

NATIONAL ASSOCIATION OF ATTORNEYS GENERAL
750 FIRST STREET NE SUITE 1100
WASHINGTON, DC 20002
(202) 326-6014
(202) 408-8064
<http://www.naag.org>

CHRISTINE T. MILLIKEN
*Executive Director
General Counsel*

August 15, 2000

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Independent Auditor to the Master Settlement Agreement
PricewaterhouseCoopers, LLP
1177 Avenue of the Americas
New York, NY 10036
ATTN: Dan Kritzman

Re: 2nd Revised Final Calculation for the Tobacco Litigation Master Settlement Agreement
Subsection IX(c)(1) Account Payment Due on April 15, 2000

Dear Mr. Kritzman:

The undersigned Attorneys General are writing on behalf of their respective Settling States in response to your July 31, 2000, 2nd Revised Final Calculation for the Tobacco Litigation Master Settlement Agreement Subsection IX(c)(1) Account Payment Due on April 15, 2000 (hereinafter the "2nd Revised Calculation"). This is to advise you and the other Notice Parties that in accordance with subsection XI(i)(1)(A) of the Tobacco Litigation Master Settlement Agreement ("MSA") the undersigned Settling States dispute, in certain respects, both the methodology and information used in preparing the 2nd Revised Calculation.

As a preliminary matter, we believe that the dispute and payment deadlines given in the 2nd Revised Calculation are incorrect. We agree that subsection XI(i)(1)(A) is the applicable provision in the present circumstances.

Subsection XI(i)(1)(A) provides, in relevant part:

... The Independent Auditor shall promptly give notice of the additional payment owed by the Participating Manufacturer in question (as reduced and/or increased as described above) to all Notice Parties, showing the new information and all calculations. Upon receipt of such notice, any Participating Manufacturer or Settling State may dispute the Independent Auditor's calculations in the manner prescribed in subsection (d)(3), and the Independent Auditor shall promptly notify each Notice Party of any subsequent

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revisions to its calculations. Not more than 15 days after receipt of such notice (or, if the Independent Auditor revises its calculations, not more than 15 days after receipt of the revisions), any Participating Manufacturer and any Settling State may dispute the Independent Auditor's calculations in the manner prescribed in subsection (d)(6). . . . Payment of the undisputed portion of an additional payment shall be made to the Escrow Agent not more than 20 days after receipt of the notice described in this subsection (A) (or, if the Independent Auditor revises its calculations, not more than 20 days after receipt of the revisions.) . . .

There appear to be two competing constructions of this language. One is that when the Independent Auditor issues notice of an additional payment owed, the Participating Manufacturers and Settling States have 15 days from the date of the notice to dispute the calculation, and, provided there is no recalculation, payment is due 20 days from the date of the notice. That construction, however, appears to ignore the distinct references to subsection (d)(3) and (d)(6).¹

In light of those references, the undersigned Settling States believe that the correct interpretation of subsection XI(i)(1)(A) is that it requires two notices (preliminary and final) with two opportunities to dispute, the first dispute to be submitted as prescribed in subsection (d)(3) and the second dispute to be submitted as prescribed in subsection (d)(6). More specifically, where, as here, there is a notice of recalculation showing that an additional payment is due, section XI(i)(1)(A) requires that the Independent Auditor: (1) issue a (preliminary) notice of recalculation, (2) give the Participating Manufacturers and Settling States 10 days to dispute the notice², (3) set the payment due date at least 40 days from the date of the notice so that the Participating Manufacturers and Settling States have until not less than 30 days prior to the payment due date to file their dispute, as contemplated in subsection (d)(3), (4) issue a (final) notice of recalculation that sets the payment due date 20 days from the date of the (final) notice, and (5) give the Participating Manufacturers and Settling States up to 15 days after the date of the (final) notice of recalculation (5 days prior to the payment due date) to dispute the notice.

In light of the above, we request that, following August 15, which we believe to be the proper deadline for filing disputes of the July 31 notice of additional payments due, you: 1) issue a final notice of additional payments due, 2) set the payment due date 20 days after the date of the final notice, and 3) give the Notice Parties 15 days from the date of the notice to dispute the calculation.

The undersigned Settling States dispute the 2nd Revised Calculation based on the data limitations referenced in our March 16, 2000, and April 10, 2000, letters concerning the Preliminary and Final

¹ Assuming, however, that this is the interpretation that you have adopted, the dispute deadline in this case would be 15 days from the July 31 notice, i.e., August 15, not "before August 14" as stated in the 2nd Revised Calculation. The payment due date would be 20 days from the July 31 notice, i.e., August 20, not August 18 as stated in the 2nd Revised Calculation.

² The MSA generally gives Notice Parties at least 10 days from receipt of notice of a calculation to file their dispute. See subsections XI(d)(2) and (3) (10-day timeframe for disputing the Independent Auditor's Preliminary Calculation of a payment) and XI(d)(4) and (6) (10-day timeframe for disputing the Independent Auditor's Final Calculation of a payment). There is nothing in subsection XI(i)(1)(A) to suggest that a shorter dispute period should apply in this context.

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Calculation for the April 15, 2000, Subsection IX(c)(1) payments. We also dispute the application of an NPM Adjustment in this payment cycle for all of the reasons referenced in our March 16 and April 10 letters.

In addition, we believe that there is an error in Attachment 12, footnote (b), relating to Brown & Williamson Tobacco Corporation's 1997 "US" volume. The "US" volume given for Brown & Williamson in footnote (b) (the last row, first column of numbers in Attachment 12) (76,836,954,420) differs from the "US" volume given for Brown & Williamson in the first row and column of numbers in Attachment 12 (76,721,459,980). Footnote (b) shows the results of the calculation to convert the roll-your-own volumes of each Participating Manufacturer using the 0.0325 conversion factor. That conversion should not have affected Brown & Williamson's "US" volume (the first column of numbers in Attachment 12). It should only have affected Brown and Williamson's "Rolled" volume (the fourth column of numbers). The same problem exists for Brown and Williamson's "1997 Puerto Rico" volume as well. This error, of course, affects all calculations that use the 0.0325 converted data.

Finally, we would like to alert you that the reference to subsection IX(h) only, and not subsection XI(i)(1)(A) as well, in the discussion of interest payment calculations on page 2 of the 2nd Revised Calculation caused confusion. The discussion left the impression that you applied an interest rate of Prime plus 3 to all Participating Manufacturers that were directed to make additional payments.

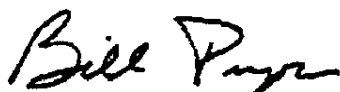
We understand subsection IX(h) to require that an interest rate of Prime plus 3 be applied when a Participating Manufacturer fails to make a payment when due under the MSA. Accordingly, House of Prince and PT Djarum, which made late payments, should pay this "penalty" rate of Prime plus 3. We understand subsection XI(i)(1)(A) to require that the "penalty" interest rate be applied to an additional payment due by a Participating Manufacturer, when the calculation resulting in the additional payment becoming due is the result of an underpayment caused by such Participating Manufacturer's withholding information needed to calculate the applicable payment. Thus, Dhanraj should be required to pay the "penalty" rate by virtue of both subsection IX(h) and XI(i)(1)(A). We understand that under section IX(i)(1)(A), the remaining Participating Manufacturers, that have additional payment obligations because Dhanraj supplied late information, are obligated to pay interest only at the Prime rate.

While it appears in the attachments to the 2nd Revised Calculation that you have correctly applied these interest rate provisions, your explication on page 2 of the 2nd Revised Calculation did not clearly reflect that. We suggest that the explication be modified in future notices to clarify the interest rate being applied to each affected Participating Manufacturer.

Sincerely,

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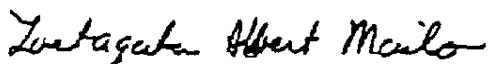
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Bill Pryor
Attorney General of Alabama



Bruce M. Botelho
Attorney General of Alaska




Tōetagata Albert Mailo
Attorney General of American Samoa



Janet Napolitano
Attorney General of Arizona



Mark Pryor
Attorney General of Arkansas



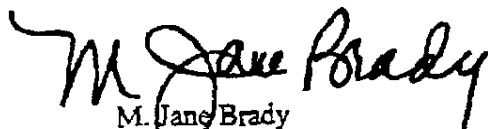
Bill Lockyer
Attorney General of California



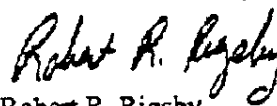
Ken Salazar
Attorney General of Colorado



Richard Blumenthal
Attorney General of Connecticut



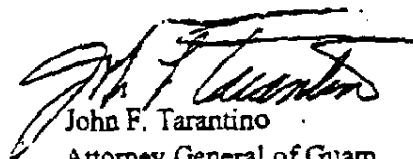
M. Jane Brady
Attorney General of Delaware



Robert R. Rigsby
Corporation Counsel of D.C.



Thurbert E. Baker
Attorney General of Georgia



John F. Tarantino
Attorney General of Guam

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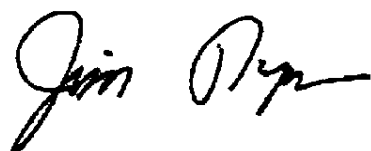
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Earl Anzi
Attorney General of Hawaii



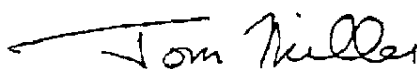
Alan G. Lance
Attorney General of Idaho



Jim Ryan
Attorney General of Illinois



Karen Freeman-Wilson
Attorney General of Indiana



Tom Miller
Attorney General of Iowa



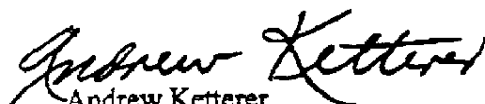
Carla J. Stovall -
Attorney General of Kansas



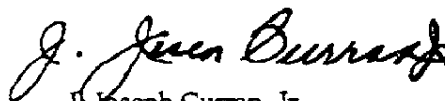
A.B. "Ben" Chandler III
Attorney General of Kentucky



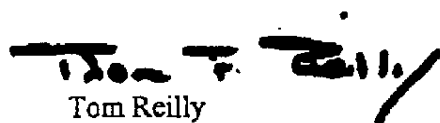
Richard P. Ieyoub
Attorney General of Louisiana



Andrew Ketterer
Attorney General of Maine



J. Joseph Curran, Jr.
Attorney General of Maryland



Tom Reilly
Attorney General of Massachusetts



Jennifer Granholm
Attorney General of Michigan

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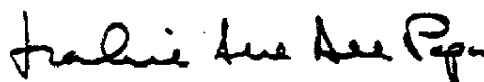
Jeremiah W. Nixon
Attorney General of Missouri



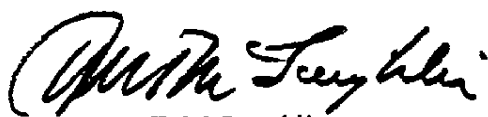
Joseph P. Mazurek
Attorney General of Montana



Don Stenberg
Attorney General of Nebraska



Frankie Sue Del Papa
Attorney General of Nevada



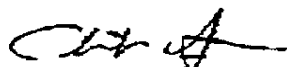
Philip T. McLaughlin
Attorney General of New Hampshire



John J. Farmer, Jr.
Attorney General of New Jersey



Patricia Madrid
Attorney General of New Mexico



Eliot Spitzer
Attorney General of New York



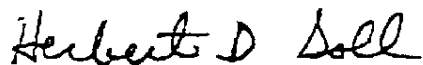
Michael F. Easley
Attorney General of North Carolina



Heidi Heitkamp
Attorney General of North Dakota

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Herbert D. Soll
Attorney General of N. Mariana Isl.



Betty D. Montgomery
Attorney General of Ohio



W. A. Drew Edmondson
Attorney General of Oklahoma



Hardy Myers
Attorney General of Oregon



D. Michael Fisher
Attorney General of Pennsylvania



Angel E. Rotger Sabat
Attorney General of Puerto Rico



Sheldon Whitehouse
Attorney General of Rhode Island



Charlie Condon
Attorney General of South Carolina



Mark Barnett
Attorney General of South Dakota



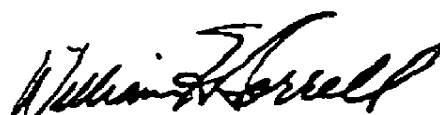
Paul Summers
Attorney General of Tennessee

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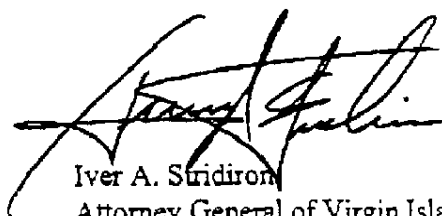
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Jan Graham
Attorney General of Utah




William H. Sorrell
Attorney General of Vermont



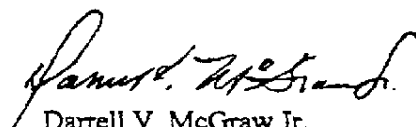
Iver A. Stridiron
Attorney General of Virgin Islands



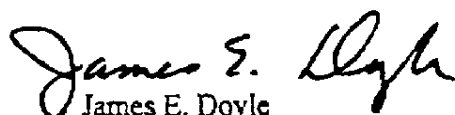
Mark L. Earley
Attorney General of Virginia



Christine O. Gregoire
Attorney General of Washington



Darrell V. McGraw Jr.
Attorney General of West Virginia



James E. Doyle
Attorney General of Wisconsin



Gay Woodhouse
Attorney General of Wyoming

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