



Federal Trade Commission

Cigarette Report

For 2003

ISSUED: 2005

I. INTRODUCTION

This report is the latest in a series on cigarette sales, advertising, and promotion that the Federal Trade Commission (“the Commission”) has prepared annually since 1967.

The statistical tables appended to this report provide information on domestic sales and advertising and promotional activity for U.S.-manufactured cigarettes for the years 1963 through 2003. The tables were compiled from raw data contained in special reports submitted to the Commission pursuant to compulsory process by the five major cigarette manufacturers in the United States: Altria Group, Inc. (the ultimate parent of Philip Morris); Houchens Industries, Inc. (the ultimate parent of Commonwealth Brands, Inc.); Loews Corp. (the ultimate parent of Lorillard Tobacco Co.); Reynolds American, Inc. (the ultimate parent of R.J. Reynolds Tobacco Co. and Santa Fe Natural Tobacco Company, Inc. and which acquired Brown & Williamson Tobacco Corp. in 2004¹); and Vector Group Ltd. (the ultimate parent of Liggett Group, Inc. and Vector Tobacco, Inc.).

The report shows that the total number of cigarettes sold or given away decreased by 19.8 billion cigarettes (5.1 percent) from 2002 to 2003, while advertising and promotional expenditures rose \$2.68 billion (21.5 percent) to \$15.15 billion, the most ever reported to the Commission. The largest single category of expenditures was price discounts paid to cigarette retailers or wholesalers in order to reduce the price of cigarettes to consumers. This one category accounted for \$10.81 billion, or 71.4 percent of total advertising and promotional expenditures.

Table 1 displays annual cigarette sales by manufacturers to wholesalers and retailers from 1963 to 2000. Table 1A displays the total number of cigarettes sold and given away for the years 2001 through 2003.² In 2003, the major domestic cigarette manufacturers sold or gave away 367.6

¹ This report includes 2003 sales and advertising and promotion expenditure data for Brown & Williamson Tobacco Corp.

² Cigarettes given away include all cigarettes distributed for free, whether through sampling, coupons for free product, “buy 3 packs, get 1 free” type offers, or otherwise, as long as

billion cigarettes domestically, 19.8 billion (5.1 percent) fewer than the 387.4 billion they sold or gave away in 2002. Sales declined from 376.4 billion in 2002 to 360.5 billion in 2003, while cigarettes given away decreased from 11.1 billion in 2002 to 7.1 billion in 2003.

Because the cigarette sales data reported to the Commission by the major manufacturers are based on factory shipments, and thus can reflect changes in inventory holdings by cigarette wholesalers and retailers, the Commission's annual reports also include information from the cigarette consumption series produced by the U.S. Department of Agriculture (USDA), which is based on an estimate of the number of cigarettes actually consumed.³ USDA's cigarette consumption estimates, which are included in Tables 1 and 1A, show a 3.6 percent decrease from 2002 to 2003 (from 415 billion cigarettes to 400 billion).

Tables 2 through 2C show the amounts spent on cigarette advertising and promotion for the years 1970, and 1975 through 2003.⁴ These tables list the amounts spent on the different types of media advertising (*e.g.*, newspapers and magazines) and sales promotion activities (*e.g.*, distribution of cigarette samples), and also give the percentage of the total amount spent for the various types of advertising and promotion.

those cigarettes were not reported as sold. In earlier years, the Commission required the manufacturers to report the number of cigarettes they sold but not the number they gave away. It is possible, however, that in those prior years, some manufacturers included in their sales figures some cigarettes that were actually given away.

³ USDA's estimates also include sales by smaller manufacturers and importers.

⁴ The reported figures include all advertising, merchandising, and promotional expenditures related to cigarettes, regardless of whether such expenditures would constitute "commercial speech" or would be protected from law enforcement action under the First Amendment. The Commission began requiring tobacco companies to include expenditures for such protected speech in 1989.

The Commission substantially revised its definitions of the various advertising and promotional expenditure categories in 2002. These revisions clarified (and, in some cases, expanded) the definitions of certain categories, split several categories into smaller subcategories, and specified where money should be reported when expenditures fell within two or more categories.⁵ The Commission also added new categories to pick up expenditures that may have previously been unreported or reported in the catch-all “other” category.⁶

Table 2C shows that overall, \$15.15 billion was spent on cigarette advertising and promotion in 2003, the most ever reported by the major cigarette manufacturers. The \$15.15 billion represents an increase of 21.5 percent from the \$12.47 billion spent in 2002, and of 35.0 percent from the \$11.22 billion spent in 2001.

Newspaper advertising expenditures decreased from \$25.5 million in 2002 to \$8.3 million in 2003, the smallest amount reported for this category since the Commission began asking about newspaper spending in 1970. This advertising category accounts for 0.05 percent of all expenditures. Although newspaper spending accounted for 23.1 percent of total expenditures in 1981, it has accounted for less than one percent of expenditures since 1992.

The manufacturers reported spending \$156.4 million on magazine advertising in 2003, an increase of 46.4 percent from 2002. Magazine advertising represented 1.0 percent of total spending. Spending on magazine advertising peaked in 1984, when the cigarette companies reported spending \$425.9 million (20.3 percent of total advertising and promotional expenditures).

⁵ In some cases, the companies were asked to report these “dual” expenditures in a different category than they previously were reported.

⁶ Detailed definitions of the categories currently used are reported in Appendix A.

Spending on “outdoor” advertising totaled \$32.6 million in 2003, or 0.2 percent of total advertising and promotional spending. This represents an increase of 34.8% from the \$24.2 million spent in 2002. In 2002, “outdoor” advertising was defined to mean billboards; signs and placards in arenas, stadiums, and shopping malls (whether they are open air or enclosed); and any other advertisements placed outdoors, regardless of their size, including those on cigarette retailer property. In prior years, “outdoor” advertising was not precisely defined. In particular, it was not clear that signs in arenas, shopping, stadiums, shopping malls, or on retailer property would have been reported in this category. Expenditures on “outdoor” advertising peaked at \$386.1 million in 1991.

As they have since 2001, the companies reported that they made no expenditures on transit advertising (*i.e.*, advertising within or on private or public vehicles or any transportation facility) in 2003. Transit advertising peaked at \$60.2 million in 1991.⁷

Spending on point-of-sale promotional materials (ads posted at the retail location but excluding outdoor ads on retailer property) declined from \$260.9 million in 2002 to \$165.6 million in 2003, a 36.5 percent decrease. Point-of-sale advertising accounted for 1.1 percent of total advertising and promotion in 2003. These expenditures peaked in 1993 at \$400.9 million.

Beginning in 2002, the “promotional allowance” category was broken into four new categories: price discounts, promotional allowances paid to retailers, promotional allowances paid to wholesalers, and other promotional allowances. The largest “promotional allowance” category was price discounts paid to cigarette retailers or wholesalers in order to reduce the price of cigarettes to consumers (*e.g.*, off-invoice discounts, buy downs, and voluntary price reductions), which accounted

⁷ Prior to 2002, transit advertising was defined as advertising in or on public transportation facilities.

for expenditures of \$10.81 billion in 2003. This category increased by \$2.93 billion, or 37.3 percent from 2002. In addition, in 2003, the industry spent \$1.23 billion on promotional allowances paid to cigarette retailers in order to facilitate the sale or placement of cigarettes (*e.g.*, payments for stocking, shelving, displaying, and merchandising brands; volume rebates; and incentive payments) and \$683.1 million on promotional allowances paid to cigarette wholesalers (*e.g.*, payments for volume rebates, incentive payments, value-added services, and promotional executions). Finally, \$2.8 million was spent on promotional allowances paid to anyone else (other than retailers, wholesalers, and full-time company employees) involved in the cigarette distribution and sales process, in order to facilitate the sale or placement of cigarettes. When these four promotional allowance categories are combined, they total \$12.72 billion and account for 84.0 percent of all 2003 spending. In 2002, the companies reported expenditures of \$9.66 billion on these categories; and in 2001, the last year before the Commission revised its definitions of promotional allowances, the companies reported expenditures of \$4.45 billion.

Money spent giving cigarette samples to the public (“sampling distribution”) decreased from \$28.8 million in 2002 to \$17.9 million in 2003, a decline of 38.0 percent. “Sampling” was redefined in 2002 to include, among other things, when coupons are distributed for free cigarettes and no purchase is required. Cigarette sampling distribution accounted for 0.1 percent of the total spent on advertising and promotion in 2003. These expenditures have accounted for less than one percent of total spending every year since 1992.

In 2002, the specialty item distribution category was broken into two new categories: branded and non-branded. In 2003, \$9.2 million was spent on branded specialty item distribution through the mail, at promotional events, or by any means other than at the point-of-sale with the purchase of

cigarettes.⁸ (Specialty items distributed along with the purchase of cigarettes were redesignated as retail-value-added expenses beginning in 1988.) In 2003, another \$255.0 million was spent distributing non-branded, non-cigarette items in connection with the marketing or promotion of cigarettes.⁹ The total of \$264.2 million spent on specialty item distribution accounts for 1.7 percent of total advertising and promotional expenditures. In 2002, specialty item distribution expenditures were \$223.6 million.

In 2003, expenditures for adult-only public entertainment category dropped to \$150.9 million, from \$219.0 million in 2002, a decline of 31.1 percent. This category includes public entertainment events (*e.g.*, sponsorship of bar nights or concerts) that take place in an adult-only facility and that display the name or logo of a company's cigarettes or otherwise refer to cigarettes. In 2003, another \$32.8 million was spent on general-audience public entertainment – *i.e.*, events (*e.g.*, sponsorship of a fishing tournament) that do not take place in an adult-only facility and that display the name or logo of a company's cigarettes or otherwise refer to cigarettes.¹⁰ General-audience public entertainment declined 3.6 percent from 2002.

The companies also reported spending \$31.4 million in 2003 on the sponsorship of sports teams or individual athletes. This expenditure category, which accounts for 0.2 percent of all

⁸ Branded specialty item distribution includes the practice of selling or giving to consumers non-cigarette items such as T-shirts, caps, sunglasses, key chains, calendars, lighters, and sporting goods bearing a cigarette brand's name or logo.

⁹ Non-branded specialty item distribution includes the practice of giving consumers non-cigarette items such as compact discs, lighters, and sporting goods in connection with the marketing of cigarettes.

¹⁰ The cigarette companies also spent \$160,000 on public entertainment events displaying their corporate name, but not displaying the name or logo of any brand of cigarettes or otherwise referring to cigarettes.

advertising and promotional expenditures, decreased from \$54.2 million in 2002, a 42.2 percent decline.

All reporting companies indicated that no money had been spent on endorsements and testimonials for cigarettes in 2003. No expenditures have been reported in this category since 1988.

The cigarette companies reported a total of \$93.0 million for direct mail advertising in 2003, a 16.5 percent decrease from the \$111.3 million reported in 2002.¹¹

The industry reported spending \$650.7 million on coupons in 2003, a 24.6 percent increase from the \$522.2 million reported in 2002.¹²

Retail-value-added expenditures are the costs associated with offers such as “buy one, get one free” and “buy three, get a free T-shirt,” where the bonus item is distributed at retail when the cigarettes are purchased.¹³ The companies spent \$677.3 million in 2003 on retail-value-added involving free cigarettes, a 36.1 percent decline from the \$1.06 billion reported in 2002. They also spent \$20.5 million on retail-value-added involving free non-cigarette items in 2003, for a total of \$697.8 million spent on any type of retail-value-added. In 2001, combined retail-value-added expenditures were \$4.76 billion, making retail-value-added the largest category of expenditures reported by the companies that year.

In 2003, the companies reported spending \$2.9 million on advertising on a company Internet

¹¹ This category does not include direct mail containing coupons. Coupons sent via direct mail were reported in the coupon and retail-value-added category from 1988 to 1996, but have been reported separately since 1997.

¹² In 2002, the Commission clarified that when coupons are distributed for free cigarettes and no purchase is required to redeem them, such activities should be reported only as “sampling,” not as “coupons.”

¹³ The cigarettes and the bonus items are often packaged together as a single unit.

website, three times the \$940,000 reported in 2002. The companies reported no expenditures on any other Internet advertising (*e.g.*, banner ads on third party sites and direct mail advertising using e-mail).

In 2003, the companies reported spending \$760,000 on telephone advertising, an increase of 11.9 percent over the \$679,000 reported in 2002. This category includes expenses associated with telemarketing calls or the operation of incoming telephone lines for consumers to participate in promotions or hear pre-recorded product messages (but excludes costs associated with customer service representatives for responding to consumer complaints or questions).

In 1988, the Commission began requiring the cigarette companies to report the total amount of money they spent advertising and promoting sports and sporting events.¹⁴ This question is separate from, and duplicative of, the reporting of the individual various advertising and promotion categories. For example, money spent on a magazine advertisement promoting a cigarette-branded sports tournament open to those of all ages is reported under the category “general-audience public entertainment” and is also reported as an expenditure on “sports and sporting events.” Similarly, expenditures on sponsorship of sports teams and individual athletes are reported under the category “sponsorship” and are also reported as “sports and sporting events.” These expenditures are only counted once, however, in computing the industry’s total advertising and promotional expenditures. For 2003, the major domestic cigarette companies reported that they spent \$62.8 million on sports

¹⁴ This includes expenditures for: (1) the sponsoring, advertising, or promotion of sports or sporting events; support of an individual, group, or sports team; and purchase of or support for equipment, uniforms, sports facilities, and/or training facilities; (2) all expenditures for advertising in the name of the cigarette company or any of its brands in a sports facility, on a scoreboard, or in conjunction with the reporting of sports results; and (3) all expenditures for functional promotional items (clothing, hats, etc.) connected with a sporting event.

and sporting events, a 42.8 percent decrease from the \$109.7 million spent in 2002.

In 2001, the Commission began requiring the major cigarette manufacturers to report expenditures on advertisements directed to youth or their parents that are intended to reduce youth smoking. For 2003, the companies reported spending \$72.9 million on such advertising.¹⁵ This represents a 1.8 percent decrease from the \$74.2 million reported in 2002.

Cigarette manufacturers reported that they paid no money or other form of compensation to have any cigarette brand names or tobacco products appear in any motion pictures or television shows. This practice has been reported as unfunded since 1989. The companies also reported that, in 2003, they did not solicit the appearance of any cigarette product in any motion picture or television show, or grant permission for the appearance of any cigarette product in any motion picture or television show.

The data on cigarette “advertising and promotional” expenditures reported in Tables 2 through 2C were not collected in their present form until 1975. Therefore, Table 3 reports cigarette advertising expenditures from 1963 through 1974.

Tables 4 and 4A give the domestic market share of cigarettes with tar ratings of 15 milligrams (mg.) or less for the years 1967 through 2003. The data for the years since 1982 are further broken down into sub-categories according to tar ratings, *e.g.*, 3 mg. or less, 6 mg. or less, etc. (categories are presented cumulatively). In 2003, cigarettes with tar ratings of 15 mg. or less constituted 84.9 percent of the domestic cigarette market. Cigarettes with tar ratings of 3 mg. or less – the lowest rated portion of the market – made up 1.0 percent of the market.

As shown in Tables 5 and 5A, filtered cigarettes have dominated the market since the

¹⁵ These expenditures are not included in the \$15.14 billion reported in Table 2C.

Commission began collecting this information in 1963. Filtered cigarettes held 99 percent of the market in 2003.

Tables 6 and 6A provide the domestic market share of the various cigarette length categories. The King-size (79-88 mm.) category continues to be the biggest seller, with 61 percent of the market. This category is followed by the Long (94-101 mm.) group, which held 36 percent of the market in 2003. Ultra-Long (110-121 mm.) and Regular (68-72 mm.) cigarettes accounted for two percent and one percent, respectively, of the market in 2003.

Table 7 gives the market share of menthol and non-menthol cigarettes. In 2003, the market share of menthol cigarettes was 27 percent, while non-menthols held 73 percent of the market.

Tables 8 and 8A relate to whether “tar” ratings are displayed on cigarette packaging. Table 8A shows: (1) the percentage of the overall cigarette market represented by varieties with different tar ratings, and (2) within each tar group, the percentage of those varieties that discloses tar ratings on their packs.¹⁶ Table 8A shows that cigarette varieties that printed tar ratings on their packs represented only 1.2 percent of the overall market in 2003. Cigarettes with tar ratings of 8-11 mg. represented 43.3 percent of the market; however, only 0.8 percent of these cigarettes disclosed their ratings on the pack in 2003. In contrast, 79.8 percent of cigarettes rated 3 mg. tar or less disclosed their ratings on the pack in 2003, but those cigarettes only accounted for 0.6 percent of the total market.

¹⁶ Prior to 2002, the Commission asked whether “tar and nicotine ratings” were displayed on cigarette packaging.

TABLE 1

TOTAL DOMESTIC CIGARETTE UNIT SALES
(IN BILLIONS OF INDIVIDUAL CIGARETTES)

<u>YEAR</u>	<u>TOTAL SALES REPORTED BY CIGARETTE MANUFACTURERS*</u>	<u>UNIT CHANGE FROM PRIOR YEAR</u>	<u>% CHANGE FROM PRIOR YEAR</u>	<u>USDA CIGARETTE CONSUMPTION ESTIMATES</u>
1963	516.5	---	---	523.9
1964	505.0	(11.5)	(2.2)	511.2
1965	521.1	16.1	3.2	528.7
1966	529.9	8.8	1.7	541.2
1967	535.8	5.9	1.1	549.2
1968	540.3	4.5	.8	545.7
1969	527.9	(12.4)	(2.3)	528.9
1970	534.2	6.3	1.1	536.4
1971	547.2	13.0	2.4	555.1
1972	561.7	14.5	2.7	566.8
1973	584.7	23.0	4.1	589.7
1974	594.5	9.8	1.7	599.0
1975	603.2	8.7	1.5	607.2
1976	609.9	6.7	1.1	613.5
1977	612.6	2.7	.4	617.0
1978	615.3	2.7	.4	616.0
1979	621.8	6.5	1.1	621.5
1980	628.2	6.4	1.0	631.5
1981	636.5	8.3	1.3	640.0
1982	632.5	(4.0)	(.6)	634.0
1983	603.6	(28.9)	(4.6)	600.0
1984	608.4	4.8	.8	600.4
1985	599.3	(9.1)	(1.5)	594.0
1986	586.4	(12.9)	(2.2)	583.8
1987	575.4	(11.0)	(1.9)	575.0
1988	560.7	(14.7)	(2.6)	562.5
1989	525.6	(35.1)	(6.3)	540.0
1990	523.7	(1.9)	(.4)	525.0
1991	510.9	(12.8)	(2.4)	510.0
1992	506.4	(4.5)	(.9)	500.0
1993	461.4	(45.0)	(8.9)	485.0
1994	490.2	28.8	6.2	486.0
1995	482.3	(7.9)	(1.6)	487.0
1996	484.1	1.8	0.4	487.0
1997	478.6	(5.5)	(1.1)	480.0
1998	458.6	(20.1)	(4.2)	465.0
1999	411.3	(47.2)	(10.3)	435.0
2000	413.9	2.6	.6	430.0

* Cigarettes sold by manufacturers to wholesalers and retailers within the U.S. and to armed forces personnel stationed outside the U.S.

TABLE 1A

TOTAL DOMESTIC CIGARETTE UNITS SOLD AND GIVEN AWAY
(IN BILLIONS OF INDIVIDUAL CIGARETTES)

<u>YEAR</u>	<u>UNITS SOLD*</u>	<u>UNITS GIVEN AWAY**</u>	<u>TOTAL NUMBER SOLD AND GIVEN AWAY AS REPORTED BY MANUFACTURERS</u>	<u>UNIT CHANGE IN SOLD AND GIVEN AWAY FROM PRIOR YEAR</u>	<u>PERCENT CHANGE IN SOLD AND GIVEN AWAY FROM PRIOR YEAR</u>	<u>USDA CIGARETTE CONSUMPTION ESTIMATES</u>
2001	398.3	3.9	402.2	***	***	425.0
2002	376.4	11.1	387.4	(14.8)	(3.7)	415.0
2003	360.5	7.1	367.6	(19.8)	(5.1)	400.0

* Cigarettes sold by manufacturers to wholesalers and retailers within the U.S. and to armed forces personnel stationed outside the U.S.

** Cigarettes given away within the U.S. and to armed forces personnel stationed outside the U.S.

*** Prior to 2001, the Commission did not ask about cigarettes given away, although some cigarettes given away may have been reported as sold.

TABLE 2

DOMESTIC CIGARETTE ADVERTISING AND PROMOTIONAL EXPENDITURES FOR YEARS 1970, 1975-1985 (DOLLARS IN THOUSANDS)*

	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Newspapers	\$14,026 3.9%	\$104,460 21.3%	\$155,808 24.4%	\$190,677 24.5%	\$186,947 21.4%	\$240,978 22.2%	\$304,380 24.5%	\$358,096 23.1%	\$282,897 15.8%	\$200,563 10.6%	\$193,519 9.2%	\$203,527 8.2%
Magazines	\$50,018 13.9%	\$131,199 26.6%	\$148,032 23.2%	\$173,296 22.2%	\$184,236 21.1%	\$257,715 23.8%	\$266,208 21.4%	\$291,227 18.8%	\$349,229 19.5%	\$388,365 20.4%	\$425,912 20.3%	\$395,129 16.0%
Outdoor	\$7,338 2.0%	\$84,329 17.2%	\$102,689 16.1%	\$120,338 15.4%	\$149,010 17.0%	\$162,966 15.0%	\$193,333 15.6%	\$228,081 14.7%	\$266,925 14.9%	\$295,226 15.5%	\$284,927 13.6%	\$300,233 12.1%
Transit	\$5,354 1.5%	\$10,852 2.2%	\$19,341 3.0%	\$21,530 2.8%	\$22,899 2.6%	\$21,151 2.1%	\$26,160 2.0%	\$21,931 1.4%	\$24,135 1.3%	\$26,652 1.4%	\$25,817 1.2%	\$33,136 1.3%
Point-of-Sale	\$11,663 3.2%	\$35,317 7.2%	\$44,176 6.9%	\$46,220 5.9%	\$57,384 6.6%	\$66,096 6.1%	\$79,799 6.4%	\$98,968 6.4%	\$116,954 6.5%	\$170,059 8.9%	\$167,279 8.0%	\$142,921 5.8%
Promotional Allowances	\$33,789 9.4%	\$72,018 14.7%	\$82,523 12.9%	\$108,227 13.9%	\$125,148 14.3%	\$137,111 12.7%	\$179,094 14.4%	\$229,077 14.8%	\$272,269 15.2%	\$366,153 19.3%	\$363,247 17.3%	\$548,877 22.2%
Sampling Distribution	\$11,775 3.3%	\$24,196 4.9%	\$40,390 6.3%	\$47,683 6.1%	\$47,376 5.4%	\$64,286 5.9%	\$50,459 4.1%	\$81,522 5.3%	\$141,178 7.9%	\$125,968 6.6%	\$148,031 7.1%	\$140,565 5.7%
Specialty Item Distribution	\$5,652 2.6%	\$10,088 2.1%	\$20,030 3.1%	\$35,797 4.6%	\$48,281 5.5%	\$62,029 5.7%	\$69,248 5.6%	\$115,107 7.5%	\$95,246 5.3%	\$127,186 6.6%	\$140,431 6.7%	\$211,429 8.5%
Public Entertainment	\$544 0.2%	\$8,484 1.7%	\$7,946 1.3%	\$9,538 1.2%	\$11,590 1.3%	\$10,783 1.0%	\$16,914 1.4%	\$37,423 2.4%	\$63,168 3.5%	\$76,648 4.0%	\$59,988 2.9%	\$57,581 2.3%
Other**	\$220,841 61.1%	\$10,311 2.0%	\$18,182 2.8%	\$26,157 3.4%	\$42,100 4.8%	\$60,310 5.6%	\$56,694 4.6%	\$86,226 5.6%	\$181,813 10.1%	\$123,951 6.5%	\$286,035 13.7%	\$443,043 17.9%
Total	\$361,000 100%	\$491,254 100%	\$639,117 100%	\$779,463 100%	\$874,971 100%	\$1,083,425 100%	\$1,242,289 100%	\$1,547,658 100%	\$1,793,814 100%	\$1,900,771 100%	\$2,095,231 100%	\$2,476,441 100%

* Because of rounding, sums of percentages may not equal 100 percent.

** Includes TV and Radio advertising expenditures of \$207,324,000 and \$12,492,000, respectively, for 1970. Broadcast advertising was banned after January 1, 1971. Expenditures for direct mail, endorsements, testimonials, and audio-visual are included in the "All Others" category to avoid disclosure of individual company data.

TABLE 2A
DOMESTIC CIGARETTE ADVERTISING AND PROMOTIONAL EXPENDITURES FOR YEARS 1986-1995 (DOLLARS IN THOUSANDS)*

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Newspapers	\$119,629 5.0%	\$95,810 3.7%	\$105,783 3.2%	\$76,993 2.1%	\$71,174 1.8%	\$48,212 1.0%	\$35,467 0.7%	\$36,220 0.6%	\$24,143 0.5%	\$19,122 0.4%
Magazines	\$340,160 14.3%	\$317,748 12.3%	\$355,055 10.8%	\$380,393 10.5%	\$328,143 8.2%	\$278,110 6.0%	\$237,061 4.5%	\$235,253 3.9%	\$251,644 5.2%	\$248,848 5.1%
Outdoor	\$301,822 12.7%	\$269,778 10.5%	\$319,293 9.7%	\$358,583 9.9%	\$375,627 9.4%	\$386,165 8.3%	\$295,657 5.7%	\$231,481 3.8%	\$240,024 5.0%	\$273,664 5.6%
Transit	\$34,725 1.5%	\$35,822 1.4%	\$44,379 1.4%	\$52,294 1.4%	\$60,249 1.5%	\$60,163 1.3%	\$53,293 1.0%	\$39,117 0.6%	\$29,323 0.6%	\$22,543 0.5%
Point-of-Sale	\$135,541 5.7%	\$153,494 5.9%	\$222,289 6.8%	\$241,809 6.7%	\$303,855 7.6%	\$344,580 7.4%	\$366,036 7.0%	\$400,943 6.6%	\$342,650 7.1%	\$259,035 5.3%
Promotional Allowances	\$630,036 26.4%	\$702,430 27.2%	\$879,703 26.9%	\$999,843 27.6%	\$1,021,427 25.6%	\$1,156,280 24.9%	\$1,514,026 28.9%	\$1,557,635 25.8%	\$1,678,917 34.7%	\$1,865,657 38.1%
Sampling Distribution	\$98,866 4.1%	\$55,020 2.1%	\$74,511 2.3%	\$57,771 1.6%	\$100,893 2.5%	\$56,970 1.2%	\$49,315 0.9%	\$40,202 0.7%	\$6,974 0.1%	\$13,836 0.3%
Specialty Item Distribution	\$210,128 8.8%	\$391,351 15.2%	\$190,003 5.8%	\$262,432 7.3%	\$307,037 7.7%	\$184,348 4.0%	\$339,997 6.5%	\$755,780 12.5%	\$850,810 17.6%	\$665,173 13.6%
Public Entertainment	\$71,439 3.0%	\$71,389 2.8%	\$88,072 2.7%	\$92,120 2.5%	\$125,094 3.1%	\$118,622 2.6%	\$89,739 1.7%	\$84,276 1.4%	\$81,292 1.7%	\$110,669 2.3%
Direct Mail	\$187,057 7.9%	\$187,931 7.3%	\$42,545 1.3%	\$45,498 1.3%	\$51,875 1.3%	\$65,002 1.4%	\$34,345 0.7%	\$31,463 0.5%	\$31,187 0.7%	\$34,618 0.7%
Endorsements & Testimonials	\$384 0.0%	\$376 0.0%	\$781 0.0%	\$0 0.0%	\$0 0.0%	\$0 0.0%	\$0 0.0%	\$0 0.0%	\$0 0.0%	\$0 0.0%
Coupons & Retail-Value-Added	**	**	\$874,127 26.7%	\$959,965 26.5%	\$1,183,798 29.6%	\$1,882,905 40.4%	\$2,175,373 41.6%	\$2,559,387 42.4%	\$1,248,896 25.8%	\$1,348,378 27.5%
Other***	\$252,570 10.0%	\$299,355 11.6%	\$78,366 2.4%	\$89,290 2.5%	\$62,917 1.6%	\$68,758 1.5%	\$41,608 0.8%	\$63,680 1.2%	\$47,672 1.0%	\$33,680 0.7%
Total	\$2,382,357 100%	\$2,580,504 100%	\$3,274,853 100%	\$3,616,993 100%	\$3,992,008 100%	\$4,650,114 100%	\$5,231,917 100%	\$6,035,437 100%	\$4,833,532 100%	\$4,895,223 100%

* Because of rounding, sums of percentages may not equal 100 percent.

** Prior to 1987, the Commission did not specifically collect information on Coupons & Retail-Value-Added.

*** Expenditures for audio-visual are included in the "All Others" category to avoid disclosure of individual company data.

TABLE 2B

DOMESTIC CIGARETTE ADVERTISING AND PROMOTIONAL EXPENDITURES
FOR YEARS 1996-2001 (DOLLARS IN THOUSANDS)*

	1996	1997	1998	1999	2000	2001
Newspapers	\$14,067 0.3%	\$16,980 0.3%	\$29,444 0.4%	\$50,952 0.6%	\$51,652 0.5%	\$31,676 0.3%
Magazines	\$243,046 4.8%	\$236,950 4.2%	\$281,296 4.2%	\$377,364 4.6%	\$294,916 3.1%	\$172,853 1.5%
Outdoor	\$292,261 5.7%	\$295,334 5.2%	\$294,721 4.4%	\$53,787 0.7%	\$9,262 0.1%	\$8,241 0.1%
Transit	\$28,865 0.6%	\$26,407 0.5%	\$40,158 0.6%	\$5,573 0.1%	\$4 0.0%	\$0 0.0%
Point-of-Sale	\$252,619 4.9%	\$305,360 5.4%	\$290,739 4.3%	\$329,429 4.0%	\$347,038 3.6%	\$284,319 2.5%
Promotional Allowances	\$2,150,838 42.1%	\$2,438,468 43.1%	\$2,878,919 42.8%	\$3,542,950 43.0%	\$3,913,997 40.8%	\$4,452,709 39.7%
Sampling Distribution	\$15,945 0.3%	\$22,065 0.4%	\$14,436 0.2%	\$33,711 0.4%	\$22,330 0.2%	\$17,175 0.2%
Specialty Item Distribution	\$544,345 10.7%	\$512,602 9.6%	\$355,835 5.3%	\$335,680 4.1%	\$327,826 3.4%	\$333,394 3.0%
Public Entertainment	\$171,177 3.4%	\$195,203 3.4%	\$248,536 3.7%	\$267,379 3.3%	\$309,610 3.2%	\$312,366 2.8%
Direct Mail	\$38,703 0.8%	\$37,310 0.7%	\$57,772 0.9%	\$94,610 1.2%	\$92,902 1.0%	\$133,947 1.2%
Endorsements & Testimonials	\$0 0.0%	\$0 0.0%	\$0 0.0%	\$0 0.0%	\$0 0.0%	\$0 0.0%
Coupons		\$552,550 9.8%	\$624,199 9.3%	\$531,004 6.5%	\$705,299 7.4%	\$602,110 5.4%
Retail-Value-Added	\$1,308,708** 25.6%	\$970,363 17.1%	\$1,555,391 23.1%	\$2,559,883 31.1%	\$3,453,446 36.0%	\$4,761,792 42.5%
Internet	\$432 0.0%	\$215 0.0%	\$125 0.0%	\$651 0.0%	\$949 0.0%	\$841 0.0%
Other***	\$46,696 0.9%	\$50,207 1.0%	\$61,584 0.9%	\$54,658 0.7%	\$63,395 0.7%	\$104,797 0.9%
Total	\$5,107,700 100%	\$5,660,014 100%	\$6,733,157 100%	\$8,237,631 100%	\$9,592,627 100%	\$11,216,220 100%

* Because of rounding, sums of percentages may not equal 100 percent.

** Prior to 1997, Coupons and Retail-Value-Added were reported as a single category.

*** Expenditures for audio-visual are included in the "All Others" category to avoid disclosure of individual company data.

TABLE 2C

DOMESTIC CIGARETTE ADVERTISING AND PROMOTIONAL EXPENDITURES
FOR YEARS 2002 AND 2003 (DOLLARS IN THOUSANDS)*

	2002	2003
Newspapers	\$25,538 0.2%	\$8,251 0.1%
Magazines	\$106,852 0.9%	\$156,394 1.0%
Outdoor	\$24,192 0.2%	\$32,599 0.2%
Transit	\$0 0.0%	\$0 0.0%
Point-of-Sale	\$260,902 2.1%	\$165,573 1.1%
Price Discounts	\$7,873,835 63.2%	\$10,808,239 71.4%
Promotional Allowances – Retailers	\$1,333,097 10.7%	\$1,229,327 8.1%
Promotional Allowances – Wholesalers	\$446,327 3.6%	\$683,067 4.5%
Promotional Allowances – Other	\$2,767 0.0%	\$2,786 0.0%
Sampling Distribution	\$28,777 0.2%	\$17,853 0.1%
Specialty Item Distribution – Branded	\$49,423 0.4%	\$9,195 0.1%
Specialty Item Distribution - Non-Branded	\$174,201 1.4%	\$254,956 1.7%
Public Entertainment – Adult-Only	\$219,016 1.8%	\$150,889 1.0%
Public Entertainment – General-Audience	\$34,089 0.3%	\$32,849 0.2%
Sponsorships	\$54,247 0.4%	\$31,371 0.2%
Endorsements & Testimonials	\$0 0.0%	\$0 0.0%
Direct Mail	\$111,319 0.9%	\$92,978 0.6%
Coupons	\$522,246 4.2%	\$650,653 4.3%
Retail-Value-Added – Bonus Cigarettes	\$1,060,304 8.5%	\$677,308 4.5%
Retail-Value-Added – Non-Cigarette Bonus	\$24,727 0.2%	\$20,535 0.1%
Company Website	\$940 0.0%	\$2,851 0.0%
Internet – Other	\$0 0.0%	\$0 0.0%
Telephone	\$679 0.0%	\$760 0.0%
Other**	\$112,879 0.9%	\$117,563 0.8%
Total	\$12,466,358 100.0%	\$15,145,998 100.0%

* Because of rounding, sums of percentages may not equal 100 percent.

** Expenditures for audio-visual are included in the “All Others” category to avoid disclosure of individual company data.

TABLE 3

DOMESTIC CIGARETTE ADVERTISING EXPENDITURES
BY MEDIA FOR YEARS 1963 - 1974*
(MILLIONS OF DOLLARS)

<u>YEAR</u>	<u>TV</u>	<u>RADIO</u>	<u>NEWSPAPER</u>	<u>MAGAZINES</u>	<u>DIRECT</u>	<u>BILLBOARD/ POSTER/ OUTDOOR/ TRANSIT</u>	<u>OTHE R</u>	<u>TOTAL</u>
1963	\$151.7	31.6	45.6		13.2	NA	7.4	249.5
1964	170.2	25.5	45.2		14.6	NA	5.8	261.3
1965	175.6	24.8	41.9		14.7	NA	6.0	263.0
1966	198.0	31.3	43.4		17.9	NA	6.9	297.5
1967	226.9	17.5	41.2		20.3	NA	6.0	311.5
1968	217.2	21.3	44.6		21.6	NA	6.0	310.7
1969	221.3	13.6	48.7		13.4	NA	8.9	305.9
1970	205.0	12.4	14.7	49.5	16.9	11.7	4.5	314.7
1971	2.2	0	59.3	98.3	27.0	60.6	4.2	251.6
1972	0	0	63.1	96.1	22.9	67.5	8.0	257.6
1973	0	0	65.3	92.4	15.2	63.2	11.4	247.5
1974	0	0	80.5	114.6	31.1	71.4	9.2	306.8

* The data reported in Tables 2 through 2C were not collected in their present form until 1975. Thus, Table 3, which reports cigarette advertising expenditures from 1963 through 1974, has been retained in this report for comparative purposes.

TABLE 4
DOMESTIC MARKET SHARE OF CIGARETTES BY TAR YIELD

Year	Market share of cigarettes having tar yields of:				
	15 mg. or less	12 mg. or less	9 mg. or less	6 mg. or less	3 mg. or less
1967	2.0%	NA	NA	NA	NA
1968	2.5%	NA	NA	NA	NA
1969	3.0%	NA	NA	NA	NA
1970	3.6%	NA	NA	NA	NA
1971	3.8%	NA	NA	NA	NA
1972	6.6%	NA	NA	NA	NA
1973	8.9%	NA	NA	NA	NA
1974	8.9%	NA	NA	NA	NA
1975	13.5%	NA	NA	NA	NA
1976	15.9%	NA	NA	NA	NA
1977	22.7%	NA	NA	NA	NA
1978	27.5%	NA	NA	NA	NA
1979	40.9%	NA	NA	NA	NA
1980	44.8%	NA	NA	NA	NA
1981	56.0%	NA	NA	NA	NA
1982	52.2%	43.8%	27.8%	8.9%	2.9%
1983	53.1%	44.9%	27.9%	9.4%	3.1%
1984	51.0%	43.4%	26.3%	9.4%	2.9%
1985	51.9%	43.1%	25.3%	8.4%	2.3%
1986	52.6%	44.5%	22.3%	9.9%	2.6%
1987	55.4%	47.8%	20.2%	10.0%	2.5%
1988	54.2%	48.7%	20.1%	10.7%	3.1%
1989	55.1%	48.4%	21.5%	11.4%	2.4%
1990	60.6%	51.5%	25.5%	12.2%	2.8%

TABLE 4A
DOMESTIC MARKET SHARE OF CIGARETTES BY TAR YIELD

Year	Market share of cigarettes having tar yields of:				
	15 mg. or less	12 mg. or less	9 mg. or less	6 mg. or less	3 mg. or less
1991	60.5%	52.6%	22.0%	12.7%	2.6%
1992	68.7%	52.9%	24.9%	12.7%	2.5%
1993	66.5%	53.3%	23.4%	12.6%	1.9%
1994	71.2%	53.7%	23.1%	12.3%	2.1%
1995	72.7%	53.6%	27.1%	12.2%	2.2%
1996	67.4%	55.5%	22.3%	11.9%	1.9%
1997	70.2%	55.6%	21.9%	11.5%	1.7%
1998	81.9%	56.8%	22.9%	13.2%	1.6%
1999	86.6%	57.4%	25.3%	13.6%	1.6%
2000	87.1%	50.4%	23.7%	13.6%	1.3%
2001	85.2%	58.1%	22.6%	13.2%	1.0%
2002	84.9%	58.2%	22.5%	12.9%	0.9%
2003	84.9%	59.5%	22.5%	12.6%	1.0%

TABLE 5

DOMESTIC MARKET SHARE OF FILTER
AND NON-FILTER CIGARETTES

<u>YEAR</u>	<u>NON-FILTER</u>	<u>FILTER</u>	<u>CHARCOAL</u>	<u>NON-CHARCOAL</u>
1963	42%	58%	*	*
1964	39%	61%	*	*
1965	36%	64%	*	*
1966	32%	68%	*	*
1967	28%	72%	*	*
1968	26%	74%	6%	68%
1969	23%	77%	6%	71%
1970	20%	80%	6%	74%
1971	18%	82%	6%	76%
1972	16%	84%	6%	87%
1973	15%	85%	5%	80%
1974	14%	86%	5%	81%
1975	13%	87%	5%	82%
1976	12%	88%	4%	84%
1977	10%	90%	4%	86%
1978	10%	90%	3%	87%
1979	9%	91%	3%	88%
1980	8%	92%	3%	89%
1981	8%	92%	2%	90%
1982	7%	93%	2%	91%
1983	7%	93%	2%	91%
1984	7%	93%	2%	91%
1985	6%	94%	1%	93%
1986	6%	94%	1%	93%
1987	4%	96%	**	**

* Figures for charcoal filter cigarettes for the years 1963 through 1967 were not obtained.

** Beginning with 1987, figures for charcoal filter cigarettes have no longer been reported.

TABLE 5A

DOMESTIC MARKET SHARE OF FILTER
AND NON-FILTER CIGARETTES

<u>YEAR</u>	<u>NON-FILTER</u>	<u>FILTER</u>
1988	5%	95%
1989	5%	95%
1990	5%	95%
1991	4%	96%
1992	3%	97%
1993	3%	97%
1994	3%	97%
1995	3%	97%
1996	3%	97%
1997	2%	98%
1998	2%	98%
1999	2%	98%
2000	2%	98%
2001	2%	98%
2002	2%	98%
2003	1%	99%

TABLE 6

DOMESTIC MARKET SHARE OF CIGARETTES
BY LENGTH IN MILLIMETERS (mm.)

<u>YEAR</u>	<u>68-72 mm.</u>	<u>79-88 mm.</u>	<u>94-101 mm.</u>	<u>110-121 mm.</u>
1967	14%	77%	9%	---
1968	12%	74%	13%	--- *
1969	11%	74%	16%	--- *
1970	9%	73%	18%	---
1971	8%	72%	20%	---
1972	8%	71%	21%	---
1973	7%	71%	22%	---
1974	6%	71%	23%	--- **
1975	6%	69%	24%	1%
1976	5%	69%	24%	2%
1977	5%	67%	26%	2%
1978	5%	65%	27%	2% *
1979	4%	65%	30%	2% *
1980	3%	63%	32%	2%
1981	3%	62%	33%	2%
1982	3%	61%	34%	2%
1983	3%	60%	34%	2%
1984	3%	59%	36%	2%
1985	3%	58%	37%	2%
1986	2%	58%	37%	3%
1987	2%	57%	38%	3%
1988	2%	57%	38%	2%
1989	2%	57%	39%	2%
1990	2%	57%	39%	2%
1991	2%	56%	40%	2%
1992	2%	56%	41%	2% *
1993	1%	55%	42%	2%
1994	1%	56%	41%	2%
1995	1%	57%	40%	2%
1996	1%	57%	40%	2%
1997	1%	58%	39%	2%
1998	1%	59%	38%	2%
1999	1%	59%	38%	2%

* Because of rounding, the total of the individual percentages may not equal 100 percent in some instances.

** The 110-121 mm. length was combined with 94-101 mm. length.

TABLE 6A

DOMESTIC MARKET SHARE OF CIGARETTES
BY LENGTH IN MILLIMETERS (mm.)

<u>YEAR</u>	<u>68-72 mm.</u>	<u>79-88 mm.</u>	<u>94-101 mm.</u>	<u>110-121 mm.</u>
2000	1%	60%	37%	2%
2001	1%	60%	38%	1%
2002	1%	61%	37%	2%*
2003	1%	61%	36%	2%

* Because of rounding, the total of the individual percentages may not equal 100 percent in some instances.

TABLE 7

DOMESTIC MARKET SHARE OF MENTHOL
AND NON-MENTHOL CIGARETTES

<u>YEAR</u>	<u>MENTHOL</u>	<u>NON-MENTHOL</u>
1963	16%	84%
1964	16%	84%
1965	18%	82%
1966	19%	81%
1967	20%	80%
1968	21%	79%
1969	22%	78%
1970	23%	77%
1971	24%	76%
1972	24%	76%
1973	25%	75%
1974	27%	73%
1975	27%	73%
1976	28%	72%
1977	28%	72%
1978	28%	72%
1979	29%	71%
1980	28%	72%
1981	28%	72%
1982	29%	71%
1983	28%	72%
1984	28%	72%
1985	28%	72%
1986	28%	72%
1987	28%	72%
1988	28%	72%
1989	27%	73%
1990	26%	74%
1991	27%	73%
1992	26%	74%
1993	26%	74%
1994	25%	75%
1995	25%	75%
1996	25%	75%
1997	25%	75%
1998	26%	74%
1999	26%	74%
2000	26%	74%
2001	26%	74%
2002	27%	73%
2003	27%	73%

TABLE 8

DISCLOSURE OF TAR AND NICOTINE RATINGS
ON CIGARETTE PACKS (1994 -2001)

		1994	1995	1996	1997	1998	1999	2000	2001
% of overall market that discloses ratings on the pack		6.3%	6.3%	6.1%	5.8%	5.3%	4.1%	3.6%	1.8%
more than 15 mg. tar	market share of varieties in tar group	28.8%	27.3%	32.7%	29.8%	18.0%	13.4%	12.9%	14.8%
	% that discloses ratings on pack	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
12-15 mg. tar	market share of varieties in tar group	19.3%	21.0%	15.3%	16.7%	29.1%	32.5%	39.0%	29.7%
	% that discloses ratings on pack	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%
8-11 mg. tar	market share of varieties in tar group	38.6%	38.7%	39.2%	41.0%	39.4%	40.3%	33.9%	42.1%
	% that discloses ratings on pack	2.4%	2.8%	2.6%	2.3%	3.2%	1.6%	0.7%	1.0%
4-7 mg. tar	market share of varieties in tar group	11.2%	10.8%	10.9%	10.8%	11.9%	12.2%	12.9%	12.5%
	% that discloses ratings on pack	30.7%	30.1%	29.3%	28.6%	20.7%	16.2%	16.5%	3.7%
3 mg. tar or less	market share of varieties in tar group	2.1%	2.2%	1.9%	1.7%	1.6%	1.6%	1.3%	1.0%
	% that discloses ratings on pack	91.8%	89.1%	97.2%	97.3%	97.4%	92.3%	92.0%	87.9%

TABLE 8A

DISCLOSURE OF TAR RATINGS
ON CIGARETTE PACKS (2002-2003)

		2002	2003
% of overall market that discloses ratings on the pack		1.3%	1.2%
more than 15 mg. tar	market share of varieties in tar group	15.1%	15.1%
	% that discloses ratings on pack	0.0%	0.0%
12-15 mg. tar	market share of varieties in tar group	28.8%	28.9%
	% that discloses ratings on pack	0.0%	0.0%
8-11 mg. tar	market share of varieties in tar group	42.9%	43.3%
	% that discloses ratings on pack	0.9%	0.8%
4-7 mg. tar	market share of varieties in tar group	12.2%	12.0%
	% that discloses ratings on pack	1.8%	1.5%
3 mg. tar or less	market share of varieties in tar group	1.0%	0.6%
	% that discloses ratings on pack	78.3%	79.8%

APPENDIX A

2003 Advertising and Promotional Expenditure Categories

Newspapers: Newspaper advertising; but excluding expenditures in connection with sampling, specialty item distribution, public entertainment, endorsements, sponsorships, coupons, and retail-value-added.

Magazines: Magazine advertising; but excluding expenditures in connection with sampling, specialty item distribution, public entertainment, endorsements, sponsorships, coupons, and retail-value-added.

Outdoor: Billboards; signs and placards in arenas, stadiums, and shopping malls, whether they are open air or enclosed; and any other advertisements placed outdoors, regardless of their size, including those on cigarette retailer property; but excluding expenditures in connection with sampling, specialty item distribution, public entertainment, endorsements, sponsorships, coupons, and retail-value-added.

Audio-visual: Audio-visual or video advertising on any medium of electronic communication not subject to the Federal Communication Commission's jurisdiction, including screens at motion picture theaters, video cassettes, and monitors in stores; but excluding expenditures in connection with Internet advertising.

Transit: Advertising on or within private or public vehicles and all advertisements placed at, on or within any bus stop, taxi stand, transportation waiting area, train station, airport or any other transportation facility; but excluding expenditures in connection with sampling, specialty item distribution, public entertainment, endorsements, sponsorships, coupons, and retail-value-added.

Point-of-Sale: Point-of-sale advertisements; but excluding expenditures in connection with outdoor advertising, sampling, specialty item distribution, public entertainment, endorsements, sponsorships, coupons, and retail-value-added.

Price discounts: Price discounts paid to cigarette retailers or wholesalers in order to reduce the price of cigarettes to consumers, including off-invoice discounts, buy downs, voluntary price reductions, and trade programs; but excluding retail-value-added expenditures for promotions involving free cigarettes and expenditures involving coupons.

Promotional Allowances – Retail: Promotional allowances paid to cigarette retailers in order to facilitate the sale or placement of any cigarette, including payments for stocking, shelving, displaying and merchandising brands, volume rebates, and incentive payments; but excluding expenditures in connection with newspapers, magazines, outdoor, audio-visual, transit, direct mail, point-of-sale, and price discounts.

Promotional Allowances – Wholesale: Promotional allowances paid to cigarette wholesalers in order to facilitate the sale or placement of any cigarette, including payments for volume rebates, incentive payments, value added services, promotional execution and satisfaction of reporting requirements; but excluding expenditures in connection with newspapers, magazines, outdoor, audio-visual, transit, direct mail, point-of-sale, price discounts, and retail promotional allowances.

Promotional Allowances – Other: Promotional allowances paid to any persons other than retailers, wholesalers, and full-time company employees who are involved in the cigarette distribution and sales process in order to facilitate the sale or placement of any cigarette; but excluding expenditures in connection with newspapers, magazines, outdoor, audio-visual, transit, direct mail, point-of-sale, price discounts, and retail and wholesale promotional allowances.

Sampling: Sampling of cigarettes, including the cost of the cigarettes, all associated excise taxes and increased costs under the Master Settlement Agreement, and the cost of organizing, promoting, and conducting sampling. Sampling includes the distribution of cigarettes for consumer testing or evaluation when consumers are able to smoke the cigarettes outside of a facility operated by the Company, but not the cost of actual clinical testing or market research associated with such cigarette distributions. Sampling also includes the distribution of coupons for free cigarettes, when no purchase or payment is required to obtain the coupons or cigarettes.

Specialty Item Distribution - Branded: All costs of distributing items other than cigarettes (whether the items are sold, redeemed by coupon, or otherwise distributed) that bear the name, logo or depict an image of any portion of the package of a cigarette variety, including the cost of the items distributed but subtracting any payments received for the item. The costs associated with distributing non-cigarette items in connection with sampling or retail-value-added programs are reported in those categories, not as specialty item distribution.

Specialty Item Distribution - Non-Branded: All costs of distributing items other than cigarettes in connection with the marketing or promotion of cigarettes (whether the items are sold, redeemed by coupon, or otherwise distributed), where such items do not bear the name, logo or depict an image of any portion of the package of a cigarette variety, including the cost of the items distributed but subtracting any payments received for the item. The costs associated with distributing non-cigarette items in connection with sampling or retail-value-added programs are reported in those categories, not as specialty item distribution.

Direct Mail: Direct mail advertising; but excluding expenditures in connection with sampling, specialty item distribution, public entertainment, endorsements, sponsorships, coupons, retail-value-added, and Internet advertising.

Public Entertainment – Adult-Only: Public entertainment events bearing or otherwise displaying the name or logo or an image of any portion of the package of any of a company's cigarettes or otherwise referring or relating to cigarettes, which take place in an adult-only facility, including all expenditures made by the company in promoting and/or sponsoring such events.

Public Entertainment – General-Audience: Public entertainment events bearing or otherwise displaying the name or logo or an image of any portion of the package of any of a company's cigarettes or otherwise referring or relating to cigarettes, which do not take place in an adult-only facility, including all expenditures made by the company in promoting and/or sponsoring such events.

Retail-Value-Added – Bonus Cigarettes: Retail-value-added expenditures for promotions involving free cigarettes (*e.g.*, buy two packs, get one free), whether or not the free cigarettes are physically bundled together with the purchased cigarettes, including all expenditures and costs associated with the value added to the purchase of cigarettes (*e.g.*, excise taxes paid for the free cigarettes and increased costs under the Master Settlement Agreement).

Retail-Value-Added – Non-Cigarette Bonus: Retail-value-added expenditures for promotions involving free non-cigarettes items (*e.g.*, buy two packs, get a cigarette lighter), including all expenditures and costs associated with the value added to the purchase of cigarettes.

Coupons: All costs associated with coupons for the reduction of the retail cost of cigarettes, whether redeemed at the point-of-sale or by mail, including all costs associated with advertising or promotion, design, printing, distribution and redemption. However, when coupons are distributed for free cigarettes and no purchase or payment is required to obtain the coupons or the cigarettes, these activities are considered to be sampling and not couponing.

Sponsorships: Sponsorships of sports teams or individual athletes, but excluding endorsements.

Endorsements & Testimonials: Endorsements and testimonials.

Company Website: All expenditures associated with advertising on any company Internet website.

Internet – Other: Internet advertising other than on the Company's own Internet website, including on the World Wide Web, on commercial on-line services, and through electronic mail messages.

Telephone: Telephone advertising, including costs associated with the placement of telemarketing calls or the operation of incoming telephone lines that allow consumers to participate in any promotion or hear pre-recorded product messages; but excluding costs associated with having customer service representatives available for responding to consumer complaints or questions.

All Other: Advertising and promotional expenditures not covered by another category.