

Philip Morris International Inc.  
 Form 424B2  
 May 15, 2008  
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Filed pursuant to Rule 424(b)(2)

Registration No. 333-150449

**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities of be Registered</b>	<b>Amount to be Registered</b>	<b>Maximum Offering Price Per Unit</b>	<b>Maximum Aggregate Offering Price</b>	<b>Amount of Registration Fee (1) (2)</b>
4.875% Notes due 2013	\$2,000,000,000	99.724%	\$1,994,480,000.00	\$78,383.06
5.650% Notes due 2018	\$2,500,000,000	99.736%	\$2,493,400,000.00	\$97,990.62
6.375% Notes due 2038	\$1,500,000,000	99.549%	\$1,493,235,000.00	\$58,684.14

(1) Calculated in accordance with Rule 457(r) under the Securities Act of 1933 (the Securities Act ). The total registration fee due for this offering is \$235,057.82.

(2) Paid herewith.

Prospectus Supplement to Prospectus dated April 25, 2008

**Philip Morris International Inc.**

**\$2,000,000,000 4.875% Notes due 2013**

**\$2,500,000,000 5.650% Notes due 2018**

**\$1,500,000,000 6.375% Notes due 2038**

Interest on each series of notes is payable semiannually on May 16 and November 16 of each year, beginning November 16, 2008. We may not redeem the notes prior to maturity unless specified events occur involving United States taxation. The notes will be our senior unsecured obligations and will rank equally in right of payment with all of our other senior unsecured indebtedness from time to time outstanding. The notes will be issued only in denominations of \$2,000 and integral multiples of \$1,000.

Application will be made to have the notes listed on the New York Stock Exchange.

See **Risk Factors** beginning on page 1 of the attached prospectus.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or determined if this prospectus supplement or the attached prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Public Offering Price		Underwriting Discount		Proceeds to Us (before expenses)	
	Per Note	Total	Per Note	Total	Per Note	Total
4.875% Notes due 2013	99.724%	\$ 1,994,480,000	0.350%	\$ 7,000,000	99.374%	\$ 1,987,480,000
5.650% Notes due 2018	99.736%	\$ 2,493,400,000	0.450%	\$ 11,250,000	99.286%	\$ 2,482,150,000
6.375% Notes due 2038	99.549%	\$ 1,493,235,000	0.875%	\$ 13,125,000	98.674%	\$ 1,480,110,000
Combined Total		\$ 5,981,115,000		\$ 31,375,000		\$ 5,949,740,000

The public offering prices set forth above do not include accrued interest. Interest on the notes of each series will accrue from May 16, 2008.

The underwriters expect to deliver the notes of each series to purchasers in book-entry form only through The Depository Trust Company for the accounts of its participants, including Clearstream or Euroclear, on or about May 16, 2008.

*Joint Book-Runners*

**Credit Suisse**

**Deutsche Bank Securities**  
*Senior Co-Managers*

**Lehman Brothers**

**HSBC**

**RBS Greenwich Capital**  
*Co-Managers*

**SOCIETE GENERALE**

**Banca IMI**

**BBVA Securities**

**BNP PARIBAS**

**CALYON**

**Prospectus Supplement dated May 13, 2008**

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You should rely only on the information contained or incorporated by reference in this prospectus supplement, any related free writing prospectus and the attached prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. If the information varies between this prospectus supplement and the attached prospectus, the information in this prospectus supplement supersedes the information in the attached prospectus. We are not making an offer of these securities in any jurisdiction where the offer or sale is not permitted. Neither the delivery of this prospectus supplement, any related free writing prospectus or the attached prospectus, nor any sale made hereunder and thereunder, shall under any circumstances create any implication that there has been no change in our affairs since the date of this prospectus supplement, any free writing prospectus or the attached prospectus or that the information contained

or incorporated by reference herein or therein is correct as of any time subsequent to the date of such information.

**In connection with this offering, Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc. and Lehman Brothers Inc. or their respective affiliates may over-allot or effect transactions that stabilize or maintain the market price of the notes at levels which might not otherwise prevail. In any jurisdiction where there can only be one stabilizing agent, Deutsche Bank Securities Inc. or its affiliates shall effect such transactions. This stabilizing, if commenced, may be discontinued at any time and will be carried out in compliance with applicable laws, regulations and rules.**

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The distribution of this prospectus supplement and the attached prospectus and the offering or sale of the notes in some jurisdictions may be restricted by law. The notes are offered globally for sale in those jurisdictions in the United States, Europe, Asia and elsewhere where it is lawful to make such offers. Persons into whose possession this prospectus supplement and the attached prospectus come are required by us and the underwriters to inform themselves about, and to observe, any applicable restrictions. This prospectus supplement and the attached prospectus may not be used for or in connection with an offer or solicitation by any person in any jurisdiction in which that offer or solicitation is not authorized or to any person to whom it is unlawful to make that offer or solicitation. See **Offering Restrictions** in this prospectus supplement.

This prospectus supplement and the attached prospectus have been prepared on the basis that any offer of notes in any Member State of the European Economic Area that has implemented the Prospectus Directive (2003/71/EC) (each, a Relevant Member State) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of notes. Accordingly, any person making or intending to make an offer of notes within the European Economic Area may only do so in circumstances in which no obligation arises for us or any of the underwriters to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither we nor the underwriters have authorized, nor do they authorize, the making of any offer of notes in circumstances in which an obligation arises for us or the underwriters to publish a prospectus for such offer.

### **ABOUT THIS PROSPECTUS SUPPLEMENT**

This prospectus supplement contains the terms of this offering of notes. This prospectus supplement, or the information incorporated by reference in this prospectus supplement, may add, update or change information in the attached prospectus. If information in this prospectus supplement or the information that is incorporated by reference in this prospectus supplement is inconsistent with the attached prospectus, this prospectus supplement, or the information incorporated by reference in this prospectus supplement, will apply and will supersede that information in the attached prospectus.

It is important for you to read and consider all information contained in this prospectus supplement, the attached prospectus and any related free writing prospectus in making your investment decision. You should also read and consider the information in the documents we have referred you to in **Where You Can Find More Information** in the attached prospectus, including our Registration Statement on Form 10, effective March 7, 2008, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 and our Current Report on Form 8-K filed with the Securities and Exchange Commission, or SEC, on March 31, 2008.

Application will be made to have the notes listed on the New York Stock Exchange. We cannot guarantee that listing will be obtained.

Trademarks and servicemarks in this prospectus supplement and the attached prospectus appear in bold italic type and are the property of or licensed by our subsidiaries.

Philip Morris International Inc. is a Virginia holding company incorporated in 1987. Unless otherwise indicated, all references in this prospectus supplement to **PMI**, **us**, **our**, or **we** refer to Philip Morris International Inc. and its subsidiaries.

References herein to **\$** and **dollars** are to United States dollars, and all financial data included or incorporated by reference herein have been presented in accordance with accounting principles generally accepted in the United States of America.

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**FORWARD-LOOKING AND CAUTIONARY STATEMENTS**

Some of the information included or incorporated by reference in this prospectus supplement and the attached prospectus contain forward-looking statements. 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 words of similar meaning. You can also identify them 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. You should bear this in mind as you consider forward-looking statements and whether to invest in or remain invested in our securities. In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we have identified important factors in the documents incorporated by reference 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 these cautionary statements. We elaborate on these and other risks we face in the documents incorporated by reference. You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider risks discussed in the documents incorporated by reference 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 except in the normal course of our public disclosure obligations.

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**SUMMARY OF THE OFFERING**

The following summary contains basic information about the notes and is not intended to be complete. It does not contain all the information that is important to you. For a more detailed description of the notes, please refer to the section entitled "Description of Notes" in this prospectus supplement and the section entitled "Description of Debt Securities" in the attached prospectus.

Issuer Philip Morris International Inc.

Securities Offered \$2,000,000,000 total principal amount of 4.875% notes due 2013, maturing May 16, 2013.  
\$2,500,000,000 total principal amount of 5.650% notes due 2018, maturing May 16, 2018.  
\$1,500,000,000 total principal amount of 6.375% notes due 2038, maturing May 16, 2038.

Interest Rates The notes due 2013 will bear interest from May 16, 2008 at the rate of 4.875% per annum.  
The notes due 2018 will bear interest from May 16, 2008 at the rate of 5.650% per annum.  
The notes due 2038 will bear interest from May 16, 2008 at the rate of 6.375% per annum.

Interest Payment Dates May 16 and November 16 of each year, beginning on November 16, 2008.

Anticipated Ratings\* Moody's: A2  
Standard & Poor's: A

Fitch: A+

Ranking The notes will be our senior unsecured obligations and will rank equally in right of payment with all of our existing and future senior unsecured indebtedness. Because we are a holding company, the notes will effectively rank junior to any indebtedness of our subsidiaries. The indenture does not limit the amount of debt we or our subsidiaries may issue.

Optional Tax Redemption We may redeem all, but not part, of the notes of each series upon the occurrence of specified tax events described under the heading "Description of Notes - Redemption for Tax Reasons" in this prospectus supplement.

Covenants We will issue the notes under an indenture containing covenants that restrict our ability, with significant exceptions, to:



incur debt secured by liens; and

engage in sale/leaseback transactions.

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### THE COMPANY

We are a Virginia holding company incorporated in 1987. Our subsidiaries and affiliates and their licensees are engaged in the manufacture and sale of cigarettes and other tobacco products in markets outside of the United States. Prior to March 28, 2008, we were a wholly-owned subsidiary of Altria Group, Inc., or Altria. On January 30, 2008, the Altria Board of Directors voted to spin off all shares of our common stock held by Altria on a pro rata basis to its stockholders in a tax-free distribution. As a result, effective as of the close of business on March 28, 2008, or the distribution date, we became an independently traded public company. Altria no longer owns any shares of our common stock.

We are the largest (in terms of volume) and most profitable publicly traded tobacco company in the world. With a shipment volume of 850 billion cigarettes in 2007, our products are sold in approximately 160 countries. In 2007, we held an estimated 15.6% share of the 5.5 trillion unit, or individual cigarette, international (which term as used in this prospectus supplement excludes the United States) cigarette market and an estimated 25.2% of the international cigarette market excluding the People's Republic of China, or PRC. We held a 52.4% share of the international premium price category (excluding the PRC) in 2007. We estimate that this category represents 24% of total industry unit sales. We are also growing our share of the below premium price category, which accounted for 76% of industry volume in 2007, and are expanding our leading position in the American type blend category.

Our strong portfolio of brands is led by *Marlboro*, with an international volume exceeding the combined volume of the four Global Drive Brands of British American Tobacco plc, as well as the combined volume of the four Global Focus Brands of Japan Tobacco Inc., our two largest international competitors.

Our principal executive offices are located at 120 Park Avenue, New York, New York 10017, our telephone number is (917) 663-2000 and our website is [www.pmintl.com](http://www.pmintl.com). The information contained in, or that can be accessed through, our website is not a part of this prospectus or any prospectus supplement.

### USE OF PROCEEDS

We will receive net proceeds (before expenses) from this offering of approximately \$5,949,740,000. We intend to add the net proceeds to our general funds, which may be used:

to meet our working capital requirements;

to repurchase our common stock;

to refinance debt; or

for general corporate purposes.

If we do not use the net proceeds immediately, we will temporarily invest them in short-term, interest-bearing obligations.

**Table of Contents****RATIO OF EARNINGS TO FIXED CHARGES**

The following table sets forth our historical ratios of earnings available for fixed charges to fixed charges for the periods indicated. This information should be read in conjunction with the consolidated financial statements and the accompanying notes incorporated by reference in this prospectus supplement.

	Three Months Ended		Year Ended December 31,			
	March 31, 2008	2007	2006	2005	2004	2003
Ratios of earnings to fixed charges	21.4	25.7	19.4	19.6	26.4	29.3

Earnings available for fixed charges represent earnings before income taxes, minority interest and cumulative effect of accounting change(s) and fixed charges excluding capitalized interest, net of amortization, reduced by undistributed earnings of our less than 50% owned affiliates. Fixed charges represent interest expense, amortization of debt discount and expenses and capitalized interest, plus that portion of rental expense estimated to be the equivalent of interest.

**CAPITALIZATION**

The following table sets forth our capitalization on a consolidated basis as of March 31, 2008. We have presented our capitalization on an actual basis, but not on an as adjusted basis to reflect the issuance of notes offered hereby, because we intend to add the net proceeds to our general funds, which may be used for a number of purposes, as described in Use of Proceeds.

You should read the following table along with our financial statements and the accompanying notes to those statements, together with management's discussion and analysis of financial condition and results of operations, that we have incorporated by reference in this prospectus supplement, and our selected historical financial data included in this prospectus supplement.

	As of March 31, 2008 Actual (in millions except for share data)
Short-term borrowings, including current maturities(1)	\$ 897
Other long-term debt(1)	6,643
<b>Total debt</b>	<b>7,540</b>
Stockholders' equity:	
Preferred stock, no par value, 250,000,000 shares authorized; none issued and outstanding	
Common stock, no par value, 6,000,000,000 shares authorized; 2,108,901,789 shares issued and outstanding	
Additional paid-in capital	1,638
Earnings reinvested in the business	11,296
Accumulated other comprehensive earnings	1,844
<b>Total stockholders' equity</b>	<b>14,778</b>
<b>Total capitalization</b>	<b>\$ 22,318</b>

- (1) Certain short-term borrowings have been reclassified as long-term in reliance on our credit facilities and our current intention to refinance certain of these borrowings on a long-term basis. Long-term rates and maturities for such refinancings will vary depending on market

conditions at the time of issuance.

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**SELECTED HISTORICAL FINANCIAL DATA**

The following table presents our selected historical financial data which have been derived from and should be read along with, and are qualified in their entirety by reference to, our financial statements and the accompanying notes to those statements and the section "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Registration Statement on Form 10 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 that we have incorporated by reference in this prospectus supplement. The selected historical financial data for the three months ended March 31, 2008 include all adjustments, consisting of normal recurring adjustments, which we consider necessary for a fair presentation of our results of operations for this period.

The selected historical financial data are not necessarily indicative of our future performance and do not reflect what our financial position and results of operations would have been had we operated as a stand-alone company during the periods presented.

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	Year Ended		Three Months	
	December 31, 2006	2007	Ended March 31, 2007	2008
	(in millions, except per share dollar amounts)			
	(audited)		(unaudited)	
<b>Consolidated Statement of Earnings Data:</b>				
Net revenues	\$ 48,260	\$ 55,096	\$ 13,268	\$ 15,599
Cost of sales	8,153	8,720	2,121	2,299
Excise taxes on products	27,466	32,298	7,719	9,269
Gross profit	12,641	14,078	3,428	4,031
Marketing, administration and research costs	4,551	5,021	1,229	1,184
Italian antitrust charge	61			
Asset impairment and exit costs	126	208	62	23
Gain on sale of business	(488)	(52)		
Amortization of intangibles	23	28	6	9
Operating income	8,368	8,873	2,131	2,815
Interest expense, net	142	10	10	75
Earnings before income taxes and minority interest	8,226	8,863	2,121	2,740
Provision for income taxes	1,829	2,564	618	811
Earnings before minority interest	6,397	6,299	1,503	1,929
Minority interest in earnings, net	251	273	58	62
Net earnings	\$ 6,146	\$ 6,026	\$ 1,445	\$ 1,867
<b>Earnings Per Share Data:(1)</b>				
Basic earnings per share	\$ 2.91	\$ 2.86	\$ 0.69	\$ 0.89
Diluted earnings per share	\$ 2.91	\$ 2.86	\$ 0.69	\$ 0.89
Shares used in computing:				
Basic earnings per share	2,109	2,109	2,109	2,108
Diluted earnings per share	2,109	2,109	2,109	2,108
<b>Balance Sheet Data:(2)</b>				
Cash and cash equivalents	\$ 1,676	\$ 1,656		\$ 1,231
Receivables	2,160	3,240		2,786
Inventories	7,075	9,332		9,020
Due from Altria Group, Inc. and affiliates	588	257		
Other current assets	426	567		596
Total current assets	11,925	15,052		13,633
Property, plant and equipment, at cost	9,462	11,685		12,441
Less accumulated depreciation	4,224	5,250		5,564
	5,238	6,435		6,877
Goodwill	6,197	7,925		8,250
Intangible assets, net	1,627	1,906		1,919
Other assets	1,133	725		853
Total assets	\$ 26,120	\$ 32,043		\$ 31,532
Short-term borrowings, including current maturities	564	729		897
Accrued taxes, except income taxes	3,541	4,523		3,691
Due to Altria Group, Inc. and affiliates				95

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Other current liabilities	2,884	3,299	2,710
Long-term debt	2,222	5,578	6,643
Deferred income taxes	1,166	1,240	1,284
Other liabilities	1,476	1,273	1,434
Stockholders' equity	14,267	15,401	14,778
Total liabilities and stockholders' equity	\$ 26,120	\$ 32,043	\$ 31,532

- (1) For years ended 2006 and 2007 and the three months ended March 31, 2007, the previously reported share information has been revised to reflect the PMI stock split that occurred just prior to the spin-off from Altria Group, Inc.
- (2) In accordance with our periodic reporting requirements, Balance Sheet Data for the three months ended March 31, 2007 are not included in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2008.

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### **DESCRIPTION OF NOTES**

The following description of the particular terms of the notes, which we refer to as the notes, supplements the description of the general terms and provisions of the debt securities set forth under Description of Debt Securities beginning on page 2 in the attached prospectus. The attached prospectus contains a detailed summary of additional provisions of the notes and of the indenture, dated as of April 25, 2008, between Philip Morris International Inc. and HSBC Bank USA, National Association, as trustee, under which the notes will be issued. The following description supersedes the description of the debt securities in the attached prospectus, to the extent of any inconsistency. Terms used in this prospectus supplement that are otherwise not defined will have the meanings given to them in the attached prospectus.

#### **Certain Terms of the 4.875% Notes due 2013**

The notes due 2013 are a series of debt securities described in the attached prospectus, which will be senior debt securities, will be initially issued in the aggregate principal amount of \$2,000,000,000 and will mature on May 16, 2013.

The notes due 2013 will bear interest at the rate of 4.875% per annum from May 16, 2008, payable semiannually in arrears on May 16 and November 16 of each year, commencing November 16, 2008, to the persons in whose names the notes are registered at the close of business on the preceding May 1 or November 1, each a record date, as the case may be. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.

#### **Certain Terms of the 5.650% Notes due 2018**

The notes due 2018 are a series of debt securities described in the attached prospectus, which will be senior debt securities, will be initially issued in the aggregate principal amount of \$2,500,000,000 and will mature on May 16, 2018.

The notes due 2018 will bear interest at the rate of 5.650% per annum from May 16, 2008, payable semiannually in arrears on May 16 and November 16 of each year, commencing November 16, 2008, to the persons in whose names the notes are registered at the close of business on the preceding May 1 or November 1, each a record date, as the case may be. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.

#### **Certain Terms of the 6.375% Notes due 2038**

The notes due 2038 are a series of debt securities described in the attached prospectus, which will be senior debt securities, will be initially issued in the aggregate principal amount of \$1,500,000,000 and will mature on May 16, 2038.

The notes due 2038 will bear interest at the rate of 6.375% per annum from May 16, 2008, payable semiannually in arrears on May 16 and November 16 of each year, commencing November 16, 2008, to the persons in whose names the notes are registered at the close of business on the preceding May 1 or November 1, each a record date, as the case may be. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.

#### **General**

In some circumstances, we may elect to discharge our obligations on the notes through full defeasance or covenant defeasance. See Description of Debt Securities Defeasance beginning on page 11 of the attached prospectus for more information about how we may do this.

We may, without the consent of the holders of the notes, issue additional notes having the same ranking and the same interest rate, maturity and other terms as the notes, except for the public offering price and issue date. Any additional notes having such similar terms, together with the applicable notes, will constitute a single series of notes under the indenture. No additional notes may be issued if an event of default has occurred with respect to the applicable series of notes.

The notes will not be entitled to any sinking fund.

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### **Book-Entry Notes**

We have obtained the information in this section concerning The Depository Trust Company, or DTC, Clearstream Banking, *société anonyme*, or Clearstream, and Euroclear Bank S.A./N.V., as operator of the Euroclear System, or Euroclear, and the book-entry system and procedures from sources that we believe to be reliable, but we take no responsibility for the accuracy of this information.

The notes will be offered and sold in principal amounts of \$2,000 and integral multiples of \$1,000. We will issue the notes of each series in the form of one or more permanent global notes in fully registered, book-entry form, which we refer to as the global notes. Each such global note will be deposited with, or on behalf of, DTC or any successor thereto, as depository, or Depository, and registered in the name of Cede & Co. (DTC's partnership nominee). Unless and until it is exchanged in whole or in part for notes in definitive form, no global note may be transferred except as a whole by the Depository to a nominee of such Depository. Investors may elect to hold interests in the global notes through either the Depository (in the United States) or through Clearstream or Euroclear, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Clearstream and Euroclear will hold interests on behalf of their participants through customers' securities accounts in Clearstream's and Euroclear's names on the books of their respective depositories, which in turn will hold such interests in customers' securities accounts in the depositories' names on the books of DTC.

DTC advises that it is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provision of Section 17A of the Securities Exchange Act of 1934, as amended, or the Exchange Act. DTC holds securities that its participants, or DTC Participants, deposit with DTC. DTC also facilitates settlement of securities transactions among the DTC Participants, such as transfers and pledges in deposited securities through electronic computerized book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities certificates.

Direct DTC Participants, or DTC Direct Participants, include securities brokers and dealers, banks and certain other organizations. DTC is owned by members of the financial industry. Access to DTC's book-entry system is also available to others, such as banks, securities brokers and dealers that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly (we refer to the latter as DTC Indirect Participants).

Purchases of the notes under DTC's book-entry system must be made by or through DTC Direct Participants, which will receive a credit for the notes on the records of DTC. The ownership interest of each actual purchaser of the notes, which we refer to as the beneficial owner, is in turn to be recorded on the DTC Participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings from the DTC Direct or DTC Indirect Participant through which the beneficial owner entered into the transaction. Transfers of ownership interests in the global notes will be effected only through entries made on the books of DTC Participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in the global notes, except in the event that use of the book-entry system for the notes is discontinued.

Upon the issuance of a registered global note, DTC will credit, on its book-entry registration and transfer system, the DTC Participants' accounts with the respective principal or face amounts of the relevant series of notes beneficially owned by the DTC Participants. Any dealers, underwriters or agents participating in the distribution of the notes will designate the accounts to be credited. Ownership of beneficial interests in

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registered global note will be shown on, and the transfer of ownership interests will be effected only through, records maintained by DTC, with respect to interests of DTC Participants, and on the records of DTC Participants, with respect to interests of persons holding through DTC Participants.

To facilitate subsequent transfers, all global notes deposited by DTC Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the global notes with DTC and their registration in the name of Cede & Co. or such other nominee effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the notes; DTC's records reflect only the identity of the DTC Direct Participants to whose accounts such notes are credited, which may or may not be the beneficial owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

So long as DTC, or its nominee, is the registered owner of a registered global note, DTC or its nominee, as the case may be, will be considered the sole owner or holder of the relevant series of notes represented by the global note for all purposes under the indenture. Except as described below, owners of beneficial interests in a global note will not be entitled to have the book-entry notes represented by the notes registered in their names, will not receive or be entitled to receive physical delivery of notes in definitive form and will not be considered the owners or holders of the notes under the indenture. Accordingly, each person owning a beneficial interest in a global note must rely on the procedures of DTC for that global note and, if that person is not a DTC Participant, on the procedures of the DTC Participant through which the person owns its interest, to exercise any rights of a holder under the indenture. The laws of some jurisdictions may require that some purchasers of notes take physical delivery of these notes in definitive form. Such laws may impair the ability to own, transfer or pledge beneficial interests in a global note.

PMI will make payments due on the notes to Cede & Co., as nominee of DTC, in immediately available funds. DTC's practice upon receipt of any payment of principal, premium, interest or other distribution of underlying securities or other property to holders on that global note, is to immediately credit the DTC Participants' accounts in amounts proportionate to their respective beneficial interests in that global note as shown on the records of the Depository. Payments by DTC Participants to owners of beneficial interests in a global note held through DTC Participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers registered in street name, and will be the responsibility of those DTC Participants. Payment to Cede & Co. is the responsibility of PMI. Disbursement of such payments to direct participants is the responsibility of Cede & Co. Disbursement of such payments to the beneficial owners is the responsibility of DTC Direct and DTC Indirect Participants. None of PMI, the trustee or any other agent of ours or any agent of the trustee will have any responsibility or liability for any aspect of the records relating to payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to those beneficial ownership interests.

Clearstream has advised us that it is a limited liability company organized under Luxembourg law. Clearstream holds securities for its participating organizations, or Clearstream Participants, and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to Clearstream Participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. Clearstream is registered as a bank in Luxembourg, and as such is subject to regulation by the *Commission de Surveillance du Secteur Financier*. Clearstream participants are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the underwriters. Indirect access to Clearstream is available to other institutions that clear through or maintain a custodial relationship with a Clearstream Participant.

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Distributions with respect to the global notes held beneficially through Clearstream will be credited to cash accounts of Clearstream Participants in accordance with its rules and procedures, to the extent received by the U.S. depository for Clearstream.

Euroclear advises that it was created in 1968 to hold securities for participants of Euroclear, or Euroclear Participants, and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear includes various other services, including securities lending and borrowing and interfaces with domestic markets in several countries.

Euroclear is operated by Euroclear Bank S.A./N.V., or the Euroclear Operator, under contract with Euroclear Clearance Systems S.C., a Belgian cooperative corporation, or the Cooperative. All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Cooperative. The Cooperative establishes policy for Euroclear on behalf of Euroclear Participants. Euroclear Participants include banks, securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear Participant, either directly or indirectly.

The Euroclear Operator is regulated and examined by the Belgian Banking and Finance Commission. Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law. These Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants, and has no record of or relationship with persons holding through Euroclear Participants.

Distributions with respect to the global notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the terms and conditions of Euroclear, to the extent received by the U.S. depository for Euroclear.

## **Global Clearance and Settlement Procedures**

Initial settlement for the notes will be made in immediately available funds. Secondary market trading between the participants in the Depository will occur in the ordinary way in accordance with the Depository's rules and will be settled in immediately available funds using DTC's Same-Day Funds Settlement System. Secondary market trading between Clearstream Participants and/or Euroclear Participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional Eurobonds in immediately available funds.

Cross-market transfers between persons holding directly or indirectly through DTC on the one hand, and directly or indirectly through Clearstream or Euroclear Participants, on the other, will be effected in DTC in accordance with the DTC rules on behalf of the relevant European international clearing system by its U.S. depository; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. depository to take action to effect final settlement on its behalf by delivering interests in the notes to or receiving interests in the notes from DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream Participants and Euroclear Participants may not deliver instructions directly to DTC.

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Because of time-zone differences, credits of interests in the notes received in Clearstream or Euroclear as a result of a transaction with a Depository Participant will be made during subsequent securities settlement processing and will be credited the business day following the DTC settlement date. Such credits or any transactions involving interests in such notes settled during such processing will be reported to the relevant Euroclear or Clearstream Participants on such business day. Cash received in Clearstream or Euroclear as a result of sales of interests in the notes by or through a Clearstream Participant or a Euroclear Participant to a Depository Participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of the notes among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time.

## **Notices**

Notices to holders of the notes will be sent by mail or email to the registered holders and will be published, whether the notes are in global or definitive form, and, so long as the notes are listed on the New York Stock Exchange, in a daily newspaper of general circulation in the City of New York. It is expected that publication will be made in the City of New York in the *The Wall Street Journal*. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the date of the first such publication.

## **Payment of Additional Amounts**

We will, subject to the exceptions and limitations set forth below, pay to the beneficial owner of any note who is a non-United States person (as defined below) such additional amounts as may be necessary to ensure that every net payment on such note, after deduction or withholding by us or any of our paying agents for or on account of any present or future tax, assessment or other governmental charge imposed upon or as a result of such payment by the United States or any political subdivision or taxing authority of the United States, will not be less than the amount provided in such note to be then due and payable. However, we will not pay additional amounts if the beneficial owner is subject to taxation solely for reasons other than its ownership of the note, nor will we pay additional amounts for or on account of:

- (a) any tax, assessment or other governmental charge that is imposed or withheld solely by reason of the existence of any present or former connection (other than the mere fact of being a beneficial owner of a note) between the beneficial owner (or between a fiduciary, settlor, beneficiary or person holding a power over such beneficial owner, if the beneficial owner is an estate or trust, or a member or shareholder of the beneficial owner, if the beneficial owner is a partnership or corporation) of a note and the United States, including, without limitation, such beneficial owner (or such fiduciary, settlor, beneficiary, person holding a power, member or shareholder) being or having been a citizen or resident of the United States or treated as being or having been a resident thereof;
- (b) any tax, assessment or other governmental charge that is imposed or withheld solely by reason of the beneficial owner (or a fiduciary, settlor, beneficiary or person holding a power over such beneficial owner, if the beneficial owner is an estate or trust, or a member or shareholder of the beneficial owner, if the beneficial owner is a partnership or corporation) (1) being or having been present in, or engaged in a trade or business in, the United States, (2) being treated as having been present in, or engaged in a trade or business in, the United States, or (3) having or having had a permanent establishment in the United States;
- (c) any tax, assessment or other governmental charge that is imposed or withheld solely by reason of the beneficial owner (or a fiduciary, settlor, beneficiary or person holding a power over such beneficial owner, if the beneficial owner is an estate or trust, or a member or shareholder of the beneficial owner, if the beneficial owner is a partnership or corporation) being or having been with respect to the United States a personal holding

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company, a controlled foreign corporation, a passive foreign investment company or a foreign private foundation or other foreign tax-exempt organization, or being a corporation that accumulates earnings to avoid United States federal income tax;

(d) any tax, assessment or other governmental charge imposed on a beneficial owner that actually or constructively owns 10% or more of the total combined voting power of all of our classes of stock that are entitled to vote within the meaning of Section 871(h)(3) of the Internal Revenue Code of 1986, as amended, or the Code;

(e) any tax, assessment or other governmental charge that is payable by any method other than withholding or deduction by us or any paying agent from payments in respect of such note;

(f) any gift, estate, inheritance, sales, transfer, personal property or excise tax or any similar tax, assessment or other governmental charge;

(g) any tax, assessment or other governmental charge required to be withheld by any paying agent from any payment in respect of any note if such payment can be made without such withholding by at least one other paying agent;

(h) any tax, assessment or other governmental charge that is imposed or withheld by reason of a change in law, regulation, or administrative or judicial interpretation that becomes effective more than 15 days after the payment becomes due or is duly provided for, whichever occurs later;

(i) any tax, assessment or other governmental charge imposed as a result of the failure of the beneficial owner to comply with applicable certification, information, documentation or other reporting requirements concerning the nationality, residence, identity or connection with the United States of the holder or beneficial owner of a note, if such compliance is required by statute or regulation of the United States as a precondition to relief or exemption from such tax, assessment or other governmental charge;

(j) any tax, assessment or other governmental charge imposed by reason of the failure of the beneficial owner to fulfill the statement requirements of Section 871(h) or Section 881(c) of the Code; or

(k) any combination of items (a), (b), (c), (d), (e), (f), (g), (h), (i) and (j).

In addition, we will not pay additional amounts to a beneficial owner of a note that is a fiduciary, partnership, limited liability company or other fiscally transparent entity, or to a beneficial owner of a note that is not the sole beneficial owner of such note, as the case may be. This exception, however, will apply only to the extent that a beneficiary or settlor with respect to the fiduciary, or a beneficial owner or member of the partnership, limited liability company or other fiscally transparent entity, would not have been entitled to the payment of an additional amount had the beneficiary, settlor, beneficial owner or member received directly its beneficial or distributive share of the payment. The term **beneficial owner** includes any person holding a note on behalf of or for the account of a beneficial owner.

As used herein, the term **non-United States person** means a person that is not a United States person. The term **United States person** means a citizen or resident of the United States or, a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof, an estate the income of which is subject to United States federal income taxation regardless of its source, a trust subject to the primary supervision of a court within the United States and the control of one or more United States persons as described in Section 7701(a)(30) of the Code, or a trust that existed on August 20, 1996, and elected to continue its treatment as a domestic trust. **United States** means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction (including the Commonwealth of Puerto Rico).

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### **Redemption for Tax Reasons**

Each series of notes will mature and be redeemed at par on their respective maturity dates of May 16, 2013, May 16, 2018, and May 16, 2038, and is not redeemable prior to maturity except upon the occurrence of certain tax events described below.

We may redeem a series of notes prior to maturity in whole, but not in part, on not more than 60 days' notice and not less than 30 days' notice at a redemption price equal to the principal amount of such notes plus any accrued interest and additional amounts to the date fixed for redemption if:

as a result of a change in or amendment to the tax laws, regulations or rulings of the United States or any political subdivision or taxing authority of or in the United States or any change in official position regarding the application or interpretation of such laws, regulations or rulings (including a holding by a court of competent jurisdiction in the United States) that is announced or becomes effective on or after May 16, 2008, we have or will become obligated to pay additional amounts with respect to such series of notes as described above under "Payment of Additional Amounts," or

on or after May 16, 2008, any action is taken by a taxing authority of, or any decision is rendered by a court of competent jurisdiction in, the United States or any political subdivision or taxing authority of or in the United States, including any of those actions specified in the bullet point above, whether or not such action is taken or decision is rendered with respect to us, or any change, amendment, application or interpretation is officially proposed, which, in any such case, in the written opinion of independent legal counsel of recognized standing, will result in a material probability that we will become obligated to pay additional amounts with respect to such series of notes,

and we in our business judgment determine that such obligations cannot be avoided by the use of reasonable measures available to us.

If we exercise our option to redeem a series of notes, we will deliver to the trustee a certificate signed by an authorized officer stating that we are entitled to redeem the notes and the written opinion of independent legal counsel if required.

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**CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following summary describes generally the material United States federal income and, in the case of non-United States Holders (as defined below), estate tax considerations with respect to your acquisition, ownership and disposition of a note if you are a beneficial owner of such note. Unless otherwise indicated, this summary addresses only notes purchased at original issue for their original offering price, and held by beneficial owners as capital assets, and does not address all of the United States federal income and estate tax considerations that may be relevant to you in light of your particular circumstances or if you are subject to special treatment under United States federal income tax laws (for example, if you are an insurance company, tax-exempt organization, financial institution, broker or dealer in securities or currencies, trader in securities that elects to use the mark-to-market method of accounting for your securities holdings, person subject to the alternative minimum tax, United States expatriate, person that holds notes as part of an integrated investment (including a straddle), controlled foreign corporation, passive foreign investment company, or corporation that accumulates earnings to avoid United States federal income tax). If a partnership holds notes, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. This summary does not address special tax considerations that may be relevant to you if you are a partner of a partnership holding our notes. A partner of a partnership holding our notes should consult its own tax advisor regarding the tax consequences of the acquisition, ownership and disposition of our notes. This summary does not discuss any aspect of state, local or non-United States taxation, or any United States federal tax considerations other than income and estate taxation.

This summary is based on current provisions of the Code, Treasury regulations, judicial opinions, published positions of the United States Internal Revenue Service, or IRS, and all other applicable authorities, all of which are subject to change, possibly with retroactive effect. This summary is not intended as tax advice.

**We urge prospective investors in notes to consult their tax advisors regarding the United States federal, state, local and non-United States income and other tax considerations of acquiring, holding and disposing of notes.**

**United States Holders**

This discussion applies to you if you are a United States Holder. For this purpose, a United States Holder is a beneficial owner of a note that is:

a citizen or individual resident of the United States;

a corporation, or other entity treated as a corporation for United States federal income tax purposes, created or organized in, or under the laws of, the United States or any political subdivision of the United States;

an estate, the income of which is subject to United States federal income taxation regardless of its source;

a trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust; or

a trust that existed on August 20, 1996, and elected to continue its treatment as a domestic trust.

*Payments of Interest*

Except as set forth below, payments of interest on a note generally will be taxable to you as ordinary interest income at the time the interest accrues or is received, in accordance with your method of accounting for tax purposes.



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If we are an 80/20 company for United States federal income tax purposes, interest on the notes generally will be treated as income from sources without the United States for the purpose of computing United States foreign tax credit limitations. In such a case, interest on the notes should constitute passive category income (subject to certain exceptions), which is treated separately from other types of income in computing the foreign tax credit allowable under United States federal income tax laws.

A U.S. corporation generally is an 80/20 company if at least 80% of its gross income during an applicable testing period is, directly or through subsidiaries, active foreign business income. The 80% test for active foreign business income is computed annually. Although we believe that we currently are an 80/20 company, our operations and business plans may change in subsequent taxable years. Therefore, no assurance can be given regarding our classification as an 80/20 company for United States federal income tax purposes in the future. If we are not an 80/20 company, interest on the notes generally will be treated as income from sources within the United States for United States federal income tax purposes.

### *Sale, Exchange, Redemption or Disposition of a Note*

Upon the sale, exchange, redemption or other taxable disposition of a note, you will recognize taxable gain or loss equal to the difference between (i) the amount you realize on the sale, exchange, redemption or other taxable disposition, other than amounts, if any, attributable to accrued but unpaid stated interest (which will be taxable as interest income) and (ii) your adjusted tax basis in the note. Your adjusted tax basis in a note generally will equal the cost of the note to you.

Gain or loss realized upon the sale, exchange, redemption or other taxable disposition of a note generally will be capital gain or loss and will be long-term capital gain or loss if, at the time of the sale, exchange, redemption or other taxable disposition, you have held the note for more than one year. The maximum tax rate on ordinary income for taxpayers that are individuals, estates or trusts currently is higher than the maximum tax rate on long-term capital gains of such persons. The distinction between capital gain or loss and ordinary income or loss also is relevant for purposes of the limitation on the deductibility of capital losses.

### *Backup Withholding and Information Reporting*

Unless you are an exempt recipient such as a corporation or financial institution, a backup withholding tax and certain information reporting requirements may apply to payments we make to you of principal of and interest or premium (if any) on, and proceeds of the sale or exchange before maturity of, a note. Currently, the applicable backup withholding tax rate is 28%. Backup withholding and information reporting will not apply to payments that we make on the notes to exempt recipients, such as corporations or financial institutions, that establish their status as such, regardless of whether such entities are the beneficial owners of such notes or hold such notes as a custodian, nominee or agent of the beneficial owner. However, with respect to payments made to a custodian, nominee or agent of the beneficial owner, backup withholding and information reporting may apply to payments made by such custodian, nominee or other agent to you unless you are an exempt recipient and establish your status as such.

If you are not an exempt recipient (for example, if you are an individual), backup withholding will not be applicable to payments made to you if you (i) have supplied an accurate Taxpayer Identification Number (usually on an IRS Form W-9), (ii) have not been notified by the IRS that you have failed to properly report payments of interest and dividends and (iii) in certain circumstances, have certified under penalties of perjury that you have received no such notification and have supplied an accurate Taxpayer Identification Number. However, information reporting will be required in such a case.

Any amounts withheld from a payment to you by operation of the backup withholding rules will be refunded or allowed as a credit against your United States federal income tax liability, provided that any required information is furnished to the IRS in a timely manner.

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### **Non-United States Holders**

This discussion applies to you if you are a non-United States Holder. A non-United States Holder is a beneficial owner of a note that is neither a United States Holder nor a partnership (or other entity treated as a partnership for United States federal income tax purposes).

#### *Payments of Interest*

If we are an 80/20 company for United States federal income tax purposes (as discussed above under **United States Holders Payments of Interest**), subject to the discussion of backup withholding below, you generally will not be subject to United States federal income or withholding tax on payments of interest on a note unless the interest is effectively connected with your conduct of a United States trade or business (and, under certain income tax treaties, is attributable to a United States permanent establishment you maintain). Special rules apply if you are related to us within the meaning of Section 861(d)(2)(B) of the Code. In the event that we fail to qualify as an 80/20 company for United States federal income tax purposes, payments of interest that we make to you will be subject to United States withholding tax at a rate of 30% of the gross amount, unless you are eligible for one of the exceptions described below.

Subject to the discussion of backup withholding below, no withholding of United States federal income tax will be required with respect to payments we make to you of interest provided that:

you do not actually or constructively own 10% or more of the total combined voting power of all classes of our stock entitled to vote within the meaning of Section 871(h)(3) of the Code;

you are not a controlled foreign corporation that is related to us through stock ownership; and

you have provided the required certifications as set forth in Section 871(h) and Section 881(c) of the Code.

To satisfy these certification requirements, you generally will be required to provide in the year in which a payment of interest occurs, or in one of the three preceding years, a statement that:

is signed by you under penalties of perjury;

certifies that you are the beneficial owner of the notes and are not a United States Holder; and

provides your name and address.

This statement generally may be made on an IRS Form W-8BEN or a substantially similar substitute form and you must inform the recipient of any change in the information on the statement within 30 days of such change. Special certification rules apply to non-United States Holders that are pass-through entities rather than corporations or individuals.

If you are engaged in a United States trade or business and interest received by you on a note is effectively connected with your conduct of such trade or business (and, under certain income tax treaties, is attributable to a United States permanent establishment you maintain), you will be exempt from the withholding of United States federal income tax described above, so long as you have provided an IRS Form W-8ECI or substantially similar substitute form stating that interest on the note is effectively connected with your conduct of a trade or business in the United States. In such a case, you will be subject to tax on interest you receive on a net income basis in the same manner as if you were a United States Holder. If you are a corporation, effectively connected income may also be subject to a branch profits tax at a rate of 30% (or such lower rate as may be specified by an applicable income tax treaty).

If you are not eligible for relief under one of the exceptions described above, you may nonetheless qualify for an exemption from, or a reduced rate of, United States federal withholding tax under a United States income tax treaty. In general, this exemption or reduced rate of tax applies

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only if you provide a properly completed IRS Form W-8BEN or substantially similar form claiming benefits under an applicable income tax treaty.

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### *Sale, Exchange, Redemption or Disposition of Notes*

You generally will not be subject to United States federal income tax on any gain realized upon your sale, exchange, redemption or other taxable disposition of notes unless:

the gain is effectively connected with your conduct of a trade or business within the United States (and, under certain income tax treaties, is attributable to a United States permanent establishment you maintain); or

you are an individual, you are present in the United States for 183 days or more in the taxable year of disposition and you meet other conditions, and you are not eligible for relief under an applicable income tax treaty.

Gain that is effectively connected with your conduct of a trade or business within the United States generally will be subject to United States federal income tax, net of certain deductions, at the same rates applicable to United States persons. If you are a corporation, the branch profits tax also may apply to such effectively connected gain. If the gain from the sale or disposition of your notes is effectively connected with your conduct of a trade or business in the United States but under an applicable income tax treaty is not attributable to a permanent establishment you maintain in the United States, your gain may be exempt from United States tax under the treaty. If you are described in the second bullet point above, you generally will be subject to United States tax at a rate of 30% on the gain realized, although the gain may be offset by some United States source capital losses realized during the same taxable year.

### *Backup Withholding and Information Reporting*

Unless we qualify as an 80/20 company for United States federal income tax purposes (as described above under *United States Holders* *Payments of Interest* ), the amount of interest we pay to you on notes will be reported to you and to the IRS annually on an IRS Form 1042-S even if you are exempt from the 30% withholding tax described above. Copies of the information returns reporting those payments and the amounts withheld may also be made available to the tax authorities in the country where you are resident under provisions of an applicable income tax treaty or agreement.

In addition, regardless of whether we qualify as an 80/20 company for United States federal income tax purposes, backup withholding tax (currently at a rate of 28%) and certain other information reporting requirements apply to payments of interest and certain reportable payments, unless an exemption applies. Backup withholding and information reporting will not apply to payments we make to you if you have provided under penalties of perjury the required certification of your non-United States person status as discussed above under *Payments of Interest* (and we do not have actual knowledge or reason to know that you are a United States Holder) or if you are an exempt recipient, such as a corporation or a financial institution.

If you sell or redeem a note through a United States broker or the United States office of a foreign broker, the proceeds from such sale or redemption will be subject to information reporting and backup withholding unless you provide a withholding certificate or other appropriate documentary evidence establishing that you are not a United States Holder to the broker and such broker does not have actual knowledge or reason to know that you are a United States Holder, or you are an exempt recipient eligible for an exemption from information reporting and backup withholding. If you sell or redeem a note through the foreign office of a broker who is a United States person or has certain enumerated connections with the United States, the proceeds from such sale or redemption will be subject to information reporting unless you provide to such broker a withholding certificate or other documentary evidence establishing that you are not a United States Holder and such broker does not have actual knowledge or reason to know that such evidence is false, or you are an exempt recipient eligible for an exemption from information reporting. In circumstances where information reporting by the foreign office of such a broker is required, backup withholding will be required only if the broker has actual knowledge that you are a United States Holder.

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Any amounts withheld from a payment to you by operation of the backup withholding rules will be refunded or allowed as a credit against your United States federal income tax liability, if any, provided that you timely file a United States federal income tax return with the IRS claiming such refund or credit.

*Estate Tax*

A note held by an individual who at the time of death is a non-United States Holder will not be subject to United States federal estate tax as a result of such individual's death, provided that such individual does not actually or constructively own 10% or more of the total combined voting power of all classes of our stock entitled to vote within the meaning of Section 871(h)(3) of the Code and provided that the interest payments with respect to such note are not effectively connected with such individual's conduct of a United States trade or business. The maximum federal estate tax rate is being reduced over an 8-year period that began in 2002. The tax will be eliminated for estates of decedents dying after December 31, 2009, but, in the absence of legislation, the federal estate tax provisions in effect immediately prior to 2002 will be restored for estates of decedents dying after December 31, 2010.

**Table of Contents****UNDERWRITING**

Subject to the terms and conditions set forth in the terms agreement dated the date of this prospectus supplement which incorporates by reference the underwriting agreement dated as of April 25, 2008, each of the underwriters named below, for whom Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc. and Lehman Brothers Inc. are acting as representatives, has severally agreed to purchase, and we have agreed to sell to each underwriter, the respective principal amount of each series of notes as set forth opposite the name of each underwriter below.

<b>Underwriters</b>	<b>Principal Amount of 4.875% Notes due 2013</b>	<b>Principal Amount of 5.650% Notes due 2018</b>	<b>Principal Amount of 6.375% Notes due 2038</b>
Credit Suisse Securities (USA) LLC	\$ 500,000,000	\$ 625,000,000	\$ 375,000,000
Deutsche Bank Securities Inc.	500,000,000	625,000,000	375,000,000
Lehman Brothers Inc.	500,000,000	625,000,000	375,000,000
Greenwich Capital Markets, Inc.	100,000,000	125,000,000	75,000,000
HSBC Securities (USA) Inc.	100,000,000	125,000,000	75,000,000
SG Americas Securities, LLC	100,000,000	125,000,000	75,000,000
Banca IMI S.p.A.	50,000,000	62,500,000	37,500,000
BBVA Securities, Inc.	50,000,000	62,500,000	37,500,000
BNP Paribas Securities Corp.	50,000,000	62,500,000	37,500,000
Calyon Securities (USA) Inc.	50,000,000	62,500,000	37,500,000
<b>Total</b>	<b>\$ 2,000,000,000</b>	<b>\$ 2,500,000,000</b>	<b>\$ 1,500,000,000</b>

The underwriting agreement provides that the obligations of the underwriters to purchase the notes included in this offering are subject to approval of certain legal matters by counsel and to certain other conditions. The underwriters are obligated to purchase all of the notes if they purchase any of the notes.

We have been advised by the underwriters that the underwriters propose initially to offer some of the notes to the public at the public offering prices set forth on the cover page of this prospectus supplement and some of the notes to certain dealers at the public offering price less concessions not in excess of 0.200%, in the case of the notes due 2013, not in excess of 0.275%, in the case of the notes due 2018, and not in excess of 0.500%, in the case of the notes due 2038. The underwriters may allow, and these dealers may realow, concessions not in excess of 0.100%, in the case of the notes due 2013, not in excess of 0.125%, in the case of the notes due 2018, and not in excess of 0.250%, in the case of the notes due 2038, of the principal amount of the notes on sales of the notes to certain other dealers. After the initial offering of the notes to the public, the underwriters may change the public offering price and concessions.

The following table shows the underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering (expressed as a percentage of the principal amount of the notes).

	<b>Paid by PMI</b>
Per 4.875% Note due 2013	0.350%
Per 5.650% Note due 2018	0.450%
Per 6.375% Note due 2038	0.875%

In connection with the offering of the notes, Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc. and Lehman Brothers Inc. or their respective affiliates may purchase and sell each series of notes in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the stabilizing underwriters of a greater number of 4.875% notes due 2013, of 5.650% notes due 2018 or of 6.375% notes due 2038, as the case may be, than they are required to purchase in the offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the notes while the offering is in progress.



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Any of these activities may cause the price of the notes to be higher than the price that otherwise would exist in the open market in the absence of such transactions. These transactions may be effected in the over-the-counter market or otherwise and, if commenced, may be discontinued at any time. Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the notes. In addition, neither we nor any of the underwriters make any representation that any of the underwriters will engage in such transactions, or that such transactions, once begun, will not be discontinued without notice.

We estimate that our total expenses of this offering, excluding underwriting discounts, will be approximately \$1,767,500. The underwriters have agreed to pay certain expenses in connection with the offering.

The underwriters and their affiliates have performed certain investment banking, advisory or general financing and banking services for us and our affiliates from time to time, for which they have received customary fees and expenses. The underwriters and their affiliates may, from time to time, engage in transactions with and perform services for us and our affiliates in the ordinary course of their business. Certain of the underwriters and their affiliates have been or are lenders in connection with our credit facilities or dealers in connection with our commercial paper programs. These companies receive standard fees for their services. Each of the representatives of the underwriters or their affiliates and certain of the other underwriters is a participant in various capacities in our existing credit facilities. Our new term loan facility includes a mandatory prepayment provision that requires that we pay an amount equal to 50% of the net proceeds in any specified capital markets financing transaction (such as this offering) to repay a corresponding amount of outstanding term loans at the end of the interest period applicable to the outstanding term loans, which is currently in November 2008. When this occurs, the amount under the term loan facility owed to those underwriters in this offering (or their affiliates) will accordingly be reduced. There is no requirement that the proceeds of this offering be applied to such prepayment.

This offering is being conducted pursuant to Conduct Rule 2710(h) of the Financial Industry Regulatory Authority.

We have agreed to indemnify the underwriters against certain liabilities, including certain liabilities under the Securities Act of 1933, as amended.

It is expected that delivery of the notes will be made against payment therefor on or about May 16, 2008, which is the third business day following the date of this prospectus supplement (such settlement cycle being referred to as T+3). Purchasers of notes should be aware that the ability to settle secondary market trades of the notes effected on the date of pricing and the next succeeding business day may be affected by the T+3 settlement.

Although application will be made to list the notes on the New York Stock Exchange, the notes are new issues of securities with no established trading market. We cannot assure you that the notes will have a liquid trading market. We have been advised by the underwriters that they intend to make a market in the notes, but they are not obligated to do so and may discontinue such market-making at any time without notice.

## **OFFERING RESTRICTIONS**

The notes are offered for sale in those jurisdictions in the United States, Europe, Asia and elsewhere where it is lawful to make such offers.

Each of the underwriters has severally represented and agreed that it has not offered, sold or delivered and it will not offer, sell or deliver, directly or indirectly, any of the notes, or distribute this prospectus supplement or the attached prospectus or any other offering material relating to the notes, in or from any jurisdiction except under circumstances that will result in compliance with the applicable laws and regulations thereof and that will not impose any obligations on us except as agreed to with us in advance of such offer, sale or delivery.

In particular, each underwriter has severally represented and agreed that:

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, which we refer to as the Relevant Implementation Date, it has not made and will not make an offer of notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the notes which has been



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approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of notes to the public in that Relevant Member State at any time:

- (i) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- (ii) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than 43,000,000 and (3) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts;
- (iii) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the representatives for any such offer; or
- (iv) in any other circumstances which do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of notes to the public in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Each underwriter has also severally represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act of 2000, or FSMA) received by it in connection with the issue or sale of the notes in circumstances in which Section 21(1) of the FSMA does not apply to us; and (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom;

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any notes other than (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or (ii) to professional investors as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (iii) in other circumstances which do not result in the document being a prospectus as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors as defined in the Securities and Futures Ordinance and any rules made under that Ordinance;

this prospectus supplement has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore, or the Securities and Futures Act. Accordingly, it may not offer or sell the notes or make the notes the subject of an invitation for subscription or purchase nor may it circulate or distribute this prospectus supplement or any other document or material in connection with the offer or sale or invitation for subscription or



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purchase of any notes, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Each of the following relevant persons specified in Section 275 of the Securities and Futures Act which has subscribed or purchased notes, namely a person who is:

- a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor;

should note that shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the notes under Section 275 of the Securities and Futures Act except:

- (i) to an institutional investor under Section 274 of the Securities and Futures Act or to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions, specified in Section 275 of the Securities and Futures Act;
- (ii) no consideration is given for the transfer; or
- (iii) by operation of law; and

the notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended; the FIEL ), and it will not offer or sell any notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

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**DOCUMENTS INCORPORATED BY REFERENCE**

The SEC allows us to incorporate by reference into this prospectus supplement and the attached prospectus information that we file with them. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus supplement and the attached prospectus, and information that we file later with the SEC will automatically update and supersede any inconsistent information in this prospectus supplement and the attached prospectus and in our other filings with the SEC.

We incorporate by reference the following documents that we previously filed with the SEC (other than information in such documents that is deemed not to be filed), all of which are filed under SEC File No. 1-33708:

our Registration Statement on Form 10, effective March 7, 2008;

our Quarterly Report on Form 10-Q for the quarter ended March 31, 2008; and

our Current Report on Form 8-K filed on March 31, 2008.

These documents contain important information about our business and our financial performance.

We also incorporate by reference any future filings we make with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, on or after the date of the filing of the registration statement and prior to the termination of the offering, all of which will be filed under SEC File No. 1-33708. Our future filings with the SEC will automatically update and supersede any inconsistent information in this prospectus.

You may obtain a free copy of these filings from us by telephoning or writing to us at the following address and telephone number:

Philip Morris International Inc.

120 Park Avenue

New York, New York 10017

Attention: Corporate Secretary

Telephone: (917) 663 2000

**L E G A L M A T T E R S**

The validity of the notes will be passed upon for us by Hunton & Williams LLP, New York, New York, and for the underwriters by Simpson Thacher & Bartlett LLP, New York, New York. Simpson Thacher & Bartlett LLP will rely upon Hunton & Williams LLP as to matters of Virginia law. Sutherland Asbill & Brennan LLP, Washington, D.C. is also representing us with respect to United States federal tax laws.

**EXPERTS**

The consolidated financial statements and financial statement schedule incorporated in this prospectus supplement by reference to our Registration Statement on Form 10, as amended, have been so incorporated in reliance on the reports of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

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**PROSPECTUS**

**Philip Morris International Inc.**

**Debt Securities**

**Warrants to Purchase Debt Securities**

Philip Morris International Inc. may offer from time to time debt securities or warrants to purchase debt securities. We will provide the specific terms of the securities in one or more supplements to this prospectus. This prospectus may not be used to offer and sell the securities unless accompanied by a prospectus supplement. A prospectus supplement may add, update or change information contained in this prospectus. You should read this prospectus and the applicable prospectus supplement, as well as the documents incorporated by reference in this prospectus and in any accompanying prospectus supplement, carefully before you invest.

*Investing in the securities involves risks. See **Risk Factors** on page 1 of this prospectus.*

**Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus is April 25, 2008

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You should rely only on the information contained or incorporated by reference in this prospectus and in any accompanying prospectus supplement or in any related free writing prospectus. We have not authorized anyone to provide you with different information. This document may only be used where it is legal to sell these securities. You should only assume that the information contained or incorporated by reference in this prospectus or in any accompanying prospectus supplement or any related free writing prospectus is accurate as of the respective date on the front of those documents. Our business, financial condition, results of operations and prospects may have changed since that date. We are not making an offer of these securities in any state where the offer is not permitted.

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**ABOUT THIS PROSPECTUS**

This prospectus is part of an automatic shelf registration statement that we filed with the Securities and Exchange Commission, or the SEC, as a well-known seasoned issuer as defined in Rule 405 under the Securities Act of 1933, as amended, or the Securities Act. By using an automatic shelf registration statement, we may, at any time and from time to time, sell debt securities and warrants to purchase debt securities under this prospectus in one or more offerings in an unlimited amount. As allowed by the SEC rules, this prospectus does not contain all of the information included in the registration statement. For further information, we refer to the registration statement, including its exhibits. Statements contained in this prospectus about the provisions or contents of any agreement or other document are not necessarily complete. If the SEC's rules and regulations require that an agreement or document be filed as an exhibit to the registration statement, please see that agreement or document for a complete description of these matters.

This prospectus provides you with a general description of the securities we may offer. Each time we use this prospectus to offer securities, we will provide you with a prospectus supplement that will describe the specific amounts, prices and terms of the securities being offered. The prospectus supplement may also add, update or change information contained in this prospectus. Therefore, if there is any inconsistency between the information in this prospectus and the prospectus supplement, you should rely on the information in the prospectus supplement.

To understand the terms of our securities, you should carefully read this document and the applicable prospectus supplement. Together, they provide the specific terms of the securities we are offering. You should also read the documents we have referred you to under **Where You Can Find More Information** below for information on our company, the risks we face and our financial statements. The registration statement and exhibits can be read at the SEC's website or at the SEC as described under **Where You Can Find More Information**.

Except as otherwise identified, references in this prospectus to the company, we, us and our refer to Philip Morris International Inc. and its subsidiaries.

References herein to \$, dollars and U.S. dollars are to United States dollars, and financial data included or incorporated by reference herein have been presented in accordance with accounting principles generally accepted in the United States of America.

**WHERE YOU CAN FIND MORE INFORMATION**

Commencing on March 7, 2008, following the declaration of effectiveness of our registration statement on Form 10, we became a public company subject to the information and reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Pursuant to the requirements of the Exchange Act, we will file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's website at [www.sec.gov](http://www.sec.gov) or at our website at [www.pmintl.com](http://www.pmintl.com) (as noted below, the information contained in, or that can be accessed through, our website is not a part of this prospectus or part of any prospectus supplement). You may also read and copy any document we file with the SEC at its public reference room at 100 F Street, N.E., Washington, D.C. 20549. In addition, you can inspect reports and other information we file at the office of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

You may also obtain copies of this information at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room.

Our SEC filings are available at the office of the New York Stock Exchange. For further information on obtaining copies of our public filings at the New York Stock Exchange, you should call (212) 656-3000.

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**DOCUMENTS INCORPORATED BY REFERENCE**

The SEC allows us to incorporate by reference into this prospectus information that we file with the SEC. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus, and information that we file later with the SEC will automatically update and supersede any inconsistent information in this prospectus and in our other filings with the SEC.

We incorporate by reference the following documents that we previously filed with the SEC (other than information in such documents that is deemed not to be filed), all of which are filed under SEC File No. 1-33708:

our Registration Statement on Form 10, effective March 7, 2008; and

our Current Report on Form 8-K filed on March 31, 2008.

These documents contain important information about our business and our financial performance.

We also incorporate by reference any future filings we make with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, on or after the date of the filing of the registration statement and prior to the termination of the offering, all of which will be filed under SEC File No. 1-33708. Our future filings with the SEC will automatically update and supersede any inconsistent information in this prospectus.

You may obtain a free copy of these filings from us by telephoning or writing to us at the following address and telephone number:

Philip Morris International Inc.

120 Park Avenue

New York, New York 10017

Attention: Corporate Secretary

Telephone: (917) 663 2000

**FORWARD-LOOKING AND CAUTIONARY STATEMENTS**

Some of the information included or incorporated by reference in this prospectus and the applicable prospectus supplement contain forward-looking statements. 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 words of similar meaning. You can also identify them 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. You should bear this in mind as you consider forward-looking statements and whether to invest in or remain invested in our securities. In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we have identified important factors in the documents incorporated by reference 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 these cautionary statements. We elaborate on these and other risks we face in the documents incorporated by reference. You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider risks discussed in the documents incorporated by reference 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 except in the normal course of our public disclosure obligations.





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### THE COMPANY

#### General

We are a Virginia holding company incorporated in 1987. Our subsidiaries and affiliates and their licensees are engaged in the manufacture and sale of cigarettes and other tobacco products in markets outside of the United States. Prior to March 28, 2008, we were a wholly-owned subsidiary of Altria Group, Inc., or Altria. On January 30, 2008, the Altria Board of Directors voted to spin off all shares of our common stock held by Altria on a pro rata basis to its stockholders in a tax-free distribution. As a result, effective as of the close of business on March 28, 2008, we became an independently traded public company. Altria no longer owns any shares of our common stock.

We are the largest (in terms of volume) and most profitable publicly traded tobacco company in the world. With a shipment volume of 850 billion cigarettes in 2007, our products are sold in approximately 160 countries. In 2007, we held an estimated 15.6% share of the 5.5 trillion unit, or individual cigarette, international cigarette market and an estimated 25.2% of the international cigarette market excluding the People's Republic of China, or PRC. We held a 52.4% share of the international premium price category (excluding the PRC) in 2007. We estimate that this category represents 24% of total industry unit sales. We are also growing our share of the below premium price category, which accounted for 76% of industry volume in 2007, and are expanding our leading position in the American type blend category.

Our strong portfolio of brands is led by *Marlboro*, with an international volume exceeding the combined volume of the four Global Drive Brands of British American Tobacco plc, as well as the combined volume of the four Global Focus Brands of Japan Tobacco Inc., our two largest international competitors.

Our principal executive offices are located at Philip Morris International Inc., 120 Park Avenue, New York, New York 10017, our telephone number is (917) 663-2000 and our website is [www.pmintl.com](http://www.pmintl.com). The information contained in, or that can be accessed through, our website is not a part of this prospectus or any prospectus supplement.

#### Other

We are a legal entity separate and distinct from our direct and indirect subsidiaries. Accordingly, our right, and thus the right of our creditors and stockholders, to participate in any distribution of the assets or earnings of any subsidiary is subject to the prior claims of creditors of such subsidiary, except to the extent that claims of our company itself as a creditor may be recognized. As a holding company, our principal sources of funds, including funds to make payment on the debt securities, are from the payment of dividends and repayment of debt from our subsidiaries. Our principal wholly-owned and majority-owned subsidiaries currently are not limited by long-term debt or other agreements in their ability to pay cash dividends or to make other distributions with respect to their common stock.

### RISK FACTORS

Our business is subject to uncertainties and risks. You should carefully consider and evaluate all of the information included and incorporated by reference in this prospectus, including the risk factors incorporated by reference from our Registration Statement on Form 10, as well as any risk factors we may describe in any subsequent periodic reports or information we file with the SEC. It is possible that our business, financial condition, liquidity or results of operations could be materially adversely affected by any of these risks.

**Table of Contents****USE OF PROCEEDS**

Unless we otherwise state in the applicable prospectus supplement, we intend to use the net proceeds from the sale of the debt securities and debt warrants and the net proceeds, if any, from the exercise of debt warrants, for general corporate purposes. General corporate purposes may include repayment of debt, additions to working capital, capital expenditures, investments in our subsidiaries, possible acquisitions and the repurchase, redemption or retirement of securities, including shares of our common stock. The net proceeds may be temporarily invested or applied to repay short-term or revolving debt prior to use.

We expect to issue long-term and short-term debt from time to time. The nature and amount of our long-term and short-term debt and the proportionate amount of each can be expected to vary from time to time as a result of business requirements, market conditions and other factors.

**RATIOS OF EARNINGS TO FIXED CHARGES**

The following table sets forth our historical ratios of earnings available for fixed charges to fixed charges for the periods indicated. This information should be read in conjunction with the consolidated financial statements and the accompanying notes incorporated by reference in this prospectus.

	Year Ended December 31,				
	2007	2006	2005	2004	2003
Ratios of earnings to fixed charges	25.7	19.4	19.6	26.4	29.3

Earnings available for fixed charges represent earnings before income taxes, minority interest and cumulative effect of accounting change(s) and fixed charges excluding capitalized interest, net of amortization, reduced by undistributed earnings of our less than 50% owned affiliates. Fixed charges represent interest expense, amortization of debt discount and expenses and capitalized interest, plus that portion of rental expense estimated to be the equivalent of interest.

**DESCRIPTION OF DEBT SECURITIES**

The debt securities covered by this prospectus will be our direct unsecured obligations. The debt securities will be issued in one or more series under an indenture dated as of April 25, 2008 between us and HSBC Bank USA, National Association, as trustee.

This prospectus briefly describes the material indenture provisions. Those descriptions are qualified in all respects by reference to the actual text of the indenture. For your reference, in the summary that follows, we have included references to section numbers of the indenture so that you can more easily locate these provisions. In cases where portions of the summary are taken from more than one section of the indenture, we have referred only to the section of the indenture that is principally applicable to that part of the summary. A copy of the indenture is filed as an exhibit to the registration statement of which this prospectus is a part. See *Where You Can Find More Information* for information on how to obtain a copy. You should also refer to the Trust Indenture Act of 1939, or the Trust Indenture Act, certain terms of which are made part of the indenture by reference.

The material financial, legal and other terms particular to debt securities of each series will be described in the prospectus supplement relating to the debt securities of that series. The prospectus supplement relating to the debt securities of the series will be attached to the front of this prospectus. The following briefly summarizes the material provisions of the indenture and the debt securities, other than pricing and related terms that will be

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disclosed in an accompanying prospectus supplement. The prospectus supplement will also state whether any of the terms summarized below do not apply to the series of debt securities being offered. You should read the more detailed provisions of the indenture, including the defined terms, for provisions that may be important to you. You should also read the particular terms of a series of debt securities, which will be described in more detail in the applicable prospectus supplement.

Prospective purchasers of debt securities should be aware that special United States federal income tax, accounting and other considerations not addressed in this prospectus may be applicable to instruments such as the debt securities. The prospectus supplement relating to an issue of debt securities will describe these considerations, if they apply.

Capitalized terms used below are defined under Defined Terms. In this Description of Debt Securities section, references to we, us and our refer only to Philip Morris International Inc. and not its subsidiaries.

### **General**

The debt securities will rank equally with all of our other unsecured and unsubordinated debt. The indenture does not limit the amount of debt we may issue under the indenture and provides that additional debt securities may be issued up to the aggregate principal amount authorized by a board resolution. We may issue the debt securities from time to time in one or more series with the same or various maturities, at par, at a discount or at a premium. The prospectus supplement relating to any debt securities being offered will include specific terms relating to the offering, including the particular amount, price and other terms of those debt securities. These terms will include some or all of the following:

the title of the debt securities;

any limit upon the aggregate principal amount of the debt securities;

the date or dates on which the principal of the debt securities will be payable or their manner of determination;

if the securities will bear interest:

i the interest rate or rates;

i the date or dates from which any interest will accrue;

i the interest payment dates for the debt securities; and

i the regular record date for any interest payable;

or, in each case, their method of determination;

the place or places where the principal of, and any premium and interest on, the debt securities will be payable;

the period or periods within which, the price or prices at which, the currency or currency unit in which and the terms on which any of the debt securities may be redeemed, in whole or in part at our option, and any remarketing arrangements;

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the terms on which we would be required to redeem, repay or purchase debt securities required by any sinking fund, mandatory redemption or similar provision; and the period or periods within which, the price or prices at which, the currency or currency unit in which and the terms and conditions on which the debt securities will be so redeemed or purchased in whole or in part;

if denominations other than \$1,000 or any integral multiple of \$1,000, the denominations in which the debt securities will be issued;

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the portion of the principal amount of the debt securities that is payable on the declaration of acceleration of the maturity, if other than their entire principal amount; these debt securities could include original issue discount, or OID, debt securities or indexed debt securities, which are each described below;

any trustees, paying agents, transfer agents, registrars, depositaries or similar agents with respect to the debt securities;

currency or currency units in which the debt securities will be denominated and payable, if other than U.S. dollars;

whether the amounts of payments of principal of, and any premium and interest on, the debt securities are to be determined with reference to an index, formula or other method, and if so, the manner in which such amounts will be determined;

whether the debt securities will be issued in whole or in part in the form of global securities and, if so, the depositary, if any, for the global securities, whether permanent or temporary (including the circumstances under which any temporary global debt securities may be exchanged for definitive debt securities);

whether the debt securities will be convertible or exchangeable into other of our or another company's securities and the terms and conditions of any such conversion or exchange;

any special tax implications of the debt securities, including whether and under what circumstances, if any, we will pay additional amounts under any debt securities held by a person who is not a United States person for tax payments, assessments or other governmental charges and whether we have the option to redeem the debt securities which are affected by the additional amounts instead of paying the additional amounts;

the form of the debt securities;

whether and to what extent the debt securities are subject to defeasance on terms different from those described under the heading Defeasance ;

if the debt securities bear no interest, any dates on which lists of holders of these debt securities must be provided to the trustee;

any addition to, or modification or deletion of, any event of default or any covenant specified in the indenture; and

any other specific terms of the debt securities.

(Section 301)

We may issue debt securities as original issue discount, or OID, debt securities. OID debt securities bear no interest or bear interest at below-market rates and are sold at a discount below their stated principal amount. If we issue OID debt securities, the prospectus supplement will contain the issue price of the securities and the rate at which and the date from which discount will accrete.

We may also issue indexed debt securities. Payments of principal of, and any premium and interest on, indexed debt securities are determined with reference to the rate of exchange between the currency or currency unit in which the debt security is denominated and any other currency or currency unit specified by us, to the relationship between two or more currencies or currency units, to the price of one or more specified

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securities or commodities, to one or more securities or commodities exchange indices or other indices or by other similar methods or formulas, all as specified in the prospectus supplement.

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We may issue debt securities other than the debt securities described in this prospectus. There is no requirement that any other debt securities that we issue be issued under the indenture. Thus, any other debt securities that we issue may be issued under other indentures or documentation containing provisions different from those included in the indenture or applicable to one or more issues of the debt securities described in this prospectus. (Section 301)

### **Consolidation, Merger or Sale**

Under the indenture, we may not consolidate with or merge into any other corporation or convey or transfer our properties and assets substantially as an entirety to any person unless:

the corporation formed by such consolidation or into which we are merged or the person which acquires by conveyance or transfer our properties and assets substantially as an entirety is a corporation organized and existing under the laws of the United States, any state thereof or the District of Columbia and expressly assumes, by a supplemental indenture, payment of the principal of and any premium and interest (including any additional amounts payable) on all the debt securities and the performance of every covenant of the indenture;

after giving effect to the transaction, no Event of Default with respect to any series of debt securities, and no event which, after notice or lapse of time or both, would become an Event of Default, will have happened and be continuing;

the successor corporation assuming the debt securities agrees, by supplemental indenture, to indemnify the individuals liable therefor for the amount of United States federal estate tax paid solely as a result of such assumption in respect of debt securities held by individuals who are not citizens or residents of the United States at the time of their death; and

we deliver to the trustee an officers certificate and an opinion of counsel, each stating that the consolidation, merger, conveyance or transfer and the supplemental indenture comply with these provisions.  
(Section 801)

The successor corporation will assume all of our obligations under the indenture as if it were an original party to the indenture. After assuming such obligations, the successor corporation will have all of our rights and powers under the indenture. (Section 802)

### **Waivers Under the Indenture**

Under the indenture, the holders of not less than a majority in aggregate principal amount of all affected series of the outstanding debt securities (voting as a single class), may on behalf of all holders of such affected series:

waive our compliance with certain covenants of the indenture; and (Section 1009)

waive any past default under the indenture, except:

- i a default in the payment of the principal of, or any premium or interest on, any debt securities; and
- i a default with respect to a covenant or provision of the indenture which itself cannot be modified or amended without the consent of the holder of each affected debt security. (Section 513)





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### **Events of Default**

When we use the term "Event of Default" in the indenture with respect to a particular series of debt securities, we mean any of the following:

we fail to pay any installment of interest on any debt security of that series for 30 days after payment was due;

we fail to make payment of the principal of, or any premium on, any debt security of that series when due;

we fail to make any sinking fund payment when due with respect to debt securities of that series;

we fail to perform, or breach, any other covenant or warranty in respect of any debt security of that series contained in the indenture or in such debt securities or in the applicable board resolution under which such series is issued and this failure or breach continues for 90 days after we receive written notice of it from the trustee or holders of 25% in aggregate principal amount of all outstanding series of the debt securities or, with respect to any such covenant or agreement which is not applicable to all series of debt securities, by the holders of at least 25% in aggregate principal amount of the affected series (in each case voting as a single class);

we or a court take certain actions relating to bankruptcy, insolvency or reorganization of our company; or

any other event of default that may be specified for the debt securities of the series or in the board resolution with respect to the debt securities of that series. (Section 501)

The supplemental indenture or the form of security for a particular series of debt securities may include additional Events of Default or changes to the Events of Default described above. The Events of Default applicable to a particular series of debt securities will be described in the prospectus supplement relating to such series.

A default with respect to a single series of debt securities under the indenture will not necessarily constitute a default with respect to any other series of debt securities issued under the indenture. A default under our other indebtedness will not be a default under the indenture. The trustee may withhold notice to the holders of debt securities of any default, except for defaults that involve our failure to pay principal or any premium or interest, if it determines in good faith that the withholding of notice is in the interest of the holders. (Section 602)

If an Event of Default for any series of debt securities occurs and continues (other than an Event of Default involving our bankruptcy, insolvency or reorganization), either the trustee or the holders of at least 25% in aggregate principal amount of all outstanding series of the debt securities to which it is applicable or, if such default is not applicable to all series of the debt securities, the holders of at least 25% in principal amount of all series to which it is applicable (in each case voting as a single class) may require us upon notice in writing to us, to immediately repay the entire principal (or, in the case of (a) OID debt securities, a lesser amount as may be provided in those OID debt securities or (b) indexed debt securities, an amount determined by the terms of those indexed debt securities), of all the debt securities of such series together with accrued interest on the debt securities.

If an Event of Default occurs which involves our bankruptcy, insolvency or reorganization, then all unpaid principal amounts (or, if the debt securities are (a) OID debt securities, a lesser amount as may be provided in those OID debt securities or (b) indexed debt securities, an amount determined by the terms of those indexed debt securities), of all the debt securities of such series together with accrued interest on the debt securities) and accrued interest on all debt securities of each series then outstanding will immediately become due and payable, without any action by the trustee or any holder of debt securities. (Section 502)

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Subject to certain conditions, the holders of a majority in principal amount of the outstanding debt securities of a series may rescind a declaration of acceleration if all Events of Default, other than the failure to pay principal or interest due solely because of the declaration of acceleration, have been cured or waived. (Section 502)

Other than its duties in case of an Event of Default, the trustee is not obligated to exercise any of its rights or powers under the indenture at the request, order or direction of any holders, unless the holders offer the trustee reasonable indemnity. (Section 507) The holders of a majority in principal amount outstanding of any series of debt securities may, subject to certain limitations, direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any power conferred upon the trustee, for any series of debt securities. (Section 512)

The indenture requires us to file each year with the trustee, an officer's certificate that states that:

the signing officer has supervised a review of our activities during such year and performance under the indenture; and

to the best of his or her knowledge, based on the review, we comply with all conditions and covenants of the indenture. (Section 1005)

A judgment for money damages by courts in the United States, including a money judgment based on an obligation expressed in a foreign currency, will ordinarily be rendered only in U.S. dollars. New York statutory law provides that a court shall render a judgment or decree in the foreign currency of the underlying obligation and that the judgment or decree shall be converted into U.S. dollars at the exchange rate prevailing on the date of entry of the judgment or decree. If a court requires a conversion to be made on a date other than a judgment date, the indenture requires us to pay additional amounts necessary to ensure that the amount paid in U.S. dollars to a holder is equal to the amount due in such foreign currency or currency unit. (Section 515)

## **Payment and Transfer**

We will pay the principal of, and any premium and interest on, debt securities at the place or places that we will designate for such purposes. We will make payment to the persons in whose names the debt securities are registered on the close of business on the day or days that we will specify in accordance with the indenture. We will pay the principal of, and any premium on, debt securities only against surrender of those debt securities. Any other payments will be made as set forth in the applicable prospectus supplement. Holders may transfer or exchange debt securities at the corporate trust office of the trustee or at any other office or agency, maintained for such purposes, without the payment of any service charge except for any tax or governmental charge. (Section 307)

## **Restrictive Covenants**

The indenture includes the following restrictive covenants:

### *Limitations on Liens*

The indenture limits the amount of liens that we or our Subsidiaries may incur or otherwise create, in order to secure indebtedness for borrowed money, upon any Principal Facility or any shares of capital stock that any of our Subsidiaries owning any Principal Facility has issued to us or any of our Subsidiaries. If we or any of our Subsidiaries incur such liens, then we will secure the debt securities to the same extent and in the same proportion as the debt that is secured by such liens. This covenant does not apply, however, to any of the following:

in the case of a Principal Facility, liens incurred in connection with the issuance by a state or political subdivision thereof of any securities the interest on which is exempt from federal income taxes by

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virtue of Section 103 of the Internal Revenue Code of 1986, as amended, or any other laws or regulations in effect at the time of such issuance;

liens existing on the date of the indenture;

liens on property or shares of capital stock existing at the time we or any of our Subsidiaries acquire such property or shares of stock (including acquisition through merger, share exchange or consolidation) or securing the payment of all or part of the purchase price, construction or improvement thereof incurred prior to, at the time of, or within 180 days after the later of the acquisition, completion of construction or improvement or commencement of full operation of such property for the purpose of financing all or a portion of such purchase or construction or improvement; or

liens for the sole purpose of extending, renewing or replacing in whole or in part the indebtedness secured by any lien referred to in the foregoing three bullet points or in this bullet point; *provided, however*, that the principal amount of indebtedness secured thereby shall not exceed the principal amount of indebtedness so secured at the time of such extension, renewal or replacement, and that such extension, renewal or replacement shall be limited to all or a part of the property which secured the lien so extended, renewed or replaced (plus improvements on such property).

Notwithstanding the foregoing, we and/or any of our Subsidiaries may create, assume or incur liens that would otherwise be subject to the restriction described above, without securing debt securities issued under the indenture equally and ratably, if the aggregate value of all outstanding indebtedness secured by the liens plus the value of Sale and Leaseback Transactions does not at the time exceed 15% of Consolidated Net Tangible Assets. (Section 1007)

At December 31, 2007, our Consolidated Net Tangible Assets were \$13.2 billion.

### *Sale and Leaseback Transactions*

A Sale and Leaseback Transaction by us or any of our Subsidiaries of any Principal Facility is prohibited, unless within 90 days of the effective date of the arrangement, an amount equal to the greater of the net proceeds of the sale of the property leased pursuant to the Sale and Leaseback Transaction or the fair value of the property at the time of entering into the Sale and Leaseback Transaction as determined by our board of directors ( value ) is applied by us to the retirement of non-subordinated indebtedness for money borrowed with more than one year stated maturity, including our debt securities, except that such sales and leasebacks are permitted to the extent that the value thereof plus the other secured debt referred to in the penultimate paragraph above in the subsection entitled Restrictive Covenants Limitations on Liens does not at the time exceed 15% of our Consolidated Net Tangible Assets. (Section 1008)

There are no other restrictive covenants in the indenture. The indenture does not require us to maintain any financial ratios, minimum levels of net worth or liquidity or restrict the incurrence of indebtedness, the makeup of asset sales, the payment of dividends, the making of other distributions on our capital stock or the redemption or purchase of our capital stock. Moreover, the indenture does not contain any provision requiring us to repurchase or redeem any debt securities or debt warrants or modify the terms thereof or afford the holders thereof any other protection in the event of our change of control, any highly leveraged transaction or any other event involving us that may materially adversely affect our creditworthiness or the value of the debt securities or debt warrants.

### **Defined Terms**

We define Subsidiaries as any corporation of which at least a majority of all outstanding stock or other interests having ordinary voting power in the election of directors, managers or trustees of such corporation is at

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the time, directly or indirectly, owned or controlled by us or by one or more Subsidiaries or by us and one or more Subsidiaries. (Section 101)

We define Principal Facility as all real property constituting part of any manufacturing plant or distribution facility owned and operated by us or any Subsidiary, together with such manufacturing plant or distribution facility, including all attached plumbing, electrical, ventilating, heating, cooling, lighting and other utility systems, ducts and pipes, but excluding trade fixtures, business machinery, equipment, motorized vehicles, tools, supplies and materials, security systems, cameras, inventory and other personal property and materials. The term Principal Facility shall not include any particular manufacturing plant or distribution facility as of any particular date unless its net book value exceeds 0.75% of Consolidated Net Tangible Assets. (Section 1007)

We define a Sale and Leaseback Transaction as the sale or transfer of a Principal Facility with the intention of taking back a lease of the property, except a lease for a temporary period of less than three years, including renewals, with the intent that the use by us or any Subsidiary will be discontinued on or before the expiration of such period. (Section 1008)

We define Consolidated Net Tangible Assets as the excess over current liabilities of all assets appearing on our most recent quarterly or annual consolidated balance sheet, less goodwill and other intangible assets and the minority interests of others in Subsidiaries. (Section 101)

## **Global Securities**

We may issue the securities in whole or in part in the form of one or more global securities that will be deposited with, or on behalf of, a depositary identified in the applicable prospectus supplement.

We may issue the global securities in either temporary or permanent form. We will describe the specific terms of the depositary arrangement with respect to a series of securities in the applicable prospectus supplement. We anticipate that the following provisions will apply to all depositary arrangements.

Once a global security is issued, the depositary will credit on its book-entry system the respective principal amounts of the individual securities represented by that global security to the accounts of institutions that have accounts with the depositary. These institutions are known as participants.

The underwriters for the securities will designate the accounts to be credited. However, if we have offered or sold the securities either directly or through agents, we or the agents will designate the appropriate accounts to be credited.

Ownership of beneficial interests in a global security will be limited to participants or persons that may hold beneficial interests through participants. Ownership of beneficial interests in a global security will be shown on, and the transfer of that ownership will be effected only through, records maintained by the depositary's participants or persons that may hold through participants. The laws of some states require that certain purchasers of securities take physical delivery of securities. Those laws may limit the market for beneficial interests in a global security.

So long as the depositary for a global security, or its nominee, is the registered owner of a global security, the depositary or nominee will be considered the sole owner or holder of the securities represented by the global security for all purposes under the indenture. Except as provided in the applicable prospectus supplement, owners of beneficial interests in a global security:

will not be entitled to have securities represented by global securities registered in their names;

will not receive or be entitled to receive physical delivery of securities in definitive form; and

will not be considered owners or holders of these securities under the indenture.

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Payments of principal of, and any premium and interest on, the individual securities registered in the name of the depositary or its nominee will be made to the depositary or its nominee as the registered owner of that global security.

Neither we nor the trustee will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests of a global security, or for maintaining, supervising or reviewing any records relating to beneficial ownership interests and each of us and the trustee may act or refrain from acting without liability on any information provided by the depositary. (Section 308)

We expect that the depositary, after receiving any payment of principal of, and any premium and interest on, a global security, will immediately credit the accounts of the participants with payments in amounts proportionate to their respective holdings in principal amount of beneficial interest in a global security as shown on the records of the depositary. We also expect that payments by participants to owners of beneficial interests in a global security will be governed by standing customer instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of such participants.

Debt securities represented by a global security will be exchangeable for debt securities in definitive form of like tenor in authorized denominations only if:

the depositary notifies us that it is unwilling or unable to continue as the depositary and a successor depositary is not appointed by us within 90 days;

we deliver to the trustee for securities of such series in registered form a company order stating that the securities of such series shall be exchangeable; or

an Event of Default has occurred and is continuing with respect to securities of such series.

Unless and until a global security is exchanged in whole or in part for debt securities in definitive certificated form, it may not be transferred or exchanged except as a whole by the depositary.

You may transfer or exchange certificated securities at any office that we maintain for this purpose in accordance with the terms of the indenture. We will not charge a service fee for any transfer or exchange of certificated securities, but we may require payment of a sum sufficient to cover any tax or other governmental charge that we are required to pay in connection with a transfer or exchange. (Section 305)

## **Registration of Transfer**

You may effect the transfer of certificated securities and the right to receive the principal of, and any premium and interest on, certificated securities only by surrendering the certificate representing those certificated securities and either reissuance by us or the trustee of the certificate to the new holder or the issuance by us or the trustee of a new certificate to the new holder.

We are not required to:

issue, register the transfer of or exchange securities of any series during a period beginning at the opening of business 15 days before the day we transmit a notice of redemption of the securities of the series selected for redemption and ending at the close of business on the day of the transmission; or

register the transfer of or exchange any security so selected for redemption in whole or in part, except the unredeemed portion of any security being redeemed in part.

(Section 305)



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### **Exchange**

At your option, you may exchange your debt securities of any series, except a global security, for an equal principal amount of other debt securities of the same series having authorized denominations upon surrender to our designated agent.

We may at any time exchange debt securities issued as one or more global securities for an equal principal amount of debt securities of the same series in definitive form. In this case, we will deliver to the holders new debt securities in definitive registered form in the same aggregate principal amount as the global securities being exchanged.

The depositary of the global securities may also decide at any time to surrender one or more global securities in exchange for debt securities of the same series in definitive form, in which case we will deliver the new debt securities in definitive form to the persons specified by the depositary, in an aggregate principal amount equal to, and in exchange for, each person's beneficial interest in the global securities.

Notwithstanding the above, we will not be required to exchange any debt securities if, as a result of the exchange, we would suffer adverse consequences under any United States law or regulation. (Section 305)

### **Defeasance**

#### *Legal Defeasance*

Unless otherwise specified in the prospectus supplement, we can legally release ourselves from all of our obligations, with certain limited exceptions, on any series of debt securities. This is called legal defeasance. In order to achieve legal defeasance:

we must deposit, or cause to be deposited, in trust for the benefit of all holders of that series of debt securities an amount of cash in the currency or currency unit in which that series of debt securities is payable, direct obligations of the government that issued the currency in which that series of debt securities is payable or a combination thereof that will generate sufficient cash to make interest, principal, premium and any other payments on that series of debt securities on their due date or redemption date;

we have delivered to the trustee an opinion of counsel confirming that (1) we have received from, or there has been published by, the U.S. Internal Revenue Service a ruling or (2) since the issuance date of the debt securities, there has been a change in the applicable U.S. federal income tax law, in either case to the effect that, and based thereon such opinion of counsel shall confirm that holders of the debt securities will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the legal defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if the legal defeasance had not occurred;

no Event of Default or event that with the giving of notice or passage of time, or both, would become an Event of Default shall have occurred and be continuing at the time of the deposit described above and no Event of Default described in the fifth bullet point under **Events of Default** shall have occurred and be continuing on the day after the date of such deposit;

such defeasance will not result in a breach or violation of, or constitute a default under, any material agreement or instrument to which we are a party or by which we are bound; and

we have delivered to the trustee an officers' certificate and an opinion of counsel in each stating that all conditions precedent provided for or relating to the legal defeasance have been complied with.



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### *Covenant Defeasance*

Unless specified in the prospectus supplement, we can make the same type of deposit described above under **Defeasance** **Legal Defeasance** and be released from the restrictive covenants on any series of debt securities. This is called covenant defeasance. In order to achieve covenant defeasance:

we must deposit, or cause to be deposited, in trust for the benefit of all holders of that series of debt securities an amount of cash in the currency or currency unit in which that series of debt securities is payable, direct obligations of the government that issued the currency in which that series of debt securities is payable or a combination thereof that will generate sufficient cash to make interest, principal, premium and any other payments on that series of debt securities on their due date or redemption date;

we have delivered to the trustee an opinion of counsel confirming that holders of the debt securities will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the covenant defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if the covenant defeasance had not occurred;

no Event of Default or event that with the giving of notice or passage of time, or both, would become an Event of Default shall have occurred and be continuing at the time of the deposit described above and no Event of Default described in the fifth bullet point under **Events of Default** shall have occurred and be continuing on the day after the date of such deposit;

such defeasance will not result in a breach or violation of, or constitute a default under, any material agreement or instrument to which we are a party or by which we are bound; and

we have delivered to the trustee an officers' certificate and an opinion of counsel in each stating that all conditions precedent provided for or relating to the covenant defeasance have been complied with.

If we accomplish covenant defeasance, the following provisions, among others, of the indenture and the debt securities would no longer apply:

our promises previously described under **Restrictive Covenants** **Limitation on Liens**;

our promises previously described under **Restrictive Covenants** **Sale and Leaseback Transactions**;

the events of default relating to breach of such covenants, described under **Events of Default**; and

certain other covenants applicable to the series of debt securities and described in the prospectus supplement.  
(Sections 402-404)

### **Payments of Unclaimed Moneys**

Moneys deposited with the trustee or any paying agent for the payment of principal of, or any premium and interest on, any debt securities that remain unclaimed for two years will be repaid to us at our request, unless the law requires otherwise. If this happens and you want to claim these moneys, you must look to us and not to the trustee or paying agent. (Section 409)

**Supplemental Indentures Not Requiring Consent of Holders**

Without the consent of any holders of debt securities, we and the trustee may supplement the indenture, among other things, to:

pledge property to the trustee as security for the debt securities;

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reflect that another entity has succeeded us and assumed the covenants and obligations of us under the debt securities and the indenture;

cure any ambiguity or inconsistency in the indenture or in the debt securities or make any other provisions necessary or desirable, as long as the interests of the holders of the debt securities are not adversely affected in any material respect;

establish the form and terms of any series of debt securities as provided in the indenture;

add to our covenants further covenants for the benefit of the holders of debt securities, and if the covenants are for the benefit of less than all series of debt securities, stating which series are entitled to benefit;

add any additional event of default and if the new event of default applies to fewer than all series of debt securities, stating to which series it applies;

change the trustee or provide for an additional trustee; or

modify the indenture in order to continue its qualification under the Trust Indenture Act or as may be necessary or desirable in accordance with amendments to that Act.

(Section 901)

**Supplemental Indentures Requiring Consent of Holders**

With the consent of the holders of not less than a majority in principal amount of all series of the debt securities that would be affected by a modification of the indenture (voting as a single class), the indenture permits us and the trustee to supplement the indenture or modify in any way the terms of the indenture or the rights of the holders of the debt securities of such series. However, without the consent of each holder of all of the debt securities affected by that modification, we and the trustee may not:

modify the maturity date of, or any installment of principal or interest on, any debt security, or reduce the principal of, or premium on, or change the stated final maturity of, any debt security;

reduce the rate of or change the time for payment of interest on any debt security or, in the case of OID debt securities, reduce the rate of accretion of the OID;

change any of our obligations to pay additional amounts under the indenture;

reduce or alter the method of computation of any amount payable upon redemption, repayment or purchase of any debt security by us, or the time when the redemption, repayment or purchase may be made;

make the principal or interest on any debt security payable in a currency other than that stated in the debt security or change the place of payment;

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reduce the amount of principal due on an OID debt security upon acceleration of maturity or provable in bankruptcy or reduce the amount payable under the terms of an indexed debt security upon acceleration of maturity or provable in bankruptcy;

impair any right of repayment or purchase at the option of any holder of debt securities;

reduce the right of any holder of debt securities to receive or sue for payment of the principal or interest on a debt security that would be due and payable at the maturity thereof or upon redemption; or

reduce the percentage in principal amount of the outstanding debt securities required to supplement the indenture or to waive any of its provisions. div>§ f a s h i o n trends;

- § availability of consumer credit;
- § energy and other commodity prices; and
- § housing and mortgage markets;

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as well as lifestyle-driven factors such as changes in:

- § disposable income;
- § housing; and
- § family size.

Our industry has been impacted by low levels of consumer confidence and a weak housing market since the fall of 2006. By late 2008, this malaise, exacerbated by weak credit markets, had spread to the broader U.S. economy. As a result, the residential home furnishings industry has experienced a significant and persistent decline in demand for its products. Discretionary purchases of furniture have been highly affected by low consumer confidence. Current economic factors, such as high unemployment and difficult housing and mortgage markets and changing consumer priorities have resulted in a weak retail environment for home furnishings and related purchases.

Our domestic upholstery operations, which have significantly higher overhead and fixed costs than our import operations, have been particularly affected by the decline in demand for home furnishings and have experienced operating losses since our fiscal 2009 second quarter. Extensive cost reduction efforts over that time have mitigated the losses and have resulted in our upholstery segment returning to operating profitability during the fiscal 2013 first quarter. Our lower overhead, variable-cost import operations have driven our profitability over the last few years and provide us with the flexibility to respond to changing demand by adjusting inventory purchases from suppliers. Our import model also requires that we transition sourcing to other suppliers, often located in different countries or regions, when quality concerns or inflationary pressures diminish the value proposition offered by our current suppliers.

The following are the primary factors that affected our consolidated fiscal 2013 first quarter results of operations.

- § Out-of-stock positions on several key items, groups and collections negatively impacted sales and profitability.
- § The sourcing transition from some of our vendors in China to vendors in other Asian countries resulted in longer lead times and shipping delays negatively impacting sales and profitability.
- § Decreased product discounting negatively impacted sales and volume in both casegoods and upholstery segments, but drove gross margin improvement. Product discounting was higher in the comparable prior-year quarter in order to reduce excess and slow-moving inventory.
- § Selling and administrative expenses increased as a percentage of net sales, primarily as a result of lower sales, but decreased in absolute terms due to the lower sales volumes and certain other factors.
- § Our upholstery segment returned to profitability after reporting operating losses since the fiscal 2009 second quarter.

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## Results of Operations

The following table sets forth the percentage relationship to net sales of certain items included in the condensed consolidated statements of operations included in this report.

	Thirteen Weeks Ended	
	April 29, 2012	May 1, 2011
Net sales	100.0 %	100.0 %
Cost of sales	78.9	81.1
Gross profit	21.1	18.9
Selling and administrative expenses	18.2	17.6
Operating income	3.0	1.3
Other income, net	0.1	0.1
Income before income taxes	3.0	1.4
Income tax expense	1.1	0.5
Net income	2.0	0.9

## Fiscal 2013 First Quarter Compared to Fiscal 2012 First Quarter

## Net Sales

## Net Sales

	Thirteen Weeks Ended			Thirteen Weeks Ended				
	April 29, 2012	% Net Sales		May 1, 2011	% Net Sales			
Casegoods	\$32,745	63.3 %	\$39,739	68.1 %	\$(6,994)	)	-17.6	%
Upholstery	18,985	36.7 %	18,654	31.9 %	\$331	)	1.8	%
Consolidated	\$51,730	100.0 %	\$58,393	100.0 %	\$(6,663)	)	-11.4	%

Unit Volume	FY13 Q1 % Increase vs. FY12 Q1		Thirteen Weeks Ended Average Selling Price		FY13 Q1 % Increase vs. FY12 Q1	
	Casegoods	-28.8	%	Casegoods		15.4
Upholstery	-2.0	%	Upholstery		11.4	%
Consolidated	-22.1	%	Consolidated		16.2	%

The decrease in consolidated net sales for the fiscal 2013 first quarter, as compared to the fiscal 2012 first quarter, was principally due to lower unit volume, particularly in our casegoods segment, partially offset by higher average selling prices in both segments. The casegoods sales decrease was driven by out-of-stock positions on several key items, groups and collections and decreased discounting. The out-of-stock positions were primarily due to aggressive inventory reductions that began in fiscal 2012 and continued into the fiscal 2013 first quarter. To a lesser extent and consistent with our fiscal 2012 fourth quarter, vendor shifts from China to other Asian countries resulted in the delay of several well-placed new casegoods collections and negatively impacted fiscal 2013 first quarter sales. These vendor shifts contributed to the out-of-stock positions and increased the demand for our best-selling, in-stock products. This accelerated demand cycle hastened the out-of-stock position on best sellers. Upholstery net sales were essentially flat

to the same prior-year period. Lower sales volume was partially offset by increased average selling prices for both segments, due primarily to lower discounting.

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## Gross Income and Margin

## Gross Income and Margin

	Thirteen weeks ended April 29, 2012		May 1, 2011					
		% Net Sales		% Net Sales	\$ Change		% Change	
Casegoods	\$7,448	22.8	% \$8,626	21.7	% \$(1,178	)	-13.7	%
Upholstery	3,474	18.3	% 2,407	12.9	% 1,067		44.3	%
Consolidated	\$10,922	21.1	% \$11,033	18.9	% \$(111	)	-1.0	%

Consolidated gross profit as a percentage of net sales increased for the fiscal 2013 first quarter, as compared to the fiscal 2012 first quarter, primarily due to decreased discounting in both segments and lower domestic upholstery costs as a percentage of net sales. Fiscal 2013 first quarter discounting in the casegoods and upholstery segments decreased approximately 360 and 280 basis points, respectively, as compared to the same prior-year period. The higher levels of product discounting in the fiscal 2012 first quarter were primarily due to efforts to reduce inventory levels.

Consolidated fiscal 2013 first quarter gross income was essentially flat to the fiscal 2012 first quarter, primarily due to the decline in net sales discussed above, which offset margin improvements.

## Selling and Administrative Expenses

## Selling and Administrative Expenses

	Thirteen weeks ended April 29, 2012		May 1, 2011					
		% Net Sales		% Net Sales	\$ Change		% Change	
Casegoods	\$6,072	18.5	% \$6,813	17.1	% \$(741	)	-10.9	%
Upholstery	3,322	17.5	% 3,473	18.6	% (151	)	-4.3	%
Consolidated	\$9,394	18.2	% \$10,286	17.6	% \$(892	)	-8.7	%

Consolidated selling and administrative expenses decreased in absolute terms but increased as a percentage of net sales in the fiscal 2013 first quarter compared to the same prior-year period.

Casegoods selling and administrative expenses increased as a percentage of net sales in the fiscal 2013 first quarter compared to the same prior-year period, primarily due to the casegoods net sales decrease discussed above. In absolute terms, casegoods selling and administrative expenses decreased due to:

§ a decrease in sales and design commissions due to lower net sales;

§ a decrease in contribution expense;

§ amounts billed to our imported upholstery division for its share of operating costs;

§ a decrease in bad debt expense due to lower accounts receivable balances due to lower sales and a decrease in amounts expensed to bad debts due to favorable collection trends; and

§ a decrease in sample expense due to cost cutting measures.



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These decreases in expenses were partially offset by:

- § an increase in bonus expense due to the reversal of an accrual for officers' long-term performance grant awards in the comparable prior-year period;
- § an increase in benefits expense due primarily to lower benefits expense in the prior year due to an insurance gain on Company-owned life insurance due to the death of a former executive;
- § an increase in salary expense primarily due to the promotion of an upholstery executive to a corporate executive position during the fiscal 2012 third quarter and also due to other salary increases;

Upholstery selling and administrative expenses decreased both as a percentage of net sales and in absolute terms in the fiscal 2013 first quarter compared to the same prior-year period, primarily due to:

- § a decrease in salaries expense due to the promotion of an officer from our upholstery segment to our casegoods segment and due to cost reduction efforts undertaken in fiscal 2012;
  - § a decrease in benefits expense due to decreased headcount and lower health claims; and
  - § a decrease in sample expense and advertising expense due to cost cutting measures.

These decreases were partially offset by an increase in the upholstery segment's share of corporate administrative costs.

## Operating Income and Margin

## Operating Profit and Margin

	Thirteen weeks ended April 29, 2012		May 1, 2011			
		% Net Sales		% Net Sales	\$ Change	% Change
Casegoods	\$1,376	4.2	% \$1,814	4.6	% \$(438	) -24.1
Upholstery	152	0.8	% (1,067	) -5.7	% 1,219	114.2
Consolidated	\$1,528	3.0	% \$747	1.3	% \$781	104.6

Operating profitability increased for the fiscal 2013 first quarter as compared to the same prior-year period, both as a percentage of net sales and in absolute terms due to the factors discussed above. Our upholstery segment returned to operating profitability this quarter due to operational improvements and, to a lesser extent, a sales increase.

## Other income, net

## Other income, net

	Thirteen weeks ended April 29, 2012		May 1, 2012			
		% Net Sales		% Net Sales	\$ Change	% Change
Consolidated	\$44	0.1	% \$54	0.1	% \$(10	) -18.5

Other income, net is essentially flat to prior year.

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## Income Taxes

## Income taxes

	Thirteen weeks ended April 29, 2012		May 1, 2011				
		% Net Sales		% Net Sales	\$ Change	% Change	
Consolidated income tax expense	\$552	1.1	% \$278	0.5	% \$274	98.6	%
Effective Tax Rate	35.1	%	34.7	%			

We recorded income tax expense of \$552,000 for the fiscal 2013 first quarter compared to \$278,000 for the comparable prior year period. The effective tax rates for the fiscal 2013 and 2012 first quarters were 35.1% and 34.7%, respectively. Our effective tax rate was slightly higher in the fiscal 2013 first quarter primarily due to the realization of a tax deduction in the fiscal 2012 first quarter relating to the tax effect of a reversal of a distribution received from our captive insurance arrangement, which was not repeated in the fiscal 2013 first quarter.

## Net Income and Earnings Per Share

## Net Income

	Thirteen weeks ended April 29, 2012		May 1, 2011				
		% Net Sales		% Net Sales	\$ Change	% Change	
Net Income							
Consolidated	\$1,020	2.0	% \$523	0.9	% \$497	95.0	%
Earnings per share	\$0.09		\$0.05				

Fiscal year 2013 first quarter net income was \$1.0 million, or \$0.09 per share, compared to \$523,000, or \$0.05 per share, in the fiscal year 2012 first quarter. This improvement reflects our upholstery segment returning to operating profitability this quarter, which was primarily due to operational improvements and, to a lesser extent, a sales increase.

## Outlook

As discussed above, the sourcing transition from some of our vendors in China to other Asian vendors over the past six months has resulted in longer lead times and shipping delays, which negatively impacted fiscal 2013 first quarter sales. We expect these longer lead times and shipping delays to negatively impact sales and profits in the fiscal 2013 second quarter, but expect them to diminish and improve during the second half of fiscal 2013. We believe that our new Vice President of Asian Operations, an industry veteran with over 20 years of experience in Asia, will help us to improve vendor performance and vendor alignment, matching our product line with those sources that best fit our customers' expectations for quality, on-time delivery, and value.

We are pleased with our upholstery segment's return to operating profitability in the fiscal 2013 first quarter. We intend to build on this success by continuing to focus on cost reduction projects and volume increases driven by:

§

introducing new product lines and categories, such as the fully upholstered sofa line introduced by Sam Moore at the Spring 2012 High Point Furniture Market, and  
§ building on the success of our Bradington-Young division's "comfort@home" in-store gallery program and whole-home collections like Harbor Pointe and Primrose Hill, which include both casegoods and upholstery.

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However, we note that our upholstery segment continues to have higher fixed costs than our casegoods segment, which is due to the upholstery segment's domestic manufacturing operations. To mitigate the impact of sales declines in recent years, we have continued to streamline our upholstery operations by improving efficiency, reducing overhead and evaluating our operating costs and capacity to better match costs to current sales volume levels. Continued significant cost reductions in our upholstery segment will be a challenge. If we are unable to increase sales in our upholstery segment to the extent necessary, particularly sales of domestically produced upholstery, capacity reductions will be necessary. If undertaken, these capacity reductions would likely result in restructuring charges, would lower our consolidated net earnings in the short-term (for the quarterly and annual periods in which we recognize the charges) and would adversely affect our consolidated balance sheets at these same dates.

While many economic indicators suggest that the long thaw that began several years ago continues, certain concerns still exist, including the slow rebound of the housing market, global economic instability and, while improving, continued low consumer confidence. We expect retail furniture demand to improve modestly as we progress through the fall of this year.

In light of current conditions, we continue to focus on:

- § controlling costs;
- § adjusting our product pricing on our main-line products in order to improve margins;
- § achieving proper inventory levels, while optimizing product availability on best-selling items;
- § sourcing product from more competitive locales and from more quality conscious sourcing partners;
- § pursuing additional distribution channels and offering an array of new products and designs, which we believe will help generate additional sales; and
- § upgrading and refining our information systems capabilities to support our business.

## Financial Condition, Liquidity and Capital Resources

## Balance Sheet and Working Capital

The following chart shows changes in our total assets, current assets, current liabilities, net working capital and working capital ratio during the first quarter of fiscal 2013:

	Balance Sheet and Working Capital		
	April 29, 2012	January 29, 2012	\$ Change
Total Assets	\$ 152,786	\$ 149,171	\$ 3,615
Cash	\$ 47,978	\$ 40,355	\$ 7,623
Trade Receivables	23,957	25,807	(1,850 )
Inventories	30,524	34,136	(3,612 )
Prepaid Expenses & Other	3,389	4,194	(805 )
Total Current Assets	\$ 105,848	\$ 104,492	\$ 1,356
Trade accounts payable	\$ 13,415	\$ 9,233	\$ 4,182
Accrued salaries, wages and benefits	2,656	3,855	(1,199 )
Other accrued expenses	2,503	1,870	633

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Total current liabilities	\$ 18,574	\$ 14,958	\$ 3,616
Net working capital	\$ 87,274	\$ 89,534	\$ (2,260 )
Working capital ratio	5.7 to 1	7.0 to 1	

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Fiscal 2013 first quarter total assets increased as compared to January 29, 2012, primarily due to increased cash and cash equivalents and property, plant and equipment, partially offset by decreased inventories and accounts receivable. Cash increased due primarily to the reduction of inventories and accounts receivable and increased accounts payable. Property, plant and equipment increased due to the capitalization of our newly remodeled showroom which debuted at the spring 2012 International Home Furnishings Market. Inventories decreased due to vendor shifts from China to other countries in Asia, which resulted in the delay of several well-placed new casegoods collections. Accounts receivable decreased due to lower net sales.

The decline in net working capital (current assets less current liabilities) reflects a smaller increase in current assets than in current liabilities. Current assets increased due to the increased in cash, partially offset by the decrease in inventories and accounts receivable. Current liabilities increased due to an increase in trade accounts payable and other accrued expenses, partially offset by a decrease in accrued salaries, wages and benefits. Trade accounts payable increased due to higher accrued import purchases at the fiscal 2013 period-end. Other accrued expenses increased due to income tax accruals during the fiscal 2013 first quarter. Accrued salaries, wages and benefits decreased due to the timing of payrolls at the respective quarter ends and the payment in the fiscal 2013 first quarter of bonuses accrued during fiscal 2012.

## Cash Flows – Operating, Investing and Financing Activities

	Thirteen Weeks Ended	
	April 29, 2012	May 1, 2011
Net cash provided by operating activities	\$ 11,061	\$ 5,595
Net cash used in investing activities	(2,359 )	(1,147 )
Net cash used in financing activities	(1,079 )	(1,078 )
Net increase in cash and cash equivalents	\$ 7,623	\$ 3,370

During the three months ended April 29, 2012, cash generated from operations of \$11.1 million helped to fund an increase in cash and cash equivalents of \$7.6 million, cash dividends of \$1.1 million and capital expenditures of \$2.2 million related to our business operating systems and facilities.

In comparison, during the first three months of fiscal 2012, cash generated from operations of \$5.6 million funded an increase in cash and cash equivalents of \$3.4 million, cash dividends of \$1.1 million and capital expenditures of \$969,000 related to our business operating systems and facilities.

## Loan Agreement

The loan agreement for our revolving credit facility requires us to comply with customary covenants, which as of April 29, 2012 included, among other things, the following financial covenants:

§ maintain a tangible net worth of at least \$108.0 million;

§ limit capital expenditures to no more than \$15.0 million during any fiscal year; and

§ maintain a ratio of funded debt to EBITDA not exceeding 2.0:1.0.

The loan agreement does not restrict our ability to pay cash dividends on, or repurchase shares of our common stock, subject to complying with the financial covenants under the loan agreement.

During the fiscal 2013 second quarter, we amended our loan agreement to reduce the minimum required tangible net worth from \$108 million to \$95 million. While we do not believe the share repurchase plan recently approved by our board would put us in jeopardy of violating this covenant, we pursued this change proactively to ensure a greater margin above the minimum required by the covenant prior to beginning the repurchase plan.

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We were in compliance with our loan agreement covenants as of April 29, 2012.

### Share Repurchase Authorization

During the fiscal 2013 first quarter, our Board of Directors authorized the repurchase of up to \$12.5 million of the Company's common shares or 9.8% of our outstanding common shares based on the closing price for our common shares on April 29, 2012. Repurchases may be made from time to time in the open market, or through privately negotiated transactions or otherwise, in compliance with applicable laws, rules and regulations, and subject to our cash requirements for other purposes, compliance with the covenants under the loan agreement for our revolving credit facility and other factors we deem relevant. The authorization does not obligate us to acquire a specific number of shares during any period and the authorization may be modified, suspended or discontinued at any time at the discretion of the Board. We expect to fund share repurchases using available cash and cash generated from operations. Repurchased shares will become authorized but unissued common shares. No purchases were made under this authorization during the fiscal 2013 first quarter.

### Liquidity, Financial Resources and Capital Expenditures

As of April 29, 2012, we had an aggregate \$13.2 million available under our \$15.0 million revolving credit facility to fund working capital needs. Standby letters of credit in the aggregate amount of \$1.8 million, used to collateralize certain insurance arrangements and for imported product purchases, were outstanding under our revolving credit facility as of April 29, 2012. There were no additional borrowings outstanding under the revolving credit facility on April 29, 2012. Any principal outstanding under the credit line is due July 31, 2013.

We believe that we have the financial resources needed to meet our business requirements for the foreseeable future, including capital expenditures and working capital, as well as for share repurchases and regular quarterly dividends. Our primary sources of liquidity include cash flow from operations, our \$15.0 million revolving credit facility, the factoring arrangement for our upholstery division accounts receivable and the ability to borrow against the cash surrender value of Company-owned life insurance policies. Cash flow from operations is highly dependent on incoming order rates and our operating performance. We expect to spend between \$2.0 million to \$4.0 million in capital expenditures during the remainder of fiscal year 2013 to maintain and enhance our operating systems and facilities. Of these estimated amounts, we expect to spend between \$1.5 million to \$2.0 million on the implementation of our ERP system.

In addition to capital spending, we expect to invest approximately \$6.0 million - \$8.0 million during the remainder of fiscal 2013 in order to build inventory in order to maintain customer service levels and grow sales. The Board also has authorized us to spend up to \$12.5 million to repurchase our common shares. Use of cash for share repurchases will depend on the factors and limitations discussed under "Share Repurchase Authorization" above.

### Critical Accounting Policies

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in our fiscal 2012 annual report on Form 10-K filed with the SEC on April 13, 2012.



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Forward-Looking Statements

Certain statements made in this report, including under “Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and in the notes to the condensed consolidated financial statements included in this report, are not based on historical facts, but are forward-looking statements. These statements reflect our reasonable judgment with respect to future events and typically can be identified by the use of forward-looking terminology such as “believes,” “expects,” “projects,” “intends,” “plans,” “may,” “will,” “should,” “would,” “could” or “ant negative thereof, or other variations thereon, or comparable terminology, or by discussions of strategy. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Those risks and uncertainties include but are not limited to:

§ general economic or business conditions, both domestically and internationally, and instability in the financial and credit markets, including their potential impact on our (i) sales and operating costs and access to financing, (ii) customers and suppliers and their ability to obtain financing or generate the cash necessary to conduct their respective businesses;

§ supply, transportation and distribution disruptions, particularly those affecting imported products, including the availability of shipping containers and cargo ships;

§ price competition in the furniture industry;

§ changes in domestic and international monetary policies and fluctuations in foreign currency exchange rates affecting the price of our imported products and raw materials;

§ the cyclical nature of the furniture industry, which is particularly sensitive to changes in consumer confidence, the amount of consumers’ income available for discretionary purchases, and the availability and terms of consumer credit;

§ risks associated with the cost of imported goods, including fluctuation in the prices of purchased finished goods and transportation and warehousing costs;

§ adverse political acts or developments in, or affecting, the international markets from which we import products, including duties or tariffs imposed on those products;

§ risks associated with domestic manufacturing operations, including fluctuations in capacity utilization and the prices and availability of key raw materials, as well as changes in transportation, warehousing and domestic labor costs and environmental compliance and remediation costs;

§ our ability to successfully implement our business plan to increase sales and improve financial performance;

§ risks associated with distribution through third-party retailers, such as non-binding dealership arrangements;

§ capital requirements and costs;

§ competition from non-traditional outlets, such as catalog and internet retailers and home improvement centers;

§ changes in consumer preferences, including increased demand for lower-quality, lower-priced furniture due to declines in consumer confidence and/or discretionary income available for furniture purchases and the availability of consumer credit;

- § higher than expected costs associated with product quality and safety, including regulatory compliance costs related to the sale of consumer products and costs related to defective or non-compliant products;
- § the direct and indirect costs associated with the implementation of our Enterprise Resource Planning system, including costs resulting from unanticipated disruptions to our business; and
- § achieving and managing growth and change, and the risks associated with acquisitions, restructurings, strategic alliances and international operations.

Any forward looking statement that we make speaks only as of the date of that statement, and we undertake no obligation, except as required by law, to update any forward-looking statements whether as a result of new information, future events, or otherwise.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in foreign currency exchange rates, which could impact our results of operations or financial condition. We manage our exposure to this risk through our normal operating activities.

For imported products, we generally negotiate firm pricing denominated in U.S. Dollars with our foreign suppliers, typically for periods of at least six months. We accept the exposure to exchange rate movements beyond these negotiated periods. We do not use derivative financial instruments to manage this risk, but could choose to do so in the future. Most of our imports are purchased from suppliers located in China. The Chinese currency floats within a limited range in relation to the U.S. Dollar, resulting in exposure to foreign currency exchange rate fluctuations.

Since we transact our imported product purchases in U.S. Dollars, a relative decline in the value of the U.S. Dollar could increase the price we pay for imported products beyond the negotiated periods. We generally expect to reflect substantially all of the effect of any price increases from suppliers in the prices we charge for imported products. However, these changes could adversely impact sales volume or profit margins during affected periods.

Amounts outstanding under our revolving credit facility would bear interest at variable rates. In the past, we have entered into swap agreements to hedge against the potential impact of increases in interest rates on our floating-rate debt instruments. There was no outstanding balance under our revolving credit facility as of April 29, 2012, other than standby letters of credit in the amount of \$1.8 million. Therefore, a fluctuation in market interest rates of one percentage point (or 100 basis points) would not have a material impact on our results of operations or financial condition.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the fiscal quarter ended April 29, 2012. Based on this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the Company's management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the fiscal quarter ended April 29, 2012, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 6. Exhibits

- 3.1 Amended and Restated Articles of Incorporation of the Company, as amended March 28, 2003 (incorporated by reference to Exhibit 3.1 of the Company's Form 10-Q (SEC File No. 000-25349) for the quarter ended February 28, 2003)
  - 3.2 Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Form 10-Q (SEC File No. 000-25349) for the quarter ended August 31, 2006)
  - 4.1 Amended and Restated Articles of Incorporation of the Company, as amended (See Exhibit 3.1)
  - 4.2 Amended and Restated Bylaws of the Company (See Exhibit 3.2)
  - 10.1\* Amendment No. 1 to Loan Agreement, dated as of May 18, 2012, between the Company and Bank of America, N.A.
  - 31.1\* Rule 13a-14(a) Certification of the Company's principal executive officer
  - 31.2\* Rule 13a-14(a) Certification of the Company's principal financial officer
  - 32.1\* Rule 13a-14(b) Certification of the Company's principal executive officer and principal financial officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101\*# The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended April 29, 2012, formatted in Extensible Business Reporting Language ("XBRL"): (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of operations, (iii) condensed consolidated statements of cash flows, and (iv) the notes to the condensed consolidated financial statements, tagged as blocks of text

\*Filed herewith

#Under Rule 406T of Regulation S-T, this exhibit is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise is not subject to liability under those sections.

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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.

HOOKER FURNITURE CORPORATION

Date: June 6, 2012

By: /s/Paul A.

Huckfeldt

Paul A. Huckfeldt

Vice President – Finance and

Accounting and Chief Financial Officer

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