered final judgment and awarded the plaintiff $156,000 in damages against PM USA due to the jury allocating only 2% of the fault to PM USA.	actual damages award. The trial court has not yet addressed this post-verdict motion.
August 2009	Florida/ *Barbanell*	*Engle* progeny	On August 13, 2009, a Broward County jury in the *Barbanell* trial returned a verdict in favor of the plaintiff, awarding $5.3 million in compensatory damages. The judge had previously dismissed the punitive damages claim. On September 4, 2009, the trial court entered final judgment and awarded plaintiff $1.95 million in actual damages. The judgment reduced the jury s $5.3 million award of compensatory damages due to the jury allocating 36.5% of the fault to PM USA.	A notice of appeal was filed on September 30, 2009, and PM USA posted a $1.95 million appeal bond.
February 2009	Florida/ *Hess*	*Engle* progeny	In February 2009, a Broward County jury in the *Hess* trial found in favor of plaintiffs and against PM USA. The jury awarded $3 million in compensatory damages and $5 million in punitive damages. In June 2009, the trial court entered final judgment and awarded plaintiffs $1,260,000 in actual damages and $5 million in punitive damages. The judgment reduced the jury s $3 million award of compensatory damages due to the jury allocating 42% of the fault to PM USA.	PM USA noticed an appeal to the Fourth District Court of Appeal on July 2, 2009 and posted a $7.3 million appeal bond.
May 2007	California/ *Whiteley*	Individual Smoking and Health	Approximately $2.5 million in compensatory damages against PM USA and the other defendant in the case, as well as $250,000 in punitive damages against the other defendant in the case.	In October 2007, in a limited retrial on the issue of punitive damages, the jury found that plaintiffs are not entitled to punitive damages against PM USA. In November 2007, the

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Date	Location of Court/ Name of Plaintiff	Type of Case	Verdict	Post-Trial Developments
				trial court entered final judgment and PM USA filed a motion for a new trial and for judgment notwithstanding the verdict. The trial court rejected these motions in January 2008. In March 2008, PM USA noticed an appeal to the California Court of Appeal, First Appellate District and in May 2008, posted a $2.2 million appeal bond. The court affirmed the judgment on October 14, 2009.
August 2006	District of Columbia/ *United States of America*	Health Care Cost Recovery	Finding that defendants, including Altria Group, Inc. and PM USA, violated the civil provisions of the Racketeer Influenced and Corrupt Organizations Act (RICO). No monetary damages were assessed, but the court made specific findings and issued injunctions. See *Federal Government s Lawsuit* below.	See *Federal Government s Lawsuit* below.
March 2005	New York/ *Rose* (now known as *Adamo*)	Individual Smoking and Health	$3.42 million in compensatory damages against two defendants, including PM USA, and $17.1 million in punitive damages against PM USA.	In April 2008, an intermediate New York appellate court reversed the verdict and vacated the compensatory and punitive damages awards against PM USA. In December 2008, the New York Court of Appeals affirmed the appellate court decision. In January 2009, plaintiffs filed a petition with the New York Court of Appeals requesting that the court either vacate its earlier decision and reinstate the jury verdict or remand the case to the trial court for a new trial. The New York Court of Appeals denied plaintiffs motion in March 2009.

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Date	Location of Court/ Name of Plaintiff	Type of Case	Verdict	Post-Trial Developments
				Plaintiffs filed a petition for a *writ of certiorari* with the United States Supreme Court, which was denied on October 5, 2009.
May 2004	Louisiana/ *Scott*	Smoking and Health Class Action	Approximately $590 million against all defendants, including PM USA, jointly and severally, to fund a 10-year smoking cessation program.	See *Scott Class Action* below.
October 2002	California/ *Bullock*	Individual Smoking and Health	$850,000 in compensatory damages and $28 billion in punitive damages against PM USA.	In December 2002, the trial court reduced the punitive damages award to $28 million. In April 2006, the California Court of Appeal affirmed the $28 million punitive damages award. In January 2008, the California Court of Appeal reversed the judgment with respect to the $28 million punitive damages award, affirmed the judgment in all other respects, and remanded the case to the trial court to conduct a new trial on the amount of punitive damages. In April 2008, the California Supreme Court denied PM USA s petition for review. On August 24, 2009, the jury returned a verdict awarding plaintiff $13.8 million in punitive damages. See discussion (1) below.
June 2002	Florida/ *Lukacs*	Individual Smoking and Health	$37.5 million in compensatory damages against all defendants, including PM USA.	In March 2003, the trial court reduced the damages award to $24.8 million. PM USA s share of the damages award is approximately $6 million. In January 2007, defendants petitioned the trial court to set aside the jury s verdict and dismiss plaintiffs punitive damages claim. In August

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Date	Location of Court/ Name of Plaintiff	Type of Case	Verdict	Post-Trial Developments
				2008, the trial court granted plaintiffs motion for entry of judgment and ordered compensatory damages of $24.8 million plus interest from the date of the verdict. In August 2008, PM USA filed a motion for reconsideration, which was denied. Final judgment was entered in November 2008, awarding plaintiffs actual damages of $24.8 million, plus interest from the date of the verdict. Defendants filed a notice of appeal in December 2008 and posted an appeal bond of $30.3 million.
March 2002	Oregon/ *Schwarz*	Individual Smoking and Health	$168,500 in compensatory damages and $150 million in punitive damages against PM USA.	In May 2002, the trial court reduced the punitive damages award to $100 million. In May 2006, the Oregon Court of Appeals affirmed the compensatory damages verdict, reversed the award of punitive damages and remanded the case to the trial court for a second trial to determine the amount of punitive damages, if any. In June 2006, plaintiff petitioned the Oregon Supreme Court to review the portion of the Court of Appeals decision reversing and remanding the case for a new trial on punitive damages. The Oregon Supreme Court held this petition in abeyance until the United States Supreme Court decided the *Williams* case described in (2) below. In May 2009, the Oregon Supreme Court issued an order granting plaintiff s petition for review. Argument is scheduled to be held on

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Date	Location of Court/ Name of Plaintiff	Type of Case	Verdict	Post-Trial Developments
				November 2, 2009.
July 2000	Florida/ *Engle*	Smoking and Health Class Action	$145 billion in punitive damages against all defendants, including $74 billion against PM USA.	See *Engle Class Action* below.
March 1999	Oregon/ *Williams*	Individual Smoking and Health	$800,000 in compensatory damages (capped statutorily at $500,000), $21,500 in medical expenses and $79.5 million in punitive damages against PM USA.	See discussion (2) below.

(1) *Bullock:* In August 2006, the California Supreme Court denied plaintiffs petition to overturn the trial court s reduction of the punitive damages award and granted PM USA s petition for review challenging the punitive damages award. The court granted review of the case on a grant and hold basis under which further action by the court was deferred pending the United States Supreme Court s 2007 decision on punitive damages in the *Williams* case described below. In February 2007, the United States Supreme Court vacated the punitive damages judgment in *Williams* and remanded the case to the Oregon Supreme Court for proceedings consistent with its decision. In May 2007, the California Supreme Court transferred the case to the Second District of the California Court of Appeal with directions that the court vacate its 2006 decision and reconsider the case in light of the United States Supreme Court s decision in *Williams.* In January 2008, the California Court of Appeal reversed the judgment with respect to the $28 million punitive damages award, affirmed the judgment in all other respects, and remanded the case to the trial court to conduct a new trial on the amount of punitive damages. In March 2008, plaintiffs and PM USA appealed to the California Supreme Court. In April 2008, the California Supreme Court denied both petitions for review. In July 2008, $43.3 million of escrow funds were returned to PM USA. The case was remanded to the superior court for a new trial on the amount of punitive damages, if any. On August 24, 2009, the jury returned a verdict awarding plaintiff $13.8 million in punitive damages. No final judgment has yet been entered. PM USA has recorded a provision of approximately $1.6 million for compensatory damages, costs and interest.

(2) *Williams:* The trial court reduced the punitive damages award to $32 million, and PM USA and plaintiff appealed. In June 2002, the Oregon Court of Appeals reinstated the $79.5 million punitive damages award. Following the Oregon Supreme Court s refusal to hear PM USA s appeal, PM USA recorded a provision of $32 million and petitioned the United States Supreme Court for further review (PM USA later recorded additional provisions of approximately $29 million related primarily to accrued interest). In October 2003, the United States Supreme Court set aside the Oregon appellate court s ruling and directed the Oregon court to reconsider the case in light of the 2003 *State Farm* decision by the United States Supreme Court, which limited punitive damages. In June 2004, the Oregon Court of Appeals reinstated the $79.5 million punitive damages award. In February 2006, the Oregon Supreme Court affirmed the Court of Appeals decision. The United States Supreme Court granted PM USA s petition for *writ of certiorari* in May 2006. In February 2007, the United States Supreme Court vacated the $79.5 million punitive damages award, holding that the United States Constitution prohibits basing punitive damages awards on harm to non-parties. The

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Court also found that states must assure that appropriate procedures are in place so that juries are provided with proper legal guidance as to the constitutional limitations on awards of punitive damages. Accordingly, the Court remanded the case to the Oregon Supreme Court for further proceedings consistent with this decision. In January 2008, the Oregon Supreme Court affirmed the Oregon Court of Appeals June 2004 decision, which in turn, upheld the jury s compensatory damage award and reinstated the jury s award of $79.5 million in punitive damages. In March 2008, PM USA filed a petition for *writ of certiorari* with the United States Supreme Court, which was granted in June 2008. In March 2009, the United States Supreme Court dismissed the *writ of certiorari* as being improvidently granted. Subsequent to the United States Supreme Court s dismissal, PM USA paid $61.1 million to the plaintiffs, representing the compensatory damages award, forty percent of the punitive damages award and accrued interest. Oregon state law requires that sixty percent of any punitive damages award be paid to the state. However, PM USA believes that, as a result of the Master Settlement Agreement (MSA), it is not liable for the sixty percent that would be paid to the state. Oregon and PM USA are parties to a proceeding in Oregon state court that seeks a determination of PM USA s liability for that sixty percent. If PM USA prevails, its obligation to pay punitive damages will be limited to the forty percent previously paid to the plaintiff. The court has consolidated that MSA proceeding with *Williams*, where plaintiff seeks to challenge the constitutionality of the Oregon statute apportioning the punitive damages award and claims that any punitive damages award released by the state reverts to plaintiff.

Security for Judgments

To obtain stays of judgments pending current appeals, as of September 30, 2009, PM USA has posted various forms of security totaling approximately $97 million, the majority of which has been collateralized with cash deposits that are included in other assets on the consolidated balance sheets.

Engle Class Action

In July 2000, in the second phase of the *Engle* smoking and health class action in Florida, a jury returned a verdict assessing punitive damages totaling approximately $145 billion against various defendants, including $74 billion against PM USA. Following entry of judgment, PM USA posted a bond in the amount of $100 million and appealed.

In May 2001, the trial court approved a stipulation providing that execution of the punitive damages component of the *Engle* judgment will remain stayed against PM USA and the other participating defendants through the completion of all judicial review. As a result of the stipulation, PM USA placed $500 million into a separate interest-bearing escrow account that, regardless of the outcome of the judicial review, will be paid to the court and the court will determine how to allocate or distribute it consistent with Florida Rules of Civil Procedure. In July 2001, PM USA also placed $1.2 billion into an interest-bearing escrow account, which was returned to PM USA in December 2007. In addition, the $100 million bond related to the case has been discharged. In connection with the stipulation, PM USA recorded a $500 million pre-tax charge in its consolidated statement of earnings for the quarter ended March 31, 2001. In May 2003, the Florida Third District Court of Appeal reversed the judgment entered by the trial court and instructed the trial court to order the decertification of the class. Plaintiffs petitioned the Florida Supreme Court for further review.

In July 2006, the Florida Supreme Court ordered that the punitive damages award be vacated, that the class approved by the trial court be decertified, and that members of the decertified class could file individual actions against defendants within one year of issuance of the mandate. The court further declared the following Phase I findings are entitled to *res judicata* effect in such individual actions brought within one year of the issuance of the mandate: (i) that smoking causes various diseases; (ii) that nicotine in cigarettes is addictive; (iii) that

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defendants cigarettes were defective and unreasonably dangerous; (iv) that defendants concealed or omitted material information not otherwise known or available knowing that the material was false or misleading or failed to disclose a material fact concerning the health effects or addictive nature of smoking; (v) that defendants agreed to misrepresent information regarding the health effects or addictive nature of cigarettes with the intention of causing the public to rely on this information to their detriment; (vi) that defendants agreed to conceal or omit information regarding the health effects of cigarettes or their addictive nature with the intention that smokers would rely on the information to their detriment; (vii) that all defendants sold or supplied cigarettes that were defective; and (viii) that defendants were negligent. The court also reinstated compensatory damage awards totaling approximately $6.9 million to two individual plaintiffs and found that a third plaintiff s claim was barred by the statute of limitations. In February 2008, PM USA paid a total of $2,964,685, which represents its share of compensatory damages and interest to the two individual plaintiffs identified in the Florida Supreme Court s order.

In August 2006, PM USA sought rehearing from the Florida Supreme Court on parts of its July 2006 opinion, including the ruling (described above) that certain jury findings have *res judicata* effect in subsequent individual trials timely brought by *Engle* class members. The rehearing motion also asked, among other things, that legal errors that were raised but not expressly ruled upon in the Third District Court of Appeal or in the Florida Supreme Court now be addressed. Plaintiffs also filed a motion for rehearing in August 2006 seeking clarification of the applicability of the statute of limitations to non-members of the decertified class. In December 2006, the Florida Supreme Court refused to revise its July 2006 ruling, except that it revised the set of Phase I findings entitled to *res judicata* effect by excluding finding (v) listed above (relating to agreement to misrepresent information), and added the finding that defendants sold or supplied cigarettes that, at the time of sale or supply, did not conform to the representations of fact made by defendants. In January 2007, the Florida Supreme Court issued the mandate from its revised opinion. Defendants then filed a motion with the Florida Third District Court of Appeal requesting that the court address legal errors that were previously raised by defendants but have not yet been addressed either by the Third District Court of Appeal or by the Florida Supreme Court. In February 2007, the Third District Court of Appeal denied defendants motion. In May 2007, defendants motion for a partial stay of the mandate pending the completion of appellate review was denied by the Third District Court of Appeal. In May 2007, defendants filed a petition for *writ of certiorari* with the United States Supreme Court. In October 2007, the United States Supreme Court denied defendants petition. In November 2007, the United States Supreme Court denied defendants petition for rehearing from the denial of their petition for *writ of certiorari*.

The deadline for filing *Engle*-progeny cases, as required by the Florida Supreme Court s decision, expired in January 2008. As of October 26, 2009, approximately 3,330 cases (3,280 state court cases and 50 federal court cases) were pending against PM USA or Altria Group, Inc. asserting individual claims by or on behalf of approximately 9,019 plaintiffs (5,102 state court plaintiffs and 3,917 federal court plaintiffs). It is possible that some of these cases are duplicates. Some of these cases have been removed from various Florida state courts to the federal district courts in Florida, while others were filed in federal court. In July 2007, PM USA and other defendants requested that the multi-district litigation panel order the transfer of all such cases pending in the federal courts, as well as any other *Engle*-progeny cases that may be filed, to the Middle District of Florida for pretrial coordination. The panel denied this request in December 2007. In October 2007, attorneys for plaintiffs filed a motion to consolidate all pending and future cases filed in the state trial court in Hillsborough County. The court denied this motion in November 2007. In February 2008, the trial court decertified the class except for purposes of the May 2001 bond stipulation, and formally vacated the punitive damage award pursuant to the Florida Supreme Court s mandate. In April 2008, the trial court ruled that certain defendants, including PM USA, lacked standing with respect to allocation of the funds escrowed under the May 2001 bond stipulation and will receive no credit at this time from the $500 million paid by PM USA against any future punitive damages awards in cases brought by former *Engle* class members.

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In May 2008, the trial court, among other things, decertified the limited class maintained for purposes of the May 2001 bond stipulation and, in July 2008, severed the remaining plaintiffs claims except for those of Howard Engle. The only remaining plaintiff in the *Engle* case, Howard Engle, voluntarily dismissed his claims with prejudice. In July 2008, attorneys for a putative former *Engle* class member petitioned the Florida Supreme Court to permit members of the *Engle* class additional time to file individual lawsuits. The Florida Supreme Court denied this petition in January 2009.

Three federal district courts (in the *Merlob, Brown* and *Burr* cases) have ruled that the findings in the first phase of the *Engle* proceedings cannot be used to satisfy elements of plaintiffs claims, and two of those rulings (*Brown* and *Burr*) have been certified by the trial court for interlocutory review. The certification in both cases has been granted by the United States Court of Appeals for the Eleventh Circuit and the appeals have been consolidated. Argument is now scheduled for the week of January 25, 2010. In February 2009, the appeal in *Burr* was dismissed for lack of prosecution. *Engle*-progeny cases pending in the federal district courts in the Middle District of Florida asserting individual claims by or on behalf of approximately 4,000 plaintiffs have been stayed pending interlocutory review by the Eleventh Circuit. State trial court judges have issued contrary rulings that allowed plaintiffs to use the *Engle* findings to establish elements of their claims and required certain defenses to be stricken.

In June 2009, Florida amended its existing bond cap statute by adding a $200 million bond cap that applies to all *Engle*-progeny lawsuits in the aggregate and establishes individual bond caps for individual *Engle*-progeny cases in amounts that vary depending on the number of judgments in effect at a given time. The legislation, which became effective in June 2009, applies to judgments entered after the effective date and remains in effect until December 31, 2012.

As of October 26, 2009, five *Engle*-progeny cases involving PM USA have resulted in verdicts since the Florida Supreme Court *Engle* decision. Three verdicts (see *Hess, Barbanell* and *Campbell* descriptions in the table above) were returned in favor of plaintiffs and two verdicts were returned in favor of PM USA (*Gelep* and *Kalyvas*). The plaintiff in *Gelep* initially appealed the defense verdict, but on September 22, 2009 voluntarily dismissed her appeal. *Engle*-progeny trial results are included in the totals provided in *Trial Results* above.

Scott Class Action

In July 2003, following the first phase of the trial in the *Scott* class action, in which plaintiffs sought creation of a fund to pay for medical monitoring and smoking cessation programs, a Louisiana jury returned a verdict in favor of defendants, including PM USA, in connection with plaintiffs medical monitoring claims, but also found that plaintiffs could benefit from smoking cessation assistance. The jury also found that cigarettes as designed are not defective but that the defendants failed to disclose all they knew about smoking and diseases and marketed their products to minors. In May 2004, in the second phase of the trial, the jury awarded plaintiffs approximately $590 million against all defendants jointly and severally, to fund a 10-year smoking cessation program.

In June 2004, the court entered judgment, which awarded plaintiffs the approximately $590 million jury award plus prejudgment interest accruing from the date the suit commenced. PM USA s share of the jury award and prejudgment interest has not been allocated. Defendants, including PM USA, appealed. Pursuant to a stipulation of the parties, the trial court entered an order setting the amount of the bond at $50 million for all defendants in accordance with an article of the Louisiana Code of Civil Procedure, and a Louisiana statute (the bond cap law), fixing the amount of security in civil cases involving a signatory to the MSA. Under the terms of the stipulation, plaintiffs reserve the right to contest, at a later date, the sufficiency or amount of the bond on any grounds including the applicability or constitutionality of the bond cap law. In September 2004, defendants collectively posted a bond in the amount of $50 million.

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In February 2007, the Louisiana Court of Appeal issued a ruling on defendants appeal that, among other things: affirmed class certification but limited the scope of the class; struck certain of the categories of damages included in the judgment, reducing the amount of the award by approximately $312 million; vacated the award of prejudgment interest, which totaled approximately $444 million as of February 15, 2007; and ruled that the only class members who are eligible to participate in the smoking cessation program are those who began smoking before, and whose claims accrued by, September 1, 1988. As a result, the Louisiana Court of Appeal remanded the case for proceedings consistent with its opinion, including further reduction of the amount of the award based on the size of the new class. In March 2007, the Louisiana Court of Appeal rejected defendants motion for rehearing and clarification. In January 2008, the Louisiana Supreme Court denied plaintiffs and defendants petitions for *writ of certiorari*. Following the Louisiana Supreme Court s denial of defendants petition for *writ of certiorari*, PM USA recorded a provision of $26 million in connection with the case and has recorded additional provisions of approximately $4.2 million related to accrued interest. In March 2008, plaintiffs filed a motion to execute the approximately $279 million judgment plus post-judgment interest or, in the alternative, for an order to the parties to submit revised damages figures. Defendants filed a motion to have judgment entered in favor of defendants based on accrual of all class member claims after September 1, 1988 or, in the alternative, for the entry of a case management order. In April 2008, the Louisiana Supreme Court denied defendants motion to stay proceedings and the defendants filed a petition for *writ of certiorari* with the United States Supreme Court. In June 2008, the United States Supreme Court denied the defendant s petition. Plaintiffs filed a motion to enter judgment in the amount of approximately $280 million (subsequently changed to approximately $264 million) and defendants filed a motion to enter judgment in their favor dismissing the case entirely or, alternatively, to enter a case management order for a new trial. In July 2008, the trial court entered an Amended Judgment and Reasons for Judgment denying both motions, but ordering defendants to deposit into the registry of the court the sum of $263,532,762 plus post-judgment interest of approximately $102 million (as of September 30, 2009) while stating, however, that the judgment award may be satisfied with something less than a full cash payment now and that the court would favorably consider returning unused funds annually to defendants if monies allocated for that year were not fully expended.

In September 2008, defendants filed an application for *writ of mandamus* or *supervisory writ* to secure the right to appeal with the Louisiana Circuit Court of Appeals. The appellate court, in November 2008, granted the defendants w*rit* and directed the trial court to enter an order permitting the appeal and to set the appeal bond in accordance with Louisiana law. In December 2008, plaintiffs *supervisory writ* petition to the Louisiana Supreme Court was denied and the trial court entered an order permitting the appeal and approving a $50 million bond for all defendants in accordance with the Louisiana bond cap law discussed above. In April 2009, plaintiffs filed a cross-appeal seeking to reinstate the June 2004 judgment and to award the medical monitoring rejected by the jury. Argument before the Louisiana Court of Appeal, Fourth Circuit, was held on September 1, 2009.

Smoking and Health Litigation

Overview

Plaintiffs allegations of liability in smoking and health cases are based on various theories of recovery, including negligence, gross negligence, strict liability, fraud, misrepresentation, design defect, failure to warn, nuisance, breach of express and implied warranties, breach of special duty, conspiracy, concert of action, violations of deceptive trade practice laws and consumer protection statutes, and claims under the federal and state anti-racketeering statutes. Plaintiffs in the smoking and health actions seek various forms of relief, including compensatory and punitive damages, treble/multiple damages and other statutory damages and penalties, creation of medical monitoring and smoking cessation funds, disgorgement of profits, and injunctive and equitable relief. Defenses raised in these cases include lack of proximate cause, assumption of the risk,

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comparative fault and/or contributory negligence, statutes of limitations and preemption by the Federal Cigarette Labeling and Advertising Act.

In July 2008, the New York Supreme Court, Appellate Division, First Department in *Fabiano*, an individual personal injury case, held that plaintiffs punitive damages claim was barred by the MSA (as defined below) based on principles of *res judicata* because the New York Attorney General had already litigated the punitive damages claim on behalf of all New York residents. In August 2008, plaintiffs filed a motion for permission to appeal to the Court of Appeals. The motion was denied in November 2008.

Smoking and Health Class Actions

Since the dismissal in May 1996 of a purported nationwide class action brought on behalf of allegedly addicted smokers, 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) and raise addiction claims and, in many cases, claims of physical injury as well.

Class certification has been denied or reversed by courts in 57 smoking and health class actions involving PM USA in Arkansas (1), the District of Columbia (2), Florida (2), Illinois (2), Iowa (1), Kansas (1), Louisiana (1), Maryland (1), Michigan (1), Minnesota (1), Nevada (29), New Jersey (6), New York (2), Ohio (1), Oklahoma (1), Pennsylvania (1), Puerto Rico (1), South Carolina (1), Texas (1) and Wisconsin (1). A class remains certified in the *Scott* class action discussed above.

Two purported class actions pending against PM USA have been brought in New York (*Caronia,* filed in January 2006 in the United States District Court for the Eastern District of New York) and Massachusetts (*Donovan*, filed in December 2006 in the United States District Court for the District of Massachusetts) on behalf of each state s respective residents who: are age 50 or older; have smoked the *Marlboro* brand for 20 pack-years or more; and have neither been diagnosed with lung cancer nor are under investigation by a physician for suspected lung cancer. Plaintiffs in these cases seek to impose liability under various product-based causes of action and the creation of a court-supervised program providing members of the purported class Low Dose CT Scanning in order to identify and diagnose lung cancer. Neither claim seeks punitive damages. Plaintiffs motion for class certification and defendant s motion for summary judgment are pending in *Caronia.* Defendants motions for summary judgment and judgment on the pleadings and plaintiffs motion for class certification are pending in *Donovan*. In *Donovan*, the Supreme Judicial Court of Massachusetts heard arguments in June 2009 on the questions certified to it by the district court regarding medical monitoring and statute of limitations issues. On October 19, 2009, the Supreme Judicial Court of Massachusetts, in answering the questions certified to it, held that under certain circumstances state law recognizes a claim by individual smokers for medical monitoring despite the absence of an actual injury. The court also ruled that whether or not the case is barred by the applicable statute of limitations is a factual issue to be determined by the trial court.

In November 2008, a purported class action naming PM USA, Altria Group, Inc. and the other major cigarette manufacturers as defendants was filed in the United States District Court for the Northern District of Georgia on behalf of a purported class of cigarette smokers who seek medical monitoring (*Peoples*). Plaintiffs allege that the tobacco companies conspired to convince the National Cancer Institute (NCI) to not recommend spiral CT scans to screen for lung cancer and plaintiffs assert claims based on defendants purported violations of RICO. The complaint identifies the purported class as all residents of the State of Georgia who, by virtue of their age and history of smoking cigarettes, are at increased risk for developing lung cancer; are 50 years of age or older; have cigarette smoking histories of 20 pack-years or more; and are covered by an insurance company, Medicare, Medicaid or a third party medical payor. Plaintiffs seek relief in the form of the creation of a fund for medical monitoring and punitive damages. In February 2009, defendants filed a motion to dismiss. On September 11, 2009, the district judge entered judgment against plaintiffs and dismissed the case, concluding

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that plaintiffs failed to allege sufficient facts to state a claim for relief under RICO. A similar purported class action (*Jackson*) was filed in the United States District Court for the Northern District of Georgia in May 2009. Altria Group, Inc. and PM USA are named as defendants. Motions to dismiss are pending.

In July 2009, PM USA and Altria Group, Inc. were named as defendants, along with other cigarette manufacturers, in four actions filed in various Canadian provinces. In the Province of Saskatchewan, plaintiffs seek class certification on behalf of individuals who suffer or have suffered from various diseases including chronic obstructive pulmonary disease, emphysema, heart disease or cancer. In each of the other actions, plaintiffs seek certification of a class of all individuals who smoked defendants cigarettes. See *Guarantees* for a discussion of the Distribution Agreement between Altria Group, Inc. and PMI that provides for indemnities for certain liabilities concerning tobacco products.

Health Care Cost Recovery Litigation

Overview

In health care cost recovery litigation, governmental entities and non-governmental plaintiffs seek reimbursement of health care cost expenditures allegedly caused by tobacco products and, in some cases, of future expenditures and damages as well. 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.

Defenses raised include lack of proximate cause, remoteness of injury, failure to state a valid claim, lack of benefit, adequate remedy at law, unclean hands (namely, that plaintiffs cannot obtain equitable relief because they participated in, and benefited from, the sale of cigarettes), lack of antitrust standing and injury, federal preemption, lack of statutory authority to bring suit, and statutes of limitations. In addition, defendants argue that they should be entitled to set off any alleged damages to the extent the plaintiffs benefit economically from the sale of cigarettes through the receipt of excise taxes or otherwise. Defendants also argue that these cases are improper because plaintiffs must proceed under principles of subrogation and assignment. Under traditional theories of recovery, a payor of medical costs (such as an insurer) can seek recovery of health care costs from a third party solely by standing in the shoes of the injured party. Defendants argue that plaintiffs should be required to bring any actions as subrogees of individual health care recipients and should be subject to all defenses available against the injured party.

Although there have been some decisions to the contrary, most judicial decisions have dismissed all or most health care cost recovery claims against cigarette manufacturers. Nine federal circuit courts of appeals and six state appellate courts, relying primarily on grounds that plaintiffs claims were too remote, have ordered or affirmed dismissals of health care cost recovery actions. The United States Supreme Court has refused to consider plaintiffs appeals from the cases decided by five circuit courts of appeals.

In March 1999, in the first health care cost recovery case to go to trial, an Ohio jury returned a verdict in favor of defendants on all counts. In addition, a $17.8 million verdict against defendants (including $6.8 million against PM USA) was reversed in a health care cost recovery case in New York, and all claims were dismissed

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with prejudice in February 2005 (*Blue Cross/Blue Shield*). In June 2009, the trial court denied two of defendants motions for summary judgment in a health care cost recovery case brought by the City of St. Louis, Missouri and approximately 40 Missouri hospitals, in which PM USA, USSTC and Altria Group, Inc. are defendants. Trial is currently scheduled to begin on June 7, 2010.

Individuals and associations have also sued in purported class actions or as private attorneys general under the Medicare as Secondary Payer (MSP) provisions of the Social Security Act to recover from defendants Medicare expenditures allegedly incurred for the treatment of smoking-related diseases. Cases brought in New York (*Mason*), Florida (*Glover*) and Massachusetts (*United Seniors Association*) have been dismissed by federal courts. In April 2008, an action, *National Committee to Preserve Social Security and Medicare, et al. v. Philip Morris USA, et al. (National Committee I),* was brought under the Medicare as Secondary Payer statute in the Circuit Court of the Eleventh Judicial Circuit of and for Miami County, Florida, but was dismissed voluntarily in May 2008. The action purported to be brought on behalf of Medicare to recover an unspecified amount of damages equal to double the amount paid by Medicare for smoking-related health care services provided from April 19, 2002 to the present.

In May 2008, an action, *National Committee to Preserve Social Security, et al. v. Philip Morris USA, et al.*, was brought under the Medicare as Secondary Payer statute in United States District Court for the Eastern District of New York. This action was brought by the same plaintiffs as *National Committee I* and similarly purports to be brought on behalf of Medicare to recover an unspecified amount of damages equal to double the amount paid by Medicare for smoking-related health care services provided from May 21, 2002 to the present. In July 2008, defendants filed a motion to dismiss plaintiffs claims and plaintiffs filed a motion for partial summary judgment. In March 2009, the court granted defendants motion to dismiss. Plaintiffs noticed an appeal in May 2009 after the district court denied their motion for reconsideration. On September 1, 2009, defendants filed a motion for summary disposition of the appeal.

In addition to the cases brought in the United States, health care cost recovery actions have also been brought against tobacco industry participants, including PM USA, in Israel (1), the Marshall Islands (1 dismissed), and Canada (3) and other entities have stated that they are considering filing such actions. In September 2005, in the first of the three health care recovery cases filed in Canada, the Canadian Supreme Court ruled that legislation passed in British Columbia permitting the lawsuit is constitutional, and, as a result, the case, which had previously been dismissed by the trial court, was permitted to proceed. PM USA s and other defendants challenge to the British Columbia court s exercise of jurisdiction was rejected by the Court of Appeals of British Columbia and, in April 2007, the Supreme Court of Canada denied review of that decision. During 2008, the Province of New Brunswick, Canada, proclaimed into law previously adopted legislation allowing reimbursement claims to be brought against cigarette manufacturers, and it filed suit shortly thereafter. On September 29, 2009, the Province of Ontario, Canada, filed suit against a number of cigarette manufacturers based on previously adopted legislation nearly identical in substance to the New Brunswick health care cost recovery legislation. Altria Group, Inc. and PM USA are named as defendants in the New Brunswick and Ontario cases. Several other provinces in Canada have enacted similar legislation or are in the process of enacting similar legislation. See *Guarantees* for a discussion of the Distribution Agreement between Altria Group, Inc. and PMI that provides for indemnities for certain liabilities concerning tobacco products.

Settlements of Health Care Cost Recovery Litigation

In November 1998, PM USA and certain other United States tobacco product manufacturers entered into the MSA with 46 states, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Marianas to settle asserted and unasserted health care cost recovery and other claims. PM USA and certain other United States tobacco product manufacturers had previously settled similar claims brought by Mississippi, Florida, Texas and Minnesota (together with the MSA, the State Settlement Agreements). The State Settlement Agreements require that the original participating manufacturers make

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substantial annual payments of approximately $9.4 billion each year (excluding future annual payments, if any, under the National Tobacco Grower Settlement Trust discussed below), subject to adjustments for several factors, including inflation, market share and industry volume. In addition, the original participating manufacturers are required to pay settling plaintiffs attorneys fees, subject to an annual cap of $500 million. For the nine and three months ended September 30, 2009, the aggregate amount recorded in cost of sales with respect to the State Settlement Agreements and the Fair and Equitable Tobacco Reform Act of 2004 (FETRA) was approximately $3.8 billion and $1.3 billion, respectively.

The State Settlement Agreements also include provisions relating to advertising and marketing restrictions, public disclosure of certain industry documents, limitations on challenges to certain tobacco control and underage use laws, restrictions on lobbying activities and other provisions.

Possible Adjustments in MSA Payments for 2003 to 2008

Pursuant to the provisions of the MSA, domestic tobacco product manufacturers, including PM USA, who are original signatories to the MSA (the Original Participating Manufacturers or OPMs) are participating in proceedings that may result in downward adjustments to the amounts paid by the OPMs and the other MSA-participating manufacturers to the states and territories that are parties to the MSA for each of the years 2003 to 2008. The proceedings relate to an MSA payment adjustment (the NPM Adjustment) based on the collective loss of market share for the relevant year by all participating manufacturers 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.

As part of these proceedings, an independent economic consulting firm jointly selected by the MSA parties or otherwise selected pursuant to the MSA s provisions is required to determine whether the disadvantages of the MSA were a significant factor contributing to the collective loss of market share for the year in question. If the firm determines that the disadvantages of the MSA were such a significant factor, each state may avoid a downward adjustment to its share of the participating manufacturers annual payments for that year by establishing that it diligently enforced a qualifying escrow statute during the entirety of that year. Any potential downward adjustment would then be reallocated to any states that do not establish such diligent enforcement. PM USA believes that the MSA s arbitration clause requires a state to submit its claim to have diligently enforced a qualifying escrow statute to binding arbitration before a panel of three former federal judges in the manner provided for in the MSA. A number of states have taken the position that this claim should be decided in state court on a state-by-state basis.

In March 2006, an independent economic consulting firm determined that the disadvantages of the MSA were a significant factor contributing to the participating manufacturers collective loss of market share for the year 2003. In February 2007, this same firm determined that the disadvantages of the MSA were a significant factor contributing to the participating manufacturers collective loss of market share for the year 2004. In February 2008, the same economic consulting firm determined that the disadvantages of the MSA were a significant factor contributing to the participating manufacturers collective loss of market share for the year 2005. A different economic consulting firm was selected to make the significant factor determination regarding the participating manufacturers collective loss of market share for the year 2006. In March 2009, this firm determined that the disadvantages of the MSA were a significant factor contributing to the participating manufacturers collective loss of market share for the year 2006. Following the firm s determination for 2006, the OPMs and the states agreed that the states will not contest that the disadvantages of the MSA were a significant factor contributing to the participating manufacturers collective loss of market share for the years 2007 and 2008 (and 2009, if the participating manufacturers collectively sustain a sufficient loss of market share for that year as well). Accordingly, the OPMs and the states have agreed that no significant factor determination by the firm will be necessary with respect to the participating manufacturers collective loss of market share for the years 2007, 2008 and 2009.

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Following the economic consulting firm s determination with respect to 2003, thirty-eight states filed declaratory judgment actions in state courts seeking a declaration that the state diligently enforced its escrow statute during 2003. The OPMs and other MSA-participating manufacturers have responded to these actions by filing motions to compel arbitration in accordance with the terms of the MSA, including filing motions to compel arbitration in eleven MSA states and territories that have not filed declaratory judgment actions. Courts in all but one of the forty-six MSA states and the District of Columbia and Puerto Rico have ruled that the question of whether a state diligently enforced its escrow statute during 2003 is subject to arbitration. One state court has ruled that the diligent enforcement claims of that state may be litigated in state court, rather than in arbitration. Several of these rulings may be subject to further review. PM USA, the other OPMs and approximately twenty-five other MSA-participating manufacturers have entered into an agreement regarding arbitration with over forty MSA states concerning the 2003 NPM Adjustment, including the states claims of diligent enforcement for 2003. The agreement provides for selection of the arbitration panel for the 2003 NPM Adjustment beginning during the last quarter of 2009 and for the arbitration then to proceed. The agreement further provides for a partial liability reduction for the 2003 NPM Adjustment for states that entered into the agreement by January 30, 2009 and are determined in the arbitration not to have diligently enforced a qualifying escrow statute during 2003. Based on the number of states that entered into the agreement by January 30, 2009 (forty-five), the partial liability reduction for those states is 20%. The partial liability reduction would reduce the amount of PM USA s 2003 NPM Adjustment by up to a corresponding percentage. Proceedings to determine state diligent enforcement claims for the years 2004 through 2008 have not yet been scheduled.

The availability and the precise amount of any NPM Adjustment for 2003, 2004, 2005, 2006, 2007 and 2008 will not be finally determined until 2010 or thereafter. There is no certainty that the OPMs and other MSA-participating manufacturers will ultimately receive any adjustment as a result of these proceedings. If the OPMs do receive such an adjustment through these proceedings, the adjustment would be allocated among the OPMs pursuant to the MSA s provisions, and PM USA s share would likely be applied as a credit against one or several future MSA payments.

National Grower Settlement Trust

As part of the MSA, the settling defendants committed to work cooperatively with the tobacco-growing states to address concerns about the potential adverse economic impact of the MSA on tobacco growers and quota holders. To that end, in 1999, four of the major domestic tobacco product manufacturers, including PM USA, established the National Tobacco Grower Settlement Trust (NTGST), a trust fund to provide aid to tobacco growers and quota holders. The trust was to be funded by these four manufacturers over 12 years with payments, subject to application of various adjustments, scheduled to total $5.15 billion. Provisions of the NTGST allowed for offsets to the extent that industry-funded payments were made for the benefit of growers or quota holders as part of a legislated end to the federal tobacco quota and price support program.

In October 2004, FETRA was signed into law. FETRA provides for the elimination of the federal tobacco quota and price support program through an industry-funded buy-out of tobacco growers and quota holders. The cost of the buy-out, which is estimated at approximately $9.5 billion, is being paid over 10 years by manufacturers and importers of each kind of tobacco product. The cost is being allocated based on the relative market shares of manufacturers and importers of each kind of tobacco product. The quota buy-out payments offset already scheduled payments to the NTGST. However, two of the grower states, Maryland and Pennsylvania, have filed claims in the North Carolina state courts, asserting that the companies which established the NTGST (including PM USA) must continue making payments under the NTGST through 2010 for the benefit of Maryland and Pennsylvania growers (such continuing payments would represent slightly more than one percent of the originally scheduled payments that would have been due to the NTGST for the years 2005 through 2010) notwithstanding the offsets resulting from the FETRA payments. The North Carolina trial court held in favor of Maryland and Pennsylvania, and the companies (including PM USA) appealed. The

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North Carolina Court of Appeals, in December 2008, reversed the trial court ruling. In January 2009, Maryland and Pennsylvania filed a notice of appeal to the North Carolina Supreme Court. The court heard oral argument on September 10, 2009. In addition to the approximately $9.5 billion cost of the buy-out, FETRA also obligated manufacturers and importers of tobacco products to cover any losses (up to $500 million) that the government incurred on the disposition of tobacco pool stock accumulated under the previous tobacco price support program. PM USA, Middleton and USSTC are subject to the requirements of FETRA. Altria Group, Inc. does not currently anticipate that the quota buy-out will have a material adverse impact on its consolidated results in 2009 and beyond.

Other MSA-Related Litigation

PM USA was named as a defendant in an action brought in October 2008 in federal court in Kentucky by an MSA participating manufacturer that is not an OPM. Other defendants include various other participating manufacturers and the Attorneys General of all 52 states and territories that are parties to the MSA. The plaintiff alleged that certain of the MSA s payment provisions discriminate against it in favor of certain other participating manufacturers in violation of the federal antitrust laws and the United States Constitution. The plaintiff also sought injunctive relief, alteration of certain MSA payment provisions as applied to it, treble damages under the federal antitrust laws, and/or rescission of its joinder in the MSA. The plaintiff also filed a motion for a preliminary injunction enjoining the states from enforcing the allegedly discriminatory payment provisions against it during the pendency of action. In November 2008, defendants filed a motion to dismiss the complaint on various grounds and, in January 2009, the court dismissed the complaint and denied plaintiff s request for preliminary injunctive relief.

In December 2008, PM USA was named as a defendant in an action seeking declaratory relief under the MSA. The action was filed in California state court by the same MSA participating manufacturer that filed the Kentucky action discussed in the preceding paragraph. Other defendants include the State of California and various other participating manufacturers. The plaintiff is seeking a declaratory judgment that its proposed amended adherence agreement with California and other states that are parties to the MSA is consistent with provisions in the MSA, and that the MSA s limited most favored nations provision does not apply to the proposed agreement. Plaintiff seeks no damages in this action. On July 21, 2009, the court granted defendants motion for summary judgment. On July 28, 2009, the court entered final judgment in favor of defendants on all claims asserted by plaintiff. Plaintiff has filed an appeal.

Without naming PM USA or any other private party as a defendant, NPMs and/or their distributors or customers have filed several legal challenges to the MSA and related legislation. New York state officials are defendants in a lawsuit pending in the United States District Court for the Southern District of New York in which cigarette importers allege that the MSA and/or related legislation violates federal antitrust laws and the Commerce Clause of the United States Constitution. In a separate proceeding pending in the same court, plaintiffs assert the same theories against not only New York officials but also the Attorneys General for thirty other states. The United States Court of Appeals for the Second Circuit has held that the allegations in both actions, if proven, establish a basis for relief on antitrust and Commerce Clause grounds and that the trial courts in New York have personal jurisdiction sufficient to enjoin other states officials from enforcing their MSA-related legislation. On remand in those two actions, one trial court has granted summary judgment for the New York officials and lifted a preliminary injunction against New York officials enforcement against plaintiffs of the state s allocable share amendment to the MSA s Model Escrow Statute; the other trial court has held that plaintiffs are unlikely to succeed on the merits. The former decision is on appeal to the United States Court of Appeals for the Second Circuit.

In another action, the United States Court of Appeals for the Fifth Circuit reversed a trial court s dismissal of challenges to MSA-related legislation in Louisiana under the First and Fourteenth Amendments to the United States Constitution. On remand in that case, and in another case filed against the Louisiana Attorney General,

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trial courts have granted summary judgment for the Louisiana Attorney General. One of those decisions is on appeal to the United States Court of Appeals for the Fifth Circuit. The deadline to appeal the other decision has not yet expired.

The United States Courts of Appeals for the Sixth, Eighth, Ninth and Tenth Circuits have affirmed dismissals or grants of summary judgment in favor of state officials in four other cases asserting antitrust and constitutional challenges to the allocable share amendment legislation in those states.

Another proceeding has been initiated before an international arbitration tribunal under the provisions of the North American Free Trade Agreement. A hearing on the merits that was scheduled for June 2009 has been continued.

Federal Government s Lawsuit

In 1999, the United States government filed a lawsuit in the United States District Court for the District of Columbia against various cigarette manufacturers, including PM USA, and others, including Altria Group, Inc. asserting claims under three federal statutes, namely the Medical Care Recovery Act (MCRA), the MSP provisions of the Social Security Act and the civil provisions of RICO. Trial of the case ended in June 2005. The lawsuit sought to recover an unspecified amount of health care costs for tobacco-related illnesses allegedly caused by defendants fraudulent and tortious conduct and paid for by the government under various federal health care programs, including Medicare, military and veterans health benefits programs, and the Federal Employees Health Benefits Program. The complaint alleged that such costs total more than $20 billion annually. It also sought what it alleged to be equitable and declaratory relief, including disgorgement of profits which arose from defendants allegedly tortious conduct, an injunction prohibiting certain actions by the defendants, and a declaration that the defendants are liable for the federal government s future costs of providing health care resulting from defendants alleged past tortious and wrongful conduct. In September 2000, the trial court dismissed the government s MCRA and MSP claims, but permitted discovery to proceed on the government s claims for relief under the civil provisions of RICO.

The government alleged that disgorgement by defendants of approximately $280 billion is an appropriate remedy. In May 2004, the trial court issued an order denying defendants motion for partial summary judgment limiting the disgorgement remedy. In February 2005, a panel of the United States Court of Appeals for the District of Columbia Circuit held that disgorgement is not a remedy available to the government under the civil provisions of RICO and entered summary judgment in favor of defendants with respect to the disgorgement claim. In April 2005, the Court of Appeals denied the government s motion for rehearing. In July 2005, the government petitioned the United States Supreme Court for further review of the Court of Appeals ruling that disgorgement is not an available remedy, and in October 2005, the Supreme Court denied the petition.

In June 2005, the government filed with the trial court its proposed final judgment seeking remedies of approximately $14 billion, including $10 billion over a five-year period to fund a national smoking cessation program and $4 billion over a ten-year period to fund a public education and counter-marketing campaign. Further, the government s proposed remedy would have required defendants to pay additional monies to these programs if targeted reductions in the smoking rate of those under 21 are not achieved according to a prescribed timetable. The government s proposed remedies also included a series of measures and restrictions applicable to cigarette business operations including, but not limited to, restrictions on advertising and marketing, potential measures with respect to certain price promotional activities and research and development, disclosure requirements for certain confidential data and implementation of a monitoring system with potential broad powers over cigarette operations.

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In August 2006, the federal trial court entered judgment in favor of the government. The court held that certain defendants, including Altria Group, Inc. and PM USA, violated RICO and engaged in 7 of the 8 sub-schemes to defraud that the government had alleged. Specifically, the court found that:

- defendants falsely denied, distorted and minimized the significant adverse health consequences of smoking;
- defendants hid from the public that cigarette smoking and nicotine are addictive;
- defendants falsely denied that they control the level of nicotine delivered to create and sustain addiction;
- defendants falsely marketed and promoted low tar/light cigarettes as less harmful than full-flavor cigarettes;
- defendants falsely denied that they intentionally marketed to youth;
- defendants publicly and falsely denied that ETS is hazardous to non-smokers; and
- defendants suppressed scientific research.

The court did not impose monetary penalties on the defendants, but ordered the following relief: (i) an injunction against committing any act of racketeering relating to the manufacturing, marketing, promotion, health consequences or sale of cigarettes in the United States; (ii) an injunction against participating directly or indirectly in the management or control of the Council for Tobacco Research, the Tobacco Institute, or the Center for Indoor Air Research, or any successor or affiliated entities of each; (iii) an injunction against making, or causing to be made in any way, any material false, misleading, or deceptive statement or representation or engaging in any public relations or marketing endeavor that is disseminated to the United States public and that misrepresents or suppresses information concerning cigarettes ; (iv) an injunction against conveying any express or implied health message through use of descriptors on cigarette packaging or in cigarette advertising or promotional material, including lights, ultra lights and low tar, which the court found could cause consumers to believe one cigarette brand is less hazardous than another brand; (v) the issuance of corrective statements in various media regarding the adverse health effects of smoking, the addictiveness of smoking and nicotine, the lack of any significant health benefit from smoking low tar or light cigarettes, defendants manipulation of cigarette design to ensure optimum nicotine delivery and the adverse health effects of exposure to environmental tobacco smoke; (vi) the disclosure on defendants public document websites and in the Minnesota document repository of all documents produced to the government in the lawsuit or produced in any future court or administrative action concerning smoking and health until 2021, with certain additional requirements as to documents withheld from production under a claim of privilege or confidentiality; (vii) the disclosure of disaggregated marketing data to the government in the same form and on the same schedule as defendants now follow in disclosing such data to the FTC for a period of ten years; (viii) certain restrictions on the sale or transfer by defendants of any cigarette brands, brand names, formulas or cigarette businesses within the United States; and (ix) payment of the government s costs in bringing the action.

In September 2006, defendants filed notices of appeal to the United States Court of Appeals for the District of Columbia Circuit. In September 2006, the trial court denied defendants motion to stay the judgment pending defendants appeals, and defendants then filed an emergency motion with the Court of Appeals to stay enforcement of the judgment pending their appeals. In October 2006, the government filed a notice of appeal

in which it appealed the denial of certain remedies, including the disgorgement of profits and the cessation remedies it had sought. In October 2006, a three-judge panel of the Court of Appeals granted defendants motion and stayed the trial court s judgment pending its review of the decision. Certain defendants, including

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PM USA and Altria Group, Inc., filed a motion to clarify the trial court s August 2006 Final Judgment and Remedial Order. In March 2007, the trial court denied in part and granted in part defendants post-trial motion for clarification of portions of the court s remedial order.

In May 2009, a three-judge panel of the Court of Appeals for the District of Columbia Circuit issued a *per curiam* decision largely affirming the trial court s judgment against defendants and in favor of the government.

Although the panel largely affirmed the remedial order that was issued by the trial court, it vacated the following aspects of the order:

- its application to defendants subsidiaries;
- the prohibition on the use of express or implied health messages or health descriptors, but only to the extent of extraterritorial application;
- its point-of-sale display provisions; and
- its application to Brown & Williamson Holdings.

The Court of Appeals panel remanded the case for the trial court to reconsider these four aspects of the injunction and to reformulate its remedial order accordingly.

Furthermore, the Court of Appeals panel rejected all of the government s and intervenor s cross appeal arguments and refused to broaden the remedial order entered by the trial court. The Court of Appeals panel also left undisturbed its prior holding that the government cannot obtain disgorgement as a permissible remedy under RICO.

On July 31, 2009, defendants filed petitions for a rehearing before the panel and for a rehearing by the entire Court of Appeals. Defendants also filed a motion to vacate portions of the trial court s judgment on the grounds of mootness because of the passage of legislation granting FDA broad authority over the regulation of tobacco products. On September 22, 2009, the Court of Appeals entered three *per curiam* rulings. Two of them denied defendants petitions for panel rehearing or for rehearing *en banc*. In the third *per curiam* decision, the Court of Appeals denied defendants suggestion of mootness and motion for partial *vacatur*. On September 28, 2009, defendants petitioned the Court of Appeals to issue a stay of its mandate pending the filing and disposition of petitions for *writs of certiorari* to the United States Supreme Court. On October 21, 2009, the Court of Appeals granted the motion in part, staying the issuance of the mandate until December 28, 2009. Defendants *certiorari* petitions are scheduled to be filed in December 2009. The trial court s judgment and remedial orders remain stayed.

Lights/Ultra Lights Cases

Overview

Plaintiffs in these class actions (some of which have not been certified as such), allege, among other things, that the uses of the terms Lights and/or Ultra Lights constitute deceptive and unfair trade practices, common law fraud, or RICO violations, and seek injunctive and equitable relief, including restitution and, in certain cases, punitive damages. These class actions have been brought against PM USA and, in certain instances, Altria Group, Inc. or its subsidiaries, on behalf of individuals who purchased and consumed various brands of cigarettes, including *Marlboro Lights, Marlboro Ultra Lights, Virginia Slims Lights* and *Superslims, Merit Lights* and *Cambridge Lights.* Defenses raised in these

cases include lack of misrepresentation, lack of causation, injury, and damages, the statute of limitations, express preemption by the Federal Cigarette Labeling and Advertising Act (FCLAA) and implied preemption by the policies and directives of the Federal Trade Commission (FTC), non-liability under state statutory provisions exempting conduct that complies with

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federal regulatory directives, and the First Amendment. As of October 26, 2009, thirty-six cases are pending as follows: Arkansas (3), California (1), Colorado (1), Delaware (1), Florida (3), Illinois (3), Kansas (2), Louisiana (3), Maine (1), Massachusetts (1), Minnesota (1), Mississippi (1), Missouri (1), New Hampshire (1), New Jersey (1), New Mexico (1), New York (3), Oregon (1), Pennsylvania (1), Tennessee (1), Texas (2), West Virginia (2) and Wisconsin (1). In addition, a purported Lights class action is pending against PM USA in Israel. Other entities have stated that they are considering filing such actions against Altria Group, Inc. and PM USA.

Developments Since December 2008 Good Decision

Since the December 2008 U.S. Supreme Court decision in *Good*, sixteen Lights class actions have been served upon PM USA and Altria Group, Inc. Two of these cases have been filed in each of three states, Florida (*Boyd* and *Rosenthal*), New York (*Domaingue* and *Tang*) and Texas (*Hanson* and *Salazar*), and one case has been filed in each of ten states, Arkansas (*Williams*), California (*Tyrer*), Colorado (*Fray*), Illinois (*Biundo*, formerly *Goins*), Kansas (*Gisick*), Louisiana (*LeBoeuf*), Mississippi (*Mirick*), Pennsylvania (*Weber*), Tennessee (*Alcorn*) and Wisconsin (*Nikolic*). Fifteen of the cases were filed in federal court. The *Biundo* (formerly *Goins*) action was filed in state court but removed to federal court and, in May 2009, plaintiff s motion to amend the complaint was granted after the claims of the initial class representative were dismissed without prejudice.

In addition, plaintiffs, in a case filed in state court in Illinois (*Cleary*), amended their complaint to assert claims on behalf of an additional sub-class of smokers of Lights cigarettes. The case was removed to federal court in March 2009, and the district court denied plaintiffs motion to remand in May 2009. In July 2009, the district court dismissed plaintiffs Lights claims against one defendant and denied plaintiffs request to remand the remaining case to state court. On September 21, 2009, the court issued its ruling on PM USA s and the remaining defendants motion for summary judgment as to all Lights claims. The court granted the motion as to all defendants except PM USA. As to PM USA, the court granted the motion as to all Lights and other low tar brands other than *Marlboro Lights*. As to *Marlboro Lights*, the court ordered briefing on why the 2002 state court order dismissing the *Marlboro Lights* claims should not be vacated based upon *Good*.

In April 2009, a petition was filed with the Judicial Panel on Multidistrict Litigation (JPMDL) seeking to transfer to, and consolidate pretrial proceedings in, the following Lights and other cases in the United States District Court for the Eastern District of New York or, alternatively, the Southern District of Florida: *Tyrer, Fray, Boyd, Biundo* (formerly *Goins*)*, Cleary, Good, Schwab, Caronia, Tang, Domaingue* and *Salazar.* On September 11, 2009, the JPMDL granted plaintiffs motion to consolidate and transfer, and ordered that eight of the eleven Lights cases be consolidated to the U.S. District Court for the District of Maine for pretrial proceedings (MDL proceeding). Those cases include: *Tyrer, Fray, Boyd, Biundo*, *Good, Tang, Domaingue* and *Salazar*. Altria Group, Inc. and/or PM USA are the defendants in each of the actions. Three pending cases were excluded from the transfer *Caronia, Cleary* and *Schwab*. On September 23, 2009, the JPMDL issued an order which transferred to the MDL proceeding a total of nine additional actions that were not part of the original April 2009 petition (*Alcorn, Hanson, Mirick, Moos, Mulford, Newman, Nikolic, Rosenthal* and *Williams).* In addition, by September 29, and October 14, 2009 orders, the JPMDL transferred the *LeBoeuf* and *Weber* cases to the MDL proceeding. Additional federal Lights cases may be included in the MDL proceeding.

The Good Case

In May 2006, a federal trial court in Maine granted PM USA s motion for summary judgment in *Good*, a purported Lights class action, on the grounds that plaintiffs claims are preempted by the FCLAA and dismissed the case. In August 2007, the United States Court of Appeals for the First Circuit vacated the district court s grant of PM USA s motion for summary judgment on federal preemption grounds and remanded the

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case to district court. The district court stayed the case pending the United States Supreme Court s ruling on defendants petition for *writ of certiorari* with the United States Supreme Court, which was granted in January 2008. The case was stayed pending the United States Supreme Court s decision. In December 2008, the United States Supreme Court ruled that plaintiffs claims are not barred by federal preemption. Although the Court rejected the argument that the FTC 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. In February 2009, the United States Court of Appeals for the First Circuit remanded *Good* to the district court for further proceedings. As discussed above, various other Lights cases were consolidated with *Good* in the U.S. District Court for the District of Maine for pretrial proceedings and more may be added as a result of the MDL proceeding discussed above.

Lights Cases Dismissed, Not Certified or Ordered De-Certified

To date, 13 courts in 14 cases have refused to certify class actions, dismissed class action allegations, reversed prior class certification decisions or have entered judgment in favor of PM USA. Trial courts in Arizona, Kansas, New Mexico, Oregon, Tennessee, Washington and New Jersey have refused to certify a class, an appellate court in Florida has overturned class certification by a trial court, the Ohio Supreme Court has overturned class certifications in the *Marrone* and *Phillips* cases (in May 2009, the trial court denied the *Marrone* and *Phillips* plaintiffs motions for leave to amend their complaints to assert class action claims; the plaintiffs voluntarily dismissed these two cases on August 10, 2009), a trial court in Tennessee has dismissed the plaintiffs class action allegations, the United States Court of Appeals for the Fifth Circuit has dismissed a purported Lights class action brought in Louisiana federal court (*Sullivan*) on the grounds that plaintiffs claims were preempted by the FCLAA, plaintiffs voluntarily dismissed an action in a federal trial court in Michigan after the court dismissed claims asserted under the Michigan Unfair Trade and Consumer Protection Act, and the Supreme Court of Illinois has overturned a judgment in favor of a plaintiff class in the *Price* case (see the *Price* case below for further discussion). In September 2006, the trial court in *Schwab* denied defendants summary judgment motions and granted plaintiffs motion for certification of a nationwide class of all United States residents that purchased cigarettes in the United States that were labeled Light or Lights. In April 2008, the Second Circuit overturned the trial court s class certification decision. An intermediate appellate court in Oregon and the Supreme Court in Washington have denied plaintiffs motions for interlocutory review of the trial courts refusals to certify a class. In the Oregon case (*Pearson*), in February 2007, PM USA filed a motion for summary judgment based on federal preemption and the Oregon statutory exemption. In September 2007, the District Court granted PM USA s motion based on express preemption under the FCLAA, and plaintiffs appealed this dismissal to the Oregon Court of Appeals. In February 2008, the parties filed a joint motion to hold the appeal in abeyance pending the United States Supreme Court s decision in *Good*, which motion was denied. Plaintiffs in the case in Washington voluntarily dismissed the case with prejudice. Plaintiffs in the New Mexico case (*Mulford*) renewed their motion for class certification, which motion was denied by the federal district court in March 2009, with leave to file a new motion for class certification. Plaintiffs in the Florida case (*Hines*) petitioned the Florida Supreme Court for further review, and in January 2008, the Florida Supreme Court denied this petition. In February 2009, the plaintiffs class action allegations in the Tennessee case (*McClure*) were dismissed with prejudice. In *Cleary,* discussed above, PM USA has moved to dismiss the Lights claims made against it (USSTC is also a defendant in *Cleary* with respect to non- Lights claims).

The Price Case

Trial in the *Price* case commenced in state court in Illinois in January 2003, and in March 2003, the judge found in favor of the plaintiff class and awarded $7.1 billion in compensatory damages and $3 billion in punitive damages against PM USA. In connection with the judgment, PM USA deposited into escrow various forms of collateral, including cash and negotiable instruments. In December 2005, the Illinois Supreme Court issued its

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judgment, reversing the trial court s judgment in favor of the plaintiffs and directing the trial court to dismiss the case. In May 2006, the Illinois Supreme Court denied plaintiffs motion for re-hearing, in November 2006, the United States Supreme Court denied plaintiffs petition for *writ of certiorari* and, in December 2006, the Circuit Court of Madison County enforced the Illinois Supreme Court s mandate and dismissed the case with prejudice. In January 2007, plaintiffs filed a motion to vacate or withhold judgment based upon the United States Supreme Court s grant of the petition for *writ of certiorari* in *Watson* (described below). In May 2007, PM USA filed applications for a *writ of mandamus* or a supervisory order with the Illinois Supreme Court seeking an order compelling the lower courts to deny plaintiffs motion to vacate and/or withhold judgment. In August 2007, the Illinois Supreme Court granted PM USA s motion for supervisory order and the trial court dismissed plaintiff s motion to vacate or withhold judgment. The collateral that PM USA deposited into escrow after the initial 2003 judgment has since been released and returned to PM USA.

In December 2008, plaintiffs filed with the trial court a petition for relief from the final judgment that was entered in favor of PM USA. Specifically, plaintiffs sought to vacate the 2005 Illinois Supreme Court judgment, contending that the United States Supreme Court s December 2008 decision in *Good* demonstrated that the Illinois Supreme Court s decision was inaccurate. PM USA filed a motion to dismiss plaintiffs petition and, in February 2009, the trial court granted PM USA s motion. In March 2009, the *Price* plaintiffs filed a notice of appeal with the Fifth Judicial District of the Appellate Court of Illinois.

In June 2009, the plaintiff in an individual smoker lawsuit *(Kelly)* brought on behalf of an alleged smoker of Lights cigarettes in Madison County, Illinois state court filed a motion seeking a declaration that (1) his claims under the Illinois Consumer Fraud Act are not barred by the exemption in that statute based on his assertion that the Illinois Supreme Court s decision in *Price* is no longer good law in light of the decisions by the U.S. Supreme Court in *Good* and *Watson*, and (2) their claims are not preempted in light of the U.S. Supreme Court s decision in *Good*. On September 8, 2009, the court granted plaintiff s motion as to federal preemption, but denied it with respect to the state statutory exemption.

Trial Court Class Certifications

Trial courts have certified classes against PM USA in Massachusetts (*Aspinall*), Minnesota (*Curtis*), and Missouri (*Craft*). PM USA has appealed or otherwise challenged these class certification orders. Significant developments in these cases include:

Aspinall: In August 2004, the Massachusetts Supreme Judicial Court affirmed the class certification order. In August 2006, the trial court denied PM USA s motion for summary judgment and granted plaintiffs motion for summary judgment on the defenses of federal preemption and a state law exemption to Massachusetts consumer protection statute. On motion of the parties, the trial court subsequently reported its decision to deny summary judgment to the appeals court for review and stayed further proceedings pending completion of the appellate review. In December 2008, subsequent to the United States Supreme Court s decision in *Good*, the Massachusetts Supreme Judicial Court issued an order requesting that the parties advise the court within 30 days whether the *Good* decision is dispositive of federal preemption issues pending on appeal. In January 2009, PM USA notified the Massachusetts Supreme Judicial Court that *Good* is dispositive of the federal preemption issues on appeal, but requested further briefing on the state law statutory exemption issue. In March 2009, the Massachusetts Supreme Judicial Court affirmed the order denying summary judgment to PM USA and granting the plaintiffs cross-motion.

Curtis: In April 2005, the Minnesota Supreme Court denied PM USA s petition for interlocutory review of the trial court s class certification order. On October 14, 2009, the trial court denied plaintiffs motion for partial summary judgment, filed in February 2009, claiming collateral estoppel from the findings in the case brought by the Department of Justice (see *Federal Government s Lawsuit* described above). On October 21, 2009, the

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trial court granted PM USA s motion for partial summary judgment, filed on August 17, 2009, as to all consumer protection counts. The court has set a trial date of October 25, 2010.

Craft: In August 2005, a Missouri Court of Appeals affirmed the class certification order. Plaintiffs have moved for reconsideration of the period during which potential class members can qualify to become part of the class to expand it from 1998 2005 to 1971 2005. The court set a trial date of January 11, 2011.

In addition to these cases, in June 2007, the United States Supreme Court reversed the lower court rulings in the *Watson* case that denied plaintiffs motion to have the case heard in a state, as opposed to federal, trial court. The Supreme Court rejected defendant s contention that the case must be tried in federal court under the federal officer statute. The case has been remanded to the state trial court in Arkansas. In December 2005, in the *Miner* case, which was pending at that time in the United States District Court for the Western District of Arkansas, plaintiffs moved for certification of a class composed of individuals who purchased *Marlboro Lights* or *Cambridge Lights* brands in Arkansas, California, Colorado, and Michigan. PM USA s motion for summary judgment based on preemption and the Arkansas statutory exemption is pending. Following the filing of this motion, plaintiffs moved to voluntarily dismiss *Miner* without prejudice, which PM USA opposed. The court then stayed the case pending the United States Supreme Court s decision on a petition for *writ of certiorari* in *Watson*. In July 2007, the case was remanded to a state trial court in Arkansas. In August 2007, plaintiffs renewed their motion for class certification. In October 2007, the court denied PM USA s motion to dismiss on procedural grounds and the court entered a case management order.

Certain Other Tobacco-Related Litigation

Tobacco Price Cases: As of October 26, 2009, two separate cases were pending, one in Kansas and one in New Mexico, in which plaintiffs allege that defendants, including PM USA, conspired to fix cigarette prices in violation of antitrust laws. Altria Group, Inc. is a defendant in the case in Kansas. Plaintiffs motions for class certification have been granted in both cases. In June 2006, defendants motion for summary judgment was granted in the New Mexico case. In November 2008, the New Mexico Court of Appeals reversed the trial court decision granting summary judgment as to certain defendants, including PM USA. In February 2009, the New Mexico Supreme Court granted the petition for *writ of certiorari* filed by PM USA and the other defendants. The case in Kansas is pending; there is no trial date.

Cases Under the California Business and Professions Code: In June 1997, a lawsuit (*Brown)* was filed in California state court alleging that domestic cigarette manufacturers, including PM USA and others, have violated California Business and Professions Code Sections 17200 and 17500 regarding unfair, unlawful and fraudulent business practices. Class certification was granted as to plaintiffs claims that class members are entitled to reimbursement of the costs of cigarettes purchased during the class periods and injunctive relief. In September 2004, the trial court granted defendants motion for summary judgment as to plaintiffs claims attacking defendants cigarette advertising and promotion and denied defendants motion for summary judgment on plaintiffs claims based on allegedly false affirmative statements. Plaintiffs motion for rehearing was denied. In March 2005, the court granted defendants motion to decertify the class based on a California law, which *inter alia* limits the ability to bring a lawsuit to only those plaintiffs who have suffered injury in fact and lost money or property as a result of defendant s alleged statutory violations (Proposition 64). In two July 2006 opinions, the California Supreme Court held Proposition 64 applicable to pending cases (the Proposition 64 Cases). Plaintiffs motion for reconsideration of the order that decertified the class was denied, and plaintiffs appealed. In September 2006, an intermediate appellate court affirmed the trial court s order decertifying the class. In May 2009, the California Supreme Court reversed the trial court decision that was affirmed by the appellate court and remanded the case to the trial court. Defendants filed a rehearing petition in June 2009. On August 12, 2009, the California Supreme Court denied defendants rehearing petition and issued its mandate.

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In May 2004, a lawsuit *(Gurevitch)* was filed in California state court on behalf of a purported class of all California residents who purchased the *Merit* brand of cigarettes since July 2000 to the present alleging that defendants, including PM USA, violated California s Business and Professions Code Sections 17200 and 17500 regarding unfair, unlawful and fraudulent business practices, including false and misleading advertising. The complaint also alleges violations of California s Consumer Legal Remedies Act. Plaintiffs seek injunctive relief, disgorgement, restitution, and attorneys fees. In July 2005, defendants motion to dismiss was granted; however, plaintiffs motion for leave to amend the complaint was also granted, and plaintiffs filed an amended complaint in September 2005. In October 2005, the court stayed this action pending the California Supreme Court s rulings in the Proposition 64 Cases. In September 2006, the stay was lifted and defendants filed their demurrer to plaintiffs amended complaint. In March 2007, the court, without ruling on the demurrer, again stayed the action pending rulings from the California Supreme Court in another case involving Proposition 64 (*Brown,* described above) that is relevant to PM USA s demurrer. After the California Supreme Court s decision in *Brown,* the case reactivated and on August 24, 2009, PM USA filed its demurrer to plaintiffs amended complaint.

Ignition Propensity Cases: PM USA is currently a defendant in six wrongful death actions in which plaintiffs contend that fires caused by cigarettes led to other individuals deaths. In one case pending in federal court in Massachusetts (*Sarro*), the district court on August 13, 2009 granted in part PM USA s motion to dismiss, but ruled that two claims unrelated to product design could go forward. In a Kentucky federal court case (*Walker*), the court dismissed plaintiffs claims in February 2009 and plaintiffs subsequently filed a notice of appeal. On September 10, 2009 the appeals court dismissed plaintiffs appeal for want of prosecution. Plaintiffs are seeking reinstatement of the appeal. The four remaining actions are *Green* and *Hallmark* (each filed in April 2009 in Alabama state court), *Kerr* (filed in Mississippi state court in February 2009 and removed by PM USA to Mississippi federal court in July 2009) and *Villarreal* (filed in Texas state court on July 1, 2009 against Altria Group, Inc. and PM USA and removed by PM USA to federal court on August 17, 2009). Plaintiff s motion to remand is pending.

UST Litigation

Types of Cases

Claims related to smokeless tobacco products generally fall within the following categories:

First, UST and/or its tobacco subsidiaries has been named in certain health care cost reimbursement/third-party recoupment/class action litigation against the major domestic cigarette companies and others seeking damages and other relief. The complaints in these cases on their face predominantly relate to the usage of cigarettes; within that context, certain complaints contain a few allegations relating specifically to smokeless tobacco products. These actions are in varying stages of pretrial activities.

Second, UST and/or its tobacco subsidiaries has been named in certain actions in West Virginia brought on behalf of individual plaintiffs against cigarette manufacturers, smokeless tobacco manufacturers, and other organizations seeking damages and other relief in connection with injuries allegedly sustained as a result of tobacco usage, including smokeless tobacco products. Included among the plaintiffs are five individuals alleging use of USSTC s smokeless tobacco products and alleging the types of injuries claimed to be associated with the use of smokeless tobacco products. While certain of these actions had not been consolidated for pretrial and trial proceedings, USSTC, along with other non-cigarette manufacturers, has remained severed from such proceedings since December 2001.

Third, UST and/or its tobacco subsidiaries has been named in a number of other individual tobacco and health suits. Plaintiffs allegations of liability in these cases are based on various theories of recovery, such as negligence, strict liability, fraud, misrepresentation, design defect, failure to warn, breach of implied warranty,

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addiction, and breach of consumer protection statutes. Plaintiffs seek various forms of relief, including compensatory and punitive damages, and certain equitable relief, including but not limited to disgorgement. Defenses raised in these cases include lack of causation, assumption of the risk, comparative fault and/or contributory negligence, and statutes of limitations. USSTC is currently named in an action in Florida (*Vassallo*) and in an action in Connecticut (*Hill*). Trial in the *Hill* case is set to commence in December 2010.

Antitrust Litigation

Following a previous antitrust action brought against UST and certain of its tobacco subsidiaries by a competitor, Conwood Company L.P., UST and certain of its tobacco subsidiaries were named as defendants in certain actions brought by indirect purchasers (consumers) in a number of jurisdictions. As indirect purchasers of USSTC s smokeless tobacco products during various periods of time ranging from January 1990 to the date of certification or potential certification of the proposed classes, plaintiffs in those actions allege, individually and on behalf of putative class members in a particular state or individually and on behalf of class members in the applicable states, that UST and certain of its tobacco subsidiaries violated the antitrust laws, unfair and deceptive trade practices statutes and/or common law of those states. In connection with these actions, plaintiffs sought to recover compensatory and statutory damages in an amount not to exceed $75,000 per purported class member or per class member, and certain other relief. The indirect purchaser actions, as filed, were similar in all material respects.

The indirect purchaser actions have been resolved in all jurisdictions.

In January 2008, UST entered into a Settlement Agreement to resolve the New Hampshire action. In July 2008, the court entered a final judgment granting final approval of the settlement, including attorneys fees and costs, and dismissing the action with prejudice. A Notice of Appeal was filed by an individual class member in August 2008. In April 2009, the New Hampshire Supreme Court affirmed the trial court order and final judgment approving the class action settlement in this indirect purchaser antitrust case. In May 2009, the New Hampshire Supreme Court modified the final judgment to extend the deadline until December 31, 2009, for class members to submit claims.

In April 2009, UST entered into a Settlement Agreement to resolve the Massachusetts action. No objections to the proposed settlement were filed. The settlement received final court approval on October 23, 2009, and UST has paid the total amount of the approximately $10.6 million proposed cash settlement, for which it had previously recognized a liability.

Pursuant to the settlements in all jurisdictions except California and Massachusetts, adult consumers received or will receive coupons redeemable on future purchases of USSTC s moist smokeless tobacco products, and UST agreed to pay all related administrative costs and plaintiffs attorneys fees. The California and Massachusetts settlements are for cash only and do not involve distribution of coupons.

In connection with the settlement of the Kansas, New Hampshire, New York and Wisconsin actions, UST has recognized a liability reflecting the costs attributable to coupons previously distributed to Kansas, New York and Wisconsin class members, and coupons expected to be distributed to New Hampshire class members, which will be redeemable on future purchases of USSTC s moist smokeless tobacco products, as well as plaintiffs attorneys fees and other administrative costs of the settlement.

As of September 30, 2009, the liability associated with UST s estimated costs to resolve all indirect purchaser actions was $9.1 million.

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Other Litigation

In September 2008, plaintiffs filed a purported class action on behalf of a purported class of UST stockholders in Superior Court in Connecticut to enjoin the proposed acquisition of UST by Altria Group, Inc., alleging, among other things, that UST and/or nine of its directors had violated their fiduciary duties by agreeing to the terms of the acquisition and that Altria Group, Inc. had aided and abetted in the alleged violation. In October 2008, plaintiffs amended the complaint to add allegations concerning UST s definitive proxy statement and certain benefits payable to UST s officers in connection with the transaction. The amended complaint also included aiding and abetting claims against UST. In December 2008, the parties entered into a Memorandum of Understanding to settle this lawsuit and resolve all claims. The settlement amount was immaterial. A final settlement hearing was held on October 26, 2009, at which the court stated that it would approve the settlement in an order to follow.

Certain Other Actions

IRS Challenges to PMCC Leases: The IRS concluded its examination of Altria Group, Inc. s consolidated tax returns for the years 1996 through 1999, and issued a final Revenue Agent s Report (RAR) in March 2006. The RAR disallowed benefits pertaining to certain PMCC leveraged lease transactions for the years 1996 through 1999. Altria Group, Inc. agreed with all conclusions of the RAR, with the exception of the disallowance of benefits pertaining to several PMCC leveraged lease transactions for the years 1996 through 1999. Altria Group, Inc. contests approximately $150 million of tax and net interest assessed and paid with regard to them. The IRS may in the future challenge and disallow more of PMCC s leveraged lease benefits based on Revenue Rulings, an IRS Notice and subsequent case law addressing specific types of leveraged leases (lease-in/lease-out (LILO) and sale-in/lease-out (SILO) transactions).

In October 2006, Altria Group, Inc. filed a complaint in the United States District Court for the Southern District of New York to claim refunds on a portion of these tax payments and associated interest for the years 1996 and 1997. On July 9, 2009, the jury returned a unanimous verdict in favor of the IRS. On July 31, 2009, Altria Group, Inc. filed motions for judgment as a matter of law or, in the alternative, for a new trial.

In March 2008, Altria Group, Inc. filed a second complaint in the United States District Court for the Southern District of New York seeking a refund of the tax payments and associated interest for the years 1998 and 1999 attributable to the disallowance of benefits claimed in those years with respect to the leases subject to the recent jury verdict and with respect to certain other leases entered into in 1998 and 1999.

The IRS has indicated that it intends to issue an RAR regarding its audit of Altria Group, Inc. s consolidated tax returns for the 2000 2003 years within the next three months. Based on Notices of Proposed Adjustments received by Altria Group, Inc., we expect that this RAR will challenge and disallow tax benefits claimed by Altria Group, Inc. with respect to the leases subject to the recent jury verdict plus other PMCC leveraged lease transactions characterized by the IRS as LILOs and SILOs, including benefits claimed from LILO and SILO transactions entered into during both the 1996 1999 years and the 2000 2003 years. The total disallowance for 2000 2003 for these leases in federal income tax and related interest would be approximately $1.0 billion. Altria Group, Inc. plans to contest proposed leveraged lease adjustments contained in any RAR.

If the tax benefits for the transactions entered into from 1996 to 2003 were similarly disallowed for the period January 1, 2004 through December 31, 2009, the disallowance for such period for these leases in federal income tax and related interest would be approximately $900 million, taking into account federal income tax paid or payable on gains associated with sales of leased assets during that period. The payment, if any, of such amount would depend upon the timing and outcome of future IRS audits and any related administrative challenges or litigation.

LILO and SILO transactions represent approximately 37% of the Net Finance Assets of PMCC s lease portfolio. PMCC entered into no LILO or SILO transactions after 2003.

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Altria Group, Inc. considered these matters in its treatment of FASB Interpretation No. 48 and FASB Staff Position No. FAS 13-2. Should Altria Group, Inc. not prevail in these matters, Altria Group, Inc. may have to accelerate the payment of significant amounts of federal income tax, pay associated interest costs and significantly lower its earnings to reflect the recalculation of the income from the affected leveraged leases, which could have a material effect on the earnings and cash flows of Altria Group, Inc. in a particular fiscal quarter or fiscal year.

Kraft Thrift Plan Case: Four participants in the Kraft Foods Global, Inc. Thrift Plan (Kraft Thrift Plan), a defined contribution plan, filed a class action complaint on behalf of all participants and beneficiaries of the Kraft Thrift Plan in July 2008 in the United States District Court for the Northern District of Illinois alleging breach of fiduciary duty under the Employee Retirement Income Security Act (ERISA). Named defendants in this action include Altria Corporate Services, Inc. (now Altria Client Services Inc.) and certain company committees that allegedly had a relationship to the Kraft Thrift Plan. Plaintiffs request, among other remedies, that defendants restore to the Kraft Thrift Plan all losses improperly incurred. The Altria Group, Inc. defendants deny any violation of ERISA or other unlawful conduct and intend to defend the case vigorously. Under the terms of a Distribution Agreement between Altria Group, Inc. and Kraft, Altria Client Services Inc. and related defendants may be entitled to indemnity against any liabilities incurred in connection with this case.

Environmental Regulation

Altria Group, Inc. and its subsidiaries (and former subsidiaries) are subject to various federal, state and local laws and regulations concerning the discharge of materials into the environment, or otherwise related to environmental protection, including, in the United States: The Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act and the Comprehensive Environmental Response, Compensation and Liability Act (commonly known as Superfund), which can impose joint and several liability on each responsible party. Subsidiaries (and former subsidiaries) of Altria Group, Inc. are involved in several matters subjecting them to potential costs of remediation and natural resource damages under Superfund or other laws and regulations. Altria Group, Inc. s subsidiaries expect to continue to make capital and other expenditures in connection with environmental laws and regulations. Although it is not possible to predict precise levels of environmental-related expenditures, compliance with such laws and regulations, including the payment of any remediation costs or damages and the making of such expenditures, has not had, and is not expected to have, a material adverse effect on Altria Group, Inc. s consolidated results of operations, capital expenditures, financial position, earnings or competitive position.

Guarantees

At September 30, 2009, Altria Group, Inc. had a $12 million third-party guarantee, related to a divestiture, which was recorded as a liability on its condensed consolidated balance sheet. This guarantee has no specified expiration date. Altria Group, Inc. is required to perform under this guarantee in the event that a third party fails to make contractual payments. In the ordinary course of business, certain subsidiaries of Altria Group, Inc. have agreed to indemnify a limited number of third parties in the event of future litigation. At September 30, 2009, subsidiaries of Altria Group, Inc. were also contingently liable for $25 million of guarantees related to their own performance, consisting primarily of surety bonds. These items have not had, and are not expected to have, a significant impact on Altria Group, Inc. s liquidity.

Under the terms of a distribution agreement between Altria Group, Inc. and PMI, entered into as a result of the PMI spin-off, liabilities concerning tobacco products will be allocated based in substantial part on the manufacturer. PMI will indemnify Altria Group, Inc. and PM USA for liabilities related to tobacco products manufactured by PMI or contract manufactured for PMI by PM USA, and PM USA will indemnify

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PMI for liabilities related to tobacco products manufactured by PM USA, excluding tobacco products contract manufactured for PMI. Altria Group, Inc. does not have a related liability recorded on its condensed consolidated balance sheet at September 30, 2009 as the fair value of this indemnification is insignificant.

As more fully discussed in Note 16. *Condensed Consolidating Financial Information*, PM USA has issued guarantees relating to Altria Group, Inc. s obligations under its outstanding debt securities and borrowings under the Revolving Facility and its commercial paper program.

Redeemable Noncontrolling Interest

In September 2007, UST completed the acquisition of *Stag s Leap Wine Cellars* through one of its consolidated subsidiaries, Michelle-Antinori, LLC (Michelle-Antinori), in which UST holds an 85% ownership interest with a 15% noncontrolling interest held by Antinori California (Antinori). In connection with the acquisition of *Stag s Leap Wine Cellars*, UST entered into a put arrangement with Antinori. The put arrangement, as later amended, provides Antinori with the right to require UST to purchase its 15% ownership interest in Michelle-Antinori at a price equal to Antinori s initial investment of $27 million. The put arrangement becomes exercisable beginning September 11, 2010. As of September 30, 2009, the redemption value of the put arrangement did not exceed the noncontrolling interest balance. Therefore, no adjustment to the value of the redeemable noncontrolling interest was recognized in the condensed consolidated balance sheet for the put arrangement.

The noncontrolling interest put arrangement is accounted for as mandatorily redeemable securities because redemption is outside of the control of UST. As such, the redeemable noncontrolling interest is reported in the mezzanine equity section in the condensed consolidated balance sheet at September 30, 2009.

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Note 15. Recent Accounting Guidance Not Yet Adopted:

Effective for financial statements issued for fiscal years ending after December 15, 2009, FASB authoritative guidance will require Altria Group, Inc. to expand its disclosures for investments held by its employer defined benefit pension plans and other postretirement plans, with the purpose of providing additional information related to the inputs and valuation techniques used to develop the fair value measurements of plan assets. Additionally, this guidance will require disclosures on how investment allocation decisions are made, as well as significant concentrations of risk within plan assets. Altria Group, Inc. will amend its annual disclosures accordingly.

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Note 16. Condensed Consolidating Financial Information:

PM USA has issued guarantees relating to Altria Group, Inc. s obligations under its outstanding debt securities, borrowings under the Revolving Facility and amounts outstanding under its commercial paper program (the Guarantees). Pursuant to the Guarantees, PM USA fully and unconditionally guarantees, as primary obligor, the payment and performance of Altria Group, Inc. s obligations under the guaranteed debt instruments (the Obligations).

The Guarantees provide that PM USA fully and unconditionally guarantees the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of the Obligations. The liability of PM USA under the Guarantees is absolute and unconditional irrespective of: any lack of validity, enforceability or genuineness of any provision of any agreement or instrument relating thereto; any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to departure from any agreement or instrument relating thereto; any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of or consent to departure from any other guarantee, for all or any of the Obligations; or any other circumstance that might otherwise constitute a defense available to, or a discharge of, Altria Group, Inc. or PM USA.

The obligations of PM USA under the Guarantees are limited to the maximum amount as will, after giving effect to such maximum amount and all other contingent and fixed liabilities of PM USA that are relevant under Bankruptcy Law, the Uniform Fraudulent Conveyance Act, the Uniform Fraudulent Transfer Act or any similar federal or state law to the extent applicable to the Guarantees, result in PM USA s obligations under the Guarantees not constituting a fraudulent transfer or conveyance. For this purpose, Bankruptcy Law means Title 11, U.S. Code, or any similar federal or state law for the relief of debtors.

PM USA will be unconditionally released and discharged from its obligations under each of the Guarantees upon the earliest to occur of:

the date, if any, on which PM USA consolidates with or merges into Altria Group, Inc. or any successor;

the date, if any, on which Altria Group, Inc. or any successor consolidates with or merges into PM USA;

the payment in full of the Obligations pertaining to such Guarantee; or

the rating of Altria Group, Inc. s long-term senior unsecured debt by Standard & Poor s of A or higher.

At September 30, 2009, the respective principal wholly-owned subsidiaries of Altria Group, Inc. and PM USA were not limited by long-term debt or other agreements in their ability to pay cash dividends or make other distributions with respect to their common stock.

The following sets forth the condensed consolidating balance sheets as of September 30, 2009 and December 31, 2008, condensed consolidating statements of earnings for the nine months and three months ended September 30, 2009 and 2008, and condensed consolidating statements of cash flows for the nine months ended September 30, 2009 and 2008 for Altria Group, Inc., PM USA and Altria Group, Inc. s other subsidiaries that are not guarantors of Altria Group, Inc. s debt instruments (the Non-Guarantor Subsidiaries) (in millions of dollars). The financial information is based on Altria Group, Inc. s understanding of the SEC interpretation and application of Rule 3-10 of SEC Regulation S-X.

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

The financial information may not necessarily be indicative of results of operations or financial position had PM USA and Non-Guarantor Subsidiaries operated as independent entities. Altria Group, Inc. accounts for investments in these subsidiaries under the equity method of accounting.

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Balance Sheets

September 30, 2009

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
ASSETS					
Consumer products					
Cash and cash equivalents	$ 1,008	$ 1	$ 21	$ -	$ 1,030
Receivables, net	3	26	63		92
Inventories:					
Leaf tobacco		562	313		875
Other raw materials		143	39		182
Work in process		5	226		231
Finished product		221	253		474
		931	831		1,762
Due from Altria Group, Inc. and subsidiaries	651	3,057	983	(4,691)	
Deferred income taxes	58	1,313	130		1,501
Other current assets	326	51	246		623
Total current assets	2,046	5,379	2,274	(4,691)	5,008
Property, plant and equipment, at cost	2	4,809	1,316		6,127
Less accumulated depreciation	1	2,970	382		3,353
	1	1,839	934		2,774
Goodwill			4,998		4,998
Other intangible assets, net		275	11,867		12,142
Investment in SABMiller	4,962				4,962
Investment in consolidated subsidiaries	5,279			(5,279)	
Due from Altria Group, Inc. and subsidiaries	8,000			(8,000)	
Other assets	767	136	228		1,131
Total consumer products assets	21,055	7,629	20,301	(17,970)	31,015
Financial services					
Finance assets, net			4,836		4,836
Due from Altria Group, Inc. and subsidiaries			778	(778)	
Other assets			29		29

Total financial services assets			5,643	(778)	4,865
TOTAL ASSETS	$ 21,055	$ 7,629	$ 25,944	$ (18,748)	$ 35,880

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Balance Sheets (Continued)

September 30, 2009

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
LIABILITIES					
Consumer products					
Current portion of long-term debt	$ 775	$ -	$ -	$ -	$ 775
Accounts payable	8	167	137		312
Accrued liabilities:					
Marketing		368	10		378
Taxes, except income taxes		158	22		180
Employment costs	25	16	143		184
Settlement charges		3,270	4		3,274
Other	338	621	399		1,358
Dividends payable	709				709
Due to Altria Group, Inc. and subsidiaries	2,869	253	2,347	(5,469)	
Total current liabilities	4,724	4,853	3,062	(5,469)	7,170
Long-term debt	10,286		898		11,184
Deferred income taxes	1,552	162	2,450		4,164
Accrued pension costs	211	1	1,390		1,602
Accrued postretirement health care costs		1,526	842		2,368
Due to Altria Group, Inc. and subsidiaries			8,000	(8,000)	
Other liabilities	561	395	193		1,149
Total consumer products liabilities	17,334	6,937	16,835	(13,469)	27,637
Financial services					
Deferred income taxes			4,142		4,142
Other liabilities			346		346
Total financial services liabilities			4,488		4,488
Total liabilities	17,334	6,937	21,323	(13,469)	32,125
Contingencies					
Redeemable noncontrolling interest			32		32
STOCKHOLDERS EQUITY					

Common stock	935		9	(9)	935
Additional paid-in capital	6,081	408	6,349	(6,757)	6,081
Earnings reinvested in the business	22,581	597	(41)	(556)	22,581
Accumulated other comprehensive losses	(1,834)	(313)	(1,730)	2,043	(1,834)
	27,763	692	4,587	(5,279)	27,763
Less cost of repurchased stock	(24,042)				(24,042)
Total stockholders equity attributable to Altria Group, Inc.	3,721	692	4,587	(5,279)	3,721
Noncontrolling interests			2		2
Total stockholders equity	3,721	692	4,589	(5,279)	3,723
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 21,055	$ 7,629	$ 25,944	$ (18,748)	$ 35,880

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Balance Sheets

December 31, 2008

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
ASSETS					
Consumer products					
Cash and cash equivalents	$ 7,910	$ 1	$ 5	$ -	$ 7,916
Receivables, net	2	21	21		44
Inventories:					
Leaf tobacco		710	17		727
Other raw materials		139	6		145
Work in process		7	2		9
Finished product		184	4		188
		1,040	29		1,069
Due from Altria Group, Inc. and subsidiaries	293	3,078	466	(3,837)	
Deferred income taxes	58	1,574	58		1,690
Other current assets	192	82	83		357
Total current assets	8,455	5,796	662	(3,837)	11,076
Property, plant and equipment, at cost	2	4,792	550		5,344
Less accumulated depreciation	1	2,851	293		3,145
	1	1,941	257		2,199
Goodwill			77		77
Other intangible assets, net		283	2,756		3,039
Investment in SABMiller	4,261				4,261
Investment in consolidated subsidiaries	1,349			(1,349)	
Due from Altria Group, Inc. and subsidiaries	2,000			(2,000)	
Other assets	688	286	106		1,080
Total consumer products assets	16,754	8,306	3,858	(7,186)	21,732
Financial services					
Finance assets, net			5,451		5,451
Due from Altria Group, Inc. and subsidiaries			761	(761)	
Other assets			32		32

Total financial services assets			6,244	(761)	5,483
TOTAL ASSETS	$ 16,754	$ 8,306	$ 10,102	$ (7,947)	$ 27,215

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Balance Sheets (Continued)

December 31, 2008

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
LIABILITIES					
Consumer products					
Current portion of long-term debt	$ -	$ 135	$ -	$ -	$ 135
Accounts payable	72	282	156		510
Accrued liabilities:					
Marketing		373	1		374
Taxes, except income taxes		94	4		98
Employment costs	27	48	173		248
Settlement charges		3,984			3,984
Other	206	681	241		1,128
Dividends payable	665				665
Due to Altria Group, Inc. and subsidiaries	3,925	348	325	(4,598)	
Total current liabilities	4,895	5,945	900	(4,598)	7,142
Long-term debt	6,839				6,839
Deferred income taxes	1,295	(509)	(435)		351
Accrued pension costs	228	425	740		1,393
Accrued postretirement health care costs		1,700	508		2,208
Due to Altria Group, Inc. and subsidiaries			2,000	(2,000)	
Other liabilities	669	447	92		1,208
Total consumer products liabilities	13,926	8,008	3,805	(6,598)	19,141
Financial services					
Debt			500		500
Deferred income taxes			4,644		4,644
Other liabilities			102		102
Total financial services liabilities			5,246		5,246
Total liabilities	13,926	8,008	9,051	(6,598)	24,387
Contingencies					
STOCKHOLDERS EQUITY					
Common stock	935		9	(9)	935

Additional paid-in capital	6,350	412	1,938	(2,350)	6,350
Earnings reinvested in the business	22,131	1,215	(119)	(1,096)	22,131
Accumulated other comprehensive losses	(2,181)	(1,329)	(777)	2,106	(2,181)
	27,235	298	1,051	(1,349)	27,235
Less cost of repurchased stock	(24,407)				(24,407)
Total stockholders equity attributable to Altria Group, Inc.	2,828	298	1,051	(1,349)	2,828
Noncontrolling interests					
Total stockholders equity	2,828	298	1,051	(1,349)	2,828
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 16,754	$ 8,306	$ 10,102	$ (7,947)	$ 27,215

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Statements of Earnings

For the Nine Months Ended September 30, 2009

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net revenues	$ -	$ 15,549	$ 1,993	$ -	$ 17,542
Cost of sales		5,465	476		5,941
Excise taxes on products		4,631	187		4,818
Gross profit		5,453	1,330		6,783
Marketing, administration and research costs	243	1,608	355		2,206
Exit costs		86	213		299
Amortization of intangibles		8	8		16
Operating (expense) income	(243)	3,751	754		4,262
Interest and other debt expense (income), net	445	(3)	460		902
Earnings from equity investment in SABMiller	(442)				(442)
(Loss) earnings before income taxes and equity earnings of subsidiaries	(246)	3,754	294		3,802
(Benefit) provision for income taxes	(256)	1,497	79		1,320
Equity earnings of subsidiaries	2,472			(2,472)	
Net earnings	2,482	2,257	215	(2,472)	2,482
Net earnings attributable to noncontrolling interests			(1)		(1)
Net earnings attributable to Altria Group, Inc.	$ 2,482	$ 2,257	$ 214	$ (2,472)	$ 2,481

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Statements of Earnings

For the Nine Months Ended September 30, 2008

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net revenues	$ -	$ 14,233	$ 469	$ -	$ 14,702
Cost of sales		6,209	76		6,285
Excise taxes on products		2,533	45		2,578
Gross profit		5,491	348		5,839
Marketing, administration and research costs	133	1,766	161		2,060
Exit costs	74	44	176		294
(Gain) loss on sale of corporate headquarters building	(407)		3		(404)
Amortization of intangibles			5		5
Operating income	200	3,681	3		3,884
Interest and other debt expense (income), net	147	(249)	129		27
Loss on early extinguishment of debt	386		7		393
Earnings from equity investment in SABMiller	(344)				(344)
Earnings (loss) from continuing operations before income taxes and equity earnings of subsidiaries	11	3,930	(133)		3,808
(Benefit) provision for income taxes	(38)	1,466	(31)		1,397
Equity earnings of subsidiaries	4,202			(4,202)	
Earnings (loss) from continuing operations	4,251	2,464	(102)	(4,202)	2,411
Earnings from discontinued operations, net of income taxes			1,901		1,901
Net earnings	4,251	2,464	1,799	(4,202)	4,312
Net earnings attributable to noncontrolling interests			(61)		(61)
Net earnings attributable to Altria Group, Inc.	$ 4,251	$ 2,464	$ 1,738	$ (4,202)	$ 4,251

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Statements of Earnings

For the Three Months Ended September 30, 2009

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net revenues	$ -	$ 5,626	$ 674	$ -	$ 6,300
Cost of sales		1,862	171		2,033
Excise taxes on products		1,899	83		1,982
Gross profit		1,865	420		2,285
Marketing, administration and research costs	122	578	51		751
Exit costs		52	81		133
Amortization of intangibles		3	4		7
Operating (expense) income	(122)	1,232	284		1,394
Interest and other debt expense, net	128		151		279
Earnings from equity investment in SABMiller	(119)				(119)
(Loss) earnings before income taxes and equity earnings of subsidiaries	(131)	1,232	133		1,234
(Benefit) provision for income taxes	(188)	540			352
Equity earnings of subsidiaries	825			(825)	
Net earnings attributable to Altria Group, Inc.	$ 882	$ 692	$ 133	$ (825)	$ 882

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Statements of Earnings

For the Three Months Ended September 30, 2008

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net revenues	$ -	$ 5,084	$ 154	$ -	$ 5,238
Cost of sales		2,205	25		2,230
Excise taxes on products		883	14		897
Gross profit		1,996	115		2,111
Marketing, administration and research costs	44	639	80		763
Exit costs		15	2		17
Amortization of intangibles			2		2
Operating (expense) income	(44)	1,342	31		1,329
Interest and other debt expense (income), net	11	(12)	26		25
Earnings from equity investment in SABMiller	(54)				(54)
(Loss) earnings before income taxes and equity earnings of subsidiaries	(1)	1,354	5		1,358
(Benefit) provision for income taxes	(16)	499	8		491
Equity earnings of subsidiaries	852			(852)	
Net earnings (loss) attributable to Altria Group, Inc.	$ 867	$ 855	$ (3)	$ (852)	$ 867

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Statements of Cash Flows

For the Nine Months Ended September 30, 2009

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Net cash (used in) provided by operating activities	$ (187)	$ 2,249	$ (55)	$ -	$ 2,007
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES					
Consumer products					
Capital expenditures		(106)	(66)		(172)
Acquisition of UST LLC, net of acquired cash			(10,244)		(10,244)
Changes in amounts due to/from Altria Group, Inc. and subsidiaries	(6,000)		6,000		
Other		(5)	(42)		(47)
Financial services					
Investment in finance assets			(9)		(9)
Proceeds from finance assets			767		767
Net cash used in investing activities	(6,000)	(111)	(3,594)		(9,705)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES					
Consumer products					
Net repayment of short-term borrowings			(205)		(205)
Long-term debt issued	4,221				4,221
Long-term debt repaid		(135)	(240)		(375)
Financial services					
Long-term debt repaid			(500)		(500)
Dividends paid on Altria Group, Inc. common stock	(1,987)				(1,987)
Issuance of Altria Group, Inc. common stock	57				57
Financing fees and debt issuance costs	(132)				(132)
Changes in amounts due to/from Altria Group, Inc. and subsidiaries	(5,907)	983	4,924		
Cash dividends received from/(paid by) subsidiaries	3,011	(2,875)	(136)		
Other	22	(111)	(178)		(267)
Net cash (used in) provided by financing activities	(715)	(2,138)	3,665		812
Cash and cash equivalents:					
(Decrease) increase	(6,902)	-	16	-	(6,886)

Balance at beginning of period		7,910		1		5				7,916
Balance at end of period	$	1,008	$	1	$	21	$	-	$	1,030

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Statements of Cash Flows

For the Nine Months Ended September 30, 2008

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Net cash (used in) provided by operating activities, continuing operations	$ (541)	$ 2,731	$ 52	$ -	$ 2,242
Net cash provided by operating activities, discontinued operations			1,666		1,666
Net cash (used in) provided by operating activities	(541)	2,731	1,718	-	3,908
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES					
Consumer products					
Capital expenditures		(122)	(9)		(131)
Proceeds from sale of corporate headquarters building	525				525
Changes in amounts due to/from Altria Group, Inc. and subsidiaries	(7,558)	6,000	1,558		
Other		2	108		110
Financial services					
Proceeds from finance assets			389		389
Net cash (used in) provided by investing activities, continuing operations	(7,033)	5,880	2,046		893
Net cash used in investing activities, discontinued operations			(317)		(317)
Net cash (used in) provided by investing activities	(7,033)	5,880	1,729		576
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES					
Long-term debt repaid	(2,350)		(1,558)		(3,908)
Repurchase of Altria Group, Inc. common stock	(1,166)				(1,166)
Dividends paid on Altria Group, Inc. common stock	(3,767)				(3,767)
Issuance of Altria Group, Inc. common stock	79				79
Philip Morris International Inc. dividends paid to Altria Group, Inc.	3,019				3,019
Tender and consent fees related to the early extinguishment of debt	(368)		(3)		(371)
Changes in amounts due to/from Philip Morris International Inc.	(721)				(721)
Changes in amounts due to/from Altria Group, Inc. and subsidiaries	82	291	(373)		
Cash dividends received from/(paid by) subsidiaries	8,812	(8,765)	(47)		
Other	32	(138)	(121)		(227)
Net cash provided by (used in) financing activities, continuing operations	3,652	(8,612)	(2,102)		(7,062)
Net cash used in financing activities, discontinued operations			(1,648)		(1,648)
Net cash provided by (used in) financing activities	3,652	(8,612)	(3,750)		(8,710)

Effect of exchange rate changes on cash and cash equivalents:					
Discontinued operations			(126)		(126)
Cash and cash equivalents, continuing operations:					
Decrease	(3,922)	(1)	(4)	-	(3,927)
Balance at beginning of period	4,835	1	6		4,842
Balance at end of period	$ 913	$ -	$ 2	$ -	$ 915

Item 2.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Description of the Company

At September 30, 2009, Altria Group, Inc. s wholly-owned subsidiaries included Philip Morris USA Inc. (PM USA), which is engaged in the manufacture and sale of cigarettes and certain smokeless products in the United States; UST LLC (UST), which through its subsidiaries is engaged in the manufacture and sale of smokeless products and wine; and John Middleton Co. (Middleton), which is engaged in the manufacture and sale of machine-made large cigars and pipe tobacco. Philip Morris Capital Corporation (PMCC), another wholly-owned subsidiary, maintains a portfolio of leveraged and direct finance leases. In addition, Altria Group, Inc. held a 27.3% economic and voting interest in SABMiller plc (SABMiller) at September 30, 2009. Altria Group, Inc. s access to the operating cash flows of its subsidiaries consists principally of cash received from the payment of dividends by its subsidiaries.

As discussed in Note 2. *UST Acquisition* to the condensed consolidated financial statements (Note 2), on January 6, 2009, Altria Group, Inc. acquired all of the outstanding common stock of UST, whose direct and indirect wholly-owned subsidiaries include U.S. Smokeless Tobacco Company LLC (USSTC) and Ste. Michelle Wine Estates (Ste. Michelle). As a result of the acquisition, UST has become an indirect wholly-owned subsidiary of Altria Group, Inc.

Beginning with the first quarter of 2009, Altria Group, Inc. revised its reportable segments to reflect the change in the way in which Altria Group, Inc. s management reviews the business as a result of the acquisition of UST. At September 30, 2009, Altria Group, Inc. s reportable segments were cigarettes, smokeless products, cigars, wine, and financial services.

On March 28, 2008, Altria Group, Inc. distributed all of its interest in Philip Morris International Inc. (PMI) to Altria Group, Inc. s stockholders in a tax-free distribution. Altria Group, Inc. has reflected the results of PMI prior to the distribution date as discontinued operations on the condensed consolidated statements of earnings and the condensed consolidated statements of cash flows.

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Executive Summary

The following executive summary is intended to provide significant highlights of the Discussion and Analysis that follows.

During the first nine months of 2009, Altria Group, Inc. completed the acquisition of UST and substantially completed the integration of UST into Altria Group, Inc. s family of companies. During the same period, Altria Group, Inc. issued $4.2 billion of long-term notes and completed all long-term financing related to the acquisition of UST. In addition, as it continues to reduce cigarette infrastructure ahead of volume declines, on July 29, 2009, PM USA ceased production at its Cabarrus, North Carolina cigarette manufacturing facility and completed the consolidation of manufacturing capacity into its Richmond, Virginia facility.

Consolidated Operating Results for the Nine Months Ended September 30, 2009 The changes in Altria Group, Inc. s earnings from continuing operations and diluted earnings per share (EPS) from continuing operations attributable to Altria Group, Inc. for the nine months ended September 30, 2009, from the nine months ended September 30, 2008, were due primarily to the following (in millions, except per share data):

	Earnings from Continuing Operations	Diluted EPS from Continuing Operations
For the nine months ended September 30, 2008	$ 2,411	$ 1.15
2008 Exit, implementation and integration costs	223	0.10
2008 Gain on sale of corporate headquarters building	(263)	(0.12)
2008 Loss on early extinguishment of debt	256	0.12
2008 SABMiller special items	54	0.03
2008 Financing fees	3	
Subtotal 2008 items	273	0.13
2009 Exit, implementation and integration costs	(279)	(0.14)
2009 UST acquisition-related costs	(126)	(0.06)
2009 SABMiller special items	16	0.01
2009 Tax items	31	0.01
Subtotal 2009 items	(358)	(0.18)
Fewer shares outstanding		0.01
Operations	155	0.08
For the nine months ended September 30, 2009	$ 2,481	$ 1.19

See discussion of events affecting the comparability of statement of earnings amounts in the Consolidated Operating Results section of the following Discussion and Analysis.

Shares Outstanding Fewer shares outstanding during the nine months ended September 30, 2009 compared with the prior year period were due primarily to shares repurchased by Altria Group, Inc. during the second quarter of 2008 under its share repurchase program, which was suspended in January 2009.

Operations The increase of $155 million shown in the table above was due primarily to the following:

Acquisition of UST, which is reflected in the smokeless products and wine segments (see Note 2);

Higher income from cigarettes, financial services and cigars; and

Lower general corporate expenses;

partially offset by:

- Higher interest and other debt expense, net, due to the issuance of senior unsecured long-term notes in November and December 2008, and February 2009 to finance the acquisition of UST.

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Consolidated Operating Results for the Three Months Ended September 30, 2009 The changes in Altria Group, Inc. s net earnings and diluted EPS attributable to Altria Group, Inc. for the three months ended September 30, 2009, from the three months ended September 30, 2008, were due primarily to the following (in millions, except per share data):

	Net Earnings	Diluted EPS
For the three months ended September 30, 2008	$ 867	$ 0.42
2008 Exit, implementation and integration costs	27	0.01
2008 SABMiller special items	54	0.03
2008 Financing fees	3	
Subtotal 2008 items	84	0.04
2009 Exit, implementation and integration costs	(117)	(0.06)
2009 UST acquisition-related costs	(5)	
2009 SABMiller special items	(25)	(0.01)
2009 Tax items	31	0.01
Subtotal 2009 items	(116)	(0.06)
Operations	47	0.02
For the three months ended September 30, 2009	$ 882	$ 0.42

See discussion of events affecting the comparability of statement of earnings amounts in the Consolidated Operating Results section of the following Discussion and Analysis.

Operations The increase of $47 million shown in the table above was due primarily to the following:

- Acquisition of UST, which is reflected in the smokeless products and wine segments (see Note 2);
- Higher income from financial services, cigarettes and cigars;
- Lower general corporate expenses; and
- Higher equity earnings from SABMiller;

partially offset by:

- Higher interest and other debt expense, net, due to the issuance of senior unsecured long-term notes in November and December 2008, and February 2009 to finance the acquisition of UST.

For further details, see the Consolidated Operating Results and Operating Results by Business Segment sections of the following Discussion and Analysis.

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2009 Forecasted Results In October 2009, Altria Group, Inc. narrowed its 2009 full-year guidance for reported diluted EPS from continuing operations to a range of $1.53 to $1.56. Altria Group, Inc. previously forecasted that its 2009 full-year guidance for reported diluted EPS from continuing operations would be in the range of $1.51 to $1.56. This revised forecast includes estimated net charges of $0.21 per share as detailed in the table below, as compared with 2008 full-year reported diluted EPS from continuing operations of $1.48, which includes $0.17 per share of net charges as detailed in the table below. Altria Group, Inc. narrowed its 2009 full-year guidance for adjusted diluted EPS from continuing operations, which exclude the net charges in the table below, to a growth rate of 5% to 7% over 2008 full-year adjusted diluted EPS from continuing operations. The 2009 forecast reflects higher tobacco excise taxes, investment spending on smokeless tobacco brands, ongoing cost reduction initiatives, increased pension expenses and no share repurchases. The factors described in the *Cautionary Factors That May Affect Future Results* section of the following *Discussion and Analysis* represent continuing risks to this forecast.

Net Charges Included in Reported Diluted EPS from Continuing Operations

	2009	2008
Exit, integration and implementation costs	$ 0.17	$ 0.15
Gain on sale of corporate headquarters building		(0.12)
Loss on early extinguishment of debt		0.12
Tax items	(0.01)	(0.03)
UST acquisition-related costs	0.06	0.02
SABMiller special items	(0.01)	0.03
	$ 0.21	$ 0.17

Adjusted diluted EPS from continuing operations is a financial measure that is not consistent with accounting principles generally accepted in the United States of America (U.S. GAAP). Certain income and expense items that management believes are not part of underlying operations are excluded from adjusted diluted EPS because such items can obscure underlying business trends. Management believes it is appropriate to disclose this non-GAAP financial measure to help investors analyze underlying business performance and trends. This adjusted measure is regularly provided to management for use in the evaluation of segment performance and allocation of resources. This information should be considered as supplemental in nature and is not meant to be considered in isolation or as a substitute for the related financial information prepared in accordance with U.S. GAAP.

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Discussion and Analysis

Consolidated Operating Results

See pages 112-115 for a discussion of Cautionary Factors That May Affect Future Results.

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2009	2008	2009	2008
	(in millions)			
Net revenues:				
Cigarettes	$ 15,546	$ 14,233	$ 5,626	$ 5,084
Smokeless products	1,023		352	
Cigars	386	290	153	98
Wine	271		102	
Financial services	316	179	67	56
Net revenues	$ 17,542	$ 14,702	$ 6,300	$ 5,238
Excise taxes on products:				
Cigarettes	$ 4,631	$ 2,533	$ 1,899	$ 883
Smokeless products	62		26	
Cigars	114	45	54	14
Wine	11		3	
Excise taxes on products	$ 4,818	$ 2,578	$ 1,982	$ 897
Operating income:				
Operating companies income:				
Cigarettes	$ 3,902	$ 3,746	$ 1,333	$ 1,369
Smokeless products	302		127	
Cigars	139	128	49	37
Wine	22		12	
Financial services	260	97	57	(7)
Amortization of intangibles	(16)	(5)	(7)	(2)
Gain on sale of corporate headquarters building		404		
General corporate expenses	(138)	(236)	(35)	(66)
Reduction of Kraft Foods Inc. receivable	(88)		(88)	
UST transaction costs	(60)			
Corporate exit costs	(61)	(250)	(54)	(2)
Operating income	$ 4,262	$ 3,884	$ 1,394	$ 1,329

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As discussed in Note 12. *Segment Reporting* to the condensed consolidated financial statements, management reviews operating companies income, which is defined as operating income before general corporate expenses and amortization of intangibles, to evaluate segment performance and allocate resources. Management believes it is appropriate to disclose this measure to help investors analyze the business performance and trends of the various business segments.

The following events that occurred during the nine and three months ended September 30, 2009 and 2008, affected the comparability of statement of earnings amounts.

Acquisition of UST In January 2009, Altria Group, Inc. acquired UST, the results of which are reflected in the smokeless products and wine segments (see Note 2).

Exit, Implementation and Integration Costs Pre-tax exit, implementation and integration costs consisted of the following (in millions):

	For the Nine Months Ended September 30, 2009			
	Exit Costs	Implementation Costs	Integration Costs	Total
Cigarettes	$ 86	$ 94	$ -	$ 180
Smokeless products	146		33	179
Cigars			7	7
Wine	3		3	6
Financial services	3			3
General corporate	61			61
Total	$ 299	$ 94	$ 43	$ 436

	For the Nine Months Ended September 30, 2008			
	Exit Costs	Implementation Costs	Integration Costs	Total
Cigarettes	$ 44	$ 48	$ -	$ 92
Cigars			12	12
General corporate	250			250
Total	$ 294	$ 48	$ 12	$ 354

	For the Three Months Ended September 30, 2009			
	Exit Costs	Implementation Costs	Integration Costs	Total
Cigarettes	$ 52	$ 44	$ -	$ 96
Smokeless products	23		5	28
Wine	1		1	2
Financial services	3			3
General corporate	54			54
Total	$ 133	$ 44	$ 6	$ 183

	For the Three Months Ended September 30, 2008			
	Exit Costs	Implementation Costs	Integration Costs	Total
Cigarettes	$ 15	$ 16	$ -	$ 31
Cigars			9	9
General corporate	2			2
Total	$ 17	$ 16	$ 9	$ 42

For further details on exit, implementation and integration costs, see Note 3. *Exit, Implementation and Integration Costs* to the condensed consolidated financial statements (Note 3).

Altria Group, Inc. continues to have company-wide cost management programs, which include the restructuring programs discussed in Note 3. For the nine and three months ended September 30, 2009, Altria Group, Inc. achieved $241 million and $76 million, respectively, in cost savings for a total cost savings of $881 million since January 1, 2007. Altria Group, Inc. expects to achieve approximately $619 million in additional cost savings by 2011, for total anticipated cost reductions of $1.5 billion versus 2006, as shown in the table below.

	Cost Reduction Initiatives			
	Cost Savings Achieved			
	For the Years Ended December 31, 2007 and 2008	For the Nine Months Ended September 30, 2009	Additional Cost Savings Expected by 2011	Total Cost Savings Expected
	(in millions)			
Corporate expense and selling, general and administrative	$ 640	$ 241	$ 431	$ 1,312
Manufacturing optimization program			188	188
Total cost reduction initiatives	$ 640	$ 241	$ 619	$ 1,500

Altria Group, Inc. expects to generate an estimated $300 million in UST integration cost savings by 2011. These integration cost savings are included in the Corporate expense and selling, general and administrative line item above.

PM USA s manufacturing optimization program, as discussed in Note 3, is expected to entail capital expenditures of approximately $230 million. Capital expenditures for the program of $64 million and $12 million were made during the nine months and three months ended September 30, 2009, respectively, for a total of $185 million since the inception of the program in 2007.

UST Acquisition-Related Costs In connection with the acquisition of UST, Altria Group, Inc. incurred pre-tax charges consisting of the following:

- Transaction costs of $60 million, incurred in the first quarter of 2009, which consisted primarily of investment banking and legal fees. These amounts are included in marketing, administration and research costs on Altria Group, Inc. s condensed consolidated statements of earnings.

- Increased cost of sales as shown in the table below, relating to the fair value purchase accounting adjustment of UST s inventory at the acquisition date that was sold during the periods:

	For the Nine Months Ended September 30, 2009	For the Three Months Ended September 30, 2009
	(in millions)	
Smokeless products	$ 14	$ 1
Wine	15	5
Total	$ 29	$ 6

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- ¡ Structuring and arrangement fees of $87 million incurred in the first quarter of 2009, for borrowings under a 364-day term bridge loan facility (the Bridge Facility), which was terminated in February 2009, upon the issuance of $4.2 billion of senior unsecured long-term notes. These amounts are included in interest and other debt expense, net on Altria Group, Inc. s condensed consolidated statements of earnings.

SABMiller Special Items Altria Group, Inc. s earnings from its equity investment in SABMiller for the nine months ended September 30, 2009 included gains on the issuance of 60 million shares of common stock by SABMiller in connection with its acquisition of the remaining noncontrolling interest in its Polish subsidiary, partially offset by intangible asset impairment charges and costs for SABMiller s business change programs.

Altria Group, Inc. s earnings from its equity investment in SABMiller for the three months ended September 30, 2009 included costs for the business change programs mentioned above. Altria Group, Inc. s earnings from its equity investment in SABMiller for the nine and three months ended September 30, 2008 included intangible asset impairment charges.

Income Taxes The income tax rate of 34.7% and 28.5% for the nine months and three months ended September 30, 2009, respectively was impacted by lower state taxes and the reversal of tax reserves and associated interest resulting from the execution of a closing agreement with the Internal Revenue Service (IRS) discussed in Note 13. *Income Taxes* (Note 13) to the condensed consolidated financial statements. The income tax rate for the nine months ended September 30, 2009 was further impacted by certain costs incurred in the first quarter of 2009 related to the acquisition of UST that are not deductible for tax purposes.

The benefit from the execution of the closing agreement with the IRS was offset by a reduction in a corresponding receivable from Kraft Foods Inc. (Kraft), included in marketing, administration and research costs on Altria Group, Inc. s condensed consolidated statement of earnings. As a result, there was no impact on Altria Group, Inc. s net earnings.

Sales to PMI Subsequent to the PMI spin-off, during the nine months and three months ended September 30, 2008, PM USA recorded net revenues of $207 million and $97 million, respectively, from contract volume manufactured for PMI under an agreement that terminated in the fourth quarter of 2008. For periods prior to the PMI spin-off, PM USA did not record contract volume manufactured for PMI in net revenues, but recorded the related profit, which was immaterial, for the nine months ended September 30, 2008, in marketing, administration and research costs on Altria Group, Inc. s condensed consolidated statement of earnings. These amounts are reflected in the cigarettes segment.

Gain on Sale of Corporate Headquarters Building In March 2008, Altria Group, Inc. sold its corporate headquarters building in New York City for $525 million and recorded a pre-tax gain on sale of $404 million.

Loss on Early Extinguishment of Debt In connection with the spin-off of PMI, in the first quarter of 2008, Altria Group, Inc. recorded a pre-tax loss of $393 million on the early extinguishment of debt. See Note 8. *Debt* to the condensed consolidated financial statements (Note 8) for further details.

PMCC Allowance for Losses During the second quarter of 2009, PMCC increased its allowance for losses by $15 million as a result of assessing its portfolio, including its exposure to Motors Liquidation Company, formerly known as General Motors Corporation (GM). PMCC increased its allowance for losses by $50 million, during the third quarter of 2008, as a result of credit rating downgrades of certain lessees and financial market conditions.

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Consolidated Results of Operations for the Nine Months Ended September 30, 2009

The following discussion compares consolidated operating results for the nine months ended September 30, 2009, with the nine months ended September 30, 2008.

Net revenues, which include excise taxes billed to customers, increased $2,840 million (19.3%), due primarily to higher revenues from the cigarettes, financial services and cigars segments, and the acquisition of UST. Cigarettes and cigars revenues increased, reflecting higher pricing related primarily to the federal excise tax (FET) increase, partially offset by lower volume. In addition, 2008 net revenues included contract volume manufactured for PMI under an agreement that terminated in the fourth quarter of 2008.

Excise taxes on products increased $2,240 million (86.9%), due primarily to the impact of the April 1, 2009 FET increase and the acquisition of UST, partially offset by lower volume in the cigarettes segment.

Cost of sales decreased $344 million (5.5%), due primarily to lower cigarettes volume and the termination of contract volume manufactured for PMI, partially offset by the acquisition of UST and higher direct material and manufacturing costs.

Marketing, administration and research costs increased $146 million (7.1%), due primarily to the acquisition of UST (including transaction and integration costs) and the reduction of a Kraft receivable as discussed in Note 13, partially offset by lower marketing, administration and research costs in the cigarettes segment and lower general corporate expenses, which reflect the cost reduction initiatives discussed above.

Operating income increased $378 million (9.7%), due primarily to higher operating results from the cigarettes, financial services and cigars segments, operating results from UST in 2009, lower corporate exit costs and lower general corporate expenses, partially offset by the 2008 gain on the sale of the corporate headquarters building, UST acquisition-related transaction costs and the reduction of a Kraft receivable.

Interest and other debt expense, net, increased $875 million (100+%), due primarily to the issuance of senior unsecured long-term notes in November and December 2008, and February 2009 to finance the UST acquisition.

Earnings from Altria Group, Inc. s equity investment in SABMiller increased $98 million (28.5%), due primarily to gains resulting from the issuances of common stock by SABMiller, partially offset by higher intangible asset impairment charges and costs for the previously mentioned business change programs in 2009.

Altria Group, Inc. s income tax rate decreased 2.0 percentage points to 34.7%, due to lower state taxes and the reversal of tax reserves and associated interest resulting from the execution of a closing agreement with the IRS resolving certain Kraft tax matters arising out of the 2000 to 2003 IRS audit of Altria Group, Inc., partially offset by certain costs incurred in the first quarter of 2009 related to the acquisition of UST that are not deductible for tax purposes.

Earnings from continuing operations of $2,482 million increased $71 million (2.9%), due primarily to higher operating income, the 2008 loss on early extinguishment of debt, higher earnings from Altria Group, Inc. s equity investment in SABMiller and lower income taxes, partially offset by higher interest expense. Diluted and basic EPS from continuing operations of $1.19 and $1.20, respectively, increased by 3.5% and 3.4%, respectively.

Earnings from discontinued operations decreased $1,901 million, reflecting the spin-off of PMI in the first quarter of 2008.

Net earnings attributable to Altria Group, Inc. of $2,481 million decreased $1,770 million (41.6%). Diluted and basic EPS from net earnings attributable to Altria Group, Inc. of $1.19 and $1.20, respectively, decreased by 41.4% and 41.2%, respectively. These decreases reflect the spin-off of PMI in the first quarter of 2008.

Consolidated Results of Operations for the Three Months Ended September 30, 2009

The following discussion compares consolidated operating results for the three months ended September 30, 2009, with the three months ended September 30, 2008.

Net revenues, which include excise taxes billed to customers, increased $1,062 million (20.3%), due primarily to higher revenues from the cigarettes, cigars and financial services segments, and the acquisition of UST. Cigarettes and cigars revenues increased, reflecting higher pricing related primarily to the FET increase, partially offset by lower cigarettes volume. In addition, 2008 net revenues included revenues from contract volume manufactured for PMI under an agreement that terminated in the fourth quarter of 2008.

Excise taxes on products increased $1,085 million (100+%), due primarily to the impact of the April 1, 2009 FET increase and the acquisition of UST, partially offset by lower volume in the cigarettes segment.

Cost of sales decreased $197 million (8.8%), due primarily to lower cigarettes volume and the termination of contract volume manufactured for PMI, partially offset by the acquisition of UST.

Marketing, administration and research costs decreased $12 million (1.6%), due primarily to lower marketing, administration and research costs in the cigarettes segment and lower general corporate expenses, partially offset by the acquisition of UST (including integration costs) and the reduction of a Kraft receivable as discussed in Note 13. The lower costs reflect the cost reduction initiatives discussed above.

Operating income increased $65 million (4.9%), due primarily to operating results from UST in 2009, higher operating results from the financial services and cigars segments, and lower general corporate expenses, partially offset by the reduction of a Kraft receivable, higher corporate exit costs and lower operating results from cigarettes.

Interest and other debt expense, net, increased $254 million (100+%), due primarily to the issuance of senior unsecured long-term notes in November and December 2008, and February 2009 to finance the UST acquisition.

Earnings from Altria Group, Inc. s equity investment in SABMiller increased $65 million (100+%), due primarily to pre-tax intangible asset impairment charges during the three months ended September 30, 2008, partially offset by costs for the previously mentioned business change programs in 2009.

Altria Group, Inc. s income tax rate decreased 7.7 percentage points to 28.5%, due to lower state taxes and the reversal of tax reserves and associated interest resulting from the execution of a closing agreement with the IRS resolving certain Kraft tax matters arising out of the 2000 to 2003 IRS audit of Altria Group, Inc.

Net earnings attributable to Altria Group, Inc. of $882 million increased $15 million (1.7%), due primarily to higher operating income, higher earnings from Altria Group, Inc. s equity investment in SABMiller and lower income taxes, partially offset by higher interest expense. Diluted EPS from net earnings attributable to Altria Group, Inc. of $0.42 remained unchanged. Basic EPS from net earnings attributable to Altria Group, Inc. of $0.43 increased by 2.4%.

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Operating Results by Business Segment

Tobacco Space

Business Environment

Taxes, Legislation, Regulation and Other Matters Regarding Tobacco and Tobacco Use

The United States tobacco industry faces a number of challenges that may adversely affect the business and sales volume of our tobacco subsidiaries and our consolidated results of operations, cash flows and financial position. These challenges, which are discussed below and in *Cautionary Factors That May Affect Future Results,* include:

- pending and threatened litigation and bonding requirements as discussed in Note 14. *Contingencies* to the condensed consolidated financial statements (Note 14);

- competitive disadvantages related to cigarette price increases attributable to the settlement of certain litigation;

- actual and proposed excise tax increases as well as changes in tax structures and tax stamping requirements;

- restrictions imposed by the Family Smoking Prevention and Tobacco Control Act enacted in June 2009, and restrictions that may be imposed by the United States Food and Drug Administration (FDA) under this legislation and other actual and proposed restrictions affecting tobacco product manufacturing, design, packaging, marketing, advertising and sales;

- the sale of counterfeit tobacco products by third parties;

- the sale of tobacco products by third parties over the Internet and by other means designed to avoid the collection of applicable taxes;

- price gaps and changes in price gaps between premium and lowest price brands;

- diversion into one market of products intended for sale in another;

- the potential assertion of claims and other issues relating to contraband shipments of tobacco products;

- governmental investigations;

- governmental and private bans and restrictions on tobacco use;

- governmental restrictions on the sale of tobacco products by certain retail establishments and the sale of tobacco products in certain packing sizes;

the diminishing prevalence of cigarette smoking and increased efforts by tobacco control advocates to further restrict tobacco use;

governmental requirements setting ignition propensity standards for cigarettes;

potential adverse changes in tobacco price, availability and quality; and

other actual and proposed tobacco product legislation and regulation.

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In the ordinary course of business, our tobacco subsidiaries are subject to many influences that can impact the timing of sales to customers, including the timing of holidays and other annual or special events, the timing of promotions, customer incentive programs and customer inventory programs, as well as the actual or speculated timing of pricing actions and tax-driven price increases.

Excise Taxes: Tobacco products are subject to substantial excise taxes in the United States. Significant increases in tobacco-related taxes or fees have been proposed or enacted and are likely to continue to be proposed or enacted at the federal, state and local levels within the United States.

In April 2009, the FET on cigarettes increased from 39 cents per pack to approximately $1.01 per pack; on snuff from 58.5 cents per pound to $1.51 per pound; and on large cigars from 20.72% of the manufacturer s price (capped at 4.875 cents per cigar) to 52.75% of the manufacturer s price (capped at 40.26 cents per cigar). The legislation enacting this FET increase included a floor stock tax provision on tobacco products other than large cigars.

State and local excise taxes have increased substantially over the past decade, far outpacing the rate of inflation. For example, between the end of 1998 and the end of 2008, the weighted year-end average state and certain local cigarette excise taxes increased from $0.36 to $1.12 per pack. The estimated weighted average cigarette state excise tax as of September 30, 2009, was $1.24 per pack. As of October 26, 2009, fourteen states, Washington, D.C. and Puerto Rico have enacted cigarette excise tax increases in 2009, which, when implemented, will increase the weighted average state excise tax to $1.26 per pack. State and local excise taxes on smokeless tobacco products and cigars have likewise increased over the past years.

Tax increases are expected to continue to have an adverse impact on sales of tobacco products by our tobacco subsidiaries, due to lower consumption levels and to a potential shift in consumer purchases from the premium to the non-premium or discount segments or to other low-priced or low-taxed tobacco products or to counterfeit and contraband products.

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. This *ad valorem* method results in more tax being paid on premium products than is paid on lower-priced products of equal weight. Altria Group, Inc. s subsidiaries support legislation to convert *ad valorem* taxes on moist smokeless tobacco to a weight-based methodology because, unlike the *ad valorem* tax, a weight-based tax results in cans of equal weight paying the same tax. As of October 26, 2009, eighteen states and Washington, D.C. have adopted a weight-based tax methodology for moist smokeless tobacco.

FDA Regulation: In June 2009, the President signed into law legislation that provides the FDA with broad authority to regulate the design, manufacture, packaging, advertising, promotion, sale and distribution of cigarettes, cigarette tobacco and smokeless tobacco products and disclosures of related information. The law also grants the FDA authority to extend the application of this law, by regulation, to other tobacco products, including cigars. Among other measures, this law:

- provides the FDA with authority to regulate nicotine yields and to reduce or eliminate harmful smoke constituents or harmful ingredients or other components of tobacco products;
- bans descriptors such as light and low tar, unless expressly authorized by the FDA;
- requires extensive ingredient disclosure to the FDA and may require more limited public ingredient disclosure;
- requires FDA authorization of any express or implied claims that a tobacco product is or may be less harmful than other tobacco products;
- prohibits cigarettes with characterizing flavors other than menthol and tobacco (PM USA currently does not manufacture or market cigarettes with a characterizing flavor other than

menthol or tobacco; the law requires an FDA scientific advisory committee to study the impact of the use of menthol in cigarettes on the public health);

authorizes regulations for imposing manufacturing standards for tobacco products and provides the FDA authority to inspect tobacco product manufacturing and other facilities;

establishes a framework for prior FDA authorization before the introduction of certain new or modified tobacco products;

provides the FDA the authority to impose product standards that are appropriate for the protection of the public health through a regulatory process including, among other possibilities, restrictions on ingredients, constituents or other properties, performance or design criteria and testing, measurement and reporting requirements;

imposes new restrictions on the sale and distribution of tobacco products; and

changes the language of the current cigarette and smokeless tobacco product health warnings, enlarges their size, requires the development by the FDA of graphic warnings for cigarette packages, and grants the FDA authority to require new warnings.

This law imposes on manufacturers reporting obligations relating to knowledge of suspected contraband activity and also grants the FDA the authority to impose certain other recordkeeping and reporting obligations to address counterfeit and contraband tobacco products.

The law imposes fees on tobacco product manufacturers and importers to pay for the cost of regulation and other matters. The cost of the FDA user fee is allocated first among tobacco product categories subject to FDA regulation according to a formula set out in the legislation, and then among manufacturers within each respective class based on their relative market share. The anticipated impact of the user fee on Altria Group, Inc. is discussed in *Debt and Liquidity*. In addition, compliance with the law s regulatory requirements will result in additional costs for our tobacco businesses. The amount of those additional compliance and related costs is unknown and depends substantially on the nature of the requirements imposed by the FDA under the new statute. Those compliance and other related costs, however, could be substantial.

This law imposes significant new restrictions on the advertising and promotion of tobacco products. For example, subject to further amendment by the FDA and constitutional or other legal challenge, the statute requires the re-promulgation by the FDA of certain advertising and promotion restrictions that were previously adopted by the FDA in 1996 (these previous restrictions were never imposed on tobacco product manufacturers due to successful litigation challenges). These 1996 regulations extended significantly beyond the restrictions agreed upon by participating manufacturers in connection with the state settlement agreements discussed below.

The implementation of this law will take place over time. Some provisions took effect when the President signed the bill into law. Others, however, will not take effect for some time. Several areas require the FDA to take action through rulemaking, which generally involves consideration of public comment and, for some issues, scientific review.

Since enactment, several lawsuits have been filed challenging various provisions of the law, including its constitutionality and the scope of FDA s authority thereunder. Altria Group, Inc. and its tobacco subsidiaries and affiliates are not parties to any of these lawsuits. It is not possible to predict the outcome of any such litigation or its effect on the extent of the FDA s authority to regulate tobacco products.

Regulations imposed by the FDA could adversely impact the business and sales volume of Altria Group, Inc. s tobacco businesses in a number of different ways. For example, FDA s regulatory actions could impact the consumer acceptability of tobacco products, delay or prevent the launch of new or modified tobacco products, limit consumer choices, restrict communications to adult consumers, create a competitive advantage

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or disadvantage for certain tobacco companies, impose additional manufacturing requirements, or otherwise significantly increase the cost of doing business.

FDA regulation, including the failure to comply with FDA regulatory requirements, even by inadvertence, could have a material adverse effect on the business, financial condition and results of operation of Altria Group, Inc. and its subsidiaries.

The World Health Organization s (WHO s) Framework Convention on Tobacco Control (the FCTC): The FCTC entered into force in February 2005. As of October 26, 2009, 167 countries, as well as the European Community, have become parties to the FCTC. 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. The FCTC is the first international public health treaty and its objective is to establish a global agenda for tobacco regulation with the purpose of reducing initiation of tobacco use and encouraging cessation. 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 that would eliminate tobacco product smuggling and counterfeit tobacco products;
- restrict smoking in public places;
- implement fiscal policies (tax and price increases);
- adopt and implement measures that ensure that descriptive terms do not create the false impression that one brand of tobacco product is safer than another;
- phase out duty-free tobacco product sales;
- encourage litigation against tobacco product manufacturers; and
- adopt and implement guidelines for testing and measuring the contents and emissions of tobacco products.

In addition, there are a number of proposals currently under consideration by the governing body of the FCTC, some of which call for substantial restrictions on the manufacture and marketing of tobacco products. It is not possible to predict the outcome of the measures under consideration or the impact of any such measures or FCTC recommendations or requirements on legislation or regulation in the United States, whether or not the United States becomes a party to the FCTC, though FCTC action could influence the FDA as it implements and enforces its statutory authority.

State and Local Laws Addressing Certain Characterizing Flavors: In a number of states and localities, legislation has been enacted or proposed that prohibits or would prohibit the sale of certain tobacco products with certain characterizing flavors. The legislation varies in terms of the type of tobacco products subject to prohibition, the conditions under which the sale of such products is or would be prohibited, and exceptions to

the prohibitions. To date, Maine and New Jersey are the only states in which such a prohibition has been enacted. The provisions of the Maine law, which affect cigarette and cigar products, took effect in July 2009, and covered products may be granted exemptions under that state s law. The New Jersey law became effective in January 2009; it prohibits the sale or marketing of cigarettes with characterizing flavors other than tobacco, menthol and clove. PM USA does not currently manufacture or market cigarettes with a characterizing flavor other than menthol or tobacco, which are permitted under the Maine and New Jersey laws (as well as the FDA legislation referenced above). Middleton submitted filings for certain brand styles in Maine stating that those brand styles are not subject to the state s prohibition, and the Attorney General of Maine has confirmed that none of those brand styles is subject to the prohibition.

On October 14, 2009, the New York City Council passed legislation prohibiting the retail sale in New York City of tobacco products with characterizing flavors other than tobacco, menthol, wintergreen or mint. The mayor is expected to sign the legislation, which would then become effective 120 days after signature. USSTC and JMC are assessing the impact of this legislation on their businesses.

Whether other states or localities will enact legislation in this area, and the precise nature of such legislation if enacted, cannot be predicted.

Tar and Nicotine Test Methods and Brand Descriptors: In the past, a number of public health organizations determined that the existing standardized machine-based methods for measuring tar and nicotine yields in cigarettes did not provide useful information about tar and nicotine deliveries and that such results were misleading to smokers. For example, in the 2001 publication of Monograph 13, the United States National Cancer Institute (NCI) concluded that measurements based on the Federal Trade Commission (FTC) standardized method do not offer smokers meaningful information on the amount of tar and nicotine they will receive from a cigarette or on the relative amounts of tar and nicotine exposure likely to be received from smoking different brands of cigarettes. Thereafter, the FTC stated that it would work with the NCI to determine what changes should be made to its testing method to correct the limitations identified in Monograph 13. In 2002, PM USA petitioned the FTC to promulgate new rules governing the use of existing standardized machine-based methodologies for measuring tar and nicotine yields and descriptors. That petition remains pending. In November 2008, the FTC issued a notice rescinding its 1966 guidance that set forth the FTC s former position that it is generally not a violation of the Federal Trade Commission Act to make factual statements of the tar and nicotine yields of cigarettes when statements of such yields are supported by the FTC s standardized measurement method.

In addition, the WHO has concluded that these standardized measurements are seriously flawed and that measurements based upon the current standardized methodology are misleading and should not be displayed. The International Organization for Standardization (ISO) established a working group, chaired by the WHO, to propose a new measurement method that would more accurately reflect human smoking behavior. PM USA has supported the concept of supplementing the ISO test method with a more intensive method, which PM USA believes would better illustrate the wide variability in the delivery of tar, nicotine and carbon monoxide, depending on how an individual smokes a cigarette. The working group issued a final report proposing two alternative measurement methods. One of the methods was approved by ISO, and a working group has been established to develop and implement the method as an ISO standard.

In light of public health concerns about the limitations of current machine measurement methodologies, governments and public health organizations have increasingly challenged the use of cigarette descriptors such as light, mild, and low tar that are based in part o measurements produced by those methods. For example, as noted above, the FDA law bans descriptors such as light and low tar (unless expressly authorized by the FDA). In addition, as discussed in Note 14, in May 2009, the United States Court of Appeals for the District of Columbia Circuit largely affirmed the judgment of a federal trial court in favor of the United States government in its lawsuit against various cigarette manufacturers and others, including PM USA and Altria Group, Inc., including that portion of the judgment that enjoined the defendants from using brand descriptors such as lights, ultra lights and low tar (except to the extent such injunction applied extraterritorially).

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Tobacco Quota Buy-Out: In October 2004, the Fair and Equitable Tobacco Reform Act of 2004 (FETRA) was signed into law. FETRA eliminated the federal tobacco quota and price support program through an industry-funded buy-out of tobacco growers and quota holders. The cost of the buy-out is approximately $9.5 billion and is being paid over 10 years by manufacturers and importers of each kind of tobacco product. The cost is being allocated based on the relative market shares of manufacturers and importers of each kind of tobacco product. The quota buy-out payments will offset already scheduled payments to the National Tobacco Grower Settlement Trust (the NTGST), a trust fund established in 1999 by the major domestic tobacco product manufacturers to provide aid to tobacco growers and quota holders. For a discussion of the impact of FETRA payments on Altria Group, Inc., see *Debt and Liquidity.* For a discussion of the NTGST, see Note 14. Manufacturers and importers of tobacco products were also obligated to cover any losses (up to $500 million) that the government incurred on the disposition of the tobacco pool stock accumulated under the previous tobacco price support program, which disposition is complete. PM USA, Middleton and UST s subsidiary, U.S. Smokeless Tobacco Company (USSTC), are subject to the requirements of FETRA. We do not anticipate that the quota buy-out will have a material adverse impact on our consolidated results in 2009 and beyond.

Health Effects of Tobacco Consumption and Exposure to Environmental Tobacco Smoke (ETS): It is the policy of Altria Group, Inc. and its tobacco subsidiaries to defer to the judgment of public health authorities as to the content of warnings in advertisements and on product packaging regarding the health effects of tobacco consumption, addiction and exposure to ETS. Altria Group, Inc. and its tobacco subsidiaries believe that the public should be guided by the messages of the United States Surgeon General and public health authorities worldwide in making decisions concerning the use of tobacco products. PM USA and Middleton have established websites that include, among other things, the views of public health authorities on tobacco consumption, disease causation in tobacco consumers, addiction and ETS. These sites advise tobacco consumers and those considering tobacco consumption to rely on the messages of public health authorities in making all tobacco-related decisions. In connection with its integration into the Altria Group, Inc. family of companies, USSTC has established a website with comparable information.

Reports with respect to the health effects of cigarette smoking have been publicized for many years, including in a June 2006 United States Surgeon General report on ETS entitled The Health Consequences of Involuntary Exposure to Tobacco Smoke. Many jurisdictions within the United States have restricted smoking in public places. The pace and scope of public smoking bans have increased significantly. Some public health groups have called for, and various jurisdictions have adopted or proposed, bans on smoking in outdoor places, in private apartments and in cars with minors in them. It is not possible to predict the results of ongoing scientific research or the types of future scientific research into the health risks of tobacco exposure.

Reduced Cigarette Ignition Propensity Legislation: Legislation or regulation requiring cigarettes to meet reduced ignition propensity standards (first adopted by New York state in 2004) has been adopted in all states except Wyoming. Once implemented, these ignition propensity standards will cover nearly all of PM USA cigarette volume. PM USA has converted substantially all cigarette production to cigarettes meeting reduced ignition propensity standards and plans to complete such conversion by the end of 2009.

PM USA continues to support the enactment of federal legislation mandating a uniform and technically feasible national standard for reduced ignition propensity cigarettes that would preempt state standards that are different from the federal standard.

Illicit Trade: Altria Group, Inc. and its tobacco subsidiaries support appropriate regulations and enforcement measures to prevent illicit trade in tobacco products. For example, PM USA is engaged in a number of initiatives to help prevent contraband trade in cigarettes, including: enforcement of PM USA wholesale and retail trade policies on trade in contraband cigarettes and Internet/remote sales; engagement with and support of law enforcement and regulatory agencies; litigation to protect the company s trademarks; and support for a variety of federal and state legislative initiatives. PM USA s legislative initiatives to address contraband trade in cigarettes are designed to protect the legitimate channels of distribution, impose more stringent penalties for the violation of illegal trade laws and provide additional tools for law enforcement. Regulatory measures and

related governmental actions to prevent the illicit manufacture and trade of tobacco products are being considered by a number of jurisdictions. For example, one bill that the United States House of Representatives has passed in 2009 would address illegal Internet sales by, among other things, imposing a series of restrictions and requirements on the delivery and sale of such products and would make such products non-mailable to consumers through the United States Postal Service.

State Settlement Agreements: As discussed in Note 14, during 1997 and 1998, PM USA and other major domestic tobacco product manufacturers entered into agreements with states and various United States jurisdictions settling asserted and unasserted health care cost recovery and other claims (collectively, the State Settlement Agreements). These settlements require participating manufacturers to make substantial annual payments. For a discussion of the impact of these payments on Altria Group, Inc., see *Debt and Liquidity*. The settlements also place numerous restrictions on participating manufacturers business operations, including prohibitions and restrictions on the advertising and marketing of cigarettes and smokeless tobacco products. Among these are prohibitions of outdoor and transit brand advertising, payments for product placement, and free sampling (except in adult-only facilities). Restrictions are also placed on the use of brand name sponsorships and brand name non-tobacco products. The State Settlement Agreements also place prohibitions on targeting youth and the use of cartoon characters. In addition, the State Settlement Agreements require companies to affirm corporate principles directed at reducing underage use of cigarettes; impose requirements regarding lobbying activities; mandate public disclosure of certain industry documents; limit the industry s ability to challenge certain tobacco control and underage use laws; and provide for the dissolution of certain tobacco-related organizations and place restrictions on the establishment of any replacement organizations.

In November 1998, USSTC entered into the Smokeless Tobacco Master Settlement Agreement (the STMSA) with the attorneys general of various states and United States territories to resolve the remaining health care cost reimbursement cases initiated against USSTC. The STMSA required USSTC to adopt various marketing and advertising restrictions and make certain payments over a minimum of ten years for programs to reduce youth consumption of tobacco and combat youth substance abuse and for enforcement purposes. USSTC is the only smokeless tobacco manufacturer to sign the STMSA.

Other Legislation or Governmental Initiatives: In addition to the actions discussed above, other regulatory initiatives affecting the tobacco industry have been adopted or are being considered at the federal level and in a number of state and local jurisdictions. For example, in recent years, legislation has been introduced or enacted at the state or local level to subject tobacco products to various reporting requirements and performance standards; establish educational campaigns relating to tobacco consumption or tobacco control programs, or provide additional funding for governmental tobacco control activities; restrict the sale of tobacco products in certain retail establishments and the sale of tobacco products in certain packing sizes; require tax stamping of moist smokeless tobacco products; require the use of state tax stamps using data encryption technology; and further restrict the sale, marketing and advertising of cigarettes and other tobacco products.

It is not possible to predict what, if any, additional legislation, regulation or other governmental action will be enacted or implemented relating to the manufacturing, design, packaging, marketing, advertising, sale or use of tobacco products, or the tobacco industry generally. It is possible, however, that legislation, regulation or other governmental action could be enacted or implemented in the United States that might materially adversely affect the business and volume of our tobacco subsidiaries and our consolidated results of operations and cash flows.

Governmental Investigations: From time to time, Altria Group, Inc. and its subsidiaries are subject to governmental investigations on a range of matters. Altria Group, Inc. and its subsidiaries cannot predict whether new investigations may be commenced.

Tobacco Price, Availability and Quality: Shifts in crops driven by economic conditions and adverse weather patterns, government mandated prices and production control programs may increase or decrease the cost or reduce the quality of tobacco and other agricultural products used to manufacture our products. As with other

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agriculture commodities, the price of tobacco leaf can be influenced by economic conditions and imbalances in supply and demand and crop quality and availability can be influenced by variations in weather patterns. Tobacco production in certain countries is subject to a variety of controls, including governmental mandated prices and production control programs. Changes in the patterns of demand for agricultural products and the cost of tobacco production could cause tobacco leaf prices to increase and could result in farmers growing less tobacco. Any significant change in the price of tobacco leaf, quality and availability could affect our tobacco subsidiaries profitability and business.

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Operating Results Nine Months Ended September 30, 2009

The following discussion compares tobacco space operating results for the nine months ended September 30, 2009, with the nine months ended September 30, 2008.

	For the Nine Months Ended September 30,			
	Net Revenues		Operating Companies Income	
	2009	2008	2009	2008
	(in millions)			
Cigarettes	$ 15,546	$ 14,233	$ 3,902	$ 3,746
Smokeless products	1,023		302	
Cigars	386	290	139	128
Total tobacco space	$ 16,955	$ 14,523	$ 4,343	$ 3,874

Cigarettes segment. Net revenues, which include excise taxes billed to customers, increased $1,313 million (9.2%), reflecting higher pricing related primarily to the FET increase ($3,661 million), partially offset by lower volume ($2,338 million). Net revenues for the nine months ended September 30, 2008 included contract volume manufactured for PMI of $207 million.

Operating companies income increased $156 million (4.2%), due primarily to higher list prices ($1,217 million), lower marketing, administration and research costs ($230 million) and lower promotional allowances ($186 million), partially offset by lower volume ($1,236 million), higher direct material and manufacturing costs ($129 million), higher exit and implementation costs ($88 million) primarily related to the closure of the Cabarrus, North Carolina cigarette manufacturing facility, and FDA user fees ($11 million).

For the first nine months of 2009, PM USA s domestic cigarette shipment volume of 112.5 billion units was 12.5% lower than the prior-year period, but was estimated to be down about 10% when adjusted for changes in trade inventories and calendar differences. Total cigarette industry volume was down an estimated 8% in the first nine months of 2009 when adjusted for trade inventory changes and calendar differences. The difference in PM USA s volume decline rate versus the total cigarette industry for the first nine months of 2009 is due primarily to volume lost during the period of FET-related price gap dislocation, higher trade inventory declines on PM USA s brands, as well as share losses on its portfolio brands. In the premium segment, PM USA s shipment volume decreased 12.1%. *Marlboro* shipment volume decreased 11.8 billion units (11.0%) to 95.6 billion units. In the discount segment, PM USA s shipment volume decreased 17.7%. *Basic* shipment volume decreased 2.1 billion units (22.4%) to 7.2 billion units.

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The following table summarizes cigarettes segment volume performance by brand, which includes units sold, as well as promotional units, but excludes Puerto Rico, U.S. Territories, Overseas Military, Philip Morris Duty Free Inc. and 2008 contract manufacturing for PMI, for the nine months ended September 30, 2009 and 2008:

	Shipment Volume For the Nine Months Ended September 30,	
	2009	2008
	(in billion units)	
Marlboro	95.6	107.4
Parliament	3.0	4.1
Virginia Slims	4.0	4.7
Basic	7.2	9.3
Other	2.7	3.1
Total cigarettes	112.5	128.6

For the first nine months of 2009, *Marlboro* s retail share increased 0.1 share point versus the year-ago period to 41.9%.

Effective in the first quarter of 2009, cigarettes segment retail share performance is based on data from the Information Resources, Inc. (IRI)/Capstone Integrated Retail Panel, which is a tracking service that uses a sample of stores to project market share performance in retail stores selling cigarettes. This panel was not designed to capture sales through other channels, including the Internet and direct mail. This service was developed to provide a comprehensive measure of market share in retail outlets selling cigarettes similar to the previous service. Market share data for 2008 have been restated to reflect this tracking service. The following table summarizes cigarettes segment retail share performance based on the retail tracking service:

	Retail Share For the Nine Months Ended September 30,	
	2009	2008
Marlboro	41.9%	41.8%
Parliament	1.6	1.9
Virginia Slims	1.8	2.0
Basic	3.5	3.9
Other	1.3	1.3
Total cigarettes	50.1%	50.9%

Effective October 28, 2009, PM USA increased the list price on *Marlboro*, *Basic* and *L&M* by $0.06 per pack. In addition, PM USA increased the list price on all of its other brands by $0.08 per pack.

Effective March 9, 2009, PM USA increased the list price on *Marlboro, Parliament, Virginia Slims*, *Basic* and *L&M* by $0.71 per pack. In addition, PM USA increased the list price on all of its other premium brands by $0.81 per pack.

Effective February 9, 2009, PM USA increased the list price on *Marlboro, Parliament, Virginia Slims, Basic* and *L&M* by $0.09 per pack. In addition, PM USA increased the list price on all of its other premium brands by $0.18 per pack.

Effective December 29, 2008, PM USA increased its wholesale promotional allowance on *L&M* by $0.29 per pack, from $0.26 to $0.55.

Effective December 15, 2008, PM USA reduced its wholesale promotional allowance on *Marlboro* and *Basic* by $0.05 per pack, from $0.26 to $0.21, and raised the list price on its other brands, except for *L&M*, by $0.05 per pack.

Effective May 5, 2008, PM USA reduced its wholesale promotional allowances on *Marlboro*, *Basic* and *L&M* by $0.09 per pack, from $0.35 to $0.26, and eliminated the $0.20 per pack wholesale promotional allowances on *Parliament*. In addition, PM USA increased the list price on its other brands by $0.09 per pack.

Effective January 7, 2008, PM USA reduced its wholesale promotional allowances on *Parliament* by $0.15 per pack from $0.35 to $0.20, and eliminated the $0.20 per pack wholesale promotional allowances on *Virginia Slims*.

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Smokeless products segment. Altria Group, Inc. acquired UST and its smokeless tobacco business, USSTC, on January 6, 2009. As a result, USSTC s financial results from January 6 through September 30, 2009 are included in Altria Group, Inc. s 2009 year-to-date consolidated and segment results. In addition, the smokeless products segment includes PM USA s smokeless products.

Net revenues, which include excise taxes billed to customers, were $1,023 million. Operating companies income was $302 million. Results were negatively impacted by costs related primarily to the acquisition of UST, consisting of employee separation costs ($146 million), integration costs ($33 million) and inventory adjustments ($14 million), as well as costs associated with PM USA s smokeless products, and actions taken to enhance the value equation on USSTC s moist smokeless tobacco (MST) brands. In February 2009, a special price promotion was implemented in the southeast region to address *Copenhagen* s and *Skoal* s value equation. In March 2009, USSTC announced a national wholesale incentive program that lowered the list price of some of USSTC s brands, including *Copenhagen* and *Skoal*, by $0.62 per can, effective March 29, 2009.

In the first-half of 2009, USSTC measured the smokeless products segment marketplace performance in terms of its share of the MST category. Effective in the third quarter of 2009, management of USSTC and PM USA changed the measurement of the volume and market share of the smokeless products segment to include MST and spit-less tobacco products. Management believes this new definition of the category provides a more comprehensive measure of Altria Group, Inc. s smokeless products segment marketplace performance. Smokeless products volume and retail shares have been restated to reflect this new measurement.

The smokeless products segment domestic shipment volume for the period January 6 through September 30, 2009 was 466.4 million units (measured in cans and packs). Including the volume of 10.9 million cans shipped from January 1 through January 5, 2009, which was prior to the acquisition of UST, total volume for the full nine months ended September 30, 2009 was 477.3 million units (measured in cans and packs). The smokeless products segment domestic shipment volume for the first nine months of 2009 declined 4.3%, versus the prior-year period, but was estimated to be down 2% when adjusted for trade inventory changes, the timing of returns from retail and the discontinuation by USSTC of multi-pack deals and its *Rooster* brand. Management believes that the estimated long-term growth rate for smokeless products industry volume remained at 7%.

The following table summarizes smokeless products segment volume performance by brand (full nine month results), which includes cans and packs sold, as well as promotional units, and excludes international volume. Other includes *Marlboro* snus, a PM USA smokeless product. One pack of snus is equivalent to a can of MST:

	Shipment Volume For the Nine Months Ended September 30,	
	2009	2008
	(cans and packs in millions)	
Copenhagen	202.7	209.2
Skoal	198.7	205.4
Red Seal/Other	75.9	84.2
Total Smokeless Products	477.3	498.8

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Cigars segment. Net revenues, which include excise taxes billed to customers, increased $96 million (33.1%), reflecting higher pricing related primarily to the FET increase ($105 million), partially offset by lower volume ($9 million).

Operating companies income increased $11 million (8.6%), due primarily to higher pricing ($35 million) and lower integration costs ($5 million), partially offset by higher manufacturing costs ($11 million), lower volume ($10 million) and higher marketing, administration and research costs ($8 million).

For the first nine months of 2009, Middleton s cigar shipment volume declined 3.9% versus the prior-year period to 956 million units. Volume results for the nine-month period were estimated to be relatively stable when adjusted for changes in trade inventories and Middleton s migration to the Altria Sales & Distribution system, as well as the timing of promotional shipments. Middleton believes that the long-term growth rate for machine-made large cigars industry volume remained 3%; however, the industry growth rate has slowed after the FET increase.

The following table summarizes volume for cigars:

	Shipment Volume For the Nine Months Ended September 30,	
	2009	2008
	(units in millions)	
Black & Mild	932	965
Other	24	31
Total cigars	956	996

Middleton achieved a 30.3% retail share of the machine-made large cigars segment for the first nine months of 2009, up 1.3 share points versus the prior-year period. *Black & Mild* s retail share increased 1.3 share points versus the prior-year period to 29.7% of the machine-made large cigar segment. Effective with the first quarter of 2009, cigar retail share performance is based on data from IRI, InfoScan Cigar Database for Food, Drug, Mass Merchandisers (excluding Wal-Mart) and Convenience trade classes, which tracks machine-made large cigars market share performance. This service was developed to provide a representation of retail business performance in key trade channels. Market share data for 2008 have been restated to reflect this service. It is IRI s standard practice to periodically refresh their InfoScan syndicated services, which may cause the restatement of retail share results that were previously released.

The following table summarizes retail share performance for cigars:

	Retail Share For the Nine Months Ended September 30,	
	2009	2008
Black & Mild	29.7%	28.4%
Other	0.6	0.6
Total cigars	30.3%	29.0%

During the nine months ended September 30, 2009, Middleton executed the following pricing actions:

Effective March 4, 2009, Middleton executed various list price increases across substantially all of its brands resulting in a weighted-average increase of approximately $0.40 per five-pack;

Effective February 11, 2009, Middleton increased the list price on all of its brands by approximately $0.20 per five-pack; and

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Effective January 28, 2009, Middleton increased the list price on substantially all of its brands by $0.08 per five-pack.

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Operating Results Three Months Ended September 30, 2009

The following discussion compares tobacco space operating results for the three months ended September 30, 2009, with the three months ended September 30, 2008.

	For the Three Months Ended September 30,			
	Net Revenues		Operating Companies Income	
	2009	2008	2009	2008
	(in millions)			
Cigarettes	$ 5,626	$ 5,084	$ 1,333	$ 1,369
Smokeless products	352		127	
Cigars	153	98	49	37
Total tobacco space	$ 6,131	$ 5,182	$ 1,509	$ 1,406

Cigarettes segment. Net revenues, which include excise taxes billed to customers, increased $542 million (10.7%), due primarily to higher pricing related primarily to the FET increase ($1,636 million), partially offset by lower volume ($1,088 million). Net revenues for the three months ended September 30, 2008 included contract volume manufactured for PMI of $97 million.

Operating companies income decreased $36 million (2.6%), due primarily to lower volume ($579 million), higher exit and implementation costs ($65 million) primarily related to the previously announced closure of the Cabarrus, North Carolina cigarette manufacturing facility and FDA user fees ($10 million), partially offset by higher list prices ($330 million), lower promotional allowances ($147 million) and lower marketing, administration and research costs ($129 million).

PM USA s cigarette shipment volume in the third quarter of 2009 was negatively impacted by the FET increase, which occurred earlier this year, a decline in trade inventories, as well as changes to PM USA s pricing and promotional strategies on its portfolio brands. PM USA s third quarter of 2009 domestic cigarette shipment volume of 37.5 billion units was 16.4% lower than the prior-year period, but was estimated to be down about 12% when adjusted for changes in trade inventories.

Total cigarette industry volume was down an estimated 10% in the third quarter of 2009 versus the comparable year-ago period, when adjusted for trade inventory changes. In the third quarter of 2008 the trade increased cigarette inventories, while in the third quarter of 2009 the trade substantially reduced inventory levels. The difference in PM USA s volume decline rate versus the total cigarette industry in the third quarter of 2009 was due primarily to higher trade inventory declines on PM USA s brands as well as share losses on its portfolio brands.

In the premium segment, PM USA s shipment volume decreased 15.9%. *Marlboro* shipment volume decreased 5.6 billion units (15.0%) to 31.9 billion units. *Marlboro* s cigarette shipment volume was estimated to be down about 10% when adjusted for trade inventory changes, which disproportionally impacted the brand. In the discount segment, PM USA s shipment volume decreased 22.3%. *Basic* shipment volume decreased 0.9 billion units (28.5%) to 2.3 billion units.

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The following table summarizes cigarettes segment volume performance by brand, which includes units sold, as well as promotional units, but excludes Puerto Rico, U.S. Territories, Overseas Military, Philip Morris Duty Free Inc. and 2008 contract manufacturing for PMI, for the three months ended September 30, 2009 and 2008:

	Shipment Volume For the Three Months Ended September 30,	
	2009	2008
	(in billion units)	
Marlboro	31.9	37.5
Parliament	1.0	1.5
Virginia Slims	1.3	1.6
Basic	2.3	3.2
Other	1.0	1.1
Total cigarettes	37.5	44.9

For the third quarter of 2009, *Marlboro* s retail share increased 0.1 share point versus the year-ago period to 41.9%. *Marlboro* gained 0.7 share points sequentially versus the second quarter of 2009 with balanced retail share growth of 0.4 share points on *Marlboro* non-menthol and 0.3 share points on *Marlboro* Menthol.

The following table summarizes cigarettes segment retail share performance based on data from the IRI/Capstone Integrated Retail Panel that PM USA began using in the first quarter of 2009. Market share data for 2008 have been restated to reflect this service:

	Retail Share For the Three Months Ended September 30,	
	2009	2008
Marlboro	41.9%	41.8%
Parliament	1.5	1.8
Virginia Slims	1.8	1.9
Basic	3.2	3.8
Other	1.3	1.3
Total cigarettes	49.7%	50.6%

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Smokeless products segment. Net revenues, which include excise taxes billed to customers, were $352 million. Operating companies income was $127 million. Results were negatively impacted by costs related primarily to the acquisition of UST, consisting of employee separation costs ($23 million), integration costs ($5 million) and inventory adjustments ($1 million), and actions taken to enhance the value equation on USSTC s brands.

Utilizing the new measurement for volume of the smokeless products segment described above, the smokeless products segment domestic shipment volume for the third quarter of 2009 declined 4.5% versus the prior-year period, but was estimated to be essentially flat when adjusted for trade inventory changes, the timing of returns from retail and the discontinuation by USSTC of multi-pack deals and its *Rooster* brand.

The following table summarizes smokeless products segment volume performance by brand, which includes cans and packs sold, as well as promotional units, and excludes international volume. Other includes *Marlboro* snus, a PM USA smokeless product. One pack of snus is equivalent to a can of MST:

	Shipment Volume For the Three Months Ended September 30,	
	2009	2008
	(cans and packs in millions)	
Copenhagen	67.8	69.0
Skoal	66.9	68.2
Red Seal/Other	23.3	28.2
Total Smokeless Products	158.0	165.4

Utilizing the new measurement for retail market share described above, the smokeless products segment premium retail share in the third quarter of 2009 has stabilized and was unchanged versus the second quarter of 2009. *Copenhagen* s retail share gained 0.3 share points versus the second quarter of 2009 as the brand benefited from USSTC s actions to enhance its value equation. *Skoal* s retail share declined 0.3 share points versus the second quarter of 2009. *Skoal* s retail share appears to have stabilized during the third quarter of 2009 as it maintained a share of approximately 23.6% during the July through September period. Overall, the smokeless products segment retail share in the third quarter of 2009 was down 0.4 share points versus the second quarter of 2009 to 54.0%, due primarily to share losses in USSTC s discount brand portfolio.

The following table summarizes the smokeless products segment sequential retail share performance (full quarterly results and excluding international volume), based on data from IRI, InfoScan Smokeless Tobacco Database for Food, Drug, Mass Merchandisers (excluding Wal-Mart) and Convenience trade classes, which tracks smokeless products market share performance. Smokeless products are defined as MST and spit-less tobacco products. One pack of snus or other spit-less tobacco product is equivalent to a can of MST for share measurement purposes. It is IRI s standard practice to periodically refresh their InfoScan syndicated services, which may cause the restatement of retail share results that were previously released.

	Retail Share for the Three Months Ended		
	September 30, 2009	June 30, 2009	March 31, 2009
Copenhagen	23.3%	23.0%	23.8%
Skoal	23.6	23.9	24.1
Red Seal/Other	7.1	7.5	8.5
Total Smokeless Products	54.0%	54.4%	56.4%

Based on the previous MST-only market share measurement, USSTC s premium share of MST in the third quarter of 2009 was unchanged versus the second quarter of 2009 at 48.4%. *Copenhagen* s MST retail share increased 0.2 share points to 24.0% and *Skoal* s MST retail share declined 0.2 share points to 24.4%. USSTC s MST retail share in the third quarter of 2009 declined 0.3 share points to 55.6% versus the second quarter of 2009.

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Cigars segment. Net revenues, which include excise taxes billed to customers, increased $55 million (56.1%), reflecting higher pricing related primarily to the FET increase ($50 million) and higher volume ($5 million).

Operating companies income increased $12 million (32.4%), due primarily to higher pricing ($12 million), integration costs in the third quarter of 2008 ($9 million) and higher volume, partially offset by higher manufacturing costs ($13 million).

Middleton s third-quarter cigar volume increased 3.9% versus the prior-year period to 341 million units. Volume results for the three-month period were estimated to be relatively stable when adjusted for changes in trade inventories and Middleton s migration to the Altria Sales & Distribution system, as well as the timing of promotional shipments.

The following table summarizes volume for cigars:

	Shipment Volume For the Three Months Ended September 30,	
	2009	2008
	(units in millions)	
Black & Mild	333	318
Other	8	11
Total cigars	341	329

Middleton achieved a 31.4% retail share of the machine-made large cigars segment in the third quarter of 2009, up 0.6 share points versus the prior-year period. *Black & Mild* s third-quarter retail share increased 0.7 share points versus the prior-year period to 30.9%, due primarily to new product introductions. Middleton launched *Black & Mild* Wood Tip and *Black & Mild* Wood Tip Wine earlier this year. Cigar retail share performance is based on data from the IRI, InfoScan Cigar Database for Food, Drug, Mass Merchandisers (excluding Wal-Mart) and Convenience trade classes that Altria Group, Inc. began using in the first quarter of 2009. Market share data for 2008 have been restated to reflect this service.

The following table summarizes retail share performance for cigars:

	Retail Share For the Three Months Ended September 30,	
	2009	2008
Black & Mild	30.9%	30.2%
Other	0.5	0.6
Total cigars	31.4%	30.8%

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Wine segment

Business Environment

Ste. Michelle has a leadership position in Washington state wines, primarily *Chateau Ste. Michelle* and *Columbia Crest*, and owns wineries in or distributes wines from several other wine regions. As discussed in Note 14, Ste. Michelle holds an 85% ownership interest in Michelle-Antinori, LLC, which owns *Stag s Leap Wine Cellars* in Napa Valley. Ste. Michelle also owns *Conn Creek* in Napa Valley and *Erath* in Oregon. Ste. Michelle also distributes Antinori wines and *Champagne Nicolas Feuillatte* in the United States. A key element of Ste. Michelle s strategy is expanded domestic distribution of its wines, especially in certain account categories such as restaurants, wholesale clubs, supermarkets, wine shops and mass merchandisers.

Ste. Michelle s business is subject to significant competition, including competition from many larger, well-established domestic and international companies, as well as from many smaller wine producers. Wine segment competition is primarily based on quality, price, consumer and trade wine tastings, competitive wine judging, third-party acclaim and advertising.

Federal, state and local governmental agencies regulate the alcohol beverage industry through various means, including licensing requirements, pricing, labeling and advertising restrictions, and distribution and production policies. Further regulatory restrictions or additional excise or other taxes on the manufacture and sale of alcoholic beverages may have an adverse effect on Ste. Michelle s wine business.

Operating Results

Altria Group, Inc. acquired UST and its premium wine business, Ste. Michelle, on January 6, 2009. As a result, Ste. Michelle s financial results from January 6 through September 30, 2009 are included in Altria Group, Inc. s consolidated and segment results for the nine months ended September 30, 2009. For the nine months ended September 30, 2009, net revenues for the wine segment were $271 million. Operating companies income was $22 million, which included pre-tax charges of $21 million related to the UST acquisition, consisting of inventory adjustments, exit and integration costs. For the three months ended September 30, 2009, net revenues for the wine segment were $102 million. Operating companies income was $12 million, which included pre-tax charges of $7 million related to the UST acquisition, consisting of inventory adjustments, exit and integration costs.

For the nine months ended September 30, 2009, Ste. Michelle s wine shipment volume of 4.1 million cases was 2.0% lower than the prior-year period. Several factors negatively impacted Ste. Michelle shipment volume in the first nine months of 2009. Ste. Michelle suspended shipments during the first week of January 2009 to take inventory prior to the closing of the UST acquisition. In addition, wholesalers purchased wine in advance of this suspension, and also further depleted their Ste. Michelle inventories in the first half of 2009. Ste. Michelle s wine shipment volume of 1.5 million cases for the three months ended September 30, 2009 was 2.0% higher than the prior-year period, due primarily to higher off-premise channel sales, which includes supermarkets and liquor stores.

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The following tables summarize Ste. Michelle s domestic case volume performance by brand:

	Shipment Volume For the Nine Months Ended September 30,		Shipment Volume For the Three Months Ended September 30,	
	2009	2008	2009	2008
	(cases in thousands)			
Chateau Ste. Michelle	1,376	1,302	501	462
Columbia Crest	1,379	1,510	493	529
Other	1,333	1,361	477	450
Total wine	4,088	4,173	1,471	1,441

Ste. Michelle s retail volume, as measured by Nielsen Total Wine Database U.S. Food & Drug (Nielsen), increased 11% and 9%, for the nine and three months ended September 30, 2009, respectively, versus the prior-year periods. The total wine industry s retail volume for both the nine and three-month periods, as measured by Nielsen, increased 2% versus the prior-year periods.

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Financial services segment

Business Environment

In 2003, PMCC shifted its strategic focus and is no longer making new investments but is instead focused on managing its existing portfolio of finance assets in order to maximize gains and generate cash flow from asset sales and related activities. Accordingly, PMCC s operating companies income will fluctuate over time as investments mature or are sold. During the nine months and three months ended September 30, 2009, PMCC received proceeds of $767 million and $214 million, respectively, and recorded gains of $247 million and $45 million, respectively, in operating companies income from asset sales. During the nine months and three months ended September 30, 2008, PMCC received proceeds of $389 million and $241 million, respectively, and recorded gains of $78 million and $24 million, respectively, in operating companies income from asset sales.

PMCC leases various types of automotive manufacturing equipment to GM under a number of lease arrangements which expire from 2012 through 2023. GM is currently operating under bankruptcy protection. Since GM s bankruptcy filing, PMCC has not recorded income on the GM leases. In the third quarter 2009, GM rejected one of the leases, which resulted in a $49 million write-off against PMCC s allowance for losses. The remaining GM leases represent approximately 3% of PMCC s portfolio of finance assets as of September 30, 2009. Should other lease rejections or foreclosures occur, they would result in the write-off of the finance asset balance against PMCC s allowance for losses. A foreclosure would also result in an acceleration of deferred tax payments on these leases. All other PMCC lessees are current on their lease payment obligations.

The activity in the allowance for losses on finance assets for the nine months ended September 30, 2009 and 2008 was as follows (in millions):

	For the Nine Months Ended September 30,	
	2009	2008
Balance at beginning of the year	$ 304	$ 204
Increase to provision	15	50
Amounts written-off	(53)	
Balance at September 30	$ 266	$ 254

During the first nine months of 2009, PMCC increased the allowance for losses by $15 million. PMCC has assessed its allowance for losses for its entire portfolio, including its exposure to GM, and believes that the allowance for losses of $266 million is adequate. During the second half of 2008, PMCC increased its allowance for losses by $100 million ($50 million in the third quarter of 2008) primarily as a result of credit rating downgrades of certain lessees and financial market conditions. PMCC continues to monitor economic and credit conditions, and may increase its allowance for losses if such conditions worsen.

PMCC s portfolio remains diversified by lessee, industry segment and asset type. As of September 30, 2009, 75% of PMCC s lessees were investment grade as defined by Moody s Investor Services and Standard & Poor s. Excluding aircraft lease investments, 89% of PMCC s lessees were investment grade.

PMCC has one remaining transaction with indirect exposure to Ambac Assurance Corporation, a credit support provider whose credit rating remains below investment grade. This risk is mitigated by the underlying strength of the lessee and the quality of the leased asset.

As discussed in Note 14, the IRS has disallowed benefits pertaining to several PMCC leveraged lease transactions for the years 1996 through 1999, and has indicated its intent to disallow these and other transactions for the years 2000 through 2003.

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Operating Results

	2009	2008
	(in millions)	
Net revenues:		
Nine months ended September 30,	$ 316	$ 179
Three months ended September 30,	$ 67	$ 56
Operating companies income:		
Nine months ended September 30,	$ 260	$ 97
Three months ended September 30,	$ 57	$ (7)

PMCC s net revenues for the nine months ended September 30, 2009 increased $137 million (76.5%) from the comparable period in 2008, due primarily to higher gains on asset sales, partially offset by lower lease revenues. Net revenues for the three months ended September 30, 2009, increased $11 million (19.6%) from the comparable period in 2008, due primarily to higher gains on asset sales, partially offset by lower lease revenues.

PMCC s operating companies income for the nine months ended September 30, 2009 increased $163 million (100+%) from the comparable period in 2008, due primarily to higher gains on asset sales and lower provision for losses, partially offset by lower lease revenues. PMCC s operating companies income for the three months ended September 30, 2009, increased $64 million (100+%) from the comparable period in 2008, due primarily to higher gains on assets sales in the third quarter of 2009 and the increase to the allowance for losses during the third quarter of 2008.

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Financial Review

Net Cash Provided by Operating Activities, Continuing Operations

During the first nine months of 2009, net cash provided by operating activities on a continuing operations basis was $2,007 million, compared with $2,242 million during the first nine months of 2008. The decrease in cash provided by operating activities was due primarily to higher tax payments related to finance asset sales.

Net Cash Provided by (Used in) Investing Activities, Continuing Operations

Altria Group, Inc. and its subsidiaries from time to time consider acquisitions as evidenced by the acquisition of UST on January 6, 2009. For further discussion see Note 2.

During the first nine months of 2009, net cash used in investing activities on a continuing operations basis was $9.7 billion, compared with net cash provided of $893 million during the first nine months of 2008. This change was due primarily to the acquisition of UST in January 2009.

Net Cash Provided by (Used in) Financing Activities, Continuing Operations

During the first nine months of 2009, net cash provided by financing activities on a continuing operations basis was $812 million compared with net cash used of $7.1 billion during the first nine months of 2008. This change was due primarily to the following:

- $4.2 billion issuance of long-term notes in 2009, the proceeds of which were used to prepay all of the outstanding borrowings under the Bridge Facility that was used in part to fund the acquisition of UST in January 2009;
- lower dividends paid on Altria Group, Inc. common stock during 2009 as a result of the PMI spin-off;
- cash used in 2008 to repurchase common stock under the share repurchase program which was suspended in January 2009;
- debt tender offers during the first quarter of 2008 which resulted in the repayment of debt, as well as the payment of tender and consent fees; and
- a payment of $449 million to PMI during the first nine months of 2008 as a result of the spin-off related modifications to Altria Group, Inc. stock awards;

partially offset by:

- dividends received from PMI during the first quarter of 2008.

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Debt and Liquidity

Credit Ratings At September 30, 2009, the credit ratings and outlook for Altria Group, Inc. s indebtedness by major credit rating agencies were:

	Short-term Debt	Long-term Debt	Outlook
Moody s	P-2	Baa1	Negative
Standard & Poor s	A-2	BBB	Stable
Fitch	F2	BBB+	Stable

Credit Lines At September 30, 2009, Altria Group, Inc. had in place a multi-year revolving credit facility (the Revolving Facility) in the amount of $3.4 billion, which expires April 15, 2010. Altria Group, Inc. expects to replace the Revolving Facility prior to its expiration in amounts and maturities based on market conditions at that time. The Revolving Facility requires Altria Group, Inc. to maintain a ratio of earnings before interest, taxes, depreciation and amortization (EBITDA) to interest expense (as defined in the Revolving Facility) of not less than 4.0 to 1.0 and requires the maintenance of a ratio of debt to EBITDA (as defined in the Revolving Facility) of not more than 3.0 to 1.0. At September 30, 2009, the ratios of EBITDA to interest expense, and debt to EBITDA, calculated in accordance with the agreement, were 5.6 to 1.0 and 2.0 to 1.0, respectively. Altria Group, Inc. expects to continue to meet its covenants associated with its Revolving Facility.

The Revolving Facility is used to support the issuance of commercial paper to fund short-term cash needs. At September 30, 2009, Altria Group, Inc. had no borrowings under the Revolving Facility nor was any commercial paper outstanding. Any commercial paper of Altria Group, Inc. and borrowings under the Revolving Facility are fully and unconditionally guaranteed by PM USA (see Note 16. *Condensed Consolidating Financial Information* to the condensed consolidating financial statements (Note 16)). Pricing under the Revolving Facility is modified in the event of a change in Altria Group, Inc. s credit rating. The Revolving Facility does not include any other rating triggers, nor does it contain any provisions that could require the posting of collateral.

Financial Market Environment Events over the past year, including failures and near failures of a number of large financial service companies, have increased the volatility of the capital markets. Altria Group, Inc. continues to monitor the credit quality of its bank group and is not aware of any potential non-performing credit provider in that group, other than as noted in the following paragraph. Altria Group, Inc. believes the lenders in its bank group will be willing and able to advance funds in accordance with their legal obligations.

In June 2009, Altria Group, Inc. amended its Revolving Facility in order to terminate the $108 million commitment of Aurora Bank FSB (formerly known as Lehman Brothers Bank, FSB) (Aurora). Aurora s commitment was terminated without a ratable termination or reduction of the commitments of the other lenders.

Despite adverse financial market conditions, Altria Group, Inc. believes it has adequate liquidity, financial resources and access to additional financial resources to meet its anticipated obligations in the foreseeable future.

Debt Altria Group, Inc. s total consumer products debt was $12.0 billion and $7.0 billion at September 30, 2009 and December 31, 2008, respectively. As discussed in Note 8, the increase in total consumer products debt relates to the February 2009 issuance of $4.2 billion of long-term notes, and the recording of UST s debt, partially offset by repayments. Financial services debt of $500 million at December 31, 2008 matured and was repaid in July 2009.

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Guarantees and Redeemable Noncontrolling Interest As discussed in Note 14, Altria Group, Inc. had guarantees (including third-party guarantees) and a redeemable noncontrolling interest outstanding at September 30, 2009. In addition, as discussed in Note 16, PM USA has issued guarantees related to Altria Group, Inc. s indebtedness.

Payments Under State Settlement and Other Tobacco Agreements, and FDA Regulation As discussed previously and in Note 14, PM USA has entered into State Settlement Agreements with the states and territories of the United States and also entered into a trust agreement to provide certain aid to U.S. tobacco growers and quota holders, but PM USA s obligations under this trust have now been eliminated by the obligations imposed on PM USA by FETRA. USSTC and Middleton are also subject to obligations imposed by FETRA. In addition, in June 2009, Altria Group, Inc. became subject to quarterly user fees imposed by the FDA as a result of the Family Smoking Prevention and Tobacco Control Act. The State Settlement Agreements, FETRA, and the FDA user fees call for payments that are based on variable factors, such as volume, market share and inflation, depending on the subject payment. Altria Group, Inc. s subsidiaries account for the cost of the State Settlement Agreements, FETRA and FDA user fees as a component of cost of sales. As a result of the State Settlement Agreements, FETRA and FDA user fees, Altria Group, Inc. s subsidiaries recorded charges to cost of sales of $3,772 million and $4,196 million for the nine months ended September 30, 2009 and 2008, respectively, and $1,263 million and $1,476 million for the three months ended September 30, 2009 and 2008, respectively.

Based on current agreements, 2008 market share and the last five-year compounded annual industry volume decline rate, the estimated amounts that Altria Group, Inc. s subsidiaries may charge to cost of sales for these payments will be approximately as follows (in billions):

2009	$5.5
2010	5.6
2011	5.6
2012	5.7
2013	5.7
Thereafter	5.4 annually

The estimated amounts due under the State Settlement Agreements and FETRA charged to cost of sales in each of the years above would generally be paid in the following year. The amounts charged to cost of sales for the FDA user fees are paid in the quarter in which the fees are incurred. As previously stated, the payments due under the terms of the State Settlement Agreements, FETRA and FDA user fees are subject to adjustment for several factors, including volume, inflation and certain contingent events and, in general, are allocated based on each manufacturer s market share. The amounts shown in the table above are estimates, and actual amounts will differ as underlying assumptions differ from actual future results. See Note 14 for a discussion of proceedings that may result in a downward adjustment of amounts paid under State Settlement Agreements for the years 2003 to 2008.

Litigation Escrow Deposits With respect to certain adverse verdicts currently on appeal, as of September 30, 2009, PM USA has posted various forms of security totaling approximately $97 million, the majority of which have been collateralized with cash deposits, to obtain stays of judgments pending appeals. These cash deposits are included in other assets on the condensed consolidated balance sheets.

Although litigation is subject to uncertainty and could result in material adverse consequences for the financial condition, cash flows or results of operations of PM USA, UST or Altria Group, Inc. in a particular fiscal quarter or fiscal year, management expects cash flow from operations, together with its Revolving Facility, to provide sufficient liquidity to meet the ongoing needs of the business.

Grape and Tobacco Commitments Certain subsidiaries of UST have entered into purchase obligations primarily for grapes and leaf tobacco. Purchase obligations are commitments that are either noncancelable or cancelable only under certain predefined conditions.

Such subsidiaries are obligated to make additional payments in the upcoming year of approximately $65 million for leaf tobacco to be used in the production of smokeless tobacco products. The majority of the contractual obligations to purchase leaf tobacco for smokeless tobacco products are expected to be fulfilled by the end of 2009.

Purchase commitments under contracts to purchase grapes for periods beyond one year are subject to variability resulting from potential changes in market price indices. Such subsidiaries are obligated to make future payments of approximately $771 million, of which $68 million is payable in 2009, for purchases and processing of grapes for use in the production of wine, based on estimated yields and market conditions.

Leases PMCC s investment in leases is included in the line item finance assets, net, on the condensed consolidated balance sheets as of September 30, 2009 and December 31, 2008. At September 30, 2009, PMCC s net finance receivable of $4.8 billion in leveraged leases, which is included in finance assets, net on Altria Group, Inc. s condensed consolidated balance sheet, consists of rents receivable ($14.6 billion) and the residual value of assets under lease ($1.4 billion), reduced by third-party nonrecourse debt ($9.4 billion) and unearned income ($1.8 billion). The repayment of the nonrecourse debt is collateralized by lease payments receivable and the leased property, and is nonrecourse to the general assets of PMCC. The third-party nonrecourse debt has been offset against the related rents receivable and has been presented on a net basis. Finance assets, net, at September 30, 2009, also include net finance receivables for direct finance leases ($0.3 billion) and an allowance for losses ($0.3 billion).

Equity and Dividends

On January 27, 2009, Altria Group, Inc. issued 2.8 million shares of restricted stock to eligible employees. Restrictions on these shares lapse in the first quarter of 2012. The market value per share was $16.85 on the date of grant. In addition, on January 6, 2009, Altria Group, Inc. issued 1.8 million shares of restricted stock to certain UST employees. Restrictions on 0.1 million and 1.7 million of these shares lapse in the first quarter of 2010 and 2011, respectively. However, if such UST employees are involuntarily terminated, the restricted shares automatically vest. The market value per share was $15.32 on the date of grant.

During the nine months ended September 30, 2009, 2.1 million shares of restricted stock and 0.7 million shares of deferred stock vested. The total fair value of restricted and deferred stock vested during the nine months ended September 30, 2009 was $46 million. The weighted-average grant date fair value per share of these awards was $45.38 (reflects historical market prices which are not adjusted to reflect the Kraft spin-off in March 2007 and the PMI spin-off in March 2008).

Dividends paid in the first nine months of 2009 and 2008 were approximately $2.0 billion and $3.8 billion, respectively, a decrease of 47.3%, primarily reflecting an adjusted dividend rate in 2009, as a result of the PMI spin-off. Following the PMI spin-off, Altria Group, Inc. lowered its dividend so that holders of both Altria Group, Inc. and PMI shares would receive initially, in the aggregate, the same dividends paid by Altria Group, Inc. prior to the PMI spin-off.

During the third quarter of 2009, Altria Group, Inc. s Board of Directors approved a 6.3% increase in the quarterly dividend to $0.34 per common share. The present annualized dividend rate is $1.36 per Altria Group, Inc. common share. Future dividend payments remain subject to the discretion of Altria Group, Inc. s Board of Directors.

In September 2009, Altria Group, Inc. suspended indefinitely its $4.0 billion (2008 to 2010) share repurchase program in order to preserve financial flexibility and focus on interest expense reduction. Altria Group, Inc. s share repurchase program is at the discretion of the Board of Directors.

Market Risk

Derivative financial instruments are used by Altria Group, Inc. and its subsidiaries principally to reduce exposures to market risks resulting from fluctuations in interest rates and foreign exchange rates by creating offsetting exposures. Altria Group, Inc. is not a party to leveraged derivatives and, by policy, does not use derivative financial instruments for speculative purposes. Financial instruments qualifying for hedge accounting must maintain a specified level of effectiveness between the hedging instrument and the item being hedged, both at inception and throughout the hedged period. Altria Group, Inc. formally documents the nature and relationships between the hedging instruments and hedged items, as well as its risk-management objectives, strategies for undertaking the various hedge transactions and method of assessing hedge effectiveness. Additionally, for hedges of forecasted transactions, the significant characteristics and expected terms of the forecasted transaction must be specifically identified, and it must be probable that each forecasted transaction will occur. If it were deemed probable that the forecasted transaction will not occur, the gain or loss would be recognized in earnings currently. See Note 9. *Financial Instruments* to the condensed consolidated financial statements for additional discussion of derivative financial instruments used by Altria Group, Inc.

Recent Accounting Guidance Not Yet Adopted

See Note 15. *Recent Accounting Guidance Not Yet Adopted* to the condensed consolidated financial statements for a discussion of recent accounting guidance issued but not yet adopted.

Contingencies

See Note 14 for a discussion of contingencies.

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Cautionary Factors That May Affect Future Results

Forward-Looking and Cautionary Statements

We* may from time to time make written or oral forward-looking statements, including statements contained in filings with the SEC, in reports to security holders and in press releases and investor webcasts. You can identify these forward-looking statements by use of words such as strategy, expects, continues, plans, anticipates, believes, will, estimates, intends, projects, goals, targets and other word can also identify them by the fact that they do not relate strictly to historical or current facts.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements and whether to invest in or remain invested in Altria Group, Inc. s securities. In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we are identifying important factors that, individually or in the aggregate, could cause actual results and outcomes to differ materially from those contained in any forward-looking statements made by us; any such statement is qualified by reference to the following cautionary statements. We elaborate on these and other risks we face throughout this document, particularly in the Business Environment sections preceding our discussion of business segment operating results. You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider the following to be a complete discussion of all potential risks or uncertainties. We do not undertake to update any forward-looking statement that we may make from time to time.

Tobacco-Related Litigation. Legal proceedings covering a wide range of matters are pending or threatened in various United States and foreign jurisdictions against Altria Group, Inc. and its subsidiaries including PM USA and UST, as well as their respective indemnitees. Various types of claims are raised in these proceedings, including product liability, consumer protection, antitrust, tax, contraband shipments, patent infringement, employment matters, claims for contribution and claims of competitors and distributors.

Litigation is subject to uncertainty and it is possible that there could be adverse developments in pending cases. An unfavorable outcome or settlement of pending tobacco related litigation could encourage the commencement of additional litigation. Damages claimed in some tobacco-related litigation are significant and, in certain cases, range in the billions of dollars. The variability in pleadings, together with the actual experience of management in litigating claims, demonstrate that the monetary relief that may be specified in a lawsuit bears little relevance to the ultimate outcome.

Although PM USA has historically been able to obtain required bonds or relief from bonding requirements in order to prevent plaintiffs from seeking to collect judgments while adverse verdicts have been appealed, there remains a risk that such relief may not be obtainable in all cases. This risk has been substantially reduced given that 43 states now limit the dollar amount of bonds or require no bond at all.

Altria Group, Inc. and its subsidiaries have achieved substantial success in managing litigation. Nevertheless, litigation is subject to uncertainty and significant challenges remain. It is possible that the consolidated results of operations, cash flows or financial position of Altria Group, Inc., 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. Altria Group, Inc. and each of its subsidiaries named as a defendant believe, and

* This section uses the terms we, our and us when it is not necessary to distinguish among Altria Group, Inc. and its various operating subsidiaries or when any distinction is clear from the context.

each has been so advised by counsel handling the respective cases, that it has valid defenses to the litigation pending against it, as well as valid bases for appeal of adverse verdicts. Each of the companies has defended, and will continue to defend, vigorously against litigation challenges. However, Altria Group, Inc. and its subsidiaries may enter into settlement discussions in particular cases if they believe it is in the best interests of Altria Group, Inc. to do so. See Note 14 and Exhibit 99.1 for a discussion of pending tobacco-related litigation.

Tobacco Regulation and Control Action in the Public and Private Sectors. Our tobacco subsidiaries face significant governmental action, including efforts aimed at reducing the incidence of smoking, restricting marketing and advertising, imposing regulations on packaging, warnings and disclosure of flavors or other ingredients, prohibiting the sale of tobacco products with certain characterizing flavors or other characteristics, limiting or prohibiting the sale of tobacco products by certain retail establishments and the sale of tobacco products in certain packing sizes, and seeking to hold them responsible for the adverse health effects associated with both smoking and exposure to environmental tobacco smoke. Governmental actions, combined with the diminishing social acceptance of smoking and private actions to restrict smoking, have resulted in reduced industry volume, and we expect that such actions will continue to reduce consumption levels.

PM USA, USSTC and other Altria Group, Inc. subsidiaries are now subject to extensive regulation by the FDA, as discussed further in *Tobacco Space Business Environment FDA Regulation*. We cannot predict how the FDA might implement and enforce its statutory authority, including by promulgating additional regulations and pursuing possible enforcement actions, but such implementation and enforcement may impact the consumer acceptability of tobacco products, limit adult consumer choices, delay or prevent the launch of new or modified tobacco products, restrict communications to adult consumers, create a competitive advantage or disadvantage for certain tobacco companies, impose additional manufacturing requirements, or otherwise significantly increase the cost of doing business, all or any of which may have a material adverse impact on the results of operations or financial condition of Altria Group, Inc.

Excise Taxes. Tobacco products are subject to substantial excise taxes and significant increases in tobacco product-related taxes or fees have been proposed or enacted and are likely to continue to be proposed or enacted within the United States at the state, federal and local levels. Tax increases are expected to continue to have an adverse impact on sales of our tobacco products due to lower consumption levels and to a potential shift in consumer purchases from the premium to the non-premium or discount segments or to other low-priced or low-taxed tobacco products or to counterfeit and contraband products. For further discussion, see *Tobacco Space Business Environment Excise Taxes*.

Increased Competition in the United States Tobacco Categories. Each of Altria Group, Inc. s tobacco subsidiaries operates in highly competitive tobacco categories. Settlements of certain tobacco litigation in the United States have resulted in substantial cigarette price increases. PM USA faces competition from lowest priced brands sold by certain United States and foreign manufacturers that have cost advantages because they are not parties to these settlements. These manufacturers may fail to comply with related state escrow legislation or may avoid escrow deposit obligations on the majority of their sales by concentrating on certain states where escrow deposits are not required or are required on fewer than all such manufacturers cigarettes sold in such states. Additional competition has resulted from diversion into the United States market of cigarettes intended for sale outside the United States, the sale of counterfeit cigarettes by third parties, the sale of cigarettes by third parties over the Internet and by other means designed to avoid collection of applicable taxes, and increased imports of foreign lowest priced brands. USSTC faces significant competition in the smokeless tobacco category, both from existing competitors and new entrants, and has experienced consumer down-trading to lower-priced brands.

Governmental Investigations. From time to time, Altria Group, Inc. and its subsidiaries are subject to governmental investigations on a range of matters. We cannot predict the outcome of those investigations or whether new investigations may be commenced, and it is possible that our subsidiaries businesses could be materially affected by an unfavorable outcome of future investigations.

New Tobacco Product Technologies. Altria Group, Inc. s subsidiaries continue to seek ways to develop and to commercialize new tobacco product technologies that may reduce the health risks associated with tobacco products, while continuing to offer adult consumers tobacco products that meet their taste expectations. Potential solutions being researched include tobacco products that reduce or eliminate exposure to cigarette smoke, and/or constituents identified by public health authorities as harmful. Our subsidiaries may not succeed in these efforts. If they do not succeed, but one or more of their competitors does, our subsidiaries may be at a competitive disadvantage. Further, we cannot predict whether regulators, including the FDA, will permit the marketing of tobacco products with claims of reduced risk to consumers or whether consumers purchase decisions would be affected by such claims, which could affect the commercial viability of any tobacco products that might be developed.

Adjacency Strategy. Altria Group, Inc. and its subsidiaries have adjacency growth strategies involving moves and potential moves into complementary products or processes. We cannot guarantee that these strategies, or any products introduced in connection with these strategies, will be successful.

Tobacco Price, Availability and Quality. Any significant change in tobacco leaf prices, quality or availability could affect our tobacco subsidiaries profitability and business. For a discussion of factors that influence leaf prices, availability and quality, see *Tobacco Space Business Environment Tobacco Price, Availability and Quality*.

Key Facilities; Supply Security. In light of the consolidation of PM USA s manufacturing facilities, Altria Group, Inc. s tobacco subsidiaries face risks inherent in reliance on a few significant facilities and a small number of significant suppliers. A natural or man-made disaster or other disruption that affects the manufacturing facilities of any of Altria Group, Inc. s tobacco subsidiaries or the facilities of any significant suppliers of any of Altria Group, Inc. s tobacco subsidiaries could adversely impact the operations of the affected subsidiaries. An extended interruption in operations experienced by one or more Altria Group, Inc. subsidiaries or significant suppliers could have a material adverse effect on the results of operations and financial condition of Altria Group, Inc.

Attracting and Retaining Talent. Our ability to implement our strategy of attracting and retaining the best talent may be impaired by the decreasing social acceptance of tobacco usage. The tobacco industry competes for talent with the consumer products industry and other companies that enjoy greater societal acceptance. As a result, our tobacco subsidiaries may be unable to attract and retain the best talent.

Competition and Economic Downturns. Each of our consumer product subsidiaries is subject to intense competition, changes in consumer preferences and changes in economic conditions. To be successful, they must continue to:

- promote brand equity successfully;
- anticipate and respond to new consumer trends;
- develop new products and markets and to broaden brand portfolios in order to compete effectively with lower-priced products;
- improve productivity; and
- protect or enhance margins through cost savings and price increases.

The willingness of adult consumers to purchase premium consumer product brands depends in part on economic conditions. In periods of economic uncertainty, adult consumers may purchase more private label and other discount brands and/or, in the case of tobacco products, consider lower-priced tobacco products. The volumes of our consumer products subsidiaries could suffer accordingly.

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Our finance subsidiary, PMCC, holds investments in finance leases, principally in transportation (including aircraft and automotive), power generation and manufacturing equipment and facilities. Its lessees are also subject to intense competition and economic conditions. If parties to PMCC s leases fail to manage through difficult economic and competitive conditions, PMCC may have to increase its allowance for losses, which would adversely affect our earnings.

Acquisitions. Altria Group, Inc. from time to time considers acquisitions. From time to time we may engage in confidential acquisition negotiations that are not publicly announced unless and until those negotiations result in a definitive agreement. Although we seek to maintain or improve our debt ratings over time, it is possible that completing a given acquisition or other event could impact our debt ratings or the outlook for those ratings. Furthermore, acquisition opportunities are limited, and acquisitions present risks of failing to achieve efficient and effective integration, strategic objectives and anticipated revenue improvements and cost savings. There can be no assurance that we will be able to continue to acquire attractive businesses on favorable terms, that we will realize any of the anticipated benefits from an acquisition or that acquisitions will be quickly accretive to earnings.

UST Acquisition. There can be no assurance that we will achieve the synergies expected of the UST acquisition or that the integration of UST will be successful.

Capital Markets. Access to the capital markets is important for us to satisfy our liquidity and financing needs. Disruption and uncertainty in the capital markets and any resulting tightening of credit availability, pricing and/or credit terms may negatively affect the amount of credit available to us and may also increase our costs and adversely affect our earnings or our dividend rate.

Exchange Rates. For purposes of financial reporting, the equity earnings attributable to Altria Group, Inc. s investment in SABMiller are translated into U.S. dollars from various local currencies based on average exchange rates prevailing during a reporting period. During times of a strengthening U.S. dollar against these currencies, our reported equity earnings in SABMiller will be reduced because the local currencies will translate into fewer U.S. dollars.

Asset Impairment. We periodically calculate the fair value of our goodwill and intangible assets to test for impairment. This calculation may be affected by the market conditions noted above, as well as interest rates and general economic conditions. If an impairment is determined to exist, we will incur impairment losses, which will reduce our earnings.

IRS Challenges to PMCC Leases. The Internal Revenue Service has challenged the tax treatment of certain of PMCC s leveraged leases. Should Altria Group, Inc. not prevail in any one or more of these matters, Altria Group, Inc. may have to accelerate the payment of significant amounts of federal income tax, pay associated interest costs and significantly lower its earnings to reflect the recalculation of the income from the affected leveraged leases, which could have a material effect on the earnings and cash flows of Altria Group, Inc. in a particular fiscal quarter or fiscal year. For further discussion see Note 14.

Wine - Competition; Grape Supply; Regulation and Excise Taxes. Ste. Michelle s business is subject to significant competition, including from many large, well-established national and international organizations. The adequacy of Ste. Michelle s grape supply is influenced by consumer demand for wine in relation to industry-wide production levels as well as by weather and crop conditions, particularly in eastern Washington state. Supply shortages related to any one or more of these factors could increase production costs and wine prices, which ultimately may have a negative impact on Ste. Michelle s sales. In addition, federal, state and local governmental agencies regulate the alcohol beverage industry through various means, including licensing requirements, pricing, labeling and advertising restrictions, and distribution and production policies. New regulations or revisions to existing regulations, resulting in further restrictions or taxes on the manufacture and sale of alcoholic beverages, may have an adverse effect on Ste. Michelle s wine business. For further discussion, see *Wine Segment Business Environment.*

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Item 4. Controls and Procedures.

Altria Group, Inc. carried out an evaluation, with the participation of Altria Group, Inc. s management, including Altria Group, Inc. s Chief Executive Officer and Chief Financial Officer, of the effectiveness of Altria Group, Inc. s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation, Altria Group, Inc. s Chief Executive Officer and Chief Financial Officer concluded that Altria Group, Inc. s disclosure controls and procedures are effective. There have been no changes in Altria Group, Inc. s internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, Altria Group, Inc. s internal control over financial reporting.

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Part II - OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 14. *Contingencies*, of the Notes to the Condensed Consolidated Financial Statements included in Part I Item 1. of this report for a discussion of legal proceedings pending against Altria Group, Inc. and its subsidiaries. See also Exhibits 99.1 and 99.2 to this report.

Item 1A. Risk Factors.

Information regarding Risk Factors appears in MD&A *Cautionary Factors That May Affect Future Results*, in Part I Item 2. of this Form 10-Q and in Part I Item 1A. *Risk Factors* of our Report on Form 10-K for the year ended December 31, 2008. Other than as set forth in Part I Item 2. of this Form 10-Q, there have been no material changes from the risk factors previously disclosed in our Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

In September 2009, Altria Group, Inc. suspended indefinitely its $4.0 billion (2008 to 2010) share repurchase program in order to preserve financial flexibility and focus on interest expense reduction. Altria Group, Inc. s share repurchase program is at the discretion of the Board of Directors.

Altria Group, Inc. s share repurchase activity for each of the three months in the period ended September 30, 2009, was as follows:

Period	Total Number of Shares Repurchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (2)
July 1-31, 2009	235	$ 16.40	-	$ 2,834,083,553
August 1-31, 2009	-	$ -	-	$ 2,834,083,553
September 1-30, 2009	102,880	$ 18.14	-	$ 2,834,083,553
For the Quarter Ended				
September 30, 2009	103,115	$ 18.14		

(1) Represents shares tendered to Altria Group, Inc. by employees who vested in restricted and deferred stock, or exercised stock options, and used shares to pay all, or a portion of, the related taxes and/or option exercise price.

(2) As of September 30, 2009, Altria Group, Inc. had repurchased in 2008 53.5 million shares of its common stock at an aggregate cost of approximately $1.2 billion, or an average price of $21.81 per share, pursuant to the $4.0 billion (2009 to 2010) share repurchase program announced on January 30, 2008, modified on September 8, 2008 and suspended indefinitely in September 2009. No shares were repurchased during the period presented. Altria Group, Inc. s share repurchase program is at the discretion of the Board of Directors.

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Item 6. Exhibits.

12	Statement regarding computation of ratios of earnings to fixed charges.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Certain Litigation Matters and Recent Developments.
99.2	Trial Schedule for Certain Cases.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALTRIA GROUP, INC.

/s/ DAVID R. BERAN
David R. Beran
Executive Vice President and

Chief Financial Officer

October 29, 2009