ALTRIA GROUP, INC.
Form 10-Q
October 30, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 1-08940

Altria Group, Inc.
(Exact name of registrant as specified in its charter)

Virginia	13-3260245
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6601 West Broad Street, Richmond, Virginia	23230
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code (804) 274-2200

Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	þ	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

At October 20, 2014, there were 1,976,470,062 shares outstanding of the registrant’s common stock, par value $0.33 1/3 per share.

ALTRIA GROUP, INC.
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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements.
Altria Group, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(in millions of dollars)
(Unaudited)

	September 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$2,241	$3,175
Receivables	106	115
Inventories:		
Leaf tobacco	838	933
Other raw materials	190	180
Work in process	347	394
Finished product	515	372
	1,890	1,879
Deferred income taxes	1,095	1,100
Other current assets	330	321
Total current assets	5,662	6,590
Property, plant and equipment, at cost	4,851	4,817
Less accumulated depreciation	2,853	2,789
	1,998	2,028
Goodwill	5,285	5,174
Other intangible assets, net	12,054	12,058
Investment in SABMiller	6,640	6,455
Finance assets, net	1,773	1,997
Other assets	670	557
Total Assets	$34,082	$34,859

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets (Continued)
(in millions of dollars, except share and per share data)
(Unaudited)

	September 30, 2014	December 31, 2013
Liabilities		
Current portion of long-term debt	$1,300	$525
Accounts payable	332	409
Accrued liabilities:		
Marketing	567	512
Employment costs	141	255
Settlement charges	3,139	3,391
Other	857	1,007
Dividends payable	1,031	959
Total current liabilities	7,367	7,058
Long-term debt	12,693	13,992
Deferred income taxes	6,829	6,854
Accrued pension costs	215	212
Accrued postretirement health care costs	2,150	2,155
Other liabilities	502	435
Total liabilities	29,756	30,706
Contingencies (Note 9)		
Redeemable noncontrolling interest	35	35
Stockholders' Equity		
Common stock, par value $0.33 1/3 per share (2,805,961,317 shares issued)	935	935
Additional paid-in capital	5,723	5,714
Earnings reinvested in the business	26,066	25,168
Accumulated other comprehensive losses	(1,454)	(1,378)
Cost of repurchased stock (828,948,255 shares at September 30, 2014 and 812,482,035 shares at December 31, 2013)	(26,976)	(26,320)
Total stockholders' equity attributable to Altria Group, Inc.	4,294	4,119
Noncontrolling interests	(3)	(1)
Total stockholders' equity	4,291	4,118
Total Liabilities and Stockholders' Equity	$34,082	$34,859

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Earnings
(in millions of dollars, except per share data)
(Unaudited)

	For the Nine Months Ended September 30,	
	2014	2013
Net revenues	$18,264	$18,386
Cost of sales	5,799	5,210
Excise taxes on products	4,932	5,127
Gross profit	7,533	8,049
Marketing, administration and research costs	1,821	1,738
Changes to Mondelēz and PMI tax-related receivables/payables	5	25
Asset impairment and exit costs	(1)	1
Operating income	5,708	6,285
Interest and other debt expense, net	596	794
Earnings from equity investment in SABMiller	(753)	(738)
Earnings before income taxes	5,865	6,229
Provision for income taxes	2,031	2,182
Net earnings	3,834	4,047
Net earnings attributable to noncontrolling interests	—	—
Net earnings attributable to Altria Group, Inc.	$3,834	$4,047
Per share data:		
Basic and diluted earnings per share attributable to Altria Group, Inc.	$1.93	$2.02
Dividends declared	$1.48	$1.36

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Earnings
(in millions of dollars, except per share data)
(Unaudited)

	For the Three Months Ended September 30,	
	2014	2013
Net revenues	$6,491	$6,553
Cost of sales	2,079	1,939
Excise taxes on products	1,738	1,793
Gross profit	2,674	2,821
Marketing, administration and research costs	663	664
Changes to Mondelēz and PMI tax-related receivables/payables	5	25
Asset impairment and exit costs	7	—
Operating income	1,999	2,132
Interest and other debt expense, net	213	269
Earnings from equity investment in SABMiller	(328)	(255)
Earnings before income taxes	2,114	2,118
Provision for income taxes	717	722
Net earnings	1,397	1,396
Net earnings attributable to noncontrolling interests	—	—
Net earnings attributable to Altria Group, Inc.	$1,397	$1,396
Per share data:		
Basic and diluted earnings per share attributable to Altria Group, Inc.	$0.71	$0.70
Dividends declared	$0.52	$0.48

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Earnings
(in millions of dollars)
(Unaudited)

	For the Nine Months Ended September 30,	
	2014	2013
Net earnings	$3,834	$4,047
Other comprehensive earnings (losses), net of deferred income taxes:		
Currency translation adjustments	(1)	(1)
Benefit plans	71	159
SABMiller	(146)	(341)
Other comprehensive losses, net of deferred income taxes	(76)	(183)
Comprehensive earnings	3,758	3,864
Comprehensive earnings attributable to noncontrolling interests	—	—
Comprehensive earnings attributable to Altria Group, Inc.	$3,758	$3,864

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Earnings
(in millions of dollars)
(Unaudited)

	For the Three Months Ended September 30,	
	2014	2013
Net earnings	$1,397	$1,396
Other comprehensive earnings (losses), net of deferred income taxes:		
Currency translation adjustments	(2)	—
Benefit plans	22	46
SABMiller	(245)	61
Other comprehensive (losses) earnings, net of deferred income taxes	(225)	107
Comprehensive earnings	1,172	1,503
Comprehensive earnings attributable to noncontrolling interests	—	—
Comprehensive earnings attributable to Altria Group, Inc.	$1,172	$1,503

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Stockholders' Equity
for the Year Ended December 31, 2013 and
the Nine Months Ended September 30, 2014
(in millions of dollars, except per share data)
(Unaudited)

	Attributable to Altria Group, Inc.						
	Common Stock	Additional Paid-in Capital	Earnings Reinvested in the Business	Accumulated Other Comprehensive Losses	Cost of Repurchased Stock	Non-controlling Interests	Total Stockholders' Equity
Balances, December 31, 2012	$935	$5,688	$24,316	$ (2,040)	$ (25,731)	$ 2	$ 3,170
Net earnings (losses) (1)	—	—	4,535	—	—	(3)	4,532
Other comprehensive earnings, net of deferred income taxes	—	—	—	662	—	—	662
Stock award activity	—	26	—	—	11	—	37
Cash dividends declared ($1.84 per share)	—	—	(3,683)	—	—	—	(3,683)
Repurchases of common stock	—	—	—	—	(600)	—	(600)
Balances, December 31, 2013	935	5,714	25,168	(1,378)	(26,320)	(1)	4,118
Net earnings (losses) (1)	—	—	3,834	—	—	(2)	3,832
Other comprehensive losses, net of deferred income taxes	—	—	—	(76)	—	—	(76)
Stock award activity	—	9	—	—	23	—	32
Cash dividends declared ($1.48 per share)	—	—	(2,936)	—	—	—	(2,936)
Repurchases of common stock	—	—	—	—	(679)	—	(679)
Balances, September 30, 2014	$935	$5,723	$26,066	$ (1,454)	$ (26,976)	$ (3)	$ 4,291

(1) Net losses attributable to noncontrolling interests for the nine months ended September 30, 2014 and for the year ended December 31, 2013 exclude net earnings of $2 million and $3 million, respectively, due to the redeemable noncontrolling interest related to Stag's Leap Wine Cellars, which is reported in the mezzanine equity section in the condensed consolidated balance sheets at September 30, 2014 and December 31, 2013.

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(in millions of dollars)
(Unaudited)

	For the Nine Months Ended September 30, 2014	2013
Cash Provided by (Used in) Operating Activities		
Net earnings	$3,834	$4,047
Adjustments to reconcile net earnings to operating cash flows:		
Depreciation and amortization	149	158
Deferred income tax benefit	(36)	(105)
Earnings from equity investment in SABMiller	(753)	(738)
Dividends from SABMiller	344	331
Cash effects of changes, net of the effects from acquisition of Green Smoke:		
Receivables, net	10	101
Inventories	(20)	28
Accounts payable	(64)	(139)
Income taxes	17	181
Accrued liabilities and other current assets	(320)	(103)
Accrued settlement charges	(252)	(569)
Pension plan contributions	(12)	(391)
Pension provisions and postretirement, net	17	133
Other	146	(75)
Net cash provided by operating activities	3,060	2,859

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Continued)
(in millions of dollars)
(Unaudited)

	For the Nine Months Ended September 30,	
	2014	2013
Cash Provided by (Used in) Investing Activities		
Capital expenditures	$(116)	$(90)
Acquisition of Green Smoke, net of acquired cash	(93)	—
Proceeds from finance assets	190	559
Other	79	16
Net cash provided by investing activities	60	485
Cash Provided by (Used in) Financing Activities		
Long-term debt issued	—	996
Long-term debt repaid	(525)	—
Repurchases of common stock	(679)	(382)
Dividends paid on common stock	(2,864)	(2,652)
Financing fees and debt issuance costs	(1)	(12)
Other	15	17
Net cash used in financing activities	(4,054)	(2,033)
Cash and cash equivalents:		
(Decrease) increase	(934)	1,311
Balance at beginning of period	3,175	2,900
Balance at end of period	$2,241	$4,211

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Background and Basis of Presentation:

Background

At September 30, 2014, Altria Group, Inc.'s wholly-owned subsidiaries included Philip Morris USA Inc. ("PM USA"), which is engaged in the manufacture and sale of cigarettes and certain smokeless tobacco products in the United States; John Middleton Co. ("Middleton"), which is engaged in the manufacture and sale of machine-made large cigars and pipe tobacco and is a wholly-owned subsidiary of PM USA; and UST LLC ("UST"), which through its wholly-owned subsidiaries, including U.S. Smokeless Tobacco Company LLC ("USSTC") and Ste. Michelle Wine Estates Ltd. ("Ste. Michelle"), is engaged in the manufacture and sale of smokeless tobacco products and wine. Altria Group, Inc.'s other operating companies included Nu Mark LLC ("Nu Mark"), a wholly-owned subsidiary, which is engaged in the manufacture and sale of innovative tobacco products, and Philip Morris Capital Corporation ("PMCC"), a wholly-owned subsidiary, which maintains a portfolio of leveraged and direct finance leases. Other Altria Group, Inc. wholly-owned subsidiaries included Altria Group Distribution Company, which provides sales, distribution and consumer engagement services to Altria Group, Inc.'s operating subsidiaries, and Altria Client Services Inc., which provides various support services, such as legal, regulatory, finance, human resources and external affairs, to Altria Group, Inc. and its subsidiaries. Altria Group, Inc.'s access to the operating cash flows of its wholly-owned subsidiaries consists of cash received from the payment of dividends and distributions, and the payment of interest on intercompany loans by its subsidiaries. At September 30, 2014, Altria Group, Inc.'s principal wholly-owned subsidiaries were not limited by long-term debt or other agreements in their ability to pay cash dividends or make other distributions with respect to their equity interests.

At September 30, 2014, Altria Group, Inc. also held approximately 27% of the economic and voting interest of SABMiller plc ("SABMiller"), which Altria Group, Inc. accounts for under the equity method of accounting. Altria Group, Inc. receives cash dividends on its interest in SABMiller if and when SABMiller pays such dividends.

Dividends and Share Repurchases

During the third quarter of 2014, Altria Group, Inc.'s Board of Directors (the "Board of Directors") approved an 8.3% increase in the quarterly dividend rate to $0.52 per common share versus the previous rate of $0.48 per common share. The current annualized dividend rate is $2.08 per Altria Group, Inc. common share. Future dividend payments remain subject to the discretion of the Board of Directors.

Altria Group, Inc.'s share repurchase activity was as follows:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2014	2013	2014	2013
	(in millions, except per share data)			
Total number of shares repurchased	17.2	9.9	6.4	4.5
Aggregate cost of shares repurchased	$679	$348	$275	$156
Average price per share of shares repurchased	$39.44	$35.20	$42.87	$34.75

In October 2011, the Board of Directors authorized a $1.0 billion share repurchase program and expanded it to $1.5 billion in October 2012 (as expanded, the "October 2011 share repurchase program"). During the first quarter of 2013, Altria Group, Inc. completed the October 2011 share repurchase program. Under the October 2011 share repurchase program, Altria Group, Inc. repurchased a total of 48.3 million shares of its common stock at an average price of

$31.06 per share.

In April 2013, the Board of Directors authorized a $300 million share repurchase program and expanded it to $1.0 billion in August 2013 (as expanded, the “April 2013 share repurchase program”). During the three months ended September 30, 2014, Altria Group, Inc. repurchased 1.3 million shares of its common stock (at an aggregate cost of approximately $53 million, and at an average price of $41.39 per share), thereby completing the April 2013 share repurchase program. Under this program, Altria Group, Inc. repurchased a total of 27.1 million shares of its common stock at an average price of $36.97 per share.

In July 2014, the Board of Directors authorized a new $1.0 billion share repurchase program (the “July 2014 share repurchase program”). During the three months ended September 30, 2014, Altria Group, Inc. repurchased 5.1 million shares of its common stock (at an aggregate cost of approximately $222 million, and at an average price of $43.24 per share) under the July 2014 share repurchase program. At September 30, 2014, Altria Group, Inc. had approximately $778 million remaining in the July 2014 share repurchase program. The timing of share repurchases under the July 2014 share repurchase program depends upon marketplace conditions and other factors, and the program remains subject to the discretion of the Board of Directors.

Basis of Presentation

The interim condensed consolidated financial statements of Altria Group, Inc. are unaudited. It is the opinion of Altria Group, Inc.’s management that all adjustments necessary for a fair statement of the interim results presented have been reflected therein. All such adjustments were of a normal recurring nature. Net revenues and net earnings for any interim period are not necessarily indicative of results that may be expected for the entire year.

These statements should be read in conjunction with the consolidated financial statements and related notes, which appear in Altria Group, Inc.’s Annual Report on Form 10-K for the year ended December 31, 2013.

Certain prior-period amounts have been reclassified to conform with the current-period presentation, due primarily to the reclassification of changes in book overdrafts on Altria Group, Inc.’s condensed consolidated statements of cash flows to operating activities. These amounts were previously classified as financing activities.

Note 2. Acquisition of Green Smoke:

In April 2014, Nu Mark acquired the e-vapor business of Green Smoke, Inc. and its affiliates (“Green Smoke”) for a total purchase price of up to approximately $130 million, which includes contingent consideration and is subject to post-closing adjustments. The acquisition complements Nu Mark’s capabilities and enhances its competitive position by adding e-vapor experience, broadening product offerings and strengthening supply chain capabilities.

Green Smoke’s financial position and results of operations have been consolidated with Altria Group, Inc. as of April 1, 2014.

Pro forma results, as well as net revenues and net earnings for Green Smoke subsequent to the acquisition, have not been presented because the acquisition of Green Smoke is not material to Altria Group, Inc.’s consolidated results of operations.

The following amounts represent the fair value of identifiable assets acquired and liabilities assumed in the Green Smoke acquisition, and are subject to post-closing adjustments, which are expected to be finalized during the fourth quarter of 2014:

	(in millions)
Cash and cash equivalents	$3
Inventory and other current assets	12
Indefinite-lived intangible asset - trademark	10
Definite-lived intangible assets	1
Current liabilities	(8)
Other assets and liabilities, net	1

Total identifiable net assets	19
Total purchase price	130
Goodwill	$111

Costs incurred to effect the acquisition, as well as integration costs, are being recognized as expenses in the periods in which the costs are incurred. For the nine and three months ended September 30, 2014, Altria Group, Inc. incurred $23 million and $14 million, respectively, of integration and acquisition-related costs, consisting primarily of contract termination costs, transaction costs and inventory adjustments, which were included in Altria Group, Inc.'s condensed consolidated statements of earnings.

Note 3. Benefit Plans:

Subsidiaries of Altria Group, Inc. sponsor noncontributory defined benefit pension plans covering the majority of all employees of Altria Group, Inc. However, employees hired on or after a date specific to their employee group are not eligible to participate in these noncontributory defined benefit pension plans but are instead eligible to participate in a defined contribution plan with enhanced benefits. This transition for new hires occurred from October 1, 2006 to January 1, 2008. In addition, effective January 1, 2010, certain employees of UST and Middleton who were participants in noncontributory defined benefit pension plans ceased to earn additional benefit service under those plans and became eligible to participate in a defined contribution plan with enhanced benefits. Altria Group, Inc. and its subsidiaries also provide health care and other benefits to the majority of retired employees.

Pension Plans

Components of Net Periodic Benefit Cost

Net periodic pension cost consisted of the following:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2014	2013	2014	2013
	(in millions)			
Service cost	$51	$65	$17	$22
Interest cost	258	235	86	78
Expected return on plan assets	(389)	(370)	(129)	(123)
Amortization:				
Net loss	111	203	36	67
Prior service cost	8	8	3	3
Net periodic pension cost	$39	$141	$13	$47

Employer Contributions

Altria Group, Inc. makes contributions to the pension plans to the extent that the contributions are tax deductible and pays benefits that relate to plans for salaried employees that cannot be funded under Internal Revenue Service regulations. Employer contributions of $12 million were made to Altria Group, Inc.'s pension plans during the nine months ended September 30, 2014. Currently, Altria Group, Inc. anticipates making additional employer contributions to its pension plans during the remainder of 2014 of up to approximately $10 million, based on current tax law. However, this estimate is subject to change as a result of changes in tax and other benefit laws, as well as asset performance significantly above or below the assumed long-term rate of return on pension assets, or changes in interest rates.

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Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Postretirement Benefit Plans

Net postretirement health care costs consisted of the following:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2014	2013	2014	2013
	(in millions)			
Service cost	$11	$13	$3	$3
Interest cost	80	74	26	23
Amortization:				
Net loss	17	38	3	10
Prior service credit	(32)	(33)	(11)	(11)
Net postretirement health care costs	$76	$92	$21	$25

On October 27, 2014, the Society of Actuaries released a new set of mortality tables. Altria Group, Inc. will evaluate any impact of these tables to its employee benefit plans.
Note 4. Earnings Per Share:

Basic and diluted earnings per share ("EPS") were calculated using the following:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2014	2013	2014	2013
	(in millions)			
Net earnings attributable to Altria Group, Inc.	$3,834	$4,047	$1,397	$1,396
Less: Distributed and undistributed earnings attributable to unvested restricted and deferred shares	(9)	(11)	(3)	(4)
Earnings for basic and diluted EPS	$3,825	$4,036	$1,394	$1,392
Weighted-average shares for basic and diluted EPS	1,981	2,001	1,976	1,998

Note 5. Other Comprehensive Earnings/Losses:

The following tables set forth the changes in each component of accumulated other comprehensive losses, net of deferred income taxes, attributable to Altria Group, Inc.:

	For the Nine Months Ended September 30, 2014			
	Currency Translation Adjustments	Benefit Plans	SABMiller	Accumulated Other Comprehensive Losses
	(in millions)			
Balances, December 31, 2013	$—	$(1,273)	$(105)	$(1,378)
Other comprehensive losses before reclassifications	(1)	—	(280)	(281)
Deferred income taxes	—	—	98	98
Other comprehensive losses before reclassifications, net of deferred income taxes	(1)	—	(182)	(183)
Amounts reclassified to net earnings	—	116	56	172
Deferred income taxes	—	(45)	(20)	(65)
Amounts reclassified to net earnings, net of deferred income taxes	—	71	36	107
Other comprehensive (losses) earnings, net of deferred income taxes	(1)	71	(146) [(1)]	(76)
Balances, September 30, 2014	$(1)	$(1,202)	$(251)	$(1,454)

	For the Three Months Ended September 30, 2014			
	Currency Translation Adjustments	Benefit Plans	SABMiller	Accumulated Other Comprehensive Losses
	(in millions)			
Balances, June 30, 2014	$1	$(1,224)	$(6)	$(1,229)
Other comprehensive losses before reclassifications	(2)	—	(430)	(432)
Deferred income taxes	—	—	151	151
Other comprehensive losses before reclassifications, net of deferred income taxes	(2)	—	(279)	(281)
Amounts reclassified to net earnings	—	36	53	89
Deferred income taxes	—	(14)	(19)	(33)
	—	22	34	56

Amounts reclassified to net earnings, net of deferred income taxes				
Other comprehensive (losses) earnings, net of deferred income taxes	(2)	22	(245)[1]	(225)
Balances, September 30, 2014	$(1)	$(1,202)	$(251)	$(1,454)

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Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

	For the Nine Months Ended September 30, 2013			
	Currency Translation Adjustments	Benefit Plans	SABMiller	Accumulated Other Comprehensive Losses
	(in millions)			
Balances, December 31, 2012	$2	$(2,414)	$372	$(2,040)
Other comprehensive (losses) earnings before reclassifications	(1)	30	(527)	(498)
Deferred income taxes	—	(13)	184	171
Other comprehensive (losses) earnings before reclassifications, net of deferred income taxes	(1)	17	(343)	(327)
Amounts reclassified to net earnings	—	230	2	232
Deferred income taxes	—	(88)	—	(88)
Amounts reclassified to net earnings, net of deferred income taxes	—	142	2	144
Other comprehensive (losses) earnings, net of deferred income taxes	(1)	159	(341) [(1)]	(183)
Balances, September 30, 2013	$1	$(2,255)	$31	$(2,223)

	For the Three Months Ended September 30, 2013			
	Currency Translation Adjustments	Benefit Plans	SABMiller	Accumulated Other Comprehensive Losses
	(in millions)			
Balances, June 30, 2013	$1	$(2,301)	$(30)	$(2,330)
Other comprehensive earnings before reclassifications	—	—	92	92
Deferred income taxes	—	—	(32)	(32)
Other comprehensive earnings before reclassifications, net of deferred income taxes	—	—	60	60
Amounts reclassified to net earnings	—	74	1	75
Deferred income taxes	—	(28)	—	(28)
Amounts reclassified to net earnings, net of deferred income taxes	—	46	1	47
Other comprehensive earnings, net of deferred income taxes	—	46	61 [(1)]	107

Balances, September 30, 2013	$1	$(2,255)	$31	$(2,223)

(1) For the nine and three months ended September 30, 2014 and 2013, Altria Group, Inc.'s proportionate share of SABMiller's other comprehensive earnings/losses consisted primarily of currency translation adjustments.

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The following table sets forth pre-tax amounts by component, reclassified from accumulated other comprehensive losses to net earnings:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2014	2013	2014	2013
	(in millions)			
Benefit Plans: [1]				
Net loss	$140	$255	$44	$82
Prior service cost/credit	(24)	(25)	(8)	(8)
	116	230	36	74
SABMiller [2]	56	2	53	1
Pre-tax amounts reclassified from accumulated other comprehensive losses to net earnings	$172	$232	$89	$75

(1) Amounts are included in net defined benefit plan costs. For further details, see Note 3. Benefit Plans.

(2) Amounts are included in earnings from equity investment in SABMiller.

Note 6. Segment Reporting:

The products of Altria Group, Inc.’s subsidiaries include smokeable products comprised of cigarettes manufactured and sold by PM USA and machine-made large cigars and pipe tobacco manufactured and sold by Middleton; smokeless products manufactured and sold by USSTC and PM USA; and wine produced and/or distributed by Ste. Michelle. The products and services of these subsidiaries constitute Altria Group, Inc.’s reportable segments of smokeable products, smokeless products and wine. The financial services and the innovative tobacco products businesses are included in all other.

Altria Group, Inc.’s chief operating decision maker reviews operating companies income to evaluate the performance of and allocate resources to the segments. Operating companies income for the segments excludes general corporate expenses and amortization of intangibles. Interest and other debt expense, net, and provision for income taxes are centrally managed at the corporate level and, accordingly, such items are not presented by segment since they are excluded from the measure of segment profitability reviewed by Altria Group, Inc.’s chief operating decision maker.

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Segment data were as follows:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2014	2013	2014	2013
	(in millions)			
Net revenues:				
Smokeable products	$16,428	$16,448	$5,859	$5,802
Smokeless products	1,345	1,333	466	485
Wine	428	411	153	148
All other	63	194	13	118
Net revenues	$18,264	$18,386	$6,491	$6,553
Earnings before income taxes:				
Operating companies income (loss):				
Smokeable products	$5,160	$5,471	$1,840	$1,825
Smokeless products	804	769	280	277
Wine	81	73	31	28
All other	(143)	185	(89)	92
Amortization of intangibles	(15)	(15)	(5)	(5)
General corporate expenses	(174)	(173)	(53)	(60)
Changes to Mondelēz and PMI tax-related receivables/payables	(5)	(25)	(5)	(25)
Operating income	5,708	6,285	1,999	2,132
Interest and other debt expense, net	(596)	(794)	(213)	(269)
Earnings from equity investment in SABMiller	753	738	328	255
Earnings before income taxes	$5,865	$6,229	$2,114	$2,118

The comparability of operating companies income for the reportable segments was affected by the following items:

Non-Participating Manufacturer ("NPM") Adjustment Items - For the nine and three months ended September 30, 2014 and 2013, pre-tax income for NPM adjustment items was recorded in Altria Group, Inc.'s condensed consolidated statements of earnings as follows:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2014	2013	2014	2013
	(in millions)			
Smokeable products segment	$43	$664	$—	$145
Interest and other debt expense, net	47	—	—	—
Total	$90	$664	$—	$145

These adjustments resulted from the settlement of, and determinations made in connection with, disputes with certain states and territories related to the NPM adjustment provision under the 1998 Master Settlement Agreement (the "MSA") for the years 2003-2012 (such settlements and determinations are referred to collectively as "NPM Adjustment Items" and are more fully described in Health Care Cost Recovery Litigation - NPM Adjustment Disputes in Note 9. Contingencies). The amounts shown in the table above for the smokeable products segment were recorded by PM USA as reductions to cost of sales, which increased operating companies income in the smokeable products segment.

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Tobacco and Health Litigation Items - For the nine and three months ended September 30, 2014 and 2013, pre-tax charges related to certain tobacco and health litigation items were recorded in Altria Group, Inc.'s condensed consolidated statements of earnings as follows:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2014	2013	2014	2013
	(in millions)			
Smokeable products segment	$22	$18	$3	$13
General corporate expenses	15	—	—	—
Interest and other debt expense, net	2	4	1	3
Total	$39	$22	$4	$16

During the second quarter of 2014, Altria Group, Inc. and PM USA recorded an aggregate pre-tax charge of $31 million in marketing, administration and research costs for the estimated costs of implementing the corrective communications remedy in connection with the federal government's lawsuit against Altria Group, Inc. and PM USA. For further discussion, see Health Care Cost Recovery Litigation - Federal Government's Lawsuit in Note 9. Contingencies.

Asset Impairment and Exit Costs - During the second quarter of 2014, PM USA sold its Cabarrus, North Carolina manufacturing facility for approximately $66 million in connection with the previously completed manufacturing optimization program associated with PM USA's closure of the manufacturing facility in 2009. As a result, during the second quarter of 2014, PM USA recorded a pre-tax gain of $10 million.

Note 7. Finance Assets, net:

In 2003, PMCC ceased making new investments and began focusing exclusively on managing its portfolio of finance assets in order to maximize its operating results and cash flows from its existing lease portfolio activities and asset sales. Accordingly, PMCC's operating companies income will fluctuate over time as investments mature or are sold.

At September 30, 2014, finance assets, net, of $1,773 million were comprised of investments in finance leases of $1,815 million, reduced by the allowance for losses of $42 million. At December 31, 2013, finance assets, net, of $1,997 million were comprised of investments in finance leases of $2,049 million, reduced by the allowance for losses of $52 million.

PMCC assesses the adequacy of its allowance for losses relative to the credit risk of its leasing portfolio on an ongoing basis. PMCC believes that, as of September 30, 2014, the allowance for losses of $42 million was adequate. PMCC continues to monitor economic and credit conditions, and the individual situations of its lessees and their respective industries, and may increase or decrease its allowance for losses if such conditions change in the future.
The activity in the allowance for losses on finance assets for the nine months ended September 30, 2014 and 2013 was as follows:

	For the Nine Months Ended September 30,	
	2014	2013
	(in millions)	
Balance at beginning of the year	$52	$99
Decrease to allowance	(10)	(47)
Balance at September 30	$42	$52

During the nine months ended September 30, 2014 and 2013, PMCC determined that its allowance for losses exceeded the amounts required based on management's assessment of the credit quality and size of PMCC's leasing portfolio. As a result, PMCC reduced its allowance for losses by $10 million and $47 million for the nine months ended September 30, 2014 and 2013, respectively. These decreases to the allowance for losses were recorded as reductions to marketing, administration and research costs on Altria Group, Inc.'s condensed consolidated statements of earnings.

All PMCC lessees were current on their lease payment obligations as of September 30, 2014.

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The credit quality of PMCC's investments in finance leases as assigned by Standard & Poor's Ratings Services ("Standard & Poor's") and Moody's Investors Service, Inc. ("Moody's") at September 30, 2014 and December 31, 2013 was as follows:

	September 30, 2014	December 31, 2013
	(in millions)	
Credit Rating by Standard & Poor's/Moody's:		
"AAA/Aaa" to "A-/A3"	$437	$464
"BBB+/Baa1" to "BBB-/Baa3"	878	927
"BB+/Ba1" and Lower	500	658
Total	$1,815	$2,049

Note 8. Debt:

At September 30, 2014 and December 31, 2013, Altria Group, Inc. had no short-term borrowings.

Effective August 19, 2014, Altria Group, Inc. entered into an extension agreement (the "Extension Agreement") to amend its $3.0 billion senior unsecured 5-year revolving credit agreement, dated as of August 19, 2013 (the "Credit Agreement"). The Extension Agreement extends the expiration date of the Credit Agreement from August 19, 2018 to August 19, 2019 pursuant to the terms of the Credit Agreement. All other terms and conditions of the Credit Agreement remain in full force and effect. The Credit Agreement contains an additional option, subject to certain conditions, for Altria Group, Inc. to extend the expiration date for an additional one-year period.

Any borrowings under the Credit Agreement are guaranteed by PM USA as further discussed in Note 10. Condensed Consolidating Financial Information. At September 30, 2014, credit available to Altria Group, Inc. under the Credit Agreement was $3.0 billion.

Long-term Debt

On September 29, 2014, UST issued a notice of full redemption for its $300 million (aggregate principal amount) 5.75% senior notes due 2018 ("UST Notes"). The redemption date for the UST Notes is October 29, 2014. The UST Notes have been included in the current portion of long-term debt on Altria Group, Inc.'s condensed consolidated balance sheet at September 30, 2014. As a result of the redemption, a pre-tax loss on early extinguishment of debt of approximately $45 million will be recorded in the fourth quarter of 2014.
During the first quarter of 2014, Altria Group, Inc. repaid in full at maturity senior unsecured notes in the aggregate principal amount of $525 million.

Altria Group, Inc.'s estimate of the fair value of its debt is based on observable market information derived from a third party pricing source and is classified in Level 2 of the fair value hierarchy. The aggregate fair value of Altria Group, Inc.'s total long-term debt at September 30, 2014 and December 31, 2013, was $16.0 billion and $16.1 billion, respectively, as compared with its carrying value of $14.0 billion and $14.5 billion, respectively.
Note 9. Contingencies:

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

Litigation is subject to uncertainty and it is possible that there could be adverse developments in pending or future cases. An unfavorable outcome or settlement of pending tobacco-related or other litigation could encourage the commencement of additional litigation. Damages claimed in some tobacco-related and other litigation are or can be significant and, in certain cases, range in the billions of dollars. The variability in pleadings in multiple jurisdictions, together with the actual experience of management in litigating claims, demonstrate that the monetary relief that may be specified in a lawsuit bears little relevance to the ultimate outcome. In certain cases, plaintiffs claim that defendants' liability is joint and several. In such cases, Altria Group, Inc. or its subsidiaries may face the risk that one or more co-defendants decline or otherwise fail to participate in the bonding required for an appeal or to pay their proportionate or jury-allocated share of a judgment. As a result, Altria Group, Inc. or its subsidiaries under certain circumstances may have to pay more than their proportionate share of any bonding- or judgment-related amounts. Furthermore, in those cases where plaintiffs are successful, Altria Group, Inc. or its subsidiaries may also be required to pay interest and attorneys' fees.

Although PM USA has historically been able to obtain required bonds or relief from bonding requirements in order to prevent plaintiffs from seeking to collect judgments while adverse verdicts have been appealed, there remains a risk that such relief may not be obtainable in all cases. This risk has been substantially reduced given that 45 states and Puerto Rico limit the dollar amount of bonds or require no bond at all. As discussed below, however, tobacco litigation plaintiffs have challenged the constitutionality of Florida's bond cap statute in several cases and plaintiffs may challenge state bond cap statutes in other jurisdictions as well. Such challenges may include the applicability of state bond caps in federal court. Although Altria Group, Inc. cannot predict the outcome of such challenges, it is possible that the consolidated results of operations, cash flows or financial position of Altria Group, Inc., or one or more of its subsidiaries, could be materially affected in a particular fiscal quarter or fiscal year by an unfavorable outcome of one or more such challenges.

Altria Group, Inc. and its subsidiaries record provisions in the condensed consolidated financial statements for pending litigation when they determine that an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. At the present time, while it is reasonably possible that an unfavorable outcome in a case may occur, except to the extent discussed elsewhere in this Note 9. Contingencies: (i) management has concluded that it is not probable that a loss has been incurred in any of the pending tobacco-related cases; (ii) management is unable to estimate the possible loss or range of loss that could result from an unfavorable outcome in any of the pending tobacco-related cases; and (iii) accordingly, management has not provided any amounts in the condensed consolidated financial statements for unfavorable outcomes, if any. Legal defense costs are expensed as incurred.

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

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

Types and Number of Cases

Claims related to tobacco products generally fall within the following categories: (i) smoking and health cases alleging personal injury brought on behalf of individual plaintiffs; (ii) smoking and health cases primarily alleging personal injury or seeking court-supervised programs for ongoing medical monitoring and purporting to be brought on behalf of a class of individual plaintiffs, including cases in which the aggregated claims of a number of individual plaintiffs are to be tried in a single proceeding; (iii) health care cost recovery cases brought by governmental (both domestic and foreign) plaintiffs seeking reimbursement for health care expenditures allegedly caused by cigarette smoking and/or disgorgement of profits; (iv) class action suits alleging that the uses of the terms “Lights” and “Ultra Lights” constitute deceptive and unfair trade practices, common law or statutory fraud, unjust enrichment, breach of warranty or violations of the Racketeer Influenced and Corrupt Organizations Act (“RICO”); and (v) other tobacco-related litigation described below. Plaintiffs’ theories of recovery and the defenses raised in pending smoking and health, health care cost recovery and “Lights/Ultra Lights” cases are discussed below.

The table below lists the number of certain tobacco-related cases pending in the United States against PM USA and, in some instances, Altria Group, Inc. as of October 27, 2014, October 21, 2013 and October 25, 2012.

Type of Case	Number of Cases Pending as of October 27, 2014	Number of Cases Pending as of October 21, 2013	Number of Cases Pending as of October 25, 2012
Individual Smoking and Health Cases [1]	67	68	77
Smoking and Health Class Actions and Aggregated Claims Litigation [2]	5	6	7
Health Care Cost Recovery Actions [3]	1	1	1
“Lights/Ultra Lights” Class Actions	13	15	14

[1] Does not include 2,563 cases brought by flight attendants seeking compensatory damages for personal injuries allegedly caused by exposure to environmental tobacco smoke (“ETS”). The flight attendants allege that they are members of an ETS smoking and health class action in Florida, which was settled in 1997 (Broin). The terms of the court-approved settlement in that case allow class members to file individual lawsuits seeking compensatory damages, but prohibit them from seeking punitive damages. Also, does not include individual smoking and health cases brought by or on behalf of plaintiffs in Florida state and federal courts following the decertification of the Engle case (discussed below in Smoking and Health Litigation - Engle Class Action).
[2] Includes as one case the 600 civil actions (of which 346 were actions against PM USA) that were to be tried in a single proceeding in West Virginia (In re: Tobacco Litigation). The West Virginia Supreme Court of Appeals has ruled that the United States Constitution did not preclude a trial in two phases in this case. Issues related to defendants’ conduct and whether punitive damages are permissible were tried in the first phase. Trial in the first phase of this case began in April 2013. In May 2013, the jury returned a verdict in favor of defendants on the claims for design defect, negligence, failure to warn, breach of warranty, and concealment and declined to find that the defendants’ conduct warranted punitive damages. Plaintiffs prevailed on their claim that ventilated filter cigarettes should have included use instructions for the period 1964 - 1969. The second phase, if any, will consist of individual trials to determine liability and compensatory damages on that claim only. In August 2013, the trial court denied all post-trial motions. The trial court entered final judgment in October 2013 and, in November 2013, plaintiffs filed their notice of appeal to the West Virginia Supreme Court of Appeals.
[3] See Health Care Cost Recovery Litigation - Federal Government’s Lawsuit below.

International Tobacco-Related Cases

As of October 27, 2014, PM USA is a named defendant in Israel in one “Lights” class action. PM USA is a named defendant in nine health care cost recovery actions in Canada, seven of which also name Altria Group, Inc. as a defendant. PM USA and Altria Group, Inc. are also named defendants in seven smoking and health class actions filed in various Canadian provinces. See Guarantees and Other Similar Matters below for a discussion of the Distribution Agreement between Altria Group, Inc. and Philip Morris International Inc. (“PMI”) that provides for indemnities for certain liabilities concerning tobacco products.

Tobacco-Related Cases Set for Trial

As of October 27, 2014, 4 Engle progeny cases and no individual smoking and health cases against PM USA are set for trial in 2014. Cases against other companies in the tobacco industry are also scheduled for trial in 2014. Trial dates are subject to change.

Trial Results

Since January 1999, excluding the Engle progeny cases (separately discussed below), verdicts have been returned in 56 smoking and health, "Lights/Ultra Lights" and health care cost recovery cases in which PM USA was a defendant. Verdicts in favor of PM USA and other defendants were returned in 38 of the 56 cases. These 38 cases were tried in Alaska (1), California (6), Florida (10), Louisiana (1), Massachusetts (1), Mississippi (1), Missouri (3), New Hampshire (1), New Jersey (1), New York (5), Ohio (2), Pennsylvania (1), Rhode Island (1), Tennessee (2) and West Virginia (2). A motion for a new trial was granted in one of the cases in Florida and in the case in Alaska. In the Alaska case (Hunter), the trial court withdrew its order for a new trial upon PM USA's motion for reconsideration. Oral argument of plaintiff's appeal of this ruling occurred on September 9, 2014. See Types and Number of Cases above for a discussion of the trial results in In re: Tobacco Litigation (West Virginia consolidated cases).

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Of the 18 non-Engle progeny cases in which verdicts were returned in favor of plaintiffs, 14 have reached final resolution. A verdict against defendants in one health care cost recovery case (Blue Cross/Blue Shield) was reversed and all claims were dismissed with prejudice. In addition, a verdict against defendants in a purported "Lights" class action in Illinois (Price) was reversed and the case was dismissed with prejudice in December 2006, but plaintiff is seeking to reinstate the verdict, which an intermediate appellate court ordered in April 2014. PM USA filed a petition for leave to appeal, which automatically stayed the April 2014 order. On September 24, 2014, the Illinois Supreme Court granted PM USA's motion for leave to appeal. See "Lights/Ultra Lights" Cases - The Price Case below for a discussion of developments in Price.

As of October 27, 2014, 64 state and federal Engle progeny cases involving PM USA have resulted in verdicts since the Florida Supreme Court's Engle decision. Thirty-two verdicts were returned in favor of plaintiffs and 32 verdicts were returned in favor of PM USA. See Smoking and Health Litigation - Engle Progeny Trial Court Results below for a discussion of these verdicts.

Judgments Paid and Provisions Related to Tobacco and Health Litigation (Including Engle Progeny Litigation)

After exhausting all appeals in those cases resulting in adverse verdicts associated with tobacco-related litigation, since October 2004, PM USA has paid in the aggregate judgments (and related costs and fees) totaling approximately $266 million and interest totaling approximately $144 million as of October 27, 2014. These amounts include payments for Engle progeny judgments (and related costs and fees) totaling approximately $13.8 million and interest totaling approximately $2.5 million.

The changes in Altria Group, Inc.'s accrued liability for provisions related to tobacco and health litigation, including related interest costs, for the periods specified below were as follows:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2014	2013	2014	2013
	(in millions)			
Accrued liability for tobacco and health litigation at beginning of period	$3	$—	$34	$6
Pre-tax charges for tobacco and health judgments	6	18	3	13
Pre-tax charges for judgment-related interest costs	2	4	1	3
Pre-tax charges related to implementation of corrective communications remedy pursuant to the federal government's lawsuit	31	—	—	—
Payments	(4)	(16)	—	(16)
Accrued liability for tobacco and health litigation at end of period	$38	$6	$38	$6

The accrued liability for tobacco and health litigation, including related interest costs, was included in liabilities on Altria Group, Inc.'s condensed consolidated balance sheets. Pre-tax charges for tobacco and health judgments and corrective communications were included in marketing, administration and research costs on Altria Group, Inc.'s condensed consolidated statements of earnings. Pre-tax charges for related interest costs were included in interest and other debt expense, net on Altria Group, Inc.'s condensed consolidated statements of earnings.

Security for Judgments

To obtain stays of judgments pending current appeals, as of September 30, 2014, PM USA has posted various forms of security totaling approximately $62 million, the majority of which has been collateralized with cash deposits that are included in other assets on the condensed consolidated balance sheet.

Smoking and Health Litigation

Overview

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

Non-Engle Progeny Trial Results

Summarized below are the non-Engle progeny smoking and health cases pending during 2014 in which verdicts were returned in favor of plaintiffs and against PM USA. Charts listing the verdicts for plaintiffs in the Engle progeny cases can be found in Smoking and Health Litigation - Engle Progeny Trial Court Results below.

Mulholland: In July 2013, a jury in the U.S. District Court for the Southern District of New York returned a verdict in favor of plaintiff and awarded $5.5 million in compensatory damages against PM USA. In August 2013, after taking into account a prior recovery by the plaintiff against third parties, the court entered final judgment in the amount of $4.9 million. In September 2013, PM USA filed a renewed motion for judgment as a matter of law and plaintiff moved to modify the amount of the judgment. In December 2013, the trial court denied the parties' post-trial motions. In January 2014, PM USA filed a notice of appeal to the U.S. Court of Appeals for the Second Circuit, plaintiff cross-appealed and PM USA posted a bond in the amount of $5.5 million. Oral argument is currently scheduled for December 11, 2014.

Schwarz: In March 2002, an Oregon jury awarded $168,500 in compensatory damages and $150 million in punitive damages against PM USA. In May 2002, the trial court reduced the punitive damages award to $100 million. In May 2006, the Oregon Court of Appeals affirmed the compensatory damages verdict, reversed the award of punitive damages and remanded the case to the trial court for a second trial to determine the amount of punitive damages, if any. In June 2006, plaintiff petitioned the Oregon Supreme Court to review the portion of the court of appeals' decision reversing and remanding the case for a new trial on punitive damages. In June 2010, the Oregon Supreme Court affirmed the court of appeals' decision and remanded the case to the trial court for a new trial limited to the question of punitive damages. In December 2010, the Oregon Supreme Court reaffirmed its earlier ruling and awarded PM USA approximately $500,000 in costs. In March 2011, PM USA filed a claim against the plaintiff for its costs and disbursements on appeal, plus interest. Trial on the amount of punitive damages began in January 2012. In February 2012, the jury awarded plaintiff $25 million in punitive damages. In September 2012, PM USA filed a notice of appeal from the trial court's judgment with the Oregon Court of Appeals. Oral argument at the Oregon Court of Appeals occurred on September 9, 2014.

See Health Care Cost Recovery Litigation - Federal Government's Lawsuit below for a discussion of the verdict and post-trial developments in the United States of America healthcare cost recovery case.

Engle Class Action

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

In May 2001, the trial court approved a stipulation providing that execution of the punitive damages component of the Engle judgment will remain stayed against PM USA and the other participating defendants through the completion of all judicial review. As a result of the stipulation, PM USA placed $500 million into an interest-bearing escrow account that, regardless of the outcome of the judicial review, was to be paid to the court and the court was to determine how to allocate or distribute it consistent with Florida Rules of Civil Procedure. In May 2003, the Florida Third District Court of

Appeal reversed the judgment entered by the trial court and instructed the trial court to order the decertification of the class. Plaintiffs petitioned the Florida Supreme Court for further review.

In July 2006, the Florida Supreme Court ordered that the punitive damages award be vacated, that the class approved by the trial court be decertified and that members of the decertified class could file individual actions against defendants within one year of issuance of the mandate. The court further declared the following Phase I findings are entitled to res judicata effect in such individual actions brought within one year of the issuance of the mandate: (i) that smoking causes various diseases; (ii) that nicotine in cigarettes is addictive; (iii) that defendants' cigarettes were defective and unreasonably dangerous; (iv) that defendants concealed or omitted material information not otherwise known or available knowing that the material was false or misleading or failed to disclose a material fact concerning the health effects or addictive nature of smoking; (v) that defendants agreed to misrepresent information regarding the health effects or addictive nature of cigarettes with the intention of causing the public to rely on this information to their detriment; (vi) that defendants agreed to conceal or omit information regarding the health effects of cigarettes or their addictive nature with the intention that smokers would rely on the information to their detriment; (vii) that all defendants sold or supplied cigarettes that were defective; and (viii) that defendants were negligent. The court also reinstated compensatory damages awards totaling approximately $6.9 million to two individual plaintiffs and found that a third plaintiff's claim was barred by the statute of limitations. In February 2008, PM USA paid approximately $3 million, representing its share of compensatory damages and interest, to the two individual plaintiffs identified in the Florida Supreme Court's order.

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

In February 2008, the trial court decertified the class, except for purposes of the May 2001 bond stipulation, and formally vacated the punitive damages award pursuant to the Florida Supreme Court's mandate. In April 2008, the trial court ruled that certain defendants, including PM USA, lacked standing with respect to allocation of the funds escrowed under the May 2001 bond stipulation and would receive no credit at that time from the $500 million paid by PM USA against any future punitive damages awards in cases brought by former Engle class members.

In May 2008, the trial court, among other things, decertified the limited class maintained for purposes of the May 2001 bond stipulation and, in July 2008, severed the remaining plaintiffs' claims except for those of Howard Engle. The only remaining plaintiff in the Engle case, Howard Engle, voluntarily dismissed his claims with prejudice.

Engle Progeny Cases

The deadline for filing Engle progeny cases, as required by the Florida Supreme Court's Engle decision, expired in January 2008. As of October 27, 2014, approximately 3,100 state court cases were pending against PM USA or Altria Group, Inc. asserting individual claims by or on behalf of approximately 4,200 state court plaintiffs. Furthermore, as of October 27, 2014, approximately 900 cases were pending against PM USA in federal district court asserting individual claims by or on behalf of a similar number of federal court plaintiffs. Most of these federal cases are pending in the U.S.

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District Court for the Middle District of Florida. Because of a number of factors, including, but not limited to, docketing delays, duplicated filings and overlapping dismissal orders, these numbers are estimates.

In July 2013, the district court issued an order transferring, for case management purposes, all the Middle District of Florida Engle progeny cases to a judge presiding in the District of Massachusetts. The order directed that the cases will remain in the Middle District of Florida and that such judge will be designated a judge of that district for purposes of managing the cases. The U.S. District Court for the Middle District of Florida dismissed a significant number of cases, of which approximately 750 were appealed by plaintiffs to the U.S. Court of Appeals for the Eleventh Circuit. In September 2014, the Eleventh Circuit affirmed those dismissals. All remaining cases pending in the Middle District of Florida have been activated or are scheduled to be activated by May 2015.

Engle Progeny Trial Court Results

As of October 27, 2014, 64 federal and state Engle progeny cases involving PM USA have resulted in verdicts since the Florida Supreme Court Engle decision. Thirty-two verdicts were returned in favor of plaintiffs.

Thirty-two verdicts were returned in favor of PM USA (Gelep, Kalyvas, Gil de Rubio, Warrick, Willis, Russo (formerly Frazier), C. Campbell, Rohr, Espinosa, Oliva, Weingart, Junious, Szymanski, Gollihue, McCray, Denton, Hancock, Wilder, D. Cohen, LaMotte, J. Campbell, Dombey, Haldeman, Jacobson, Blasco, Gonzalez, Reider, Banks, Surico, Davis, Harris and Baum). On July 31, 2014, the jury in Harris returned a verdict indicating that plaintiff was not a member of the Engle class, but also awarded $238,975 against PM USA. Defendants' motion to enter a defense verdict is pending. In addition, there have been a number of mistrials, only some of which have resulted in new trials as of October 27, 2014. The juries in the Reider and Banks cases returned zero damages verdicts in favor of PM USA. The juries in the Weingart and Hancock cases returned verdicts against PM USA awarding no damages, but the trial court in each case granted an additur. In the Russo case (formerly Frazier), however, the Florida Third District Court of Appeal reversed the judgment in defendants' favor in April 2012 and remanded the case for a new trial. Defendants sought review of the case in the Florida Supreme Court, which was granted in September 2013. Oral argument occurred in April 2014 in the Florida Supreme Court on the question of whether the statute of repose applies in Engle progeny cases.

The charts below list the verdicts and post-trial developments in certain Engle progeny cases in which verdicts were returned in favor of plaintiffs (including Hancock, where the verdict originally was returned in favor of PM USA). The first chart lists such cases that are pending as of October 27, 2014; the second chart lists such cases that were pending earlier in 2014 but that are now concluded.
Currently-Pending Cases

Plaintiff: Kerrivan
Date: October 2014

Verdict:
On October 20, 2014, a jury in the U.S. District Court for the Middle District of Florida returned a verdict against PM USA and R.J. Reynolds Tobacco Company ("R.J. Reynolds") awarding plaintiff $15.8 million in compensatory damages and allocating 50% of the fault to PM USA and 31% of the fault to R.J. Reynolds. On October 22, 2014, the jury awarded plaintiff $25.3 million in punitive damages and allocated $15.7 million to PM USA.

Plaintiff: Lourie

Date: October 2014

Verdict:
On October 10, 2014, a Hillsborough County jury returned a verdict against PM USA, R.J. Reynolds and Lorillard Tobacco Company (“Lorillard”) awarding plaintiff $1,371,549 in compensatory damages and allocating 27% of the fault to PM USA (an amount of $370,318).

Plaintiff: Berger
Date: September 2014

Verdict:
On September 12, 2014, a jury in the U.S. District Court for the Middle District of Florida returned a verdict against PM USA awarding plaintiff $6.25 million in compensatory damages. On September 16, 2014, the jury awarded plaintiff $20.76 million in punitive damages.

Post-Trial Developments:
The court entered final judgment against PM USA on September 19, 2014. On October 1, 2014, the court entered an order scheduling post-trial motions and confirming that plaintiff agreed to waive bond for appeal. On October 17, 2014, PM USA filed a motion for a new trial or, in the alternative, remittitur of the jury's damages awards.

Plaintiff: Griffin
Date: June 2014

Verdict:
In June 2014, a jury in the U.S. District Court for the Middle District of Florida returned a verdict in favor of plaintiff and against PM USA awarding $1,268,402 in compensatory damages and allocating 50% of the fault to PM USA (an amount of $634,201).

Post-Trial Developments:
The court entered final judgment against PM USA in July 2014. On August 14, 2014, PM USA filed a motion to amend the judgment to reduce plaintiff's damages by the amount paid by collateral sources, which the court denied on September 15, 2014. On October 9, 2014, PM USA posted a bond in the amount of $640,543 and, on October 14, 2014, filed a notice of appeal to the U.S. District Court of Appeals for the Eleventh Circuit.

Plaintiff: Burkhart
Date: May 2014

Verdict:
In May 2014, a jury in the U.S. District Court for the Middle District of Florida returned a verdict in favor of plaintiff and against PM USA, R.J. Reynolds and Lorillard awarding $5 million in compensatory damages and allocating fault among the defendants as follows: 15% to PM USA, 25% to R.J. Reynolds and 10% to Lorillard. The court declined defendants' request to reduce the compensatory damages award by the jury's assessment of comparative fault, imposing joint and several liability. The following day, the jury awarded plaintiff $2.5 million in punitive damages, allocating $750,000 to PM USA.

Post-Trial Developments:
In July 2014, defendants filed post-trial motions, including a renewed motion for judgment or, alternatively, for a new trial or remittitur of the damages awards, which the court denied on September 16, 2014. On October 10, 2014, defendants filed a notice of appeal to the U.S. Court of Appeals for the Eleventh Circuit.

Plaintiff: Bowden
Date: March 2014

Verdict:
In March 2014, a Duval County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds. The jury awarded plaintiff $5 million in compensatory damages and allocated 30% of the fault to PM USA (an amount of $1.5 million).

Post-Trial Developments:
The court entered final judgment against defendants in March 2014. In April 2014, defendants filed post-trial motions, including motions for a new trial and to set aside the verdict. In May 2014, the court denied defendants' post-trial motions. In June 2014, defendants filed a notice of appeal to the Florida First District Court of Appeal and PM USA posted a bond in the amount of $1.5 million.

Plaintiff: Goveia
Date: February 2014

Verdict:
An Orange County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds. In February 2014, the jury awarded $850,000 in compensatory damages and allocated 35% of the fault against each defendant (an amount of $297,500). The jury also awarded $2.25 million in punitive damages against each defendant.

Post-Trial Developments:
In February 2014, defendants filed post-trial motions, including motions to set aside the verdict and for a new trial. In April 2014, the court denied defendants' motions and entered final judgment against defendants. In April 2014, defendants filed a notice of appeal to the Florida Fifth District Court of Appeal. In May 2014, PM USA posted a bond in the amount of $2.5 million.

Plaintiff: Cuculino
Date: January 2014

Verdict:
In January 2014, a Miami-Dade County jury returned a verdict in favor of plaintiff and against PM USA. The jury awarded plaintiff $12.5 million in compensatory damages and allocated 40% of the fault to PM USA (an amount of $5 million).

Post-Trial Developments:
In January 2014, the court entered final judgment against PM USA, and PM USA filed post-trial motions, including motions to set aside the verdict and for a new trial. In March 2014 and April 2014, the court denied PM USA's post-trial motions. Also in April 2014, PM USA filed a notice of appeal to the Florida Third District Court of Appeal, plaintiff cross-appealed and PM USA posted a bond in the amount of $5 million.

Plaintiff: Rizzuto
Date: August 2013

Verdict:
In August 2013, a Hernando County jury returned a verdict in favor of plaintiff and against PM USA and Liggett Group LLC ("Liggett Group"). The jury awarded plaintiff $12.55 million in compensatory damages.

Post-Trial Developments:
In September 2013, defendants filed post-trial motions, including a motion to reduce damages. In September 2013, the court granted a remittitur in part on economic damages, which the court reduced from $2.55 million to $1.1 million for a total award of $11.1 million in compensatory damages. The court declined defendants' request to reduce the compensatory damages award by the jury's assessment of comparative fault, imposing joint and several liability for the compensatory damages. The court denied all other motions except for defendants' motion for a juror interview, which was granted. In October 2013, defendants filed a notice of appeal to the Florida Fifth District Court of Appeal, which ordered resolution of the juror issue prior to appeal. In December 2013, subsequent to the juror interview, the court entered an order that granted no relief with respect to the alleged misconduct of the juror. Plaintiff agreed to waive the bond for the appeal.

Plaintiff: Skolnick
Date: June 2013

Verdict:
In June 2013, a Palm Beach County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds. The jury awarded plaintiff $2.555 million in compensatory damages and allocated 30% of the fault to each defendant (an amount of $766,500).

Post-Trial Developments:
In June 2013, defendants and plaintiff filed post-trial motions. The court entered final judgment against defendants in July 2013. In November 2013, the trial court denied plaintiff's post-trial motion and, in December 2013, denied defendants' post-

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trial motions. Defendants filed a notice of appeal to the Florida Fourth District Court of Appeal, and plaintiffs cross-appealed in December 2013. Also in December 2013, PM USA posted a bond in the amount of $766,500.

Plaintiff: Starr-Blundell
Date: June 2013

Verdict:
In June 2013, a Duval County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds. The jury awarded plaintiff $500,000 in compensatory damages and allocated 10% of the fault to each defendant (an amount of $50,000).

Post-Trial Developments:
In June 2013, the defendants filed a motion to set aside the verdict and to enter judgment in accordance with their motion for directed verdict or, in the alternative, for a new trial, which was denied in October 2013. In November 2013, final judgment was entered in favor of plaintiff affirming the compensatory damages award. In December 2013, plaintiff filed a notice of appeal to the Florida First District Court of Appeal. Plaintiff agreed to waive the bond for the appeal.

Plaintiff: Ruffo
Date: May 2013

Verdict:
In May 2013, a Miami-Dade County jury returned a verdict in favor of plaintiff and against PM USA and Lorillard. The jury awarded plaintiff $1.5 million in compensatory damages and allocated 12% of the fault to PM USA (an amount of $180,000).

Post-Trial Developments:
In May 2013, defendants filed several post-trial motions, including motions for a new trial and to set aside the verdict, which the trial court denied in October 2013 and entered final judgment in favor of plaintiff. In October 2013, PM USA and Lorillard appealed to the Florida Third District Court of Appeal, and PM USA posted a bond in the amount of $180,000.

Plaintiff: Graham
Date: May 2013

Verdict:
In May 2013, a jury in the U.S. District Court for the Middle District of Florida returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds. The jury awarded $2.75 million in compensatory damages and allocated 10% of the fault to PM USA (an amount of $275,000).

Post-Trial Developments:
In June 2013, defendants filed several post-trial motions, including motions for judgment as a matter of law and for a new trial, which the trial court denied in September 2013. In October 2013, defendants filed a notice of appeal to the U.S. Court of Appeals for the Eleventh Circuit, and PM USA posted a bond in the amount of $277,750.

Plaintiff: Searcy

Date: April 2013

Verdict:
In April 2013, a jury in the U.S. District Court for the Middle District of Florida returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds. The jury awarded $6 million in compensatory damages (allocating 30% of the fault to each defendant) and $10 million in punitive damages against each defendant.

Post-Trial Developments:
In June 2013, the trial court entered final judgment declining defendants' request to reduce the compensatory damages award by the jury's assessment of comparative fault and imposing joint and several liability for the compensatory damages. In July 2013, defendants filed various post-trial motions, including motions requesting reductions in damages. In September 2013, the district court reduced the compensatory damages award to $1 million and the punitive damages award to $1.67 million against each defendant. The district court denied all other post-trial motions. Plaintiffs filed a motion to reconsider the

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district court's remittitur and, in the alternative, to certify the issue to the U.S. Court of Appeals for the Eleventh Circuit, both of which the court denied in October 2013. In November 2013, defendants filed a notice of appeal to the U.S. Court of Appeals for the Eleventh Circuit. In December 2013, defendants filed an amended notice of appeal after the district court corrected a clerical error in the final judgment, and PM USA posted a bond in the amount of approximately $2.2 million.

Plaintiff: Buchanan
Date: December 2012

Verdict:
In December 2012, a Leon County jury returned a verdict in favor of plaintiff and against PM USA and Liggett Group. The jury awarded $5.5 million in compensatory damages and allocated 37% of the fault to each of the defendants (an amount of approximately $2 million).

Post-Trial Developments:
In December 2012, defendants filed several post-trial motions, including motions for a new trial and to set aside the verdict. In March 2013, the trial court denied all motions and entered final judgment against PM USA and Liggett Group refusing to reduce the compensatory damages award by plaintiff's comparative fault and holding PM USA and Liggett Group jointly and severally liable for $5.5 million. In April 2013, defendants filed a notice of appeal to the Florida First District Court of Appeal, and PM USA posted a bond in the amount of $2.5 million. In July 2014, the Florida First District Court of Appeal affirmed the judgment, but certified to the Florida Supreme Court the issue of the statute of repose, which is currently before the court in Hess. On August 13, 2014, defendants filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court. On September 4, 2014, the Florida Supreme Court stayed the case pending the outcome of Hess.

Plaintiff: Hancock
Date: August 2012

Verdict:
A Broward County jury returned a verdict in the amount of zero damages and allocated 5% of the fault to each of the defendants (PM USA and R.J. Reynolds). The trial court granted an additur of approximately $110,000, which is subject to the jury's comparative fault finding.

Post-Trial Developments:
In August 2012, defendants moved to set aside the verdict and to enter judgment in accordance with their motion for directed verdict. Defendants also moved to reduce damages, which motion the court granted. The trial court granted defendants' motion to set off the damages award by the amount of economic damages paid by third parties, which will reduce further any final award. In October 2012, the trial court entered final judgment. PM USA's portion of the damages was approximately $700. In November 2012, both sides filed notices of appeal to the Florida Fourth District Court of Appeal.

Plaintiff: Calloway
Date: May 2012

Verdict:

A Broward County jury returned a verdict in favor of plaintiff and against PM USA, R.J. Reynolds, Lorillard and Liggett Group. The jury awarded approximately $21 million in compensatory damages and allocated 25% of the fault against PM USA, but the trial court ruled that it will not apply the comparative fault allocations because the jury found against each defendant on the intentional tort claims. The jury also awarded approximately $17 million in punitive damages against PM USA, approximately $17 million in punitive damages against R.J. Reynolds, approximately $13 million in punitive damages against Lorillard and approximately $8 million in punitive damages against Liggett Group.

Post-Trial Developments:
In May and June 2012, defendants filed motions to set aside the verdict and for a new trial. In August 2012, the trial court denied the remaining post-trial motions and entered final judgment, reducing the total compensatory damages award to $16.1 million but leaving undisturbed the separate punitive damages awards. In September 2012, PM USA posted a bond in an amount of $1.5 million and defendants filed a notice of appeal to the Florida Fourth District Court of Appeal. In August 2013, plaintiff filed a motion to determine the sufficiency of the bond in the trial court on the ground that the bond cap statute is unconstitutional, which the court denied.

Plaintiff: Hallgren
Date: January 2012

Verdict:
A Highland County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds. The jury awarded approximately $2 million in compensatory damages and allocated 25% of the fault to PM USA (an amount of approximately $500,000). The jury also awarded $750,000 in punitive damages against each of the defendants.

Post-Trial Developments:
The trial court entered final judgment in March 2012. In April 2012, PM USA posted a bond in an amount of approximately $1.25 million. In May 2012, defendants filed a notice of appeal to the Florida Second District Court of Appeal. In October 2013, the Second District Court of Appeal affirmed the judgment. In November 2013, defendants filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court. In June 2014, the Florida Supreme Court stayed the case pending the outcome of Russo (presenting the same statute of repose issue as Hess).

Plaintiff: Kayton (formerly Tate)
Date: July 2010

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA. The jury awarded $8 million in compensatory damages and allocated 64% of the fault to PM USA (an amount of approximately $5.1 million). The jury also awarded approximately $16.2 million in punitive damages against PM USA.

Post-Trial Developments:
In August 2010, the trial court entered final judgment, and PM USA filed its notice of appeal and posted a $5 million bond. In November 2012, the Florida Fourth District Court of Appeal reversed the punitive damages award and remanded the case for a new trial on plaintiff’s conspiracy claim. Upon retrial, if the jury finds in plaintiff’s favor on that claim, the original $16.2 million punitive damages award will be reinstated. PM USA filed a motion for rehearing, which was denied in January 2013. In January 2013, plaintiff and defendant each filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court. In June 2013, the Florida Supreme Court stayed the appeal pending the outcome of Hess.

Plaintiff: Putney
Date: April 2010

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA, R.J. Reynolds and Liggett Group. The jury awarded approximately $15.1 million in compensatory damages and allocated 15% of the fault to PM USA (an amount of approximately $2.3 million). The jury also awarded $2.5 million in punitive damages against PM USA.

Post-Trial Developments:
In August 2010, the trial court entered final judgment. PM USA filed its notice of appeal to the Florida Fourth District Court of Appeal and posted a $1.6 million bond. In June 2013, the Fourth District Court of Appeal reversed and remanded the case for further proceedings, holding that the trial court erred in (1) not reducing the compensatory damages award as excessive and (2) not instructing the jury on the statute-of-repose in connection with plaintiff’s

conspiracy claim that resulted in the $2.5 million punitive damages award. In July 2013, plaintiff filed a motion for rehearing, which the Fourth District Court of Appeal denied in August 2013. In September 2013, both parties filed notices to invoke the discretionary jurisdiction of the Florida Supreme Court. In December 2013, the Florida Supreme Court stayed the appeal pending the outcome of the Hess case.

Plaintiff: R. Cohen
Date: March 2010

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds. The jury awarded

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$10 million in compensatory damages and allocated 33 1/3% of the fault to PM USA (an amount of approximately $3.3 million). The jury also awarded a total of $20 million in punitive damages, assessing separate $10 million awards against each defendant.

Post-Trial Developments:
In July 2010, the trial court entered final judgment and, in August 2010, PM USA filed its notice of appeal. In October 2010, PM USA posted a $2.5 million bond. In September 2012, the Florida Fourth District Court of Appeal affirmed the compensatory damages award but reversed and remanded the punitive damages verdict. The Fourth District returned the case to the trial court for a new jury trial on plaintiff's fraudulent concealment claim. If the jury finds in plaintiff's favor on that claim, the $10 million punitive damages award against each defendant will be reinstated. In January 2013, plaintiff and defendants each filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court. In February 2013, the Fourth District granted defendants' motion to stay the mandate. In March 2013, plaintiff filed a motion for review of the stay order with the Florida Supreme Court, which was denied in April 2013. In June 2013, plaintiff moved to consolidate with Hess and Kayton, which defendants did not oppose, but in October 2013, plaintiff withdrew the motion for consolidation. In February 2014, the Florida Supreme Court stayed the appeal pending the outcome of the Hess case.

Plaintiff: Naugle
Date: November 2009

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA. The jury awarded approximately $56.6 million in compensatory damages and $244 million in punitive damages. The jury allocated 90% of the fault to PM USA.

Post-Trial Developments:
In March 2010, the trial court entered final judgment reflecting a reduced award of approximately $13 million in compensatory damages and $26 million in punitive damages. In April 2010, PM USA filed its notice of appeal and posted a $5 million bond. In August 2010, upon the motion of PM USA, the trial court entered an amended final judgment of approximately $12.3 million in compensatory damages and approximately $24.5 million in punitive damages to correct a clerical error. In June 2012, the Fourth District Court of Appeal affirmed the amended final judgment. In July 2012, PM USA filed a motion for rehearing. In December 2012, the Fourth District withdrew its prior decision, reversed the verdict as to compensatory and punitive damages and returned the case to the trial court for a new trial on the question of damages. In December 2012, plaintiff filed a motion for rehearing en banc or for certification to the Florida Supreme Court, which was denied in January 2013. In February 2013, plaintiff and PM USA each filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court, which the Florida Supreme Court denied in February 2014. Upon retrial on the question of damages, in October 2013, the new jury awarded approximately $3.7 million in compensatory damages and $7.5 million in punitive damages. In October 2013, PM USA filed post-trial motions, which the trial court denied in April 2014. In May 2014, PM USA filed a notice of appeal to the Fourth District Court of Appeal and plaintiff cross-appealed. Also in May 2014, PM USA filed a rider with the Florida Supreme Court to make the previously-posted Naugle bond applicable to the retrial judgment.

Plaintiff: Hess
Date: February 2009

Verdict:
A Broward County jury found in favor of plaintiff and against PM USA. The jury awarded $3 million in compensatory damages and $5 million in punitive damages. In June 2009, the trial court entered final judgment and awarded plaintiff $1.26 million in actual damages and $5 million in punitive damages. The judgment reduced the jury's $3 million award of compensatory damages due to the jury allocating 42% of the fault to PM USA.

Post-Trial Developments:
PM USA filed a notice of appeal to the Florida Fourth District Court of Appeal in July 2009. In May 2012, the Fourth District reversed and vacated the punitive damages award on the basis that it was barred by the statute of repose and affirmed the judgment in all other respects, upholding the compensatory damages award of $1.26 million. In June 2012, both parties filed rehearing motions with the Fourth District, which were denied in September 2012. In October 2012, PM USA and plaintiff filed notices to invoke the Florida Supreme Court's discretionary jurisdiction. In the first quarter of 2013, PM USA recorded a provision on its condensed consolidated balance sheet of approximately $3.2 million for the judgment plus interest and associated costs. In June 2013, the Florida Supreme Court accepted jurisdiction of plaintiff's petition for review, but declined to accept jurisdiction of PM USA's petition. Oral argument was heard in April 2014 in the Florida Supreme Court on the statute of repose question.

Concluded Cases

Plaintiff: Tullo
Date: April 2011

Verdict:
A Palm Beach County jury returned a verdict in favor of plaintiff and against PM USA, Lorillard and Liggett Group. The jury awarded a total of $4.5 million in compensatory damages and allocated 45% of the fault to PM USA (an amount of $2.025 million).

Post-Trial Developments:
In April 2011, the trial court entered final judgment. In July 2011, PM USA filed its notice of appeal to the Florida Fourth District Court of Appeal and posted a $2 million bond. In August 2013, the Fourth District Court of Appeal affirmed the judgment. In October 2013, defendants filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court, which declined jurisdiction on September 29, 2014. In the third quarter of 2014, PM USA recorded a provision on its condensed consolidated balance sheet of approximately $3.9 million for the judgment plus interest and associated costs and paid this amount on October 22, 2014.

Plaintiff: Barbanell
Date: August 2009

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA, awarding $5.3 million in compensatory damages. The judge had previously dismissed the punitive damages claim. In September 2009, the trial court entered final judgment and awarded plaintiff $1.95 million in actual damages. The judgment reduced the jury's compensatory damages award due to the jury allocating 36.5% of the fault to PM USA.

Post-Trial Developments:
A notice of appeal was filed by PM USA in September 2009. In February 2012, the Florida Fourth District Court of Appeal reversed the judgment, holding that the statute of limitations barred plaintiff's claims. In October 2012, on motion for rehearing, the Fourth District withdrew its prior decision and affirmed the trial court's judgment. In November 2012, PM USA filed a notice to invoke the jurisdiction of the Florida Supreme Court, which the Florida Supreme Court denied. In the first quarter of 2014, PM USA recorded a provision on its condensed consolidated balance sheet of approximately $3.6 million for the judgment plus interest and associated costs. In March 2014, PM

USA filed a petition for writ of certiorari with the United States Supreme Court, which was denied in June 2014. Also in June 2014, PM USA paid the judgment plus interest and associated costs in the amount of approximately $3.6 million.

Plaintiff: Lock
Date: October 2012

Verdict:
A Pinellas County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds. The jury awarded $1.15 million in compensatory damages and allocated 9% of the fault to each of the defendants (an amount of $103,500).

Post-Trial Developments:
In November 2012, defendants filed several post-trial motions, including motions for a new trial, to set aside the verdict and to reduce the damages award by the amount of economic damages paid by third parties. In January 2013, the trial court orally denied all post-trial motions. In February 2013, the trial court entered final judgment. In March 2013, defendants filed a notice of appeal to the Florida Second District Court of Appeal. In March 2014, PM USA paid the judgment plus interest and associated costs in the amount of approximately $140,000.

Engle Progeny Appellate Issues

Three Florida federal district courts (in the Merlob, B. Brown and Burr cases) ruled in 2008 that the findings in the first phase of the Engle proceedings cannot be used to satisfy elements of plaintiffs' claims, and two of those rulings (B. Brown and Burr) were certified by the trial court for interlocutory review. The certification in both cases was granted by the U.S. Court of Appeals for the Eleventh Circuit and the appeals were consolidated. The appeal in Burr was dismissed for lack of prosecution, and the case was ultimately dismissed on statute of limitations grounds.

In July 2010, the Eleventh Circuit ruled in B. Brown that, as a matter of Florida law, plaintiffs do not have an unlimited right to use the findings from the original Engle trial to meet their burden of establishing the elements of their claims at trial. The Eleventh Circuit did not reach the issue of whether the use of the Engle findings violates defendants' due process rights. Rather, the court held that plaintiffs may only use the findings to establish those specific facts, if any, that they demonstrate with a reasonable degree of certainty were actually decided by the original Engle jury. The Eleventh Circuit remanded the case to the district court to determine what specific factual findings the Engle jury actually made.

After the remand of B. Brown, several state appellate rulings superseded the Eleventh Circuit's ruling on Florida state law. These cases include Martin, a case against R.J. Reynolds in Escambia County, and J. Brown, a case against R.J. Reynolds in Broward County. In December 2011, petitions for writ of certiorari were filed with the United States Supreme Court by R.J. Reynolds in Campbell, Martin, Gray and Hall and by PM USA and Liggett Group in Campbell. The United States Supreme Court denied defendants' certiorari petitions in March 2012.

In Douglas, in March 2012, the Florida Second District Court of Appeal issued a decision affirming the judgment of the trial court in favor of the plaintiff and upholding the use of the Engle jury findings with respect to strict liability claims but certified to the Florida Supreme Court the question of whether granting res judicata effect to the Engle jury findings violates defendants' federal due process rights. In March 2013, the Florida Supreme Court affirmed the final judgment entered in favor of plaintiff, upholding the use of the Engle jury findings with respect to strict liability and negligence claims. PM USA filed its petition for writ of certiorari with the United States Supreme Court in August 2013, which the court denied in October 2013.

Meanwhile, in the Waggoner case, the U.S. District Court for the Middle District of Florida ruled in December 2011 that application of the Engle findings to establish the wrongful conduct elements of plaintiffs' claims consistent with Martin or J. Brown did not violate defendants' due process rights. PM USA and the other defendants sought appellate review of the due process ruling. In February 2012, the district court denied the motion for interlocutory appeal, but did apply the ruling to all active pending federal Engle progeny cases. As a result, R.J. Reynolds appealed the rulings in the Walker and Duke cases to the Eleventh Circuit, which, in September 2013, rejected the due process defense and affirmed the underlying judgments. In October 2013, R.J. Reynolds filed a petition for rehearing or rehearing en banc. Thereafter, the Eleventh Circuit vacated its decision and substituted a new opinion. In November 2013, the Eleventh

Circuit denied R.J. Reynolds' initial petition for rehearing. R.J. Reynolds filed a petition for rehearing en banc or panel rehearing of the substituted decision, which was denied in January 2014. In March 2014, R.J. Reynolds filed petitions for writ of certiorari to the United States Supreme Court in the Walker and Duke cases, as well as in J. Brown. Defendants filed petitions for writ of certiorari in eight other Engle progeny cases that were tried in Florida state courts, including one case, Barbanell, in which PM USA is the defendant. In these eight petitions, defendants asserted questions similar to those in Walker, Duke and J. Brown. In June 2014, the United States Supreme Court denied defendants' petitions for writ of certiorari in all 11 cases.

In Soffer, an Engle progeny case against R.J. Reynolds, the First District Court of Appeal held that Engle progeny plaintiffs can recover punitive damages only on their intentional tort claims. In February 2014, the Florida Supreme Court accepted jurisdiction over plaintiff's appeal from the First District Court of Appeal's holding.

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In Ciccone, an Engle progeny case against R.J. Reynolds, the Florida Fourth District Court of Appeal held that Engle progeny plaintiffs could establish class membership by showing that they developed symptoms during the Engle class period that could, in hindsight, be attributed to their smoking-related disease. The court certified a conflict with Castleman, a Florida First District Court of Appeal decision, which held that manifestation requires Engle progeny plaintiffs to have been aware during the class period that they had a disease caused by smoking in order to establish class membership. The Florida Supreme Court accepted jurisdiction in the Ciccone case in June 2014 and has scheduled oral argument for December 4, 2014.

Florida Bond Cap Statute

In June 2009, Florida amended its existing bond cap statute by adding a $200 million bond cap that applies to all state Engle progeny lawsuits in the aggregate and establishes individual bond caps for individual Engle progeny cases in amounts that vary depending on the number of judgments in effect at a given time. Plaintiffs in three state Engle progeny cases against R.J. Reynolds in Alachua County, Florida (Alexander, Townsend and Hall) and one case in Escambia County (Clay) challenged the constitutionality of the bond cap statute. The Florida Attorney General intervened in these cases in defense of the constitutionality of the statute.

Trial court rulings were rendered in Clay, Alexander, Townsend and Hall rejecting the plaintiffs' bond cap statute challenges in those cases. The plaintiffs unsuccessfully appealed these rulings. In Alexander, Clay and Hall, the District Court of Appeal for the First District of Florida affirmed the trial court decisions and certified the decision in Hall for appeal to the Florida Supreme Court, but declined to certify the question of the constitutionality of the bond cap statute in Clay and Alexander. The Florida Supreme Court granted review of the Hall decision, but, in September 2012, the court dismissed the appeal as moot. In October 2012, the Florida Supreme Court denied the plaintiffs' rehearing petition. In August 2013, in Calloway, discussed further below, plaintiff filed a motion in the trial court to determine the sufficiency of the bond posted by defendants on the ground that the bond cap statute is unconstitutional, which was denied.

No federal court has yet addressed the constitutionality of the bond cap statute or the applicability of the bond cap to Engle progeny cases tried in federal court. However, in April 2013, PM USA, R.J. Reynolds and Lorillard filed a motion in the U.S. District Court for the Middle District of Florida to have the court apply the Florida bond cap statute to all federal Engle progeny cases. In August 2013, the court denied the motion without prejudice on the grounds that it was premature to adjudicate such issue.

Other Smoking and Health Class Actions

Since the dismissal in May 1996 of a purported nationwide class action brought on behalf of allegedly addicted smokers, plaintiffs have filed numerous putative smoking and health class action suits in various state and federal courts. In general, these cases purport to be brought on behalf of residents of a particular state or states (although a few cases purport to be nationwide in scope) and raise addiction claims and, in many cases, claims of physical injury as well.

Class certification has been denied or reversed by courts in 59 smoking and health class actions involving PM USA in Arkansas (1), California (1), the District of Columbia (2), Florida (2), Illinois (3), Iowa (1), Kansas (1), Louisiana (1), Maryland (1), Michigan (1), Minnesota (1), Nevada (29), New Jersey (6), New York (2), Ohio (1), Oklahoma (1), Pennsylvania (1), Puerto Rico (1), South Carolina (1), Texas (1) and Wisconsin (1).

As of October 27, 2014, PM USA and Altria Group, Inc. are named as defendants, along with other cigarette manufacturers, in seven class actions filed in the Canadian provinces of Alberta, Manitoba, Nova Scotia, Saskatchewan, British Columbia and Ontario. In Saskatchewan, British Columbia (two separate cases) and Ontario, plaintiffs seek class certification on behalf of individuals who suffer or have suffered from various diseases, including chronic obstructive pulmonary disease, emphysema, heart disease or cancer, after smoking defendants' cigarettes. In the actions filed in Alberta, Manitoba and Nova Scotia, plaintiffs seek certification of classes of all individuals who smoked defendants' cigarettes. See Guarantees and Other Similar Matters below for a discussion of the Distribution Agreement between Altria Group, Inc. and PMI that provides for indemnities for certain liabilities concerning tobacco products.

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Medical Monitoring Class Actions

In medical monitoring actions, plaintiffs seek to recover the cost for, or otherwise the implementation of, court-supervised programs for ongoing medical monitoring purportedly on behalf of a class of individual plaintiffs. Two purported medical monitoring class actions are pending against PM USA. These two cases were brought in New York (Caronia, filed in January 2006 in the U.S. District Court for the Eastern District of New York) and Massachusetts (Donovan, filed in December 2006 in the U.S. District Court for the District of Massachusetts) on behalf of each state’s respective residents who: are age 50 or older; have smoked the Marlboro brand for 20 pack-years or more; and have neither been diagnosed with lung cancer nor are under investigation by a physician for suspected lung cancer. Plaintiffs in these cases seek to impose liability under various product-based causes of action and the creation of a court-supervised program providing members of the purported class Low Dose CT (“LDCT”) scanning in order to identify and diagnose lung cancer. Plaintiffs in these cases do not seek punitive damages. The future defense of these cases may be negatively impacted by evolving medical standards and practice. Two other cases (California (Xavier) and Florida (Gargano)) were dismissed in 2011.

In Caronia, in January 2011, the district court dismissed plaintiffs’ implied warranty and medical monitoring claims and declared plaintiffs’ motion for class certification moot in light of the dismissal of the case. The plaintiffs appealed to the U.S. Court of Appeals for the Second Circuit. In May 2013, the Second Circuit affirmed the dismissal of plaintiffs’ traditional negligence, strict liability and breach-of-warranty claims on the grounds of statute of limitations and the widespread knowledge regarding the risks of cigarette smoking, but certified certain questions to the New York State Court of Appeals, including whether New York would recognize an independent claim for medical monitoring. In May 2013, the New York Court of Appeals accepted the certified questions and, in December 2013, ruled that New York law does not allow for an independent cause of action for medical monitoring. The Second Circuit affirmed the district court’s dismissal of the entire case in April 2014, including the so-called independent claim for medical monitoring, and issued its mandate in May 2014.

In Donovan, the Supreme Judicial Court of Massachusetts, in answering questions certified to it by the district court, held in October 2009 that under certain circumstances state law recognizes a claim by individual smokers for medical monitoring despite the absence of an actual injury. The court also ruled that whether or not the case is barred by the applicable statute of limitations is a factual issue to be determined by the trial court. The case was remanded to federal court for further proceedings. In June 2010, the district court granted in part the plaintiffs’ motion for class certification, certifying the class as to plaintiffs’ claims for breach of implied warranty and violation of the Massachusetts Consumer Protection Act, but denying certification as to plaintiffs’ negligence claim. In July 2010, PM USA petitioned the U.S. Court of Appeals for the First Circuit for appellate review of the class certification decision. The petition was denied in September 2010. As a remedy, plaintiffs have proposed a 28-year medical monitoring program with an approximate cost of $190 million. In June 2011, plaintiffs filed various motions for partial summary judgment and to strike affirmative defenses, which the district court denied in March 2012 without prejudice. In October 2011, PM USA filed a motion for class decertification, which motion was denied in March 2012. In February 2013, the district court amended the class definition to extend to individuals who satisfy the class membership criteria through February 26, 2013, and to exclude any individual who was not a Massachusetts resident as of February 26, 2013. In January 2014, plaintiffs renewed their previously filed motions for partial summary judgment and to strike affirmative defenses. A trial date has not been set.

Health Care Cost Recovery Litigation

Overview

In the health care cost recovery litigation, governmental entities seek reimbursement of health care cost expenditures allegedly caused by tobacco products and, in some cases, of future expenditures and damages. Relief sought by some but not all plaintiffs includes punitive damages, multiple damages and other statutory damages and penalties, injunctions prohibiting alleged marketing and sales to minors, disclosure of research, disgorgement of profits, funding of anti-smoking programs, additional disclosure of nicotine yields, and payment of attorney and expert witness fees.

The claims asserted include the claim that cigarette manufacturers were "unjustly enriched" by plaintiffs' payment of health care costs allegedly attributable to smoking, as well as claims of indemnity, negligence, strict liability, breach of express and implied warranty, violation of a voluntary undertaking or special duty, fraud, negligent misrepresentation, conspiracy, public nuisance, claims under federal and state statutes governing consumer fraud, antitrust, deceptive trade practices and false advertising, and claims under federal and state anti-racketeering statutes.

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

Although there have been some decisions to the contrary, most judicial decisions in the United States have dismissed all or most health care cost recovery claims against cigarette manufacturers. Nine federal circuit courts of appeals and eight state appellate courts, relying primarily on grounds that plaintiffs' claims were too remote, have ordered or affirmed dismissals of health care cost recovery actions. The United States Supreme Court has refused to consider plaintiffs' appeals from the cases decided by five circuit courts of appeals. In 2011, in the health care cost recovery case brought against PM USA and other defendants by the City of St. Louis, Missouri and approximately 40 Missouri hospitals, a verdict was returned in favor of defendants.

Individuals and associations have also sued in purported class actions or as private attorneys general under the Medicare as Secondary Payer ("MSP") provisions of the Social Security Act to recover from defendants Medicare expenditures allegedly incurred for the treatment of smoking-related diseases. Cases were brought in New York (2), Florida (2) and Massachusetts (1). All were dismissed by federal courts.

In addition to the cases brought in the United States, health care cost recovery actions have also been brought against tobacco industry participants, including PM USA and Altria Group, Inc., in Israel (dismissed), the Marshall Islands (dismissed) and Canada (9), and other entities have stated that they are considering filing such actions.
In September 2005, in the first of several health care cost recovery cases filed in Canada, the Canadian Supreme Court ruled that legislation passed in British Columbia permitting the lawsuit is constitutional, and, as a result, the case, which had previously been dismissed by the trial court, was permitted to proceed. PM USA's and other defendants' challenge to the British Columbia court's exercise of jurisdiction was rejected by the Court of Appeals of British Columbia and, in April 2007, the Supreme Court of Canada denied review of that decision. In December 2009, the Court of Appeals of British Columbia ruled that certain defendants can proceed against the Federal Government of Canada as third parties on the theory that the Federal Government of Canada negligently misrepresented to defendants the efficacy of a low tar tobacco variety that the Federal Government of Canada developed and licensed to defendants. In May 2010, the Supreme Court of Canada granted leave to the Federal Government of Canada to appeal this decision and leave to defendants to cross-appeal the Court of Appeals' decision to dismiss claims against the Federal Government of Canada based on other theories of liability. In July 2011, the Supreme Court of Canada dismissed the third-party claims against the Federal Government of Canada.

Since the beginning of 2008, the Canadian Provinces of British Columbia, New Brunswick, Ontario, Newfoundland and Labrador, Quebec, Alberta, Manitoba, Saskatchewan and Prince Edward Island have brought health care reimbursement claims against cigarette manufacturers. PM USA is named as a defendant in the British Columbia and

Quebec cases, while both Altria Group, Inc. and PM USA are named as defendants in the New Brunswick, Ontario, Newfoundland and Labrador, Alberta, Manitoba, Saskatchewan and Prince Edward Island cases. The Province of Nova Scotia and the territory of Nunavut have enacted similar legislation or are in the process of enacting similar legislation. See Guarantees and Other Similar Matters below for a discussion of the Distribution Agreement between Altria Group, Inc. and PMI that provides for indemnities for certain liabilities concerning tobacco products.

Settlements of Health Care Cost Recovery Litigation

In November 1998, PM USA and certain other United States tobacco product manufacturers entered into the MSA with 46 states, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the

Northern Marianas to settle asserted and unasserted health care cost recovery and other claims. PM USA and certain other United States tobacco product manufacturers had previously entered into agreements to settle similar claims brought by Mississippi, Florida, Texas and Minnesota (together with the MSA, the "State Settlement Agreements"). The State Settlement Agreements require that the original participating manufacturers make annual payments of approximately $9.4 billion, subject to adjustments for several factors, including inflation, market share and industry volume. In addition, the original participating manufacturers are required to pay settling plaintiffs' attorneys' fees, subject to an annual cap of $500 million. For the three months ended September 30, 2014 and 2013, the aggregate amount recorded in cost of sales with respect to the State Settlement Agreements and the Fair and Equitable Tobacco Reform Act of 2004 ("FETRA") was approximately $1.2 billion for each period. For the nine months ended September 30, 2014 and 2013, the aggregate amount recorded in cost of sales with respect to the State Settlement Agreements and FETRA was approximately $3.5 billion and $3.0 billion, respectively. The 2014 amounts include a reduction to cost of sales of approximately $43 million for the nine months ended September 30, 2014 related to the NPM Adjustment disputes discussed below. The 2013 amounts include reductions to cost of sales of $664 million and $145 million for the nine and three months ended September 30, 2013, respectively, related to the NPM Adjustment disputes discussed below.

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

NPM Adjustment Disputes

PM USA is participating in proceedings regarding potential downward adjustments (the "NPM Adjustment") to MSA payments made by manufacturers that are signatories to the MSA (the "participating manufacturers" or "PMs") for 2003-2012. The NPM Adjustment is a reduction in MSA payments that applies if the PMs collectively lose at least a specified level of market share to non-participating manufacturers ("NPMs") between 1997 and the year at issue, subject to certain conditions and defenses. The independent auditor appointed under the MSA calculates the maximum amount, if any, of the NPM Adjustment for any year in respect of which such NPM Adjustment is potentially applicable.

2003-2012 NPM Adjustment Disputes - Settlement with 24 States and Territories

PM USA has settled the NPM Adjustment disputes for the years 2003-2012 with 24 of the 52 MSA states and territories (the 24 states and territories are referred to as the "signatory states," and the remaining MSA states and territories are referred to as the "non-signatory states"). Pursuant to the settlement, PM USA expects to receive a total of at least $599 million for 2003-2012. Of this total, PM USA has already received $579 million in the form of reductions to its MSA payments in 2013 or 2014 and expects to receive the remaining $20 million as a reduction to its MSA payment due in April 2015.

PM USA recorded $519 million of the $599 million as a reduction to cost of sales that increased its reported pre-tax earnings by $483 million and $36 million in the first quarter of 2013 and second quarter of 2013, respectively. The remainder of the $599 million consists of $80 million attributable to two states that joined the settlement after having been found subject to the 2003 NPM Adjustment by an arbitration panel in the third quarter of 2013, as discussed below. As a result of the arbitration panel's findings, however, PM USA had already recorded $54 million in pre-tax earnings in respect of those two states for the 2003 NPM Adjustment before they joined the settlement, leaving an additional $26 million to be recorded when they joined the settlement. The $54 million already recorded consisted of

$37 million recorded as a reduction to cost of sales and $17 million recorded as interest income. Because the $80 million settlement recovery would all be recorded as a reduction to cost of sales, upon these two states' joinder of the settlement in the second quarter of 2014, PM USA recorded a further $43 million reduction to cost of sales while also recording a $17 million reduction in interest income to reverse the earlier recording of interest income in that amount. The result was a net increase in reported pre-tax earnings of $26 million in the second quarter of 2014.

In addition, the settlement provides that the NPM Adjustment provision will be revised and streamlined as to the signatory states for the years after 2012. Under the revised provision, the 2013 and 2014 NPM Adjustments are "transition years," for which the PMs receive specified payments. PM USA has already received $35 million for the 2013 transition year pursuant to this revised provision in the form of a reduction to its MSA payments in 2014, resulting in a reduction to cost of sales in the first quarter of 2014. PM USA also expects to receive an additional $3 million for the 2013 transition year as a result of the two additional states joining the settlement in the form of a reduction to its MSA payment due in April 2015. PM USA will also receive a payment for the 2014 transition year, in an amount subsequently to be calculated, in the form of a reduction to its MSA payment due in April 2015. PM USA, R.J. Reynolds and Lorillard (the "original participating manufacturers" or "OPMs") have agreed that the amounts they receive under the settlement for the transition years and subsequent years will be allocated among them pursuant to a formula that modifies the MSA allocation formula in a manner favorable to PM USA, although the extent to which it remains favorable to PM USA will depend upon future developments.

Many of the non-signatory states objected to the settlement before the arbitration panel hearing the 2003 NPM Adjustment dispute. In March 2013, the panel issued a stipulated partial settlement and award (the "Stipulated Award") rejecting the objections and permitting the settlement to proceed. Fourteen of the non-signatory states filed motions in their state courts to vacate and/or modify the Stipulated Award in whole or part. Decisions by the Pennsylvania, Missouri and Maryland courts on such motions, and the subsequent appeals of those rulings, are discussed below. As for the remaining states, rulings rejecting their motions to vacate the Stipulated Award are on appeal by the respective states, or the motions have been voluntarily dismissed or stayed pending further state action.

2003-2013 NPM Adjustment Disputes - Continuing Disputes with Non-Signatory States

PM USA has continued to pursue the NPM Adjustments for 2003 and subsequent years with respect to the non-signatory states. Under the MSA, once all conditions for the NPM Adjustment for a particular year are met, each state may avoid an NPM Adjustment to its share of the PMs' MSA payments for that year by establishing that it diligently enforced a qualifying escrow statute during the entirety of that year. Such a state's share of the NPM Adjustment would then be reallocated to any states that are found not to have diligently enforced for that year. For 2003-2012, all conditions for the NPM Adjustment have been met, either by determination or agreement among the parties. For 2013, one condition (that the disadvantages of the MSA were a "significant factor" contributing to the PMs' collective loss of market share) potentially remains in dispute; however, proceedings as to the "significant factor" issue cannot be commenced until April 2015.

2003 NPM Adjustment. With one exception (Montana), the courts have ruled that the states' claims of diligent enforcement are to be submitted to arbitration. PM USA and other PMs entered into an agreement with most of the MSA states and territories concerning the 2003 NPM Adjustment, under which such states and territories would receive a partial liability reduction of 20% for the 2003 NPM Adjustment in the event the arbitration panel determined that they did not diligently enforce during 2003. The Montana state courts ruled that Montana may litigate its diligent enforcement claims in state court, rather than in arbitration. In June 2012, the PMs and Montana entered a consent decree pursuant to which Montana would not be subject to the 2003 NPM Adjustment.

The 2003 arbitration was conducted from July 2010 to September 2013. Following discovery, the PMs determined no longer to contest the 2003 diligent enforcement claims of 14 of the non-signatory states in the arbitration. In the Stipulated Award, the arbitration panel ruled that the total 2003 NPM Adjustment would be reduced pro rata by the aggregate allocable share of the signatory states (at the relevant time, approximately 46%) to determine the maximum amount of the 2003 NPM Adjustment potentially available from the non-signatory states whose diligent enforcement claims the PMs continued to contest (the "pro rata judgment reduction").

In September 2013, the arbitration panel issued rulings regarding the 15 contested states and territories that had not as of that time joined the settlement, ruling that six of them (Indiana, Kentucky, Maryland, Missouri, New Mexico and Pennsylvania) did not diligently enforce during 2003 and that nine of them did. Based on this ruling, the PMs are entitled to receive from the six non-diligent states the entire 2003 NPM Adjustment remaining after the pro rata judgment reduction. PM USA believes it is entitled to receive an NPM Adjustment for 2003 based on this ruling, after reflecting the 20% partial liability reduction noted above, of approximately $145 million. PM USA recorded this $145 million as a reduction to cost of sales, which increased its reported pre-tax earnings in the third quarter of 2013. In addition PM USA believes it would be entitled to interest on this amount of approximately $89 million. PM USA recorded $64 million of this amount as interest income, which reduced interest and other debt expense, net in the first quarter of 2014, but did not yet record the remaining $25 million based on its assessment of a certain dispute concerning interest discussed below.

After PM USA recorded these amounts, two of the six non-diligent states (Indiana and Kentucky) joined the settlement and became signatory states. Those two states account for (i) $37 million of the $145 million NPM Adjustment for 2003 that PM USA recorded and (ii) $17 million of the interest that PM USA recorded. PM USA will retain those amounts from the two states, plus receive additional amounts as part of the settlement recoveries for the 2003-2012 NPM Adjustment disputes described above. The remaining four states account for approximately (i) $108 million of the $145 million 2003 NPM Adjustment that PM USA recorded and (ii) $66 million of the $89 million of interest to which PM USA believes it would be entitled on the $145 million (and $47 million of the $64 million of interest that PM USA recorded). Each of these four states has filed a motion in its state court to (i) vacate the panel's ruling as to its diligence and (ii) to modify the pro rata judgment reduction and to substitute a reduction method more favorable to the state. These four states have also raised a dispute concerning the independent auditor's calculation of interest. In addition, one of the other OPMs has raised a dispute concerning the allocation of the interest and disputed payments account earnings among the OPMs.

In April 2014, a Pennsylvania state trial court denied Pennsylvania's motion to vacate the arbitration panel's ruling that Pennsylvania had not diligently enforced, but granted Pennsylvania's motion to modify, with respect to Pennsylvania, the pro rata judgment reduction. In May 2014, a Missouri state trial court ruled similarly on Missouri's motions. In July 2014, a Maryland state trial court denied both Maryland's motion to vacate the arbitration panel's ruling that Maryland had not diligently enforced and Maryland's motion to vacate or modify the pro rata judgment reduction. PM USA is appealing the Pennsylvania and Missouri decisions modifying the pro rata judgment reduction. Maryland is appealing its court's decision declining to modify the pro rata judgment reduction. Maryland and Missouri each is appealing its court's ruling denying its motion to vacate the arbitration panel's diligence ruling as to that state. The motions filed by the fourth state, New Mexico, remain pending in its state trial court.

As a result of the Pennsylvania state trial court ruling, the total 2014 MSA payment credit PM USA received on account of the 2003 NPM Adjustment from the four states was reduced from $108 million to $79 million, and the interest PM USA received from the four states was $48 million rather than the $66 million in interest to which PM USA believes it would be entitled from those four states. If PM USA is successful in judicial review of the Pennsylvania trial court ruling, it will recover the difference ($29 million of 2003 NPM Adjustment and $18 million in interest (subject to the separate interest disputes referenced above)), with interest, as a credit against a subsequent MSA payment. If PM USA is not successful on judicial review of the Pennsylvania trial court ruling, it would need to reverse $29 million of the 2003 NPM Adjustment and part of the interest that it recorded. Because the Missouri state trial court ruling post-dated PM USA's April 2014 MSA payment, that ruling did not reduce the credit that PM USA received against that payment. If PM USA is not successful on judicial review of the Missouri court's ruling, it will be required to return approximately $12 million of the 2003 NPM Adjustment and $7 million of the interest it received (in each case subject to confirmation by the independent auditor), plus applicable interest, and would need to make corresponding reversals to amounts previously recorded. In connection with the Missouri appeal, PM USA has posted a bond in the amount of $22 million. In addition, the other litigation and disputes discussed above could further reduce PM USA's recovery on the 2003 NPM Adjustment or recovery of interest and potentially require PM USA to return amounts previously received and/or reverse amounts previously recorded. No assurance can be given that PM USA's appeals of the Pennsylvania and Missouri state trial court rulings, or the other litigation and disputes discussed above, will be resolved in a manner favorable to PM USA.

2004-2013 NPM Adjustments. Proceedings regarding state diligent enforcement claims for 2004-2013 have not yet been scheduled. PM USA believes that the MSA requires these claims to be determined in a multi-state arbitration, although a number of non-signatory states have filed motions in their state courts contending that the claims are to be determined in separate arbitrations for individual states or that there is no arbitrable dispute for 2004. No assurance can be given as to when proceedings for 2004-2013 will be scheduled or the precise form those proceedings will take.

The independent auditor has calculated that PM USA's share of the maximum potential NPM Adjustments for these years are (exclusive of interest or earnings): $388 million for 2004, $181 million for 2005, $154 million for 2006, $185 million for 2007, $250 million for 2008, $211 million for 2009, $219 million for 2010, $165 million for 2011, $207 million for 2012 and $215 million for 2013. These maximum amounts will be reduced by a judgment reduction to reflect the settlement with the signatory states. The judgment reduction method applicable to the 2004-2013 NPM Adjustments has not yet been determined. In addition, these maximum amounts may also be further reduced by other developments, including agreements that may be entered in the future, disputes that may arise or recalculation of the NPM Adjustment amounts by the independent auditor. Finally, PM USA's recovery of these amounts, even as reduced, is dependent upon subsequent determinations of non-signatory states' diligent enforcement claims. The availability and amount of any NPM Adjustment for 2004-2013 from the non-signatory states will not be finally determined in the near term. There is no assurance that the OPMs and other MSA-participating manufacturers will ultimately receive any adjustment from the non-signatory states as a result of these proceedings. PM USA's receipt of amounts on account of the 2003 NPM Adjustment and interest from non-signatory states does not provide any assurance that PM USA will receive any NPM Adjustment amounts (or associated interest or earnings) for 2004 or any subsequent year.

Other Disputes Related to MSA Payments

In addition to the disputed NPM Adjustments described above, MSA states and participating manufacturers, including PM USA, conducted another arbitration to resolve certain other disputes related to the calculation of the participating manufacturers' payments under the MSA. PM USA disputed the method by which ounces of "roll your own" tobacco had been converted to cigarettes for purposes of calculating the downward volume adjustments to its MSA payments, but in February 2013 the arbitration panel issued a ruling in favor of the MSA states. This same arbitration panel also issued a ruling in the dispute over whether the "adjusted gross" or the "net" number of cigarettes on which federal excise tax is paid is the correct methodology for calculating MSA payments due from certain subsequent participating manufacturers. PM USA does not currently have access to the data necessary to determine the magnitude and the direction of the effects of this ruling on past and future MSA payments from such subsequent participating manufacturers.

Other MSA-Related Litigation

Since the MSA's inception, NPMs and/or their distributors or customers have filed a number of challenges to the MSA and related legislation. They have named as defendants the states and their officials, in an effort to enjoin enforcement of important parts of the MSA and related legislation, and/or participating manufacturers, in an effort to obtain damages. To date, no such challenge has been successful, and the U.S. Courts of Appeals for the Second, Third, Fourth, Fifth, Sixth, Eighth, Ninth and Tenth Circuits have affirmed judgments in favor of defendants in 16 such cases.

Federal Government's Lawsuit

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

The government alleged that disgorgement by defendants of approximately $280 billion is an appropriate remedy and the trial court agreed. In February 2005, however, a panel of the U.S. Court of Appeals for the District of Columbia Circuit held that disgorgement is not a remedy available to the government under the civil provisions of RICO. In October 2005, the United States Supreme Court denied the government's petition for writ of certiorari.

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

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

defendants falsely denied, distorted and minimized the significant adverse health consequences of smoking;

defendants hid from the public that cigarette smoking and nicotine are addictive;

defendants falsely denied that they control the level of nicotine delivered to create and sustain addiction;

defendants falsely marketed and promoted "low tar/light" cigarettes as less harmful than full-flavor cigarettes;

defendants falsely denied that they intentionally marketed to youth;

defendants publicly and falsely denied that ETS is hazardous to non-smokers; and

defendants suppressed scientific research.

The court did not impose monetary penalties on defendants, but ordered the following relief: (i) an injunction against "committing any act of racketeering" relating to the manufacturing, marketing, promotion, health consequences or sale of cigarettes in the United States; (ii) an injunction against participating directly or indirectly in the management or control of the Council for Tobacco Research, the Tobacco Institute, or the Center for Indoor Air Research, or any successor or affiliated entities of each; (iii) an injunction against "making, or causing to be made in any way, any material false, misleading, or deceptive statement or representation or engaging in any public relations or marketing endeavor that is disseminated to the United States public and that misrepresents or suppresses information concerning cigarettes"; (iv) an injunction against conveying any express or implied health message through use of descriptors on cigarette packaging or in cigarette advertising or promotional material, including "lights," "ultra lights" and "low tar," which the court found could cause consumers to believe one cigarette brand is less hazardous than another brand; (v) the issuance of "corrective statements" in various media regarding the adverse health effects of smoking, the addictiveness of smoking and nicotine, the lack of any significant health benefit from smoking "low tar" or "light" cigarettes, defendants' manipulation of cigarette design to ensure optimum nicotine delivery and the adverse health effects of exposure to environmental tobacco smoke; (vi) the disclosure on defendants' public document websites and in the Minnesota document repository of all documents produced to the government in the lawsuit or produced in any future court or administrative action concerning smoking and health until 2021, with certain additional requirements as to documents withheld from production under a claim of privilege or confidentiality; (vii) the disclosure of disaggregated marketing data to the government in the same form and on the same schedule as defendants now follow in disclosing such data to the Federal Trade Commission ("FTC") for a period of 10 years; (viii) certain restrictions on the sale or transfer by defendants of any cigarette brands, brand names, formulas or cigarette businesses within the United States; and (ix) payment of the government's costs in bringing the action.

Defendants appealed and, in May 2009, a three judge panel of the Court of Appeals for the District of Columbia Circuit issued a per curiam decision largely affirming the trial court's judgment against defendants and in favor of the government. Although the panel largely affirmed the remedial order that was issued by the trial court, it vacated the following aspects of the order:

its application to defendants' subsidiaries;

the prohibition on the use of express or implied health messages or health descriptors, but only to the extent of extraterritorial application;

its point-of-sale display provisions; and

its application to Brown & Williamson Holdings.

The Court of Appeals panel remanded the case for the trial court to reconsider these four aspects of the injunction and to reformulate its remedial order accordingly. Furthermore, the Court of Appeals panel rejected all of the government's and intervenors' cross-appeal arguments and refused to broaden the remedial order entered by the trial court. The Court of Appeals panel also left undisturbed its prior holding that the government cannot obtain disgorgement as a permissible remedy under RICO.

In July 2009, defendants filed petitions for a rehearing before the panel and for a rehearing by the entire Court of Appeals. Defendants also filed a motion to vacate portions of the trial court's judgment on the grounds of mootness because of the passage of the Family Smoking Prevention and Tobacco Control Act ("FSPTCA"), granting the U.S. Food and Drug Administration (the "FDA") broad authority over the regulation of tobacco products. In September 2009, the Court of Appeals entered three per curiam rulings. Two of them denied defendants' petitions for panel rehearing or for rehearing en banc. In the third per curiam decision, the Court of Appeals denied defendants' suggestion of mootness and motion for partial vacatur. In February 2010, PM USA and Altria Group, Inc. filed their certiorari petitions with the United States Supreme Court. In addition, the federal government and the intervenors filed their own certiorari petitions, asking the court to reverse an earlier Court of Appeals decision and hold that civil RICO allows the trial court to order disgorgement as well as other equitable relief, such as smoking cessation remedies, designed to redress continuing consequences of prior RICO violations. In June 2010, the United States Supreme Court denied all of the parties' petitions. In July 2010, the Court of Appeals issued its mandate lifting the stay of the trial court's judgment and remanding the case to the trial court. As a result of the mandate, except for those matters remanded to the trial court for further proceedings, defendants are now subject to the injunction discussed above and the other elements of the trial court's judgment.

In February 2011, the government submitted its proposed corrective statements and the trial court referred issues relating to a document repository to a special master. Defendants filed a response to the government's proposed corrective statements and filed a motion to vacate the trial court's injunction in light of the FSPTCA, which motion was denied in June 2011. Defendants appealed the trial court's ruling to the U.S. Court of Appeals for the District of Columbia Circuit. In July 2012, the Court of Appeals affirmed the district court's denial of defendants' motion to vacate the district court's injunction.

Remaining issues pending include: (i) the content of the court-ordered corrective communications and (ii) the requirements related to point-of-sale signage. In November 2012, the district court issued its order specifying the content of the corrective communications described above. The district court's order required the parties to engage in negotiations with the special master regarding implementation of the corrective communications remedy for television, newspapers, cigarette pack onserts and websites. In January 2013, defendants filed a notice of appeal from the order on the content and vehicles of the corrective communications and a motion to hold the appeal in abeyance pending completion of the negotiations, which the U.S. Court of Appeals granted in February 2013. In January 2014, the parties submitted a motion for entry of a consent order in the district court, setting forth their agreement on the implementation details of the corrective communications remedy. The agreement provides that the "trigger date" for implementation is after the appeal on the content of the communications has been exhausted. Also in January 2014, the district court convened a hearing and ordered further briefing. A number of amici who sought modification or rejection of the agreement for a variety of reasons were given leave to appear: National Newspaper Publishers Association, National Association of Black Owned Broadcasters, Inc., National Association for the Advancement of

Colored People, The Little Rock Sun Community Newspaper, Turner Broadcasting System, Inc., The CW Network, LLC, Univision Communications Inc. ("Univision"), Radio One, Inc., TV One, LLC, Interactive One, LLC, Fox Broadcasting Company, Viacom Inc. and A&E Television Networks, LLC. In April 2014, the parties filed an amended proposed consent order and accompanying submission in the district court seeking entry of a revised agreement on the implementation details of the corrective communications remedy. In June 2014, the district court approved the April 2014 proposed consent order. Also in June 2014, defendants filed a notice of appeal of the consent order solely for the purpose of perfecting the U.S. Court of Appeals' jurisdiction over the pending appeal relating to the content and vehicles of the corrective communications and, in July 2014, defendants moved to consolidate this appeal with the appeal filed in January 2013. The U.S. Court of Appeals granted the motion to consolidate on August 8, 2014 and the consolidated appeal is now active.

One of the amici, Univision, filed a motion seeking leave to reconsider the consent order, which the district court granted in July 2014. Also in July 2014, Univision filed its motion for reconsideration. In the second quarter of 2014, Altria Group, Inc. and PM USA recorded provisions on each of their respective balance sheets totaling $31 million for the estimated costs of implementing the corrective communications remedy. This estimate is subject to change due to several factors, including the outcome of the appeal on the content of the corrective communications, though Altria Group, Inc. and PM USA do not expect any change in this estimate to be material.

The consent order approved by the district court in June 2014 did not address the requirements related to point-of-sale signage. In May 2014, the district court ordered further briefing by the parties on the issue of corrective statements on point-of-sale signage, which was completed in June 2014.

In December 2011, the parties to the lawsuit entered into an agreement as to the issues concerning the document repository. Pursuant to this agreement, PM USA agreed to deposit an amount of approximately $3.1 million into the district court in installments over a five-year period.

"Lights/Ultra Lights" Cases

Overview

Plaintiffs in certain pending matters seek certification of their cases as class actions and allege, among other things, that the uses of the terms "Lights" and/or "Ultra Lights" constitute deceptive and unfair trade practices, common law or statutory fraud, unjust enrichment or breach of warranty, and seek injunctive and equitable relief, including restitution and, in certain cases, punitive damages. These class actions have been brought against PM USA and, in certain instances, Altria Group, Inc. or its subsidiaries, on behalf of individuals who purchased and consumed various brands of cigarettes, including Marlboro Lights, Marlboro Ultra Lights, Virginia Slims Lights and Superslims, Merit Lights and Cambridge Lights. Defenses raised in these cases include lack of misrepresentation, lack of causation, injury and damages, the statute of limitations, non-liability under state statutory provisions exempting conduct that complies with federal regulatory directives, and the First Amendment. As of October 27, 2014, a total of 13 such cases are pending in the United States. One of these cases are pending in U.S. federal courts as discussed below. The other cases are pending in various U.S. state courts. In addition, a purported "Lights" class action is pending against PM USA in Israel (El-Roy).

In El-Roy, hearings on plaintiffs' motion for class certification were held in November and December 2008, and an additional hearing on class certification was held in November 2011. In November 2012, the trial court denied the plaintiffs' motion for class certification and ordered the plaintiffs to pay defendants approximately $100,000 in attorney fees. Plaintiffs in that case have noticed an appeal. Oral argument at the Israel Supreme Court is scheduled for November 17, 2014. See Guarantees and Other Similar Matters below for a discussion of the Distribution Agreement between Altria Group, Inc. and PMI that provides for indemnities for certain liabilities concerning tobacco products.

The Good Case

In May 2006, a federal trial court in Maine granted PM USA's motion for summary judgment in Good, a purported "Lights" class action, on the grounds that plaintiffs' claims are preempted by the Federal Cigarette Labeling and Advertising Act ("FCLAA") and dismissed the case. In December 2008, the United States Supreme Court ruled that plaintiffs' claims are not barred by federal preemption. Although the Court rejected the argument that the FTC's actions were so extensive with respect to the descriptors that the state law claims were barred as a matter of federal law, the Court's decision was limited: it did not address the ultimate merits of plaintiffs' claim, the viability of the action as a class action or other state law issues. The case was returned to the federal court in Maine and consolidated with other federal cases in the multidistrict litigation proceeding discussed below. In June 2011, the plaintiffs voluntarily dismissed the case without prejudice after the district court denied plaintiffs' motion for class certification, concluding the litigation.

Federal Multidistrict Proceeding and Subsequent Developments

Since the December 2008 United States Supreme Court decision in Good, and through October 27, 2014, 26 purported "Lights" class actions were served upon PM USA and, in certain cases, Altria Group, Inc. These cases were filed in 15 states, the U.S. Virgin Islands and the District of Columbia. All of these cases either were filed in federal court or were removed to federal court by PM USA and were transferred and consolidated by the Judicial Panel on Multidistrict Litigation (“JPMDL”) before the U.S. District Court for the District of Maine for pretrial proceedings (“MDL proceeding”).

In November 2010, the district court in the MDL proceeding denied plaintiffs’ motion for class certification in four cases, covering the jurisdictions of California, the District of Columbia, Illinois and Maine. These jurisdictions were selected by the parties as sample cases, with two selected by plaintiffs and two selected by defendants. Plaintiffs sought appellate review of this decision but, in February 2011, the U.S. Court of Appeals for the First Circuit denied plaintiffs’ petition for leave to appeal. Later that year, plaintiffs in 13 cases voluntarily dismissed without prejudice their cases. In April 2012, the JPMDL remanded the remaining four cases (Phillips, Tang, Wyatt and Cabbat) back to the federal district courts in which the suits originated. In Tang, which was pending in the U.S. District Court for the Eastern District of New York, the plaintiffs voluntarily dismissed the case without prejudice in July 2012, concluding the litigation. In Phillips, which was pending in the U.S. District Court for the Northern District of Ohio, following the district court’s denial of class certification, PM USA made an offer of judgment to resolve the case for $6,000, which plaintiff accepted. As a result, in July 2014, the U.S. District Court for the Northern District of Ohio dismissed the case, concluding the litigation.

In Cabbat, the U.S. District Court for the District of Hawaii denied plaintiffs’ class certification motion in January 2014. Plaintiffs petitioned the U.S. Court of Appeals for the Ninth Circuit for appellate review of the class certification decision, which was denied in April 2014. In June 2014, the U.S. Court of Appeals for the Ninth Circuit denied plaintiffs’ petition for reconsideration and reconsideration en banc. On July 23, 2014, the parties filed a stipulation for dismissal with prejudice, which the court approved the same day.

In Wyatt, the U.S. District Court for the Eastern District of Wisconsin denied plaintiffs’ class certification motion in August 2013. Plaintiffs petitioned the U.S. Court of Appeals for the Seventh Circuit for appellate review of the class certification decision, which was denied in September 2013. In October 2013, plaintiffs filed a motion in the district court seeking reconsideration of the denial of class certification, which the district court denied in May 2014. Subsequently, PM USA made an offer of judgment to resolve the case for $1,000, which plaintiff accepted on September 18, 2014. The district court is expected to formally dismiss the case.

“Lights” Cases Dismissed, Not Certified or Ordered De-Certified

To date, in addition to the federal district court in the MDL proceeding, 18 courts in 19 “Lights” cases have refused to certify class actions, dismissed class action allegations, reversed prior class certification decisions or have entered judgment in favor of PM USA.

Trial courts in Arizona, Hawaii, Illinois, Kansas, New Jersey, New Mexico, Ohio, Tennessee, Washington and Wisconsin have refused to grant class certification or have dismissed plaintiffs’ class action allegations. Plaintiffs voluntarily dismissed a case in Michigan after a trial court dismissed the claims plaintiffs asserted under the Michigan Unfair Trade and Consumer Protection Act.

Several appellate courts have issued rulings that either affirmed rulings in favor of Altria Group, Inc. and/or PM USA or reversed rulings entered in favor of plaintiffs. In Florida, an intermediate appellate court overturned an order by a trial court that granted class certification in Hines. The Florida Supreme Court denied review in January 2008. The Supreme Court of Illinois overturned a judgment that awarded damages to a certified class in the Price case. See The Price Case below for further discussion. In Louisiana, the U.S. Court of Appeals for the Fifth Circuit dismissed a purported “Lights” class action (Sullivan) on the grounds that plaintiffs’ claims were preempted by the FCLAA. In New York, the U.S. Court of Appeals for the Second Circuit overturned a trial court decision in Schwab that granted plaintiffs’ motion for certification of a nationwide class of all U.S. residents that purchased cigarettes in the United States that were labeled “Light” or “Lights.” In July 2010, plaintiffs in Schwab voluntarily dismissed the case with prejudice. In Ohio, the Ohio Supreme Court overturned class certifications in the Marrone and Phillips cases. Plaintiffs voluntarily dismissed without prejudice both cases in August 2009, but refiled in federal court as the Phillips case discussed above. The Supreme Court of Washington denied a motion for interlocutory review filed by the plaintiffs in the Davies case that sought review of an order by the trial court that refused to certify a class. Plaintiffs subsequently voluntarily dismissed the Davies case with prejudice. In August 2011, the U.S. Court of Appeals for the Seventh Circuit affirmed the Illinois federal district court’s dismissal of “Lights” claims brought against PM USA in the Cleary case. In Curtis, a certified class action, in May 2012, the Minnesota Supreme Court affirmed the trial court’s entry of summary judgment in favor of PM USA, concluding this litigation. In Lawrence, in August 2012, the New Hampshire Supreme Court reversed the trial court's order to certify a class and subsequently denied plaintiffs' rehearing petition. In October 2012, the case was dismissed with prejudice.

State Trial Court Class Certifications

State trial courts have certified classes against PM USA in several jurisdictions. Over time, several such cases have been dismissed by the courts at the summary judgment stage. Certified class actions remain pending at the trial or appellate level in California (Brown), Massachusetts (Aspinall), Missouri (Larsen) and Arkansas (Miner). Significant developments in these cases include:

Aspinall: In August 2004, the Massachusetts Supreme Judicial Court affirmed the class certification order. In August 2006, the trial court denied PM USA's motion for summary judgment and granted plaintiffs' cross-motion for summary judgment on the defenses of federal preemption and a state law exemption to Massachusetts' consumer protection statute. On motion of the parties, the trial court subsequently reported its decision to deny summary judgment to the appeals court for review and stayed further proceedings pending completion of the appellate review. In March 2009, the Massachusetts Supreme Judicial Court affirmed the order denying summary judgment to PM USA and granting the plaintiffs' cross-motion. In January 2010, plaintiffs moved for partial summary judgment as to liability claiming collateral estoppel from the findings in the case brought by the Department of Justice (see Health Care Cost Recovery Litigation - Federal Government's Lawsuit described above). In March 2012, the trial court denied plaintiffs' motion. In February 2013, the trial court, upon agreement of the parties, dismissed without prejudice plaintiffs' claims against Altria Group, Inc. PM USA is now the sole defendant in the case. In September 2013, the case was transferred to the Business Litigation Session of the Massachusetts Superior Court. Also in September 2013, plaintiffs filed a motion for partial summary judgment on the scope of remedies available in the case, which the Massachusetts Superior Court denied in February 2014, concluding that plaintiffs cannot obtain disgorgement of profits as an equitable remedy and that their recovery is limited to actual damages or $25 per class member if they cannot prove actual damages greater than $25. Plaintiffs filed a motion asking the trial court to report its February 2014 ruling to the Massachusetts Appeals Court for review, which the trial court denied. In March 2014, plaintiffs petitioned the Massachusetts Appeals Court for review of the ruling, which the appellate court denied. Trial is currently scheduled for October 2015.

Brown: In June 1997, plaintiffs filed suit in California state court alleging that domestic cigarette manufacturers, including PM USA and others, violated California law regarding unfair, unlawful and fraudulent business practices. In May 2009, the California Supreme Court reversed an earlier trial court decision that decertified the class and remanded the case to the trial court. At that time, the class consisted of individuals who, at the time they were residents of California, (i) smoked in California one or more cigarettes manufactured by PM USA that were labeled and/or advertised with the terms or phrases "light," "medium," "mild," "low tar," and/or "lowered tar and nicotine," but not including any cigarettes labeled or advertised with the terms or phrases "ultra light" or "ultra low tar," and (ii) who were exposed to defendant's marketing and advertising activities in California. Plaintiffs are seeking restitution of a portion of the costs of "light" cigarettes purchased during the class period and injunctive relief ordering corrective communications. In September 2012, at the plaintiffs' request, the trial court dismissed all defendants except PM USA from the lawsuit. Trial began in April 2013. In May 2013 the plaintiffs redefined the class to include California residents who smoked in California one or more of defendant's Marlboro Lights cigarettes between January 1, 1998 and April 23, 2001, and who were exposed to defendant's marketing and advertising activities in California. In June 2013, PM USA filed a motion to decertify the class. Trial concluded in July 2013. In September 2013, the court issued a final Statement of Decision, in which the court found that PM USA violated California law, but that plaintiffs had not established a basis for relief. On this basis, the court granted judgment for PM USA. The court also denied PM

USA's motion to decertify the class. In October 2013, the court entered final judgment in favor of PM USA. In November 2013, plaintiffs moved for a new trial, which the court denied. In December 2013, plaintiffs filed a notice of appeal and PM USA filed a conditional cross-appeal. In February 2014, the trial court awarded PM USA $764,553 in costs. Also in February 2014, plaintiffs appealed the costs award.

Larsen: In August 2005, a Missouri Court of Appeals affirmed the class certification order. In December 2009, the trial court denied plaintiffs' motion for reconsideration of the period during which potential class members can qualify to become part of the class. The class period remains 1995 - 2003. In June 2010, PM USA's motion for partial summary judgment regarding plaintiffs' request for punitive damages was denied. In April 2010, plaintiffs moved for partial summary judgment as to an element of liability in the case, claiming collateral estoppel from the findings in the case brought by the Department of Justice (see Health Care Cost Recovery Litigation - Federal Government's Lawsuit described above). The plaintiffs' motion was denied in December 2010. In June 2011, PM USA filed various summary judgment motions challenging the plaintiffs' claims. In August 2011, the trial court granted PM USA's motion for partial summary judgment, ruling that plaintiffs could not present a damages claim based on allegations that Marlboro Lights are more dangerous than Marlboro Reds. The trial court denied PM USA's remaining summary judgment motions. Trial in the case began in September 2011 and, in October 2011, the court declared a mistrial after the jury failed to reach a verdict. In January 2014, the trial court reversed its prior ruling granting partial summary judgment against plaintiffs' "more dangerous" claim and allowed plaintiffs to pursue that claim. The trial court has set jury selection to begin on January 12, 2015, with opening arguments scheduled to begin on February 17, 2015. On October 28, 2014, PM USA filed motions to decertify the class and for partial summary judgment on plaintiffs' "more dangerous" claim.

Miner: In June 2007, the United States Supreme Court reversed the lower court rulings in Miner (formerly known as Watson) that denied plaintiffs' motion to have the case heard in a state, as opposed to federal, trial court. The Supreme Court rejected defendants' contention that the case must be tried in federal court under the "federal officer" statute. Following remand, the case was removed again to federal court in Arkansas and transferred to the MDL proceeding discussed above. In November 2010, the district court in the MDL proceeding remanded the case to Arkansas state court. In December 2011, plaintiffs voluntarily dismissed their claims against Altria Group, Inc. without prejudice. In March 2013, plaintiffs filed a class certification motion. In November 2013, the trial court granted class certification. The certified class includes those individuals who, from November 1, 1971 through June 22, 2010, purchased Marlboro Lights, including Marlboro Ultra Lights, for personal consumption in Arkansas. PM USA filed a notice of appeal of the class certification ruling to the Arkansas Supreme Court in December 2013.

Other Developments

In Oregon (Pearson), a state court denied plaintiffs' motion for interlocutory review of the trial court's refusal to certify a class. In February 2007, PM USA filed a motion for summary judgment based on federal preemption and the Oregon statutory exemption. In September 2007, the district court granted PM USA's motion based on express preemption under the FCLAA, and plaintiffs appealed this dismissal and the class certification denial to the Oregon Court of Appeals. Argument was held in April 2010. In June 2013, the Oregon Court of Appeals reversed the trial court's denial of class certification and remanded to the trial court for further consideration of class certification. In July 2013, PM USA filed a petition for reconsideration with the Oregon Court of Appeals, which was denied in August 2013. PM USA filed its petition for review to the Oregon Supreme Court in October 2013, which the court accepted in January 2014. Oral argument occurred in June 2014.

In December 2009, the state trial court in Carroll (formerly known as Holmes) (pending in Delaware) denied PM USA's motion for summary judgment based on an exemption provision in the Delaware Consumer Fraud Act. In January 2011, the trial court allowed the plaintiffs to file an amended complaint substituting class representatives and naming Altria Group, Inc. and PMI as additional defendants. In February 2013, the trial court approved the parties' stipulation to the dismissal without prejudice of Altria Group, Inc. and PMI, leaving PM USA as the sole defendant in the case.

The Price Case

Trial in Price commenced in state court in Illinois in January 2003 and, in March 2003, the judge found in favor of the plaintiff class and awarded $7.1 billion in compensatory damages and $3.0 billion in punitive damages against PM USA. In December 2005, the Illinois Supreme Court reversed the trial court's judgment in favor of the plaintiffs. In November 2006, the United States Supreme Court denied plaintiffs' petition for writ of certiorari and, in December 2006, the Circuit Court of Madison County enforced the Illinois Supreme Court's mandate and dismissed the case with prejudice.

In December 2008, plaintiffs filed with the trial court a petition for relief from the final judgment that was entered in favor of PM USA. Specifically, plaintiffs sought to vacate the judgment entered by the trial court on remand from the 2005 Illinois Supreme Court decision overturning the verdict on the ground that the United States Supreme Court's December 2008 decision in Good demonstrated that the Illinois Supreme Court's decision was "inaccurate." PM USA filed a motion to dismiss plaintiffs' petition and, in February 2009, the trial court granted PM USA's motion on the basis that the petition was not timely filed. In March 2009, the Price plaintiffs filed a notice of appeal with the Fifth Judicial District of the Appellate Court of Illinois. In February 2011, the intermediate appellate court ruled that the petition was timely filed and reversed the trial court's dismissal of the plaintiffs' petition and, in September 2011, the Illinois Supreme Court declined PM USA's petition for review. As a result, the case was returned to the trial court for proceedings on whether the court should grant the plaintiffs' petition to reopen the prior judgment. In February 2012, plaintiffs filed an amended petition, which PM USA opposed. Subsequently, in responding to PM USA's opposition to the amended petition, plaintiffs asked the trial court to reinstate the original judgment. The trial court denied plaintiffs' petition in December 2012. In January 2013, plaintiffs filed a notice of appeal with the Fifth Judicial District. In January 2013, PM USA filed a motion asking the Illinois Supreme Court to immediately exercise its jurisdiction over the appeal. In February 2013, the Illinois Supreme Court denied PM USA's motion. Oral argument on plaintiffs' appeal to the Fifth Judicial District was heard in October 2013. In April 2014, the Fifth Judicial District reversed and ordered reinstatement of the original $10.1 billion trial court judgment against PM USA. In May 2014, PM USA filed in the Illinois Supreme Court a petition for a supervisory order and a petition for leave to appeal. The filing of the petition for leave to appeal automatically stayed the Fifth District's mandate pending disposition by the Illinois Supreme Court. Also in May 2014, plaintiff filed a motion seeking recusal of Justice Karmeier, one of the Illinois Supreme Court justices, which PM USA opposed. On September 24, 2014, the Illinois Supreme Court granted PM USA's motion for leave to appeal and took no action on PM USA's motion for a supervisory order. Justice Karmeier denied plaintiff's motion seeking his recusal.

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

Certain Other Tobacco-Related Litigation

Tobacco Price Case

One case remains pending in Kansas (Smith) in which plaintiffs allege that defendants, including PM USA and Altria Group, Inc., conspired to fix cigarette prices in violation of antitrust laws. Plaintiffs' motion for class certification was granted. In March 2012, the trial court granted defendants' motions for summary judgment. Plaintiffs sought the trial court's reconsideration of its decision, but in June 2012, the trial court denied plaintiffs' motion for reconsideration. Plaintiffs have appealed the decision, and defendants have cross-appealed the trial court's class certification decision, to the Court of Appeals of Kansas. In July 2014, the Court of Appeals affirmed the entry of summary judgment in favor of defendants. Plaintiffs filed a petition for review in the Kansas Supreme Court on August 18, 2014.

Ignition Propensity Cases

PM USA and Altria Group, Inc. are currently facing litigation alleging that a fire caused by cigarettes led to individuals' deaths. In a Kentucky case (Walker), the federal district court denied plaintiffs' motion to remand the case to state court and dismissed plaintiffs' claims in February 2009. Plaintiffs subsequently filed a notice of appeal. In October 2011, the U.S. Court of Appeals for the Sixth Circuit reversed the portion of the district court decision that denied remand of the case to Kentucky state court and remanded the case to Kentucky state court. The Sixth Circuit did not address the merits of the district court's dismissal order. Defendants' petition for rehearing with the Sixth Circuit was denied in December 2011. Defendants filed a renewed motion to dismiss in state court in March 2013. Based on new evidence, in June 2013, defendants removed the case for a second time to the U.S. District Court for the Western District of Kentucky and re-filed their motion to dismiss in June 2013. In July 2013, plaintiffs filed a motion to remand the case to Kentucky state court, which was granted in March 2014.

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False Claims Act Case

PM USA is a defendant in a qui tam action filed in the U.S. District Court for the District of Columbia (United States ex rel. Anthony Oliver) alleging violation of the False Claims Act in connection with sales of cigarettes to the U.S. military. The relator contends that PM USA violated “most favored customer” provisions in government contracts and regulations by selling cigarettes to non-military customers in overseas markets at more favorable prices than it sold to the U.S. military exchange services for resale on overseas military bases in those same markets. The relator has dropped Altria Group, Inc. as a defendant and has dropped claims related to post-MSA price increases on cigarettes sold to the U.S. military. In July 2012, PM USA filed a motion to dismiss, which was granted on jurisdictional grounds in June 2013, and the case was dismissed with prejudice. In July 2013, the relator appealed the dismissal to the U.S. Court of Appeals for the D.C. Circuit. Oral argument occurred in May 2014. On August 26, 2014, the Court of Appeals reversed the jurisdictional issue and remanded the case to the district court for further proceedings, including consideration of PM USA’s alternative grounds for dismissal.

Argentine Grower Cases

PM USA and Altria Group, Inc. are named as defendants in six cases (Hupan, Chalanuk, Rodriguez Da Silva, Aranda, Taborda and Biglia) filed in Delaware state court against multiple defendants by the parents of Argentine children born with alleged birth defects. Plaintiffs in these cases allege that they grew tobacco in Argentina under contract with Tabacos Norte S.A., an alleged subsidiary of PMI, and that they and their infant children were exposed directly and in utero to hazardous herbicides and pesticides used in the production and cultivation of tobacco. Plaintiffs seek compensatory and punitive damages against all defendants. In December 2012, Altria Group, Inc. and certain other defendants were dismissed from the Hupan, Chalanuk and Rodriguez Da Silva cases. Altria Group, Inc. and certain other defendants were dismissed from Aranda, Taborda and Biglia in May 2013, October 2013 and February 2014, respectively. The three remaining defendants in the six cases are PM USA, Philip Morris Global Brands Inc. (a subsidiary of PMI) and Monsanto Company. Following discussions regarding indemnification for these cases pursuant to the Distribution Agreement between PMI and Altria Group, Inc., PMI and PM USA have agreed to resolve conflicting indemnity demands after final judgments are entered. See Guarantees and Other Similar Matters below for a discussion of the Distribution Agreement. In April 2014, all three defendants in the Hupan case filed motions to dismiss for failure to state a claim, and PM USA and Philip Morris Global Brands filed separate motions to dismiss based on the doctrine of forum non conveniens. All proceedings in the other five cases are currently stayed pending the court’s resolution of the motions to dismiss filed in Hupan.

UST Litigation

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

First, UST and/or its tobacco subsidiaries has been named in certain actions in West Virginia (See In re: Tobacco Litigation above) brought by or on behalf of individual plaintiffs against cigarette manufacturers, smokeless tobacco manufacturers and other organizations seeking damages and other relief in connection with injuries allegedly sustained as a result of tobacco usage, including smokeless tobacco products. Included among the plaintiffs are five individuals alleging use of USSTC’s smokeless tobacco products and alleging the types of injuries claimed to be associated with the use of smokeless tobacco products. USSTC, along with other non-cigarette manufacturers, has remained severed from such proceedings since December 2001.

Second, UST and/or its tobacco subsidiaries has been named in a number of other individual tobacco and health suits over time. Plaintiffs' allegations of liability in these cases are based on various theories of recovery, such as negligence, strict liability, fraud, misrepresentation, design defect, failure to warn, breach of implied warranty, addiction and breach of consumer protection statutes. Plaintiffs seek various forms of relief, including compensatory and punitive damages, and certain equitable relief, including but not limited to disgorgement. Defenses raised in these cases include lack of causation, assumption of the risk, comparative fault and/or contributory negligence, and statutes of limitations. USSTC is currently named in one such action in Florida (Vassallo). On August 25, 2014, the court entered a scheduling order setting trial to commence in the fourth quarter of 2015.

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Environmental Regulation

Altria Group, Inc. and its subsidiaries (and former subsidiaries) are subject to various federal, state and local laws and regulations concerning the discharge of materials into the environment, or otherwise related to environmental protection, including, in the United States: The Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act and the Comprehensive Environmental Response, Compensation and Liability Act (commonly known as “Superfund”), which can impose joint and several liability on each responsible party. Subsidiaries (and former subsidiaries) of Altria Group, Inc. are involved in several matters subjecting them to potential costs of remediation and natural resource damages under Superfund or other laws and regulations. Altria Group, Inc.’s subsidiaries expect to continue to make capital and other expenditures in connection with environmental laws and regulations.

Altria Group, Inc. provides for expenses associated with environmental remediation obligations on an undiscounted basis when such amounts are probable and can be reasonably estimated. Such accruals are adjusted as new information develops or circumstances change. Other than those amounts, it is not possible to reasonably estimate the cost of any environmental remediation and compliance efforts that subsidiaries of Altria Group, Inc. may undertake in the future. In the opinion of management, however, compliance with environmental laws and regulations, including the payment of any remediation costs or damages and the making of related expenditures, has not had, and is not expected to have, a material adverse effect on Altria Group, Inc.’s consolidated results of operations, capital expenditures, financial position or cash flows.

Guarantees and Other Similar Matters

In the ordinary course of business, certain subsidiaries of Altria Group, Inc. have agreed to indemnify a limited number of third parties in the event of future litigation. At September 30, 2014, Altria Group, Inc. and certain of its subsidiaries (i) had $66 million of unused letters of credit obtained in the ordinary course of business; (ii) were contingently liable for $32 million of guarantees, consisting primarily of surety bonds, related to their own performance; and (iii) had a redeemable noncontrolling interest of $35 million recorded on its condensed consolidated balance sheet. In addition, from time to time, subsidiaries of Altria Group, Inc. issue lines of credit to affiliated entities. These items have not had, and are not expected to have, a significant impact on Altria Group, Inc.’s liquidity.

Under the terms of a distribution agreement between Altria Group, Inc. and PMI (the “Distribution Agreement”), entered into as a result of Altria Group, Inc.’s 2008 spin-off of its former subsidiary PMI, liabilities concerning tobacco products will be allocated based in substantial part on the manufacturer. PMI will indemnify Altria Group, Inc. and PM USA for liabilities related to tobacco products manufactured by PMI or contract manufactured for PMI by PM USA, and PM USA will indemnify PMI for liabilities related to tobacco products manufactured by PM USA, excluding tobacco products contract manufactured for PMI. Altria Group, Inc. does not have a related liability recorded on its condensed consolidated balance sheet at September 30, 2014 as the fair value of this indemnification is insignificant.

As more fully discussed in Note 10. Condensed Consolidating Financial Information, PM USA has issued guarantees relating to Altria Group, Inc.’s obligations under its outstanding debt securities, borrowings under the Credit Agreement and amounts outstanding under its commercial paper program.
Note 10. Condensed Consolidating Financial Information:

PM USA, which is a wholly-owned subsidiary of Altria Group, Inc., has guaranteed Altria Group, Inc.’s obligations under its outstanding debt securities, borrowings under the Credit Agreement and amounts outstanding under its commercial paper program (the "Guarantees"). Pursuant to the Guarantees, PM USA fully and unconditionally guarantees, as primary obligor, the payment and performance of Altria Group, Inc.'s obligations under the guaranteed debt instruments (the "Obligations"), subject to release under certain customary circumstances as noted below.

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

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

PM USA will be unconditionally released and discharged from the Obligations upon the earliest to occur of:

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

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

- the payment in full of the Obligations pertaining to such Guarantees; and

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

At September 30, 2014, the respective principal wholly-owned subsidiaries of Altria Group, Inc. and PM USA were not limited by long-term debt or other agreements in their ability to pay cash dividends or make other distributions with respect to their equity interests.
The following sets forth the condensed consolidating balance sheets as of September 30, 2014 and December 31, 2013, condensed consolidating statements of earnings and comprehensive earnings for the nine and three months ended September 30, 2014 and 2013, and condensed consolidating statements of cash flows for the nine months ended September 30, 2014 and 2013 for Altria Group, Inc., PM USA and Altria Group, Inc.'s other subsidiaries that are not guarantors of Altria Group, Inc.'s debt instruments (the "Non-Guarantor Subsidiaries"). The financial information is based on Altria Group, Inc.'s understanding of the Securities and Exchange Commission ("SEC") interpretation and application of Rule 3-10 of SEC Regulation S-X.
The financial information may not necessarily be indicative of results of operations or financial position had PM USA and the Non-Guarantor Subsidiaries operated as independent entities. Altria Group, Inc. and PM USA account for investments in their subsidiaries under the equity method of accounting.

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Altria Group, Inc. and Subsidiaries
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(Unaudited)

Condensed Consolidating Balance Sheets
September 30, 2014
(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Assets					
Cash and cash equivalents	$2,203	$—	$38	$—	$2,241
Receivables	1	3	102	—	106
Inventories:					
Leaf tobacco	—	509	329	—	838
Other raw materials	—	124	66	—	190
Work in process	—	8	339	—	347
Finished product	—	169	346	—	515
	—	810	1,080	—	1,890
Due from Altria Group, Inc. and subsidiaries	597	3,224	1,887	(5,708)	—
Deferred income taxes	—	1,132	32	(69)	1,095
Other current assets	116	197	57	(40)	330
Total current assets	2,917	5,366	3,196	(5,817)	5,662
Property, plant and equipment, at cost	—	3,236	1,615	—	4,851
Less accumulated depreciation	—	2,183	670	—	2,853
	—	1,053	945	—	1,998
Goodwill	—	—	5,285	—	5,285
Other intangible assets, net	—	2	12,052	—	12,054
Investment in SABMiller	6,640	—	—	—	6,640
Investment in consolidated subsidiaries	11,797	2,990	—	(14,787)	—
Finance assets, net	—	—	1,773	—	1,773
Due from Altria Group, Inc. and subsidiaries	4,790	—	—	(4,790)	—
Other assets	147	456	310	(243)	670
Total Assets	$26,291	$9,867	$23,561	$(25,637)	$34,082

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Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Condensed Consolidating Balance Sheets (Continued)
September 30, 2014
(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Liabilities					
Current portion of long-term debt	$1,000	$—	$300	$—	$1,300
Accounts payable	25	112	195	—	332
Accrued liabilities:					
Marketing	—	488	79	—	567
Employment costs	15	9	117	—	141
Settlement charges	—	3,132	7	—	3,139
Other	300	436	230	(109)	857
Dividends payable	1,031	—	—	—	1,031
Due to Altria Group, Inc. and subsidiaries	4,609	500	599	(5,708)	—
Total current liabilities	6,980	4,677	1,527	(5,817)	7,367
Long-term debt	12,693	—	—	—	12,693
Deferred income taxes	1,952	—	5,120	(243)	6,829
Accrued pension costs	197	—	18	—	215
Accrued postretirement health care costs	—	1,410	740	—	2,150
Due to Altria Group, Inc. and subsidiaries	—	—	4,790	(4,790)	—
Other liabilities	175	171	156	—	502
Total liabilities	21,997	6,258	12,351	(10,850)	29,756
Contingencies					
Redeemable noncontrolling interest	—	—	35	—	35
Stockholders' Equity					
Common stock	935	—	9	(9)	935
Additional paid-in capital	5,723	3,310	10,568	(13,878)	5,723
Earnings reinvested in the business	26,066	525	1,522	(2,047)	26,066
Accumulated other comprehensive losses	(1,454)	(226)	(921)	1,147	(1,454)
Cost of repurchased stock	(26,976)	—	—	—	(26,976)
Total stockholders' equity attributable to Altria Group, Inc.	4,294	3,609	11,178	(14,787)	4,294
Noncontrolling interests	—	—	(3)	—	(3)
Total stockholders' equity	4,294	3,609	11,175	(14,787)	4,291
Total Liabilities and Stockholders' Equity	$26,291	$9,867	$23,561	$(25,637)	$34,082

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Condensed Consolidating Balance Sheets
December 31, 2013
(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Assets					
Cash and cash equivalents	$3,114	$1	$60	$—	$3,175
Receivables	—	11	104	—	115
Inventories:					
Leaf tobacco	—	564	369	—	933
Other raw materials	—	121	59	—	180
Work in process	—	3	391	—	394
Finished product	—	141	231	—	372
	—	829	1,050	—	1,879
Due from Altria Group, Inc. and subsidiaries	590	3,253	1,706	(5,549)	—
Deferred income taxes	2	1,133	26	(61)	1,100
Other current assets	109	125	105	(18)	321
Total current assets	3,815	5,352	3,051	(5,628)	6,590
Property, plant and equipment, at cost	2	3,269	1,546	—	4,817
Less accumulated depreciation	2	2,168	619	—	2,789
	—	1,101	927	—	2,028
Goodwill	—	—	5,174	—	5,174
Other intangible assets, net	—	2	12,056	—	12,058
Investment in SABMiller	6,455	—	—	—	6,455
Investment in consolidated subsidiaries	11,227	2,988	—	(14,215)	—
Finance assets, net	—	—	1,997	—	1,997
Due from Altria Group, Inc. and subsidiaries	4,790	—	—	(4,790)	—
Other assets	157	455	218	(273)	557
Total Assets	$26,444	$9,898	$23,423	$ (24,906)	$34,859

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Altria Group, Inc. and Subsidiaries
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Condensed Consolidating Balance Sheets (Continued)
December 31, 2013
(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Liabilities					
Current portion of long-term debt	$525	$—	$—	$—	$525
Accounts payable	26	106	277	—	409
Accrued liabilities:					
Marketing	—	464	48	—	512
Employment costs	94	10	151	—	255
Settlement charges	—	3,386	5	—	3,391
Other	302	531	253	(79)	1,007
Dividends payable	959	—	—	—	959
Due to Altria Group, Inc. and subsidiaries	4,487	473	589	(5,549)	—
Total current liabilities	6,393	4,970	1,323	(5,628)	7,058
Long-term debt	13,692	—	300	—	13,992
Deferred income taxes	1,867	—	5,260	(273)	6,854
Accrued pension costs	197	—	15	—	212
Accrued postretirement health care costs	—	1,437	718	—	2,155
Due to Altria Group, Inc. and subsidiaries	—	—	4,790	(4,790)	—
Other liabilities	176	130	129	—	435
Total liabilities	22,325	6,537	12,535	(10,691)	30,706
Contingencies					
Redeemable noncontrolling interest	—	—	35	—	35
Stockholders' Equity					
Common stock	935	—	9	(9)	935
Additional paid-in capital	5,714	3,310	10,328	(13,638)	5,714
Earnings reinvested in the business	25,168	282	1,498	(1,780)	25,168
Accumulated other comprehensive losses	(1,378)	(231)	(981)	1,212	(1,378)
Cost of repurchased stock	(26,320)	—	—	—	(26,320)
Total stockholders' equity attributable to Altria Group, Inc.	4,119	3,361	10,854	(14,215)	4,119
Noncontrolling interests	—	—	(1)	—	(1)
Total stockholders' equity	4,119	3,361	10,853	(14,215)	4,118
Total Liabilities and Stockholders' Equity	$26,444	$9,898	$23,423	$(24,906)	$34,859

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Condensed Consolidating Statements of Earnings and Comprehensive Earnings
For the Nine Months Ended September 30, 2014
(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net revenues	$—	$15,945	$2,352	$ (33)	$18,264
Cost of sales	—	5,059	773	(33)	5,799
Excise taxes on products	—	4,771	161	—	4,932
Gross profit	—	6,115	1,418	—	7,533
Marketing, administration and research costs	161	1,362	298	—	1,821
Changes to Mondelēz and PMI tax-related receivables/payables	5	—	—	—	5
Asset impairment and exit costs	—	(6)	5	—	(1)
Operating (expense) income	(166)	4,759	1,115	—	5,708
Interest and other debt expense (income), net	458	(46)	184	—	596
Earnings from equity investment in SABMiller	(753)	—	—	—	(753)
Earnings before income taxes and equity earnings of subsidiaries	129	4,805	931	—	5,865
(Benefit) provision for income taxes	(118)	1,813	336	—	2,031
Equity earnings of subsidiaries	3,587	184	—	(3,771)	—
Net earnings	3,834	3,176	595	(3,771)	3,834
Net earnings attributable to noncontrolling interests	—	—	—	—	—
Net earnings attributable to Altria Group, Inc.	$3,834	$3,176	$595	$ (3,771)	$3,834
Net earnings	$3,834	$3,176	$595	$ (3,771)	$3,834
Other comprehensive (losses) earnings, net of deferred income taxes	(76)	5	60	(65)	(76)
Comprehensive earnings	3,758	3,181	655	(3,836)	3,758
Comprehensive earnings attributable to noncontrolling interests	—	—	—	—	—
Comprehensive earnings attributable to Altria Group, Inc.	$3,758	$3,181	$655	$ (3,836)	$3,758

Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Condensed Consolidating Statements of Earnings and Comprehensive Earnings
For the Nine Months Ended September 30, 2013
(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net revenues	$—	$15,967	$2,436	$(17)	$18,386
Cost of sales	—	4,550	677	(17)	5,210
Excise taxes on products	—	4,936	191	—	5,127
Gross profit	—	6,481	1,568	—	8,049
Marketing, administration and research costs	155	1,384	199	—	1,738
Changes to Mondelēz and PMI tax-related receivables/payables	25	—	—	—	25
Asset impairment and exit costs	—	1	—	—	1
Operating (expense) income	(180)	5,096	1,369	—	6,285
Interest and other debt expense, net	490	2	302	—	794
Earnings from equity investment in SABMiller	(738)	—	—	—	(738)
Earnings before income taxes and equity earnings of subsidiaries	68	5,094	1,067	—	6,229
(Benefit) provision for income taxes	(89)	1,890	381	—	2,182
Equity earnings of subsidiaries	3,890	163	—	(4,053)	—
Net earnings	4,047	3,367	686	(4,053)	4,047
Net earnings attributable to noncontrolling interests	—	—	—	—	—
Net earnings attributable to Altria Group, Inc.	$4,047	$3,367	$686	$(4,053)	$4,047
Net earnings	$4,047	$3,367	$686	$(4,053)	$4,047
Other comprehensive (losses) earnings, net of deferred income taxes	(183)	16	139	(155)	(183)
Comprehensive earnings	3,864	3,383	825	(4,208)	3,864
Comprehensive earnings attributable to noncontrolling interests	—	—	—	—	—
Comprehensive earnings attributable to Altria Group, Inc.	$3,864	$3,383	$825	$(4,208)	$3,864

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Condensed Consolidating Statements of Earnings and Comprehensive Earnings
For the Three Months Ended September 30, 2014
(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net revenues	$—	$5,684	$818	$ (11)	$ 6,491
Cost of sales	—	1,812	278	(11)	2,079
Excise taxes on products	—	1,682	56	—	1,738
Gross profit	—	2,190	484	—	2,674
Marketing, administration and research costs	57	495	111	—	663
Changes to Mondelēz and PMI tax-related receivables/payables	5	—	—	—	5
Asset impairment and exit costs	—	2	5	—	7
Operating (expense) income	(62)	1,693	368	—	1,999
Interest and other debt expense, net	150	1	62	—	213
Earnings from equity investment in SABMiller	(328)	—	—	—	(328)
Earnings before income taxes and equity earnings of subsidiaries	116	1,692	306	—	2,114
(Benefit) provision for income taxes	(53)	659	111	—	717
Equity earnings of subsidiaries	1,228	67	—	(1,295)	—
Net earnings	1,397	1,100	195	(1,295)	1,397
Net earnings attributable to noncontrolling interests	—	—	—	—	—
Net earnings attributable to Altria Group, Inc.	$1,397	$1,100	$195	$ (1,295)	$ 1,397
Net earnings	$1,397	$1,100	$195	$ (1,295)	$ 1,397
Other comprehensive (losses) earnings, net of deferred income taxes	(225)	—	18	(18)	(225)
Comprehensive earnings	1,172	1,100	213	(1,313)	1,172
Comprehensive earnings attributable to noncontrolling interests	—	—	—	—	—
Comprehensive earnings attributable to Altria Group, Inc.	$1,172	$1,100	$213	$ (1,313)	$ 1,172

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Altria Group, Inc. and Subsidiaries
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(Unaudited)

Condensed Consolidating Statements of Earnings and Comprehensive Earnings
For the Three Months Ended September 30, 2013
(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net revenues	$—	$5,627	$932	$(6)	$6,553
Cost of sales	—	1,698	247	(6)	1,939
Excise taxes on products	—	1,728	65	—	1,793
Gross profit	—	2,201	620	—	2,821
Marketing, administration and research costs	60	517	87	—	664
Changes to Mondelēz and PMI tax-related receivables/payables	25	—	—	—	25
Asset impairment and exit costs	—	—	—	—	—
Operating (expense) income	(85)	1,684	533	—	2,132
Interest and other debt expense, net	166	3	100	—	269
Earnings from equity investment in SABMiller	(255)	—	—	—	(255)
Earnings before income taxes and equity earnings of subsidiaries	4	1,681	433	—	2,118
(Benefit) provision for income taxes	(63)	628	157	—	722
Equity earnings of subsidiaries	1,329	61	—	(1,390)	—
Net earnings	1,396	1,114	276	(1,390)	1,396
Net earnings attributable to noncontrolling interests	—	—	—	—	—
Net earnings attributable to Altria Group, Inc.	$1,396	$1,114	$276	$(1,390)	$1,396

Net earnings	$1,396	$1,114	$276	$(1,390)	$1,396
Other comprehensive earnings, net of deferred income taxes	107	4	41	(45)	107
Comprehensive earnings	1,503	1,118	317	(1,435)	1,503
Comprehensive earnings attributable to noncontrolling interests	—	—	—	—	—
Comprehensive earnings attributable to Altria Group, Inc.	$1,503	$1,118	$317	$(1,435)	$1,503

Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Condensed Consolidating Statements of Cash Flows
For the Nine Months Ended September 30, 2014
(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Cash Provided by Operating Activities					
Net cash provided by operating activities	$3,270	$2,839	$455	$ (3,504)	$3,060
Cash Provided by (Used in) Investing Activities					
Capital expenditures	—	(33)	(83)	—	(116)
Acquisition of Green Smoke, net of acquired cash	—	—	(93)	—	(93)
Proceeds from finance assets	—	—	190	—	190
Other	—	70	9	—	79
Net cash provided by investing activities	—	37	23	—	60
Cash Provided by (Used in) Financing Activities					
Long-term debt repaid	(525)	—			