

# ALTRIA GROUP INC

## FORM 10-Q (Quarterly Report)

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Industry	Tobacco
Sector	Consumer/Non-Cyclical
Fiscal Year	12/31

**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2000

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 1-8940*

**Philip Morris Companies Inc.**

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(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.)
120 Park Avenue, New York, New York	10017
-----	-----
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (917) 663-5000

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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, and (2) has been subject to such filing requirements for the past 90 days. Yes  No

At April 28, 2000, there were 2,286,689,182 shares outstanding of the registrant's common stock, par value \$0.33 1/3 per share.

PHILIP MORRIS COMPANIES INC.

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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

Philip Morris Companies Inc. and Subsidiaries Condensed Consolidated Balance Sheets

(in millions of dollars)

(Unaudited)

	March 31, 2000	December 31, 1999
	-----	-----
ASSETS		
Consumer products		
Cash and cash equivalents	\$ 4,226	\$ 5,100
Receivables, net	4,621	4,313
Inventories:		
Leaf tobacco	4,121	4,294
Other raw materials	1,742	1,794
Finished product	2,823	2,940
	-----	-----
	8,686	9,028
Other current assets	2,470	2,454
	-----	-----
Total current assets	20,003	20,895
Property, plant and equipment, at cost	21,793	21,599
Less accumulated depreciation	9,412	9,328
	-----	-----
	12,381	12,271
Goodwill and other intangible assets (less accumulated amortization of \$5,933 and \$5,840)	16,910	16,879
Other assets	3,620	3,625
	-----	-----
Total consumer products assets	52,914	53,670
Financial services		
Finance assets, net	7,563	7,527
Other assets	170	184
	-----	-----
Total financial services assets	7,733	7,711
	-----	-----
TOTAL ASSETS	\$60,647	\$61,381
	=====	=====

See notes to condensed consolidated financial statements.

**Continued**

## Philip Morris Companies Inc. and Subsidiaries Condensed Consolidated Balance Sheets (Continued)

(in millions of dollars)

(Unaudited)

	March 31, 2000	December 31, 1999
	-----	-----
LIABILITIES		
Consumer products		
Short-term borrowings	\$ 248	\$ 641
Current portion of long-term debt	637	1,601
Accounts payable	2,493	3,351
Accrued marketing	2,755	2,756
Accrued taxes, except income taxes	1,514	1,519
Accrued settlement charges	3,446	2,320
Other accrued liabilities	3,287	3,577
Income taxes	1,952	1,124
Dividends payable	1,108	1,128
	-----	-----
Total current liabilities	17,440	18,017
Long-term debt	10,828	11,280
Deferred income taxes	1,284	1,214
Accrued postretirement health care costs	2,673	2,606
Other liabilities	6,772	6,853
	-----	-----
Total consumer products liabilities	38,997	39,970
Financial services		
Short-term borrowings	452	
Long-term debt	929	946
Deferred income taxes	4,446	4,466
Other liabilities	708	694
	-----	-----
Total financial services liabilities	6,535	6,106
	-----	-----
Total liabilities	45,532	46,076
Contingencies (Note 4)		
STOCKHOLDERS' EQUITY		
Common stock, par value \$0.33 1/3 per share (2,805,961,317 shares issued)	935	935
Earnings reinvested in the business	30,378	29,556
Accumulated other comprehensive losses (including currency translation of \$2,250 and \$2,056)	(2,302)	(2,108)
	-----	-----
	29,011	28,383
Less cost of repurchased stock (508,992,947 and 467,441,576 shares)	(13,896)	(13,078)
	-----	-----
Total stockholders' equity	15,115	15,305
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 60,647	\$ 61,381
	=====	=====

See notes to condensed consolidated financial statements.

## Philip Morris Companies Inc. and Subsidiaries Condensed Consolidated Statements of Earnings

(in millions of dollars, except per share data)

(Unaudited)

	For the Three Months Ended March 31,	
	2000	1999
	-----	-----
Operating revenues	\$20,040	\$19,497
Cost of sales	7,303	7,260
Excise taxes on products	4,450	4,363
	-----	-----
Gross profit	8,287	7,874
Marketing, administration and research costs	4,663	4,566
Amortization of goodwill	146	147
	-----	-----
Operating income	3,478	3,161
Interest and other debt expense, net	185	206
	-----	-----
Earnings before income taxes	3,293	2,955
Provision for income taxes	1,284	1,168
	-----	-----
Net earnings	\$ 2,009	\$ 1,787
	=====	=====
Per share data:		
Basic earnings per share	\$ 0.87	\$ 0.74
	=====	=====
Diluted earnings per share	\$ 0.87	\$ 0.73
	=====	=====
Dividends declared	\$ 0.48	\$ 0.44
	=====	=====

See notes to condensed consolidated financial statements.

Philip Morris Companies Inc. and Subsidiaries Condensed Consolidated Statements of Stockholders' Equity for the Year Ended December 31, 1999 and the Three Months Ended March 31, 2000

(in millions of dollars, except per share data)

(Unaudited)

	Common Stock	Earnings Reinvested in the Business	Accumulated Other Comprehensive Losses			Cost of Repurchased Stock	Total Stock- holders' Equity
			Currency Translation Adjustments	Other	Total		
Balances, January 1, 1999	\$ 935	\$ 26,261	\$ (1,081)	\$ (25)	\$ (1,106)	\$ (9,893)	\$ 16,197
Comprehensive earnings:							
Net earnings		7,675					7,675
Other comprehensive losses, net of income taxes:							
Currency translation adjustments			(975)		(975)		(975)
Additional minimum pension liability				(27)	(27)		(27)
Total other comprehensive losses							(1,002)
Total comprehensive earnings							6,673
Exercise of stock options and issuance of other stock awards		13				115	128
Cash dividends declared (\$1.84 per share)		(4,393)					(4,393)
Stock repurchased						(3,300)	(3,300)
Balances, December 31, 1999	935	29,556	(2,056)	(52)	(2,108)	(13,078)	15,305
Comprehensive earnings:							
Net earnings		2,009					2,009
Other comprehensive losses, net of income taxes:							
Currency translation adjustments			(194)		(194)		(194)
Total other comprehensive losses							(194)
Total comprehensive earnings							1,815
Exercise of stock options and issuance of other stock awards		(82)				103	21
Cash dividends declared (\$0.48 per share)		(1,105)					(1,105)
Stock repurchased						(921)	(921)
Balances, March 31, 2000	\$ 935	\$ 30,378	\$ (2,250)	\$ (52)	\$ (2,302)	\$ (13,896)	\$ 15,115

Total comprehensive earnings were \$1,312 million in the first quarter of 1999, which represents net earnings, partially offset by currency translation adjustments.

See notes to condensed consolidated financial statements.

## Philip Morris Companies Inc. and Subsidiaries Condensed Consolidated Statements of Cash Flows

(in millions of dollars)

(Unaudited)

	For the Three Months Ended March 31,	
	2000	1999
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net earnings - Consumer products	\$ 1,972	\$ 1,756
- Financial services	37	31
	-----	-----
Net earnings	2,009	1,787
Adjustments to reconcile net earnings to operating cash flows:		
Consumer products		
Depreciation and amortization	428	403
Deferred income tax provision	27	79
Gain on sale of a business	(28)	
Cash effects of changes, net of the effects from acquired and divested companies:		
Receivables, net	(399)	(407)
Inventories	281	(332)
Accounts payable	(841)	(803)
Income taxes	845	607
Accrued liabilities and other current assets	866	432
Other	40	110
Financial services		
Deferred income tax benefit	(20)	(26)
Other	135	103
	-----	-----
Net cash provided by operating activities	3,343	1,953
	-----	-----
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Consumer products		
Capital expenditures	(305)	(323)
Purchases of businesses, net of acquired cash	(358)	(52)
Proceeds from sale of a business	32	2
Other	15	37
Financial services		
Investments in finance assets	(142)	(99)
Proceeds from finance assets	7	10
	-----	-----
Net cash used in investing activities	(751)	(425)
	-----	-----

See notes to condensed consolidated financial statements.

Continued

## Philip Morris Companies Inc. and Subsidiaries Condensed Consolidated Statements of Cash Flows (Continued)

(in millions of dollars)

(Unaudited)

	For the Three Months Ended March 31,	
	2000	1999
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Consumer products		
Net (repayment) issuance of short-term borrowings	\$ (461)	\$ 31
Long-term debt proceeds	12	15
Long-term debt repaid	(1,332)	(776)
Financial services		
Net issuance of short-term borrowings	452	
Repurchase of common stock	(916)	(613)
Dividends paid	(1,125)	(1,070)
Issuance of common stock	5	38
Other	7	12
	-----	-----
Net cash used in financing activities	(3,358)	(2,363)
	-----	-----
Effect of exchange rate changes on cash and cash equivalents	(108)	(52)
	-----	-----
Cash and cash equivalents:		
Decrease	(874)	(887)
Balance at beginning of period	5,100	4,081
	-----	-----
Balance at end of period	\$ 4,226	\$ 3,194
	=====	=====

See notes to condensed consolidated financial statements.

(Unaudited)

**Note 1. Accounting Policies:**

The interim condensed consolidated financial statements of Philip Morris Companies Inc. (the "Company") are unaudited. It is the opinion of the Company'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. For interim reporting purposes, certain expenses are charged to results of operations as a percentage of sales. Operating 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 the Company's Annual Report to Stockholders and which are incorporated by reference into the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (the "1999 Form 10-K").

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

**Note 2. Earnings Per Share:**

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

	For the Three Months Ended March 31,	
	2000	1999
	(in millions)	
Net earnings	\$2,009 =====	\$1,787 =====
Weighted average shares for basic EPS	2,315	2,424
Plus incremental shares from conversions:		
Restricted stock and stock rights	2	2
Stock options	1 -----	13 -----
Weighted average shares for diluted EPS	2,318 =====	2,439 =====

For the first quarter of 2000, options on 119.4 million shares of common stock were excluded from the calculation of weighted average shares for diluted EPS because their effects were antidilutive. The number of shares excluded from the 1999 calculation was not material.

**Note 3. Segment Reporting:**

The Company's products include cigarettes, food (consisting principally of coffee, cheese, chocolate confections, processed meat products and various packaged grocery products) and beer. A subsidiary of the Company, Philip Morris Capital Corporation, invests in leveraged and direct finance leases, other tax-oriented financing transactions and third-party financings. These products and services constitute the Company's reportable segments of domestic tobacco, international tobacco, North American food, international food, beer and financial services.

(Unaudited)

The Company's management reviews operating companies income to evaluate segment performance and allocate resources. Operating companies income for the reportable segments excludes general corporate expenses, minority interest and amortization of goodwill. Interest and other debt expense, net (consumer products) and provision for income taxes are centrally managed at the corporate level and accordingly, such items are not presented by segment since they are excluded from the measure of segment profitability reviewed by the Company's management. Goodwill and amortization of goodwill are principally attributable to the North American food segment.

Reportable segment data were as follows:

	For the Three Months Ended March 31,	
	2000	1999
Operating revenues:	(in millions)	
Domestic tobacco	\$ 5,446	\$ 4,460
International tobacco	6,998	7,340
North American food	4,455	4,396
International food	2,005	2,242
Beer	1,044	986
Financial services	92	73
Total operating revenues	\$ 20,040	\$ 19,497
Operating companies income:		
Domestic tobacco	\$ 1,116	\$ 918
International tobacco	1,431	1,431
North American food	867	685
International food	246	246
Beer	153	136
Financial services	58	50
Total operating companies income	3,871	3,466
Amortization of goodwill	(146)	(147)
General corporate expenses	(215)	(124)
Minority interest	(32)	(34)
Total operating income	3,478	3,161
Interest and other debt expense, net	(185)	(206)
Total earnings before income taxes	\$ 3,293	\$ 2,955

General corporate expenses of \$215 million for the first quarter of 2000 increased \$91 million (73.4%) over the comparable period of 1999, due primarily to increased spending for the Company's corporate image campaign.

During the first quarter of 1999, Philip Morris Incorporated ("PM Inc."), the Company's domestic tobacco operation, announced plans to phase out cigarette production capacity at its Louisville, Kentucky manufacturing plant by August 2000 (the "Louisville Closure"). The Louisville Closure is occurring in stages, as cigarette production is shifted to other PM Inc. manufacturing facilities in the United States. As a result, PM Inc. recorded pre-tax charges of \$130 million during the first quarter of 1999. These charges, which are in marketing, administration and research costs in the consolidated statement of earnings, included severance benefits and enhanced pension and postretirement benefits in accordance with the terms of the underlying plans for approximately 1,500 hourly and salaried employees. Severance benefits, which can either be paid in a lump sum

(Unaudited)

or as income protection payments over a period of time, commence upon termination of employment. Payments of enhanced pension and postretirement benefits are made over the remaining lives of the former employees in accordance with the terms of the related benefit plans. All operating costs of the manufacturing plant, including increased depreciation, are charged to expense as incurred during the closing period.

During the first quarter of 1999, Kraft Foods, Inc. ("Kraft") announced that it was offering voluntary retirement incentive or separation programs to certain eligible hourly and salaried employees in the United States (the "Kraft Separation Programs"). Employees electing to terminate employment under the terms of the Kraft Separation Programs were entitled to enhanced retirement or severance benefits. Approximately 1,100 hourly and salaried employees accepted the benefits offered by these programs and elected to retire or terminate. As a result, Kraft recorded a pre-tax charge of \$157 million during the first quarter of 1999. This charge was included in marketing, administration and research costs in the consolidated statement of earnings and in the North American food segment. Payments of pension and postretirement benefits are made in accordance with the terms of the applicable benefit plans. Severance benefits, which are paid over a period of time, commenced upon dates of termination that ranged from April 1999 to March 2000. Salary and related benefit costs of employees prior to the retirement or termination date were expensed as incurred.

#### **Note 4. Contingencies:**

Legal proceedings covering a wide range of matters are pending or threatened in various United States and foreign jurisdictions against the Company, its subsidiaries and affiliates, including PM Inc., and Philip Morris International Inc. ("PMI"), the Company's international tobacco subsidiary, and their respective indemnitees. Various types of claims are raised in these proceedings, including product liability, consumer protection, antitrust, tax, patent infringement, employment matters, claims for contribution and claims of competitors and distributors.

#### **Overview of Tobacco-Related Litigation**

##### **Types and Number of Cases**

Pending 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 and purporting to be brought on behalf of a class of individual plaintiffs, (iii) health care cost recovery cases brought by governmental (both domestic and foreign) and non-governmental plaintiffs seeking reimbursement for health care expenditures allegedly caused by cigarette smoking and/or disgorgement of profits, and (iv) other tobacco-related litigation, including suits by former asbestos manufacturers seeking contribution or reimbursement for amounts expended in connection with the defense and payment of asbestos claims that were allegedly caused in whole or in part by cigarette smoking. Damages claimed in some of the smoking and health class actions, health care cost recovery cases and other tobacco-related litigation range into the billions of dollars. Plaintiffs' theories of recovery and the defenses raised in the smoking and health and health care cost recovery cases are discussed below. Exhibit 99.1 hereto lists the smoking and health class actions, health care cost recovery cases and certain other actions pending as of May 1, 2000, and discusses certain developments in such cases since February 15, 2000.

As of May 1, 2000, there were approximately 390 smoking and health cases filed and served on behalf of individual plaintiffs in the United States against PM Inc. and, in some cases, the Company, compared with approximately 485 such cases on May 1, 1999, and approximately 410 such cases on May 1, 1998. Approximately 11 of the individual cases involve allegations of various personal injuries allegedly related to exposure to environmental tobacco smoke ("ETS"). In addition, approximately 625 additional individual cases have been filed in Florida by current and former flight attendants claiming personal injuries allegedly related to ETS. The flight attendants were members of an ETS smoking and health class action which was settled in 1997. The terms of the court-approved settlement in that case allow class members to file individual lawsuits seeking compensatory damages, but prohibit them from seeking punitive damages.

As of May 1, 2000, there were approximately 40 smoking and health putative class actions pending in the United States against PM Inc. and, in some cases, the Company (including eight that involve allegations of various personal injuries related to exposure to ETS), compared with approximately 60 such cases on May 1, 1999, and approximately 55 such cases on May 1, 1998. Many of these actions purport to constitute statewide class actions and were filed after May 1996 when the United States Court of Appeals for the Fifth Circuit, in the Castano case, reversed a federal district court's

certification of a purported nationwide class action on behalf of persons who were allegedly "addicted" to tobacco products.

As of May 1, 2000, there were approximately 50 health care cost recovery actions pending in the United States (excluding the cases covered by the 1998 Master Settlement Agreement discussed below), compared with approximately 100 health care cost recovery cases pending on May 1, 1999, and 120 cases on May 1, 1998.

There are also a number of tobacco-related actions pending outside the United States against PMI and its affiliates and subsidiaries, including approximately 50 smoking and health cases initiated by one or more individuals (Argentina (38), Brazil (4), Canada (1), Germany (3), Hong Kong (1), Ireland (1), Japan (1), the Philippines (1), Poland (1), and Spain (1)), compared with approximately 35 such cases on May 1, 1999. In addition, there are 10 smoking and health putative class actions pending outside the United States (Australia (2), Brazil (3), Canada (3), Israel (1) and Nigeria (1)), compared with seven on May 1, 1999. In addition, during the past two years, health care cost recovery actions have been brought in Israel, the Marshall Islands, British Columbia, Canada and France (by a local agency of the French social security health insurance system) and, in the United States, by Bolivia, Ecuador, Guatemala (dismissed, as discussed below), Nicaragua (dismissed, as discussed below), Province of Ontario, Canada, Panama, Thailand (voluntarily dismissed), Ukraine (dismissed), as discussed below, Venezuela and the States of Espirito Santo, Goias, Rio de Janeiro and Sao Paulo, Brazil.

### **Federal Government's Lawsuit**

In September 1999, the U.S. government filed a lawsuit in the U.S. District Court for the District of Columbia against various cigarette manufacturers and others, including the Company and PM Inc., asserting claims under three federal statutes, the Medical Care Recovery Act, the Medicare Secondary Payer provisions of the Social Security Act, and the Racketeer Influenced and Corrupt Organizations Act ("RICO"). The lawsuit seeks 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 alleges that such costs total more than \$20 billion annually. It also seeks various types of equitable and declaratory relief, including disgorgement, an injunction prohibiting certain actions by the defendants, and a declaration that the defendants are liable for the federal government's future costs of providing health care resulting from defendants' alleged past tortious and wrongful conduct. The Company and PM Inc. have filed a motion to dismiss this lawsuit on numerous grounds, including that the statutes invoked by the government do not provide a basis for the relief sought. Oral argument on the motion to dismiss is scheduled for June 2000. The Company and PM Inc. believe that they have a number of valid defenses to the lawsuit and will vigorously defend it.

### **Industry Trial Results**

There have been several jury verdicts in tobacco-related litigation during the past three years. On April 7, 2000, the jury in the Engle smoking and health class action pending in Florida against PM Inc. and several other cigarette manufacturers awarded a total of \$12.7 million in compensatory damages to the three named plaintiffs. PM Inc. has requested that the court dismiss the award to one of the plaintiffs because of the jury's findings on a statute of limitations question. The same jury, in July 1999, returned a verdict against PM Inc. and the other defendants in an earlier phase of the trial, which concerned certain issues determined by the trial court to be "common" to the purported causes of action of the plaintiff class (see "Engle Trial,"

below, for a more detailed discussion of these verdicts and certain other developments in this case).

In March 2000, a jury in California awarded a former smoker with lung cancer \$1.72 million in compensatory damages against PM Inc. and another cigarette manufacturer and \$10 million in punitive damages against PM Inc. as well as an additional \$10 million against the other defendant. PM Inc. has filed post-trial motions with the trial court to challenge the verdict and damage awards. In July 1999, a Louisiana jury returned a verdict in favor of defendants in an individual smoking and health case against other cigarette manufacturers. In June 1999, a Mississippi jury returned a verdict in favor of defendants, including PM Inc., in an action brought on behalf of an individual who died allegedly as a result of exposure to ETS. In May 1999, a Missouri jury returned a verdict in favor of defendant in an individual smoking and health case against another cigarette manufacturer. Also in May 1999, a Tennessee jury returned a verdict in favor of defendants, including PM Inc., in two of three individual smoking and health cases consolidated for trial. In the third case (not involving PM Inc.), the jury found liability against defendants and apportioned fault equally between plaintiff and defendants. Under Tennessee's system of modified comparative fault, because the jury found plaintiff's fault equal to that of defendants, recovery was not permitted.

In March 1999, an Oregon jury awarded the estate of a deceased smoker \$800,000 in actual damages, \$21,500 in medical expenses and \$79.5 million in punitive damages against PM Inc. In February 1999, a California jury awarded a former smoker \$1.5 million in compensatory damages and \$50 million in punitive damages against PM Inc. The punitive damage awards in the Oregon and California actions have been reduced to \$32 million and \$25 million, respectively. PM Inc. is appealing the verdicts and the damage awards in these cases.

In March 1999, a jury returned a verdict in favor of defendants, including PM Inc., in a union health care cost recovery action brought on behalf of approximately 114 employer-employee trust funds in Ohio.

Previously, juries had returned verdicts for defendants in three individual smoking and health cases and in one individual ETS smoking and health case. In January 1999, a Florida court set aside a jury award totaling approximately \$1 million in an individual smoking and health case against another United States cigarette manufacturer and ordered a new trial in the case. In June 1998, a Florida appeals court reversed a \$750,000 jury verdict awarded in August 1996 against another United States cigarette manufacturer, and the Florida Supreme Court has heard oral arguments on this ruling. In 1997, in an action brought on behalf of a deceased smoker, a court in Brazil awarded the Brazilian currency equivalent of \$81,000, attorneys' fees and a monthly annuity for 35 years equal to two-thirds of the deceased smoker's last monthly salary. In March 1999, an appeals court reversed the trial court's award and dismissed the case. Neither the Company nor its affiliates were parties to that action.

In December 1999, a French court, in an action brought on behalf of a deceased smoker, found that another cigarette manufacturer had a duty to warn him about risks associated with smoking prior to 1976, when the French government required warning labels on cigarette packs, and failed to do so.

The court did not determine causation or liability, which shall be considered in future proceedings. Neither the Company nor its affiliates are parties to this action.

## **Engle Trial**

Trial in this Florida smoking and health class action case began in July 1998. The plaintiff class seeks compensatory and punitive damages, each in excess of \$100 billion, as well as attorneys' fees and court costs. The class consists of all Florida residents and citizens, and their survivors, "who have suffered, presently suffer or have died from diseases and medical conditions caused by their addiction to cigarettes that contain nicotine."

In July 1999, the jury returned a verdict against defendants in Phase One of the three-phase trial plan. The Phase One verdict concerned certain issues determined by the trial court to be "common" to the causes of action of the plaintiff class. Among other things, the jury found that smoking cigarettes causes 20 diseases or medical conditions, that cigarettes are addictive or dependence-producing, defective and unreasonably dangerous, that defendants made materially false statements with the intention of misleading smokers, that defendants concealed or omitted material information concerning the health effects and/or the addictive nature of smoking cigarettes and agreed to misrepresent and conceal the health effects and/or the addictive nature of smoking cigarettes, and that defendants were negligent and engaged in extreme and outrageous conduct or acted with reckless disregard with the intent to inflict emotional distress. The jury also found that defendants' conduct "rose to a level that would permit a potential award or entitlement to punitive damages."

Liability and damages in relation to any individual class member were not decided in Phase One. Phase Two of the trial commenced on November 1, 1999. During this phase, the claims of three of the named plaintiffs were adjudicated in a consolidated trial before the same jury that returned the verdict in Phase One. On April 7, 2000, the jury awarded \$12.7 million in compensatory damages to the three named plaintiffs, although PM Inc. has requested that the court dismiss the award to one of the plaintiffs because of the jury's findings on a statute of limitations question. That plaintiff had been awarded approximately \$5.8 million of the total \$12.7 million in compensatory damages. As discussed below, the trial plan provides that the same jury next determine punitive damages, if any, on a lump sum basis for the entire class. This punitive damages portion of the trial is currently scheduled to begin May 15, 2000.

Following the completion of Phase Two, Phase Three of the trial plan will address other class members' claims, including issues of specific causation, reliance, affirmative defenses and other individual-specific issues regarding entitlement to damages, in individual trials before separate juries.

By order dated July 30, 1999, and supplemented on August 2, 1999 (together, the "order"), the trial judge amended the trial plan in respect of the manner of determining punitive damages, if any. The order provides that the jury in Phase Two will determine punitive damages, if any, on a dollar-amount basis for the entire qualified class. By order of September 3, 1999, the Third District Court of Appeal quashed the July 30, 1999 and August 2, 1999 orders of the trial judge and stated that both compensatory and punitive damages must be tried on an individual as opposed to class-wide basis. On September 17, 1999, the Third District Court of Appeal, on its own motion, vacated its September 3 order, and, on October 20, 1999, ruled that defendants could not challenge the trial plan for determining punitive damages at this stage of the proceedings; the ruling expressly declined to

address the merits of whether a class-wide determination of punitive damages is permissible but deferred the court's review of that issue for any appropriate subsequent appeal. Defendants sought review by the Florida Supreme Court of the Third District Court of Appeal's ruling. In December 1999, the Florida Supreme Court denied defendants' petition for review, noting that it did so without prejudicing defendants' rights to raise the same issues in subsequent appeals. In March 2000, at the request of the Florida legislature, the Attorney General of Florida issued an advisory legal opinion No. AGO 2000-21 stating that, "Florida law is clear that compensatory damages must be determined prior to any award of punitive damages" in cases such as Engle.

It is unclear how the trial court's order will be implemented. The order provides that the punitive damage amount, if any, should be standard as to each class member and acknowledges that the actual size of the class will not be known until the last case has withstood appeal, i.e., the punitive damage amount, if any, determined for the entire qualified class, would be divided equally among those plaintiffs who are ultimately successful. The order does not address whether defendants would be required to pay the punitive damage award, if any, prior to a determination of claims of all class members, a process that could take years to conclude.

PM Inc. and the Company do not believe that an adverse class-wide punitive damage award in Phase Two would permit entry of a judgment at that time that would require the posting of a bond to stay its execution pending appeal or that any party would be entitled to execute on such a judgment in the absence of a bond. However, in a worst case scenario, it is possible that a judgment for punitive damages could be entered in an amount not capable of being bonded, resulting in an execution of the judgment before it could be set aside on appeal. PM Inc. and the Company believe that such a result would be unconstitutional and would also violate Florida laws. PM Inc. and the Company will take all appropriate steps to seek to prevent this worst case scenario from occurring and believe these efforts should be successful.

On May 5, 2000, the Florida legislature passed legislation that limits the size of a bond that must be posted in order to stay execution of a judgment for punitive damages in a certified class action to the lower of (1) the amount of punitive damages plus twice the statutory rate of interest or (2) ten percent of the defendant's net worth, provided that in no case shall the amount of the required bond exceed \$100 million, regardless of the amount of punitive damages. The legislation has been signed by the Governor of Florida and takes effect as the law of Florida immediately. Although the legislation is intended to apply to the Engle case, PM Inc. cannot predict the outcome of any possible challenges to its application.

In other developments, in August 1999, the trial judge denied a motion filed by PM Inc. and other defendants to disqualify the judge. The motion asserted, among other things, that the trial judge was required to disqualify himself because he has a serious medical condition of a type that the plaintiffs claim, and the jury has now found, is caused by smoking, making him financially interested in the result of the case and, under plaintiffs' theory of the case, a member of the plaintiff class. The Third District Court of Appeal denied defendants' petition to disqualify the trial judge. The defendants filed motions seeking reconsideration of this decision and to supplement the record with the deposition testimony of an expert witness. The Third District Court of Appeal denied defendants' motions. In January 2000, defendants filed a petition for a writ of certiorari to the United States Supreme Court requesting that it review the issue of the trial judge's disqualification.

On April 6, 2000, in an action filed by several media organizations, a federal court judge in Florida declared unconstitutional a gag order that the Engle trial judge had imposed and enjoined enforcement of the order.

PM Inc. and the Company remain of the view that the Engle case should not have been certified as a class action. That certification is inconsistent with the overwhelming majority of federal and state court decisions that have held that mass smoking and health claims are inappropriate for class treatment. PM Inc. intends to challenge the class certification, as well as numerous other reversible errors that it believes occurred during the trial to date, at the earliest time that an appeal of these issues is appropriate under Florida law. PM Inc. and the Company believe that an appeal of these issues on the merits should prevail.

### **Pending and Upcoming Trials**

In addition to the Engle trial, trial in an individual smoking and health case in which PM Inc. is a defendant commenced in New York in May 2000. As set forth in Exhibit 99.3, additional cases against PM Inc. and, in some cases, the Company as well, are scheduled for trial through the end of 2001, including three health care cost recovery actions; four asbestos contribution cases, one of which is scheduled to begin in New York in July 2000; two purported smoking and health class actions; two cases under the California Business and Professions Code, currently scheduled to begin in July 2000; and approximately 15 other individual smoking and health cases (one of which is scheduled to begin in July 2000). Cases against other tobacco companies are also scheduled for trial during this period. Trial dates, however, are subject to change.

On April 18, 2000 the federal judge in the Eastern District of New York that is handling the asbestos contribution case scheduled for trial in July 2000 issued an order that consolidates, for settlement purposes only, seven pending cases involving PM Inc. as well as other industry defendants. These cases include three asbestos contribution cases, three health care cost recovery cases and a purported smoking and health class action. The judge's order directed the parties to select a mediator or special master in order to facilitate settlement discussions and also invited the federal government to join in the settlement discussions. The order also stated that "preliminary discussions may include consideration of whether (the putative class) should be structured to broaden the class and provide possible subclasses so that tobacco litigation may be resolved in a comprehensive fashion." PM Inc. advised the court that it believed that the impediments to such a resolution make such discussions futile and, therefore, such discussions could not lead to the ultimate resolution of the litigation. Nevertheless, the judge ordered the parties to meet with the court to discuss the matter further, but subsequently adjourned the meeting without setting a date.

### **Litigation Settlements**

In November 1998, PM Inc. and certain other United States tobacco product manufacturers entered into the Master Settlement Agreement (the "MSA") with 46 states, the District of Columbia, the Commonwealth of 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 Inc. and certain other United States tobacco product manufacturers had previously settled similar claims brought by Mississippi, Florida, Texas and Minnesota (together with the MSA, the "State Settlement Agreements") and an ETS smoking and health class action brought on behalf of airline flight attendants. The State Settlement Agreements and certain ancillary agreements are filed as exhibits to various of the Company's reports filed with the Securities and Exchange Commission, and such agreements and the ETS settlement are discussed in detail therein.

The settlement agreements require that the domestic tobacco industry make substantial annual payments in the following amounts (excluding future annual payments contemplated by the agreement with tobacco growers discussed below), subject to adjustment for several factors, including inflation, market share and industry volume: 2000, \$9.2 billion; 2001, \$9.9 billion; 2002, \$11.3 billion; 2003, \$10.9 billion; 2004 through 2007, \$8.4 billion each year; and, thereafter, \$9.4 billion each year. In addition, the domestic tobacco industry is required to pay settling plaintiffs' attorneys' fees, subject to an annual cap of \$500 million, as well as additional amounts as follows: 2000, \$416 million; and 2001 through 2003, \$250 million each year. These payment obligations are the several and not joint obligations of each settling defendant. PM Inc.'s portion of ongoing adjusted payments and legal fees is based on its share of domestic cigarette shipments in the year preceding that in which

the payment is due. Accordingly, PM Inc. records its portions of ongoing settlement payments as part of cost of sales as product is shipped.

The State Settlement Agreements also include provisions, discussed below in Management's Discussion and Analysis of Financial Condition and Results of Operations, 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.

As set forth in Exhibit 99.2, the MSA has been initially approved by trial courts in all settling jurisdictions. If a jurisdiction does not obtain "final judicial approval" (i.e., trial court approval and expiration of the time for review or appeal of such approval) of the MSA by December 31, 2001, then, unless the settling defendants and the relevant jurisdiction agree otherwise, the agreement will be terminated with respect to such jurisdiction. As of May 2000, the MSA has received final judicial approval in 49 jurisdictions.

As part of the MSA, the settling defendants committed to work cooperatively with the tobacco-growing states to address concerns about the potential adverse economic impact of the MSA on tobacco growers and quota-holders. To that end, four of the major domestic tobacco product manufacturers, including PM Inc., and the grower states, have established a trust fund to provide aid to tobacco growers and quota-holders. The trust will be funded by these four manufacturers over 12 years with payments, prior to application of various adjustments, scheduled to total \$5.15 billion. Future industry payments (in 2000, \$280 million; 2001, \$400 million; 2002 through 2008, \$500 million each year; 2009 and 2010, \$295 million each year) are subject to adjustment for several factors, including inflation, United States cigarette volume and certain other contingent events, and, in general, are to be allocated based on each manufacturer's relative market share. PM Inc. records its portion of these payments as part of cost of sales as product is shipped.

The State Settlement Agreements have materially adversely affected the volumes of PM Inc. and the Company; the Company believes that they may materially adversely affect the business, volume, results of operations, cash flows or financial position of PM Inc. and the Company in future periods. The degree of the adverse impact will depend, among other things, on the rates of decline in United States cigarette sales in the premium and discount segments, PM Inc.'s share of the domestic premium and discount cigarette segments, and the effect of any resulting cost advantage of manufacturers not subject to the MSA and the other State Settlement Agreements. Manufacturers representing almost all domestic shipments in 1998 have agreed to become subject to the terms of the MSA.

Certain litigation, that is described in Exhibit 99.1, has arisen challenging the validity of the MSA and alleging violation of the antitrust laws.

A description of the smoking and health litigation, health care cost recovery litigation and certain other proceedings pending against the Company and/or its subsidiaries and affiliates follows.

### **Smoking and Health Litigation**

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, 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 RICO statutes. In certain of these cases, plaintiffs claim that cigarette smoking exacerbated the injuries caused by their exposure to asbestos. Plaintiffs in the smoking and health actions seek various forms of relief, including compensatory and punitive damages, treble/multiple damages and other statutory damages and penalties, creation of medical monitoring and smoking cessation funds, disgorgement of profits, and injunctive and equitable relief. Defenses raised in these cases include lack of proximate cause, assumption of the risk, comparative fault and/or contributory negligence, statutes of limitations and preemption by the Federal Cigarette Labeling and Advertising Act.

In May 1996, the United States Court of Appeals for the Fifth Circuit held in the Castano case that a class consisting of all "addicted" smokers nationwide did not meet the standards and requirements of the federal rules governing class actions. Since this class decertification, lawyers for 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 similar to those raised in the Castano case and, in many cases, claims of physical injury as well. As of May 1, 2000, smoking and health putative class actions were pending in Alabama, Hawaii, Illinois, Indiana, Iowa, Louisiana, Massachusetts, Missouri, Nevada, New Jersey, New Mexico, New York, North Carolina, Oklahoma, Pennsylvania, South Carolina, Tennessee, Texas, Utah and West Virginia, as well as in Australia, Brazil, Canada, Israel and Nigeria. Class certification has been denied or reversed by courts in 22 smoking and health class actions involving PM Inc. in Arkansas, California (2), the District of Columbia, Illinois, Kansas, Louisiana, Michigan, Minnesota, New Jersey (6), New York (2), Ohio, Pennsylvania, Puerto Rico, Texas, and Wisconsin, while classes remain certified in three cases in Florida, Louisiana and Maryland. A number of the class certification decisions are on appeal. In May 1999, the United States Supreme Court declined to review the decision of the United States Court of Appeals for the Third Circuit affirming a lower court's decertification of a class. Class certification motions are pending in a number of the putative smoking and health class actions. As mentioned in Overview of Tobacco-Related Litigation, above, one ETS smoking and health class action was settled in 1997.

### **Health Care Cost Recovery Litigation**

In certain of the pending proceedings, domestic and foreign governmental entities and non-governmental plaintiffs, including union health and welfare funds ("unions"), native American tribes, insurers and self-insurers such as Blue Cross and Blue Shield Plans, hospitals, taxpayers and others, are seeking reimbursement of health care cost expenditures allegedly caused by tobacco products and, in some cases, of future expenditures and damages as well. Certain of these cases purport to be brought on behalf of a class of plaintiffs. Other relief sought by some but not all plaintiffs includes punitive damages, treble/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, disclosure of nicotine yields, and payment of attorney and expert witness fees.

The claims asserted in these health care cost recovery actions include the equitable claim that the tobacco industry was "unjustly enriched" by plaintiffs' payment of health care costs allegedly

attributable to smoking, the equitable claim of indemnity, common law claims of 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 RICO 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 statute of limitations. In addition, defendants argue that they should be entitled to "set off" any alleged damages to the extent the plaintiff benefits 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 payer 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.

Excluding the cases covered by the MSA, as of May 1, 2000, there were approximately 50 health care cost recovery cases pending in the United States against PM Inc. and, in some cases, the Company, of which approximately 20 were filed by union trust funds. As discussed above under "Federal Government's Lawsuit," the U.S. government filed a health care cost recovery action in September 1999 against various cigarette manufacturers and others, including the Company and PM Inc., asserting claims under three federal statutes. Health care cost recovery actions have also been brought in Israel, the Marshall Islands, British Columbia, Canada and France and, in the United States, by Bolivia, Ecuador, Guatemala, Nicaragua, Province of Ontario, Canada, Panama, Thailand (voluntarily dismissed), Ukraine, Venezuela and the States of Espirito Santo, Goias, Rio de Janeiro and Sao Paulo, Brazil. The actions brought by Bolivia, Guatemala, Nicaragua, Ontario, Ukraine, Venezuela and the State of Goias, Brazil, were consolidated for pre-trial purposes and transferred to the United States District Court for the District of Columbia and, as described below, the court has dismissed the claims of Guatemala, Nicaragua and Ukraine. Other foreign entities and others have stated that they are considering filing health care cost recovery actions.

Five federal appeals courts have issued rulings in health care cost recovery actions that were favorable to the tobacco industry. The United States Courts of Appeals for the Second, Third, Fifth, Seventh and Ninth Circuits, relying primarily on grounds that the plaintiffs' claims were too remote, have affirmed dismissals of, or reversed trial courts that had refused to dismiss, such actions. In addition, in January 2000, the United States Supreme Court denied plaintiffs' petitions for writs of certiorari in the cases decided by the Court of Appeals for the Second, Third and Ninth Circuits, effectively refusing to consider plaintiffs' appeals.

Although there have been some decisions to the contrary, to date, most lower courts that have decided motions in these cases have dismissed all or most of the claims against the industry. In December 1999, in the first ruling on a motion to dismiss a health care cost recovery case brought in the United States by a foreign governmental plaintiff, the United States District Court for the District of Columbia dismissed a lawsuit filed by Guatemala, ruling that the claimed injuries were too remote.

Subsequently, in March 2000, the court also dismissed the claims of Nicaragua and Ukraine. Guatemala, Nicaragua and Ukraine each have appealed these decisions to the United States Court of Appeals for the District of Columbia Circuit. In March 1999, in the only union case to go to trial thus far, the jury returned a verdict in favor of defendants on all counts. Plaintiffs' motion for a new trial has been denied. In December 1999, the federal district court in the District of Columbia denied defendants' motion to dismiss a suit filed by union and welfare trust funds seeking reimbursement of health care expenditures allegedly caused by tobacco products. Defendants are appealing this decision.

### **Certain Other Tobacco-Related Litigation**

**Asbestos Contribution Cases:** As of May 1, 2000, 13 suits had been filed by former asbestos manufacturers, asbestos manufacturers' personal injury settlement trusts and an insurance company against domestic tobacco manufacturers, including PM Inc. and others. Nine of these cases are pending. These cases seek, among other things, contribution or reimbursement for amounts expended in connection with the defense and payment of asbestos claims that were allegedly caused in whole or in part by cigarette smoking. Plaintiffs in most of these cases also seek punitive damages. The aggregate amounts claimed in these cases range into the billions of dollars. In November 1999, one of these cases was dismissed by the federal district court in the Eastern District of New York although the case was subsequently refiled. Trials in four of these cases are scheduled to begin in New York in July 2000 and January and March 2001, and in Mississippi in February 2001.

**Lights/Ultra Lights Cases:** As of May 1, 2000, there were twelve putative class actions pending against PM Inc. and the Company, in Arizona, Florida, Illinois, Massachusetts, Missouri, New Jersey, Ohio, Pennsylvania, Tennessee, and Washington, D.C., 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. These cases allege, in connection with the use of the term "Lights" and/or "Ultra Lights," among other things, deceptive and unfair trade practices and unjust enrichment, and seek injunctive and equitable relief, including restitution.

**Retail Leaders Case:** Three domestic tobacco manufacturers have filed suit against PM Inc. seeking to enjoin the PM Inc. "Retail Leaders" program that became available to retailers in October 1998. The complaint alleges that this retail merchandising program is exclusionary, creates an unreasonable restraint of trade and constitutes unlawful monopolization. In addition to an injunction, plaintiffs seek unspecified treble damages, attorneys' fees, costs and interest. In June 1999, the court issued a preliminary injunction enjoining PM Inc. from prohibiting retail outlets that participate in the program at one of the levels from installing competitive permanent signage in any section of the "industry fixture" that displays or holds packages of cigarettes manufactured by a firm other than PM Inc., or requiring those outlets to allocate a percentage of cigarette-related permanent signage to PM Inc. greater than PM Inc.'s market share. The court also enjoined PM Inc. from prohibiting retail outlets participating in the program from advertising or conducting promotional programs of cigarette manufacturers other than PM Inc. The preliminary injunction does not affect any other aspect of the Retail Leaders program.

**Vending Machine Case:** Plaintiffs, who began their case as a purported nationwide class of cigarette vending machine operators, allege that PM Inc. has violated the Robinson-Patman Act in connection with its promotional and merchandising programs available to

retail stores and not available to cigarette vending machine operators. Plaintiffs request actual damages, treble damages, injunctive relief, attorneys' fees and costs, and other unspecified relief. In June 1999, the court denied plaintiffs' motion for a preliminary injunction. Plaintiffs have withdrawn their request for class action status. The claims of ten plaintiffs are set for trial in November 2000; the claims of remaining plaintiffs have been stayed pending disposition of those claims scheduled for trial.

**Cases Under the California Business and Professions Code:** In July 1998, two suits were filed in California courts alleging that domestic cigarette manufacturers, including PM Inc. and others, have violated a California statute known as "Proposition 65" by not informing the public of the alleged risks of ETS to non-smokers. Plaintiffs also allege violations of California's Business and Professions Code regarding unfair and fraudulent business practices. Plaintiffs seek statutory penalties, injunctions barring the sale of cigarettes or requiring issuance of appropriate warnings, restitution, disgorgement of profits and other relief. The defendants' motions to dismiss were denied in both of these cases. In October 1999, plaintiffs' motion for a preliminary injunction was also denied. In January 2000, defendants' motion for summary judgment was granted in part, and plaintiffs' "Proposition 65" claims were dismissed. Trial on the remaining claims in these cases is scheduled to begin in July 2000.

**Tobacco Price Cases:** As of May 1, 2000, tobacco wholesalers and consumers filed approximately 35 putative class actions against the Company and other domestic tobacco manufacturers alleging that, through the MSA and other activities, the manufacturers conspired to fix cigarette prices in violation of antitrust laws. The cases are listed in Exhibit 99.1.

**Tobacco Growers' Case:** In February 2000, a lawsuit was filed on behalf of a purported class of tobacco growers and quota-holders. The complaint, which was amended in May 2000, alleges that tobacco manufacturers violated antitrust laws by bid-rigging, conspiring to displace the tobacco quota and price support system administered by the federal government and entering into the growers' trust fund described in Litigation Settlements, above.

### **Certain Other Actions**

**National Cheese Exchange Cases:** Since 1996, seven putative class actions have been filed alleging that Kraft, and others engaged in a conspiracy to fix and depress the prices of bulk cheese and milk through their trading activity on the National Cheese Exchange. Plaintiffs seek injunctive and equitable relief and treble damages. Two of the actions were voluntarily dismissed by plaintiffs after class certification was denied. Two other actions were dismissed in 1998 after Kraft's motions to dismiss were granted, and plaintiffs appealed those dismissals. In one of those cases, in February 2000 the court reversed the trial court's decision to dismiss the case. The remaining three cases were consolidated in state court in Wisconsin, and in November 1999, the court granted Kraft's motion for summary judgment. Plaintiffs have appealed.

**Italian Tax Matters:** One hundred eighty-eight tax assessments alleging the nonpayment of taxes in Italy (value-added taxes for the years 1988 to 1995 and income taxes for the years 1987 to 1995) have been served upon certain affiliates of the Company. The aggregate amount of alleged unpaid taxes assessed to date is the Italian lira equivalent of \$2.2 billion. In addition, the Italian lira equivalent of \$3.1 billion in interest and penalties has been assessed. The Company anticipates that value-added and income tax assessments may also be received with respect to subsequent years. All of the assessments are being vigorously contested. To date, the Italian administrative tax court in Milan has

overturned 153 of the assessments. The decisions to overturn 107 assessments have been appealed by the tax authorities to the regional appellate court in Milan. To date, the regional appellate court has rejected 31 of the appeals filed by the tax authorities. The tax authorities may appeal the decisions of the regional appellate court to the Italian Supreme Court. In a separate proceeding in Naples, in October 1997, a court dismissed charges of criminal association against certain present and former officers and directors of affiliates of the Company, but permitted tax evasion and related charges to remain pending. In February 1998, the criminal court in Naples determined that jurisdiction was not proper, and the case file was transmitted to the public prosecutor in Milan. Further investigation is being conducted following which a decision will be made as to whether there should be a trial on these charges. The Company, its affiliates and the officers and directors who are subject to the proceedings believe they have complied with applicable Italian tax laws and are vigorously contesting the pending assessments and proceedings.

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It is not possible to predict the outcome of the litigation pending against the Company and its subsidiaries. Litigation is subject to many uncertainties. Three individual smoking and health cases in which PM Inc. is a defendant have been decided unfavorably at the trial court level and are in the process of being appealed. An unfavorable verdict awarding compensatory damages has been returned in the Engle smoking and health class action trial underway in Florida and the jury will now consider the award of lump sum punitive damages, if any, for the entire class. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the Engle case. An unfavorable outcome or settlement of a pending smoking and health or health care cost recovery case could encourage the commencement of additional similar litigation. There have also been a number of adverse legislative, regulatory, political and other developments concerning cigarette smoking and the tobacco industry that have received widespread media attention. These developments may negatively affect the perception of potential triers of fact with respect to the tobacco industry, possibly to the detriment of certain pending litigation, and may prompt the commencement of additional similar litigation.

Management is unable to make a meaningful estimate of the amount or range of loss that could result from an unfavorable outcome of pending litigation. The present legislative and litigation environment is substantially uncertain, and it is possible that the Company's business, volume, results of operations, cash flows or financial position could be materially affected by an unfavorable outcome or settlement of certain pending litigation or by the enactment of federal or state tobacco legislation. The Company 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 a number of valid defenses to all litigation pending against it. All such cases are, and will continue to be, vigorously defended. However, the Company and its subsidiaries may enter into discussions in an attempt to settle particular cases if they believe it is in the best interests of the Company's stockholders to do so.

**Note 5. Recently Issued Accounting Pronouncements:**

During 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which had an initial adoption date by the Company of January 1, 2000. During 1999, the FASB postponed the adoption date of SFAS No. 133 until January 1, 2001. SFAS No. 133 requires that all derivative financial instruments be recorded on the consolidated balance sheets at their fair value. Changes in the fair value of derivatives will be recorded each period in earnings or other comprehensive earnings, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. Gains and losses on derivative instruments reported in other comprehensive earnings will be reclassified as earnings in the periods in which earnings are affected by the hedged item. The Company has not yet determined the impact that adoption or subsequent application of SFAS No. 133 will have on its financial position or results of operations.

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

Consolidated Operating Results

For the Three Months Ended March 31,

		Operating Revenues	
		-----	
		(in millions)	
		2000	1999
		-----	-----
Domestic tobacco		\$ 5,446	\$ 4,460
International tobacco		6,998	7,340
North American food		4,455	4,396
International food		2,005	2,242
Beer		1,044	986
Financial services		92	73
		-----	-----
Operating revenues		\$20,040	\$19,497
		=====	=====
		Operating Income	
		-----	
		(in millions)	
		2000	1999
		-----	-----
Domestic tobacco		\$ 1,116	\$ 918
International tobacco		1,431	1,431
North American food		867	685
International food		246	246
Beer		153	136
Financial services		58	50
		-----	-----
Operating companies income		3,871	3,466
Amortization of goodwill		(146)	(147)
General corporate expenses		(215)	(124)
Minority interest		(32)	(34)
		-----	-----
Operating income		\$ 3,478	\$ 3,161
		=====	=====

Amortization of goodwill is primarily attributable to the North American food segment.

**Results of Operations**

Operating revenues for the first quarter of 2000 increased \$543 million (2.8%) over the first quarter of 1999, due primarily to an increase in revenues from domestic tobacco operations. Despite this increase, the comparison of first quarter operating revenues was adversely affected by approximately \$225 million of incremental sales made during the fourth quarter of 1999, as the Company's customers planned for potential business failures related to the Century Date Change ("CDC"). The incremental CDC sales would have normally been made during the first quarter of 2000. Including the incremental CDC revenues in the first quarter of 2000, and excluding the revenues of several small international food businesses divested since the beginning of 1999, operating revenues for the first quarter of 2000 increased \$820 million (4.2%) over the first quarter of 1999.

Operating income for the first quarter of 2000 increased \$317 million (10.0%) over the comparable 1999 period. The operating income comparison was affected by the following unusual items:

o Louisville Factory Closure - During the first quarter of 1999, Philip Morris Incorporated ("PM Inc.") announced plans to phase out cigarette production capacity at its Louisville, Kentucky manufacturing plant by August 2000 (the "Louisville Closure"). The closure of this facility is occurring in stages, as cigarette production is shifted to

other PM Inc. manufacturing facilities in the United States. As a result of this announcement, PM Inc. recorded pre-tax charges of \$130 million during the first quarter of 1999. These charges, which are in the domestic tobacco segment's marketing, administration and research costs in the consolidated statement of earnings, included severance benefits and enhanced pension and postretirement benefits in accordance with the terms of the underlying plans for approximately 1,500 hourly and salaried employees. Severance benefits, which can either be paid in a lump sum or as income protection payments over a period of time, commence upon termination of employment. Payments of enhanced pension and postretirement benefits are made over the remaining lives of the former employees in accordance with the terms of the related benefit plans. All operating costs of the manufacturing plant, including increased depreciation, are charged to expense as incurred during the closing period.

o Kraft Separation Programs - During the first quarter of 1999, Kraft Foods, Inc. ("Kraft") announced that it was offering voluntary retirement incentive or separation programs to certain eligible hourly and salaried employees in the United States (the "Kraft Separation Programs"). Employees electing to terminate employment under the terms of these programs were entitled to enhanced retirement or severance benefits. Approximately 1,100 hourly and salaried employees accepted the benefits offered by these programs and elected to retire or terminate. As a result, Kraft recorded a pre-tax charge of \$157 million during the first quarter of 1999. This charge was included in marketing, administration and research costs in the consolidated statement of earnings and in the North American food segment. Payments of pension and postretirement benefits are made in accordance with the terms of the applicable benefit plans. Severance benefits, which are paid over a period of time, commenced upon dates of termination that ranged from April 1999 to March 2000. Salary and related benefit costs of employees prior to the retirement or termination date were expensed as incurred.

The operating income comparison was adversely affected by approximately \$100 million of operating income from the previously mentioned incremental CDC sales. Including the incremental CDC income and excluding the pre-tax charges for the Louisville Closure and the Kraft Separation Programs, as well as the results from operations divested since the beginning of 1999, operating income for 2000 increased \$131 million (3.8%) over the first quarter of 1999, due primarily to higher operating results from all segments, partially offset by higher general corporate expenses. The \$91 million increase in general corporate expenses over the first quarter of 1999 is due primarily to higher spending on the Company's corporate image campaign.

Operating companies income, which is defined as operating income before general corporate expenses, minority interest and amortization of goodwill, increased \$405 million (11.7%) over the first quarter of 1999, due primarily to the previously discussed 1999 pre-tax charges for the Louisville Closure and the Kraft Separation Programs, partially offset by the incremental CDC income. Including the impact of the incremental CDC income and excluding the 1999 pre-tax charges, as well as the results from operations divested since the beginning of 1999, operating companies income increased 5.8% on higher earnings from all segments.

Currency movements have decreased operating revenues by \$673 million (\$362 million, after excluding the impact of currency movements on excise taxes), and operating companies income by \$93 million from the first quarter of 1999. Declines in operating revenues and operating companies income arising from the strength of the U.S. dollar against the Euro and certain Central and Eastern European currencies have been partially offset by the weakness of the U.S. dollar against the Japanese yen. Although the Company cannot predict future movements in currency rates, strengthening of the dollar, primarily against the Euro, if sustained during the remainder of 2000, could continue to have an unfavorable impact on operating revenues and operating companies income comparisons with 1999. In addition, the Company's businesses in certain Eastern European markets have been adversely affected by continued economic instability. Although the Company cannot predict future economic developments, the Company anticipates that economic instability may continue to adversely affect its businesses in those markets during 2000.

Interest and other debt expense, net, decreased \$21 million (10.2%) in the first quarter of 2000 from the comparable 1999 period. This decrease was due primarily to higher interest income and lower average debt outstanding during the first quarter of 2000.

Diluted and basic EPS, which were each \$0.87 for the first quarter of 2000, increased by 19.2% and 17.6%, respectively, over the comparable figures for the first quarter of 1999. Net earnings of \$2.0 billion for the first quarter of 2000, increased 12.4% over the first quarter of 1999. These comparisons reflect the charges for the previously discussed Louisville Closure and the Kraft Separation Programs, and exclude the incremental CDC income. After adjusting for the affects of these unusual items, net earnings increased 5.6% to \$2.1 billion, diluted EPS increased 11.3% to \$0.89 and basic EPS increased 9.9% to \$0.89.

## **Year 2000**

To date, the Company and its subsidiaries have experienced no material disruptions to their business operations as a result of the Century Date Change. External information technology specialists have stated that CDC-related miscalculations or systems failures could occur throughout the year 2000 and into 2001. The experience of the Company and its subsidiaries thus far suggests that no material disruptions to their business operations are likely to occur. However, the Company and its subsidiaries will continue to monitor the transition to year 2000 as part of their regular problem management processes and will respond promptly to any problems that occur.

The Company's increases in year-end inventories and trade receivables caused by preemptive contingency plans resulted in incremental cash outflows during 1999 of approximately \$300 million. The cash outflows reversed in the first quarter of 2000. In addition, certain operating subsidiaries of the Company had increased shipments in the fourth quarter of 1999, because customers purchased additional product in anticipation of potential CDC-related disruptions, resulting in incremental operating revenues and operating companies income in 1999 of approximately \$225 million and \$100 million, respectively. Accordingly, there are reductions of corresponding amounts in operating revenues and operating companies income in the first quarter of 2000.

## **Euro**

On January 1, 1999, eleven of the fifteen member countries of the European Union established fixed conversion rates between their existing currencies ("legacy currencies") and one common currency--the Euro. At that time, the Euro began trading on currency exchanges and could be used in financial transactions. Beginning in January 2002, new Euro-denominated currency (bills and coins) will be issued, and legacy currencies will be withdrawn from circulation. The Company's operating subsidiaries affected by the Euro conversion have established and, where required, implemented plans to address the systems and business issues raised by the Euro currency conversion. These issues include, among others: (1) the need to adapt computer and other business systems and equipment to accommodate Euro-denominated transactions; and (2) the competitive impact of cross-border price transparency, which may make it more difficult for businesses to charge different prices for the same products on a country-by-country basis, particularly once the Euro currency is issued in 2002. The Euro conversion has not had, and the Company currently anticipates that it will not have, a material adverse impact on its financial condition or results of operations.

## Operating Results by Business Segment

### Tobacco

#### Business Environment

The tobacco industry, both in the United States and abroad, has faced, and continues to face, a number of issues that may adversely affect the business, volume, results of operations, cash flows and financial position of PM Inc., Philip Morris International Inc. ("PMI") and the Company.

These issues, some of which are more fully discussed below, include legislation or other governmental action seeking to ascribe to the industry responsibility and liability for the adverse health effects associated with both smoking and exposure to environmental tobacco smoke ("ETS"); increased smoking and health litigation and recent jury verdicts against PM Inc., including in the Engle class action trial discussed above in Note 4. Contingencies; the filing of a civil lawsuit by the U.S. federal government against various cigarette manufacturers and others as discussed in Note 4; price increases in the United States related to the settlement of certain tobacco litigation; actual and proposed excise tax increases; an increase in diversion into the United States market of product intended for sale outside the United States; actual and proposed requirements regarding disclosure of cigarette ingredients and other proprietary information; governmental and private bans and restrictions on smoking; actual and proposed price controls and restrictions on imports in certain jurisdictions outside the United States; actual and proposed restrictions affecting tobacco manufacturing, marketing, advertising and sales outside the United States; proposed legislation to eliminate the United States tax deductibility of tobacco advertising and promotional costs; proposed legislation in Congress and in the State of New York to require the establishment of fire-safety standards for cigarettes; the diminishing social acceptance of smoking and increased pressure from anti-smoking groups and unfavorable press reports; and other tobacco legislation that may be considered by the Congress, the states and other jurisdictions inside and outside the United States.

**Excise Taxes:** Cigarettes are subject to substantial federal, state and local excise taxes in the United States and to similar taxes in most foreign markets. The United States federal excise tax on cigarettes is currently \$0.34 per pack of 20 cigarettes and is scheduled to increase to \$0.39 per pack on January 1, 2002. In general, excise taxes and other taxes on cigarettes have been increasing. These taxes vary considerably and, when combined with sales taxes and the current federal excise tax, may be as high as \$1.86 per pack in a given locality in the United States. Congress has been considering significant increases in the federal excise tax or other payments from tobacco manufacturers, and the Clinton Administration's fiscal year 2001 budget proposal includes an additional increase of \$0.25 per pack in the federal excise tax, as well as a contingent special assessment related to youth smoking rates. Increases in other cigarette-related taxes have been proposed at the state and local levels and in many jurisdictions outside the United States.

In the opinion of PM Inc. and PMI, increases in excise and similar taxes have had an adverse impact on sales of cigarettes. Any future increases, the extent of which cannot be predicted, could result in volume declines for the cigarette industry, including PM Inc. and PMI, and might cause sales to shift from the premium segment to the discount segment.

**Federal Trade Commission ("FTC"):** In September 1997, the FTC issued a request for public comments on its proposed revision of its "tar" and nicotine test methodology and reporting procedures established by a 1970 voluntary agreement among domestic cigarette manufacturers. In February 1998, PM Inc. and three other domestic cigarette manufacturers filed comments on the proposed revisions. In November 1998, the FTC wrote to the Department of Health and Human Services requesting its assistance in developing specific recommendations on the future of the FTC's program for testing the "tar," nicotine and carbon monoxide content of cigarettes.

Food and Drug Administration ("FDA") Regulations: The FDA promulgated regulations asserting jurisdiction over cigarettes as "drugs" or "medical devices" under the provisions of the Food, Drug and Cosmetic Act. The regulations included severe restrictions on the distribution, marketing and advertising of cigarettes, and would have required the industry to comply with a wide range of labeling, reporting, recordkeeping, manufacturing and other requirements. In August 1998, the Fourth Circuit Court of Appeals ruled that the FDA does not have the authority to regulate tobacco products, and declared the FDA's regulations invalid. On March 21, 2000 the Supreme Court affirmed the Fourth Circuit's decision and ruled that tobacco was not subject to FDA regulation. The Company has stated that while it continues to oppose FDA regulation over cigarettes as "drugs" or "medical devices" under the provisions of the Food, Drug and Cosmetic Act, it would be prepared to support new legislation that would provide for reasonable regulation at the federal level of cigarettes as cigarettes.

Ingredient Disclosure Laws: The Commonwealth of Massachusetts has enacted legislation to require cigarette manufacturers to report yearly the flavorings and other ingredients used in each brand style of cigarettes sold in the Commonwealth, and on a qualified, by-brand basis to provide "nicotine-yield ratings" for their products based on standards established by the Commonwealth. Enforcement of the ingredient disclosure provisions of the statute could result in the public disclosure of valuable proprietary information. In December 1997, a federal district court in Boston granted the tobacco company plaintiffs a preliminary injunction and enjoined the Commonwealth from enforcing the ingredient disclosure provisions of the legislation. In November 1998, the First Circuit Court of Appeals affirmed this ruling. In addition, both parties' cross-motions for summary judgment are pending before the district court. The ultimate outcome of this lawsuit cannot be predicted. Similar legislation has been enacted or proposed in other states. Some jurisdictions outside the United States have also enacted or proposed some form of ingredient disclosure legislation or regulation.

Health Effects of Smoking and Exposure to ETS: Reports with respect to the health risks of cigarette smoking have been publicized for many years, and the sale, promotion and use of cigarettes continue to be subject to increasing governmental regulation. Since 1964, the Surgeon General of the United States and the Secretary of Health and Human Services have released a number of reports linking cigarette smoking with a broad range of health hazards, including various types of cancer, coronary heart disease and chronic lung disease, and recommending various governmental measures to reduce the incidence of smoking. The 1988, 1990, 1992 and 1994 reports focus upon the addictive nature of cigarettes, the effects of smoking cessation, the decrease in smoking in the United States, the economic and regulatory aspects of smoking in the Western Hemisphere, and cigarette smoking by adolescents, particularly the addictive nature of cigarette smoking in adolescence.

Studies with respect to the health risks of ETS to nonsmokers (including lung cancer, respiratory and coronary illnesses, and other conditions) have also received significant publicity. In 1986, the Surgeon General of the United States and the National Academy of Sciences reported that nonsmokers were at increased risk of lung cancer and respiratory illness due to ETS. In 1993, the United States Environmental Protection Agency (the "EPA") issued a report relating to certain health effects of ETS. The report included a risk assessment relating to the association between ETS and lung cancer in nonsmokers, and a determination by the EPA to classify ETS as a "Group A" carcinogen. In July 1998, a federal district court vacated those sections of the report relating to lung cancer, finding that the EPA may have reached different conclusions had it complied with certain relevant statutory requirements. The federal government has appealed the court's ruling. The ultimate outcome of this litigation cannot be predicted.

In October 1997, at the request of the United States Senate Judiciary Committee, the Company provided the Committee with a document setting forth the Company's position on a number of issues. On the issues of the role played by cigarette smoking in the development of lung cancer and other diseases in smokers, and whether nicotine, as found in cigarette smoke, is addictive, the Company stated that despite the differences that may exist between its views and those of the public health community, it would, in order to ensure that there will be a single, consistent public health message on these issues, refrain from debating the issues other than as necessary to defend itself and its opinions in the courts and other forums in which it is required to do so. The Company also stated that in relation to these issues, and the health effects of exposure to ETS, the Company is prepared to

defer to the judgment of public health authorities as to what health warning messages will best serve the public interest.

In 1999, the Company launched a Web site that includes, among other things, views of public health authorities on smoking, disease causation in smokers and addiction. Consistent with the Company's position set forth in its October 1997 submission to the United States Senate Judiciary Committee (discussed above), the Web site advises smokers and potential smokers to rely on the messages of public health authorities in making all smoking-related decisions. The site furthers the Company's efforts to implement this position.

**Other Legislative Initiatives:** In recent years, various members of Congress have introduced legislation, some of which has been the subject of hearings or floor debate, that would subject cigarettes to various regulations under the Department of Health and Human Services or regulation under the Consumer Products Safety Act, establish anti-smoking educational campaigns or anti-smoking programs, or provide additional funding for governmental anti-smoking activities, further restrict the advertising of cigarettes, including requiring additional warnings on packages and in advertising, eliminate or reduce the tax deductibility of tobacco advertising, provide that the Federal Cigarette Labeling and Advertising Act and the Smoking Education Act not be used as a defense against liability under state statutory or common law, and allow state and local governments to restrict the sale and distribution of cigarettes. Legislative initiatives adverse to the tobacco industry have also been considered in a number of jurisdictions outside the United States.

On April 17, 2000, the New York State legislature passed legislation that, if signed by the governor, would require the State's Office of Fire Prevention and Control to promulgate rules establishing fire-safety standards for cigarettes that are manufactured or sold in New York. If enacted, the legislation would require that cigarettes manufactured or sold in New York stop burning within a time period specified by the standards or meet other performance standards set by the Office of Fire Prevention and Control. All cigarettes manufactured or sold in New York would be required to meet the established standard within thirty days after the standard is promulgated and financial penalties would be imposed for distributing cigarettes that violate the standard. The ultimate outcome of this legislation cannot be predicted. Similar legislation has been proposed in other states and localities and at the federal level.

It is not possible to predict what, if any, foreign or domestic governmental legislation or regulations will be adopted relating to the manufacturing, advertising, sale or use of cigarettes, or to the tobacco industry generally. However, if any or all of the foregoing were to be implemented, the business, volume, results of operations, cash flows and financial position of PM Inc., PMI and the Company could be materially adversely affected.

**Tobacco-Related Litigation:** There is substantial litigation pending related to tobacco products in the United States and certain foreign jurisdictions, including the Engle class action trial currently underway in Florida in which PM Inc. is a defendant and a civil health care cost recovery action filed by the United States Department of Justice in September 1999 against domestic tobacco manufacturers and others, including the Company and PM Inc. (See Note 4. Contingencies, above, for a discussion of such litigation.)

State Settlement Agreements: As discussed in Note 4. Contingencies, during 1997 and 1998, PM Inc. and other major domestic tobacco product manufacturers entered into agreements with states and various U.S. jurisdictions settling asserted and unasserted health care cost recovery and other claims. These settlements provide for substantial annual payments. They also place numerous restrictions on the tobacco industry's conduct of its business operations, including restrictions on the advertising and marketing of cigarettes. Among these are restrictions or prohibitions on the following: targeting youth; use of cartoon characters; use of brand name sponsorships and brand name non-tobacco products; outdoor and transit brand advertising; payments for product placement; and free sampling. In addition, the settlement agreements require companies to affirm corporate principles to reduce underage use of cigarettes; impose requirements regarding lobbying activities; mandate public disclosure of certain industry documents; limit the industry's ability to challenge certain tobacco control and underage use laws; and provide for the dissolution of certain tobacco-related organizations and place restrictions on the establishment of any replacement organizations.

## Operating Results

	For the Three Months Ended March 31,			
	Operating Revenues		Operating Companies Income	
	(in millions)			
	2000	1999	2000	1999
Domestic tobacco	\$ 5,446	\$ 4,460	\$ 1,116	\$ 918
International tobacco	6,998	7,340	1,431	1,431
Total tobacco	\$12,444	\$11,800	\$ 2,547	\$ 2,349

Domestic tobacco. During the first quarter of 2000, PM Inc.'s operating revenues increased \$986 million (22.1%) over the comparable 1999 period, due primarily to higher volume (\$303 million) and higher pricing (\$675 million, including \$248 million related to the January 1, 2000 increase in federal excise taxes).

Operating companies income for the first quarter of 2000 increased \$198 million (21.6%) from the comparable 1999 period, due primarily to higher volume (\$236 million), price increases, net of cost increases (\$187 million) and the 1999 pre-tax charges for the Louisville Closure (\$130 million), partially offset by higher marketing, administration and research costs (\$333 million, primarily marketing). Excluding the impact of the 1999 pre-tax charges for the Louisville Closure, PM Inc.'s operating companies income of \$1,116 million for the first quarter of 2000 increased 6.5% from \$1,048 million during the comparable 1999 period.

Shipment volume for the domestic tobacco industry during the first quarter of 2000 increased to 102.3 billion units, 4.6% over the first quarter of 1999. PM Inc.'s shipment volume for the first quarter of 2000 was 52.8 billion units, an increase of 7.1% over the comparable 1999 period. First quarter 2000 shipment growth for the industry and PM Inc. was largely driven by wholesalers' decisions to rebuild their inventory levels after the January 1, 2000 federal excise tax increase. In contrast, wholesalers decreased their inventory levels during 1999, as inventory held at the end of 1999 was subject to the federal excise tax increase through a "floor tax." The first quarter of 2000 also had one more shipping day than the comparable 1999 period. PM Inc. estimates that after adjusting for these factors, industry shipment volume declined approximately 2.5% from the first quarter of 1999, while PM Inc.'s shipment volume declined approximately 1.5%.

For the first quarter of 2000, PM Inc.'s shipment market share was 51.6%, an increase of 1.2 share points over the comparable period of 1999. Marlboro shipment volume increased 2.6 billion units (7.0%) over the first quarter of 1999 to 39.6 billion units for a 38.8% share of the total industry, an increase of 0.9 share points over the comparable period of 1999. Contributing to this growth were introductory shipments of Marlboro Milds, which will be launched nationally at retail in May.

Based on shipments, the premium segment accounted for approximately 73.9% of the domestic cigarette industry volume in the first quarter of 2000 and 1999. In the premium segment, PM Inc.'s volume increased

6.6% during the first quarter of 2000, compared with a 4.6% increase for the industry, resulting in a premium segment share of 61.7%, an increase of 1.1 share points over the first quarter of 1999.

In the discount segment, PM Inc.'s shipments increased 11.1% to 6.2 billion units in the first quarter of 2000, compared with an industry increase of 4.6%, resulting in a discount segment share of 23.1%, an increase of 1.4 share points over the comparable period of 1999. Basic shipment volume for the first quarter of 2000 was up 13.2% at 5.1 billion units, for a 19.1% share of the discount segment, an increase of 1.4 share points from the comparable 1999 period. Basic shipment volume was influenced by the timing of promotional shipments year-over-year.

According to consumer purchase data from Information Resources Inc./Capstone, PM Inc.'s share of cigarettes sold at retail grew 0.4 share points to 50.5% for the first quarter of 2000. The first quarter 2000 retail share for Marlboro rose 1.1 share points to 37.0%.

PM Inc. cannot predict future change or rates of change in domestic tobacco industry volume, the relative sizes of the premium and discount segments or in PM Inc.'s shipments, shipment market share or retail market share; however, it believes that PM Inc.'s shipments may be materially adversely affected by price increases related to tobacco litigation settlements and, if enacted, by increased excise taxes or other tobacco legislation discussed under "Tobacco--Business Environment" above.

In January 2000, PM Inc. announced a price increase of \$6.50 per thousand cigarettes on its domestic premium and discount brands, principally related to increases in litigation settlement payments. This followed a price increase of \$9.00 per thousand in August 1999. Each \$1.00 per thousand increase by PM Inc. equates to a \$0.02 increase in the price to wholesalers of each pack of twenty cigarettes.

International tobacco. During the first quarter of 2000, international tobacco operating revenues, including excise taxes, decreased \$342 million (4.7%) from the first quarter of 1999. Excluding excise taxes, operating revenues decreased \$126 million (3.4%), due primarily to unfavorable currency (\$190 million) and the previously discussed CDC revenues (\$97 million), partially offset by price increases (\$156 million).

Operating companies income for the first quarter of 2000 was equal with the comparable 1999 period, due primarily to price increases and favorable costs (\$174 million), offset by the shift of CDC income (\$59 million) to the fourth quarter of 1999, unfavorable volume/mix (\$39 million) and unfavorable currency movements (\$80 million). Adjusting for the shift in CDC income, operating companies income of \$1,490 million for the first quarter of 2000 increased 4.1% over \$1,431 million for the comparable period of 1999.

PMI's first quarter 2000 volume of 171.0 billion units decreased 6.2 billion units (3.5%) from the first quarter of 1999. Adjusting for the shift in CDC volume, (the basis of presentation for all following PMI volume disclosures), PMI's first quarter 2000 volume of 175.2 billion units decreased 2.0 billion units (1.1%) from the comparable 1999 period, due primarily to a 22.5% aggregate volume decline in the economically weakened markets of Central and Eastern Europe (excluding Russia where volume was up), as well as lower worldwide duty-free shipments. However, volume grew a collective 5.2% in Western Europe, Japan and Asia, where PMI earned approximately 70% of its operating companies income. Volume advanced in a number of important markets, including Italy, France, the Benelux countries, Switzerland, Austria, Russia, Japan, Saudi Arabia, Egypt, Thailand, Korea, Malaysia, Indonesia, the Philippines, Mexico and Brazil. PMI recorded market share gains in most of its major markets. Volume was down 4.6% in Germany due to trade purchasing patterns, the continued strong growth of trade brands and a reduction in the number of cigarettes per vending pack following industry price increases in the fourth quarter of 1999. Trade purchasing patterns in the Czech Republic and a lower total industry in Poland contributed to an overall volume decline in Central Europe. Market share in Germany and Poland also declined from the first quarter of 1999. International volume for Marlboro declined 2.3%; however, this decline was caused by lower volume in Eastern Europe, other than Russia, and lower worldwide duty-free shipments.

## Food

### Business Environment

Kraft, the largest processor and marketer of retail packaged food in the United States, and its subsidiary, Kraft Foods International, Inc. ("KFI"), which markets coffee, confectionery and grocery products in Europe and the Asia/Pacific region, are subject to fluctuating commodity costs, currency movements and competitive challenges in various product categories and markets, including a trend toward increasing consolidation in the retail trade. Additionally, certain subsidiaries and affiliates of PMI that manufacture and sell food products in Latin America are also subject to competitive challenges in various product categories and markets. To confront these challenges, Kraft, KFI and PMI continue to take steps to build the value of premium brands with new product and marketing initiatives, to improve their food business portfolios and to reduce costs.

Fluctuations in commodity costs can cause retail price volatility, intensify price competition and influence consumer and trade buying patterns. The North American and international food businesses are subject to fluctuating commodity costs, particularly dairy, coffee bean and cocoa prices. Dairy commodity costs in the United States on average have been below the levels seen in the first quarter of 1999. Coffee bean prices reflected in Kraft's and KFI's results for the first quarter of 2000 were slightly lower than the first quarter of 1999. Cocoa prices have declined during 2000, compared with 1999.

During the first quarter, Kraft completed its purchase of the outstanding common stock of Balance Bar Co., a maker of energy and nutrition snack products. In a separate transaction, Kraft also completed its acquisition of Boca Burger, Inc., a privately held manufacturer and marketer of soy-based meat alternatives. The total cost of these acquisitions was \$358 million. Neither transaction is expected to have a material effect on 2000 operating revenues or operating companies income of Kraft or the Company.

During 2000 and 1999, PMI and KFI sold several small international food businesses. The operating results of businesses divested were not material to consolidated operating results in any of the periods presented.

### Operating Results

	For the Three Months Ended March 31,			
	Operating Revenues		Operating Companies Income	
	(in millions)			
	2000	1999	2000	1999
North American food	\$4,455	\$4,396	\$ 867	\$ 685
International food	2,005	2,242	246	246
Total food	\$6,460	\$6,638	\$1,113	\$ 931

North American food. During the first quarter of 2000, operating revenues increased \$59 million (1.3%) from the first quarter of 1999, due primarily to higher volume (\$128 million), partially offset by the previously mentioned shift in CDC revenues (\$69 million).

Operating companies income for the first quarter of 2000 increased \$182 million (26.6%) from the first quarter of 1999, primarily reflecting the 1999 pre-tax charge for the Kraft Separation Programs (\$157 million), higher volume (\$90 million) and favorable margins (\$75 million, driven by lower manufacturing and commodity-related costs), partially offset by higher marketing, administration and research costs (\$65 million, the majority of which related to higher marketing expense), unfavorable product mix (\$31 million) and the shift in CDC income (\$26 million). Excluding the impact of the pre-tax charge for the Kraft Separation Programs and adjusting for the shift in CDC income, operating companies income of \$893 million in 2000 increased 6.1% over \$842 million in the first quarter of 1999.

Volume for the first quarter of 2000 increased over the comparable 1999 period. Volume gains were achieved by beverages, from the strength of ready-to-drink beverages and powdered soft drinks, as well as new product introductions; processed meats, from lunch combinations, hot dogs and luncheon meats; pizza, from volume gains across all brands; cereals, from new product introductions; and desserts and snacks, due to refrigerated ready-to-eat desserts, shelf-stable puddings and mints. Offsetting these volume gains were volume declines in enhancers, as higher shipments of spoonable dressings were more than offset by declines in pourable salad dressings and seasoned coatings; in cheese, due to intense price competition with private label brands; in meals, primarily due to rice and stuffing; and in coffee, as the entire coffee category declined. In Canada, volume was up due to new product introductions in pizza, ready-to-drink beverages, refrigerated ready-to-eat desserts and dinner kits.

International food. Operating revenues for the first quarter of 2000 decreased \$237 million (10.6%) from the first quarter of 1999, due primarily to the impact of divestitures (\$51 million), pricing (\$30 million, due primarily to lower coffee prices), unfavorable currency (\$184 million) and the previously discussed shift in CDC revenues (\$28 million), partially offset by higher volume (\$35 million).

Operating companies income for the first quarter of 2000 was equal with the first quarter of 1999, as favorable margins, primarily related to lower coffee costs, higher volume and the gain on the sale of a business were essentially offset by unfavorable currency, the shift in CDC income and higher marketing, administration and research costs. Excluding the operating results of the international food businesses divested since the beginning of 1999 and adjusting for the shift in CDC revenues and income, operating revenues of \$2,029 million in the first quarter of 2000 decreased 7.2% from \$2,187 million in 1999, and operating companies income of \$258 million in 2000 increased 6.6% from \$242 million in the first quarter of 1999.

KFI's coffee volume increased over the comparable period of 1999, as volumes were higher in most European markets. Volume growth in Central and Eastern Europe was driven by new product launches and line extensions. In the roast and ground category, KFI brands experienced share gains in Germany, France and Spain, while soluble coffee brands gained share in the United Kingdom and Korea.

Confectionery volume for the first quarter of 2000 increased over the comparable period of 1999, despite the later timing of Easter in 2000. Volume increases in Asia Pacific and several Western European markets more than offset volume declines in certain Eastern European markets, where weaker economic conditions continued to persist. New product launches and line extensions contributed to the confectionery volume growth.

Volume also increased in KFI's cheese and grocery business, driven by volume and share advances in cream cheese products and lunch combinations in the United Kingdom; powdered soft drinks, spoonable dressings and cheese in the Philippines; and cheese in Indonesia.

In Latin America, volume increased from the comparable period of 1999 due primarily to higher grocery shipments in the Caribbean, increased cheese sales in Puerto Rico, Venezuela and the Caribbean, and higher mayonnaise volume in the Caribbean, Venezuela and Mexico. Partially offsetting this increase was lower powdered soft drink volume in Argentina due to continued intense price competition with carbonated beverages.

## **Beer**

### **Business Environment**

During the first quarter of 1999, Miller Brewing Company ("Miller") purchased four trademarks from the Pabst Brewing Company ("Pabst") and the Stroh Brewery Company ("Stroh"). Miller also agreed to increase its contract manufacturing of Pabst products. Miller began brewing and shipping the newly acquired brands during the second quarter of 1999. In the third quarter of 1999, Miller assumed ownership of the former Pabst brewery in Tumwater, Washington as part of these agreements.

Miller's license agreement for the rights to brew and sell Lowenbrau in the United States expired on September 30, 1999. The expiration of this agreement did not have a material impact on Miller's operating revenues or operating companies income for the first quarter of 2000 and is not expected to have a material impact on future operating revenues and operating companies income.

### **Three Months Ended March 31**

Miller's operating revenues for the first quarter of 2000 increased \$58 million (5.9%) over the first quarter of 1999, due primarily to the previously mentioned newly acquired brands, contract manufacturing fees and price increases. Operating companies income for the first quarter of 2000 increased \$17 million (12.5%) over the first quarter of 1999, due primarily to contract manufacturing income and favorable pricing, partially offset by higher marketing, administration and research costs.

Miller's domestic shipment volume of 10.1 million barrels for the first quarter of 2000 increased 2.0% from the comparable 1999 period, due primarily to shipments of newly acquired near-premium brands. Domestic shipments of premium brands were below the comparable 1999 period, due primarily to the discontinuance of Lowenbrau shipments and lower domestic shipments of Molson and Miller Genuine Draft, partially offset by increases for Icehouse and Foster's. Domestic shipments of Miller Lite increased 1.3% from the first quarter of 1999. Domestic shipments of near-premium products increased on shipments of the newly acquired Olde English and Mickey's franchises, while budget products decreased on lower shipments across most brands. Wholesalers' sales to retailers in the first quarter of 2000 increased 6.9% from the comparable 1999 period. Excluding the acquired brands, wholesalers' sales to retailers in the first quarter of 2000 increased 0.9% over the first quarter of 1999, reflecting increased sales of Miller Lite, Miller Genuine Draft, Miller High Life, Icehouse and Foster's, partially offset by lower retail sales of Molson and Lowenbrau.

### **Financial Services**

Philip Morris Capital Corporation's financial services operating revenues and operating companies income for the first quarter of 2000 increased 26.0% and 16.0%, respectively, from the comparable 1999 period. These increases were due primarily to new leasing and structured finance investments and gains realized on related portfolio management activities.

### **Financial Review**

#### **Net Cash Provided by Operating Activities**

During the first quarter of 2000, net cash provided by operating activities was \$3.3 billion compared with \$2.0 billion in the comparable 1999 period. The increase primarily reflects the collection of higher settlement-related domestic tobacco revenues prior to the remittance of such amounts to state governments under the terms of the various state settlements.

#### **Net Cash Used in Investing Activities**

During the first quarter of 2000, net cash used in investing activities was \$751 million, up from \$425 million in 1999. The increase primarily reflects the higher level of cash utilized to purchase businesses during the first quarter of 2000.

#### **Net Cash Used in Financing Activities**

During the first quarter of 2000, net cash of \$3.4 billion was used in financing activities, as compared with \$2.4 billion used in financing activities during the comparable 1999 period. This increase was primarily due to first

quarter 2000 net debt repayments of \$1.3 billion, compared with first quarter 1999 net debt repayments of \$730 million and to higher stock repurchases and dividends paid during the first quarter of 2000.

## **Debt and Liquidity**

The Company's total debt (consumer products and financial services) was \$13.1 billion and \$14.5 billion at March 31, 2000 and December 31, 1999, respectively. Total consumer products debt was \$11.7 billion and \$13.5 billion at March 31, 2000 and December 31, 1999, respectively. At March 31, 2000 and December 31, 1999, the Company's ratio of consumer products debt to total equity was 0.77 and 0.88, respectively. The ratio of total debt to total equity was 0.87 and 0.95 at March 31, 2000 and December 31, 1999, respectively.

The Company and its subsidiaries maintain credit facilities with a number of lending institutions, amounting to approximately \$12.1 billion. These include revolving bank credit agreements totaling \$10.0 billion, which may be used to support any commercial paper borrowings by the Company and which are available for acquisitions and other corporate purposes. Of these revolving bank agreements, an agreement for \$8.0 billion expires in 2002 and a second agreement for \$2.0 billion will expire in September 2000. The \$8.0 billion credit agreement enables the Company to reclassify short-term debt on a long-term basis. The Company may continue to refinance long-term and short-term debt from time to time. The nature and amount of the Company's long-term and short-term debt and the proportionate amount of each can be expected to vary as a result of future business requirements, market conditions and other factors.

The Company's credit ratings by Moody's at March 31, 2000 and December 31, 1999 were "P-1" in the commercial paper market and "A2" for long-term debt obligations. The Company's credit ratings by Standard & Poor's ("S&P") at March 31, 2000 and December 31, 1999 were "A-1" in the commercial paper market and "A" for long-term debt obligations.

As discussed in Note 4, PM Inc., along with other domestic tobacco companies, has entered into tobacco litigation settlement agreements that require the domestic tobacco industry to make substantial annual payments in the following amounts (excluding future annual payments contemplated by the agreement with tobacco growers discussed below): 2000, \$9.2 billion; 2001, \$9.9 billion; 2002, \$11.3 billion; 2003, \$10.9 billion; 2004 through 2007, \$8.4 billion each year; and thereafter, \$9.4 billion each year. In addition, the domestic tobacco industry is required to pay settling plaintiffs' attorneys' fees, subject to an annual cap of \$500 million, as well as additional amounts as follows: 2000, \$416 million; and 2001 through 2003, \$250 million each year. These payment obligations are the several and not joint obligations of each settling defendant. PM Inc.'s portion of ongoing adjusted payments and legal fees is based on its share of domestic cigarette shipments in the year preceding that in which the payment is due. Accordingly, PM Inc. records its portions of ongoing settlement payments as part of cost of sales as product is shipped.

As part of the MSA, the settling defendants committed to work cooperatively with the tobacco-growing states to address concerns about the potential adverse economic impact of the MSA on tobacco growers and quota-holders. To that end, four of the major domestic tobacco product manufacturers, including PM Inc., and the grower states, have established a trust fund to provide aid to tobacco growers and quota-holders. The trust will be funded by these four manufacturers over 12 years with payments, prior to application of various adjustments, scheduled to total \$5.15 billion. Future industry payments (in 2000, \$280 million; 2001, \$400 million; 2002 through 2008, \$500 million each year; 2009 and 2010, \$295 million each year) are subject to adjustment for several factors, including inflation, United States cigarette volume and certain other contingent events, and, in general, are to be allocated based on each manufacturer's relative market share. PM Inc. records its portion of these payments as part of cost of sales as product is shipped.

As discussed above under "Tobacco--Business Environment," the present legislative and litigation environment is substantially uncertain and could result in material adverse consequences for the business, financial condition, cash flows or results of operations of the Company, PM Inc. and PMI.

## **Equity and Dividends**

During the first quarter of 2000 and 1999, the Company repurchased 45.2 million and 15.6 million shares, respectively, of its common stock at a cost of \$921 million and \$649 million, respectively. The repurchases were made under an existing \$8 billion authority that expires in November 2001. At March 31, 2000, cumulative repurchases under the \$8 billion authority totaled 149.7 million shares at an aggregate cost of \$4.6 billion.

The Company paid \$1.1 billion of dividends during the first quarter of 2000 and 1999. During the third quarter of 1999, the Company's Board of Directors approved a 9.1% increase in the current quarterly dividend rate to \$0.48 per share. As a result, the present annualized dividend rate is \$1.92 per share.

## **Cash and Cash Equivalents**

Cash and cash equivalents were \$4.2 billion at March 31, 2000 and \$5.1 billion at December 31, 1999, the decrease being largely attributable to the continuation of the Company's share repurchase program and a lower level of outstanding borrowings.

## **Market Risk**

The Company is exposed to market risk, primarily related to foreign exchange, commodity prices and interest rates. These exposures are actively monitored by management. To manage the volatility relating to these exposures, the Company enters into a variety of derivative financial instruments. The Company's objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in interest rates, foreign currency rates and commodity prices. It is the Company's policy and practice to use derivative financial instruments only to the extent necessary to manage exposures. Since the Company uses currency rate-sensitive and commodity price-sensitive instruments to hedge a certain portion of its existing and anticipated transactions, the Company expects that any loss in value for the hedge instruments generally would be offset by increases in the value of the underlying transactions. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

**Foreign exchange rates.** The Company is exposed to foreign exchange movements, primarily in European, Japanese, other Asian and Latin American currencies. Consequently, it enters into various contracts, which change in value as foreign exchange rates fluctuate, to preserve the value of commitments and anticipated transactions. The Company uses foreign currency option and forward contracts to hedge certain anticipated foreign currency cash flows. The Company also enters into short-term foreign currency swap contracts, primarily to hedge intercompany transactions denominated in foreign currencies. At March 31, 2000 and December 31, 1999, the Company had option and forward foreign exchange contracts, principally for the Japanese yen, British pound and the Euro, with an aggregate notional amount of \$4.6 billion and \$3.8 billion, respectively, for both the purchase and/or sale of foreign currencies.

The Company also seeks to protect its foreign currency net asset exposure, primarily the Swiss franc and the Euro, through the use of foreign-currency denominated debt or currency swap agreements. At March 31, 2000 and December 31, 1999, the notional amounts of currency swap agreements aggregated \$2.5 billion and \$2.6 billion, respectively.

**Commodities.** The Company is exposed to price risk related to anticipated purchases of certain commodities used as raw materials by the Company's food businesses. Accordingly, the Company enters into commodity future, forward and option contracts to manage fluctuations in prices of anticipated purchases, primarily cheese, coffee, cocoa, milk, sugar, wheat and corn. At March 31, 2000 and December 31, 1999, the Company had net long commodity positions of \$460 million and \$163 million, respectively. Unrealized gains/losses on net commodity positions were immaterial at March 31, 2000 and December 31, 1999.

Interest rates. The Company manages its exposure to interest rate risk through the proportion of fixed rate debt and variable rate debt in its total debt portfolio. To manage this mix, the Company may enter into interest rate swap agreements, in which it exchanges the periodic payments, based on a notional amount and agreed-upon fixed and variable interest rates. At December 31, 1999, the Company had an interest rate swap agreement, which converted \$800 million of fixed rate debt to variable rate debt, and which matured during the first quarter of 2000.

Use of the above-mentioned derivative financial instruments has not had a material impact on the Company's financial position at March 31, 2000 and December 31, 1999, or the Company's results of operations for the three months ended March 31, 2000 or the year ended December 31, 1999.

### **New Accounting Standards**

During 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which had an initial adoption date by the Company of January 1, 2000. During 1999, the FASB postponed the adoption date of SFAS No. 133 until January 1, 2001. SFAS No. 133 requires that all derivative financial instruments be recorded on the consolidated balance sheets at their fair value. Changes in the fair value of derivatives will be recorded each period in earnings or other comprehensive earnings, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. Gains and losses on derivative instruments reported in other comprehensive earnings will be reclassified as earnings in the periods in which earnings are affected by the hedged item. The Company has not yet determined the impact that adoption or subsequent application of SFAS No. 133 will have on its financial position or results of operations.

### **Contingencies**

See Note 4 to the Condensed Consolidated Financial Statements for a discussion of contingencies.

### **Forward-Looking and Cautionary Statements**

The Company and its representatives may from time to time make written or oral forward-looking statements, including statements contained in the Company's filings with the Securities and Exchange Commission and in its reports to stockholders. One can identify these forward-looking statements by use of words such as "expects," "plans," "believes," "will," "estimates," "intends," "projects," "goals" and other words of similar meaning. One can also identify them by the fact that they do not relate strictly to historical or current facts. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company is hereby identifying important factors that could cause actual results and outcomes to differ materially from those contained in any forward-looking statement made by or on behalf of the Company; any such statement is qualified by reference to the following cautionary statements.

The tobacco industry continues to be subject to health concerns relating to the use of tobacco products and exposure to ETS, legislation, including actual and potential excise tax increases, increasing marketing and regulatory restrictions, governmental regulation, privately imposed smoking restrictions, governmental and grand jury investigations, litigation, including risks associated with adverse jury and judicial determinations, courts reaching conclusions at variance with the Company's understanding of applicable law, bonding requirements and the absence of adequate appellate remedies to get timely relief from any of the foregoing, and the effects of price increases related to concluded tobacco litigation settlements and excise tax increases on consumption rates. Each of the Company's consumer products subsidiaries is subject to intense competition, changes in consumer preferences, the effects of changing prices for its raw materials and local economic conditions. Their results are dependent upon their continued ability to promote brand equity successfully, to anticipate and respond to new consumer trends, to develop new products and markets and to broaden brand portfolios, in order to compete effectively with lower priced products in a consolidating environment at the retail

and manufacturing levels, and to improve productivity. In addition, PMI, KFI and Kraft are subject to the effects of foreign economies, particularly the timing of economic recoveries in Eastern Europe and related shifts in consumer preferences, and currency movements. Developments in any of these areas, which are more fully described above and which descriptions are incorporated into this section by reference, could cause the Company's results to differ materially from results that have been or may be projected by or on behalf of the Company. The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company.

## Part II - OTHER INFORMATION

### Item 1. Legal Proceedings.

See Note 4. "Contingencies," of the Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report for a discussion of legal proceedings pending against the Company and its subsidiaries. See also Exhibits 99.1, 99.2, and 99.3 to this report.

### Item 4. Submission of Matters to a Vote of Security Holders.

The annual meeting of stockholders was held in Richmond, Virginia on April 27, 2000. 1,876,878,732 shares of Common Stock, 81.2% of outstanding shares, were represented in person or by proxy.

The following thirteen directors were elected to a one-year term expiring in 2001:

	Number of Shares	
	For	Withheld
Elizabeth E. Bailey	1,856,955,651	19,923,081
Geoffrey C. Bible	1,856,458,680	20,420,052
Harold Brown	1,855,958,239	20,920,493
Jane Evans	1,856,886,102	19,992,630
J. Dudley Fishburn	1,856,424,088	20,454,644
Robert E. R. Huntley	1,856,526,139	20,352,593
Billie Jean King	1,852,457,221	24,421,511
Rupert Murdoch	1,855,578,609	21,300,123
John D. Nichols	1,857,061,329	19,817,403
Lucio A. Noto	1,857,597,599	19,281,133
John S. Reed	1,857,065,009	19,813,723
Carlos Slim Helu	1,848,193,159	28,685,573
Stephen M. Wolf	1,856,581,072	20,297,660

The selection of PricewaterhouseCoopers LLP as independent accountants was approved: 1,862,288,355 shares voted in favor; 5,101,496 shares voted against and 9,488,881 shares abstained (including broker non-votes).

The 2000 Performance Incentive Plan was approved: 1,637,127,033 shares voted in favor; 223,726,589 shares voted against and 16,025,110 shares abstained (including broker non-votes).

The 2000 Stock Compensation Plan for Non-Employee Directors was approved: 1,633,879,035 shares voted in favor; 224,681,395 shares voted against and 18,318,302 shares abstained (including broker non-votes).

The six stockholder proposals were defeated:

Stockholder Proposal 1 - Minimum Share Ownership for Nominees for Director: 64,102,098 shares voted in favor; 1,286,400,012 shares voted against and 526,376,622 shares abstained (including broker non-votes).

Stockholder Proposal 2 - Genetic Engineering in Food Products: 42,959,612 shares voted in favor; 1,292,410,482 shares voted against and 541,508,638 shares abstained (including broker non-votes).

Stockholder Proposal 3 - Tobacco Executives' Compensation and Reduction of Teen Tobacco: 109,114,983 shares voted in favor; 1,242,769,458 shares voted against and 524,994,291 shares abstained (including broker non-votes).

Stockholder Proposal 4 - Ensuring That Tobacco Ads Are Not Youth-Friendly: 104,356,250 shares voted in favor; 1,217,000,022 shares voted against and 555,522,460 shares abstained (including broker non-votes).

Stockholder Proposal 5 - Spin off Tobacco Business from Rest of Corporation: 48,394,613 shares voted in favor; 1,306,659,878 shares voted against and 521,824,241 shares abstained (including broker non-votes).

Stockholder Proposal 6 - Report Addressing the Implication of the Company's Tobacco Products: 98,672,519 shares voted in favor; 1,249,657,958 shares voted against and 528,548,255 shares abstained (including broker non-votes).

**Item 6. Exhibits and Reports on Form 8-K.**

(a) Exhibits

3.1 Restated Articles of Incorporation. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1999.)

3.2 By-Laws, as amended, of the Company.

12 Statement regarding computation of ratios of earnings to fixed charges.

27 Financial Data Schedule.

99.1 Certain Pending Litigation Matters and Recent Developments.

99.2 Status of Master Settlement Agreement.

99.3 Trial Schedule for Certain Cases.

(b) Reports on Form 8-K. The Registrant filed a Current Report on Form 8-K, dated January 26, 2000, containing the Registrant's consolidated financial statements for the year ended December 31, 1999.

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**PHILIP MORRIS COMPANIES INC.**

*/s/ LOUIS C. CAMILLERI*

*Louis C. Camilleri, Senior Vice President and  
Chief Financial Officer*

*May 12, 2000*

**Exhibit 3.2**

**BY-LAWS**  
of  
**PHILIP MORRIS COMPANIES INC.**

**ARTICLE I**

**Meetings of Stockholders**

Section 1. Annual Meetings. - The annual meeting of the stockholders for the election of directors and for the transaction of such other business as may properly come before the meeting, and any postponement or adjournment thereof, shall be held on such date and at such time as the Board of Directors may in its discretion determine.

Section 2. Special Meetings. - Unless otherwise provided by law, special meetings of the stockholders may be called by the chairman of the Board of Directors, or in the chairman's absence, the deputy chairman of the Board of Directors (if any), the vice chairman of the Board of Directors (if any), the president (if one shall have been elected by the Board of Directors) or, in the absence of all of the foregoing, an executive vice president or by order of the Board of Directors, whenever deemed necessary.

Section 3. Place of Meetings. - All meetings of the stockholders shall be held at such place in the Commonwealth of Virginia as from time to time may be fixed by the Board of Directors.

Section 4. Notice of Meetings. - Notice, stating the place, day and hour and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given not less than ten nor more than sixty days before the date of the meeting (except as a different time is specified herein or by law), to each stockholder of record having voting power in respect of the business to be transacted thereat.

Notice of a stockholders' meeting to act on an amendment of the Articles of Incorporation, a plan of merger or share exchange, a proposed sale of all, or substantially all of the Corporation's assets, otherwise than in the usual and regular course of business, or the dissolution of the Corporation shall be given not less than twenty-five nor more than sixty days before the date of the meeting and shall be accompanied, as appropriate, by a copy of the proposed amendment, plan of merger or share exchange or sale agreement.

March 16, 2000

Notwithstanding the foregoing, a written waiver of notice signed by the person or persons entitled to such notice, either before or after the time stated therein, shall be equivalent to the giving of such notice. A stockholder who attends a meeting shall be deemed to have (i) waived objection to lack of notice or defective notice of the meeting, unless at the beginning of the meeting he or she objects to holding the meeting or transacting business at the meeting, and (ii) waived objection to consideration of a particular matter at the meeting that is not within the purpose or purposes described in the meeting notice, unless he or she objects to considering the matter when it is presented.

Section 5. Quorum. - At all meetings of the stockholders, unless a greater number or voting by classes is required by law, a majority of the shares entitled to vote, represented in person or by proxy, shall constitute a quorum. If a quorum is present, action on a matter is approved if the votes cast favoring the action exceed the votes cast opposing the action, unless the vote of a greater number or voting by classes is required by law or the Articles of Incorporation, and except that in elections of directors those receiving the greatest number of votes shall be deemed elected even though not receiving a majority. Less than a quorum may adjourn.

Section 6. Organization and Order of Business. - At all meetings of the stockholders, the chairman of the Board of Directors or, in the chairman's absence, the deputy chairman of the Board of Directors (if any), the vice chairman of the Board of Directors (if any), the president (if one shall have been elected by the Board of Directors) or, in the absence of all of the foregoing, the most senior executive vice president, shall act as chairman. In the absence of all of the foregoing officers or, if present, with their consent, a majority of the shares entitled to vote at such meeting, may appoint any person to act as chairman. The secretary of the Corporation or, in the secretary's absence, an assistant secretary, shall act as secretary at all meetings of the stockholders. In the event that neither the secretary nor any assistant secretary is present, the chairman may appoint any person to act as secretary of the meeting.

The chairman shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts and things as are necessary or desirable for the proper conduct of the meeting, including, without limitation, the establishment of procedures for the dismissal of business not properly presented, the maintenance of order and safety, limitations on the time allotted to questions or comments on the affairs of the Corporation, restrictions on entry to such meeting after the time prescribed for the commencement thereof and the opening and closing of the voting polls.

At each annual meeting of stockholders, only such business shall be conducted as shall have been properly brought before the meeting (a) by or at the direction of the Board of Directors or (b) by any stockholder of the Corporation who shall be entitled to

vote at such meeting and who complies with the notice procedures set forth in this Section 6. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the secretary of the Corporation. To be timely, a stockholder's notice must be given, either by personal delivery or by United States certified mail, postage prepaid, and received at the principal executive offices of the Corporation (i) not less than 120 days nor more than 150 days before the first anniversary of the date of the Corporation's proxy statement in connection with the last annual meeting of stockholders or (ii) if no annual meeting was held in the previous year or the date of the applicable annual meeting has been changed by more than 30 days from the date contemplated at the time of the previous year's proxy statement, not less than 60 days before the date of the applicable annual meeting. A stockholder's notice to the secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting, including the complete text of any resolutions to be presented at the annual meeting, and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the Corporation's stock transfer books, of such stockholder proposing such business, (c) a representation that such stockholder is a stockholder of record and intends to appear in person or by proxy at such meeting to bring the business before the meeting specified in the notice, (d) the class and number of shares of stock of the Corporation beneficially owned by the stockholder and (e) any material interest of the stockholder in such business. Notwithstanding anything in the By-Laws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 6. The chairman of an annual meeting shall, if the facts warrant, determine that the business was not brought before the meeting in accordance with the procedures prescribed by this Section 6. If the chairman should so determine, he or she shall so declare to the meeting and the business not properly brought before the meeting shall not be transacted. Notwithstanding the foregoing provisions of this Section 6, a stockholder seeking to have a proposal included in the Corporation's proxy statement shall comply with the requirements of Regulation 14A under the Securities Exchange Act of 1934, as amended (including, but not limited to, Rule 14a-8 or its successor provision). The secretary of the Corporation shall deliver each such stockholder's notice that has been timely received to the Board of Directors or a committee designated by the Board of Directors for review.

Section 7. Voting. - A stockholder may vote his or her shares in person or by proxy. Any proxy shall be delivered to the secretary of the meeting at or prior to the time designated by the chairman or in the order of business for so delivering such proxies. No proxy shall be valid after eleven months from its date, unless otherwise provided in the proxy. Each holder of record of stock of any class shall, as to all matters in respect of which stock of such class has voting power, be entitled to such vote as is provided in the Articles of Incorporation for each share of stock of such class standing

in the holders's name on the books of the Corporation. Unless required by statute or determined by the chairman to be advisable, the vote on any question need not be by ballot. On a vote by ballot, each ballot shall be signed by the stockholder voting or by such stockholder's proxy, if there be such proxy.

Section 8. Written Authorization. - A stockholder or a stockholder's duly authorized attorney-in-fact may execute a writing authorizing another person or persons to act for him or her as proxy. Execution may be accomplished by the stockholder or such stockholder's duly authorized attorney-in-fact or authorized officer, director, employee or agent signing such writing or causing such stockholder's signature to be affixed to such writing by any reasonable means including, but not limited to, by facsimile signature.

Section 9. Electronic Authorization. - The secretary or any vice president may approve procedures to enable a stockholder or a stockholder's duly authorized attorney-in-fact to authorize another person or persons to act for him or her as proxy by transmitting or authorizing the transmission of a telegram, cablegram, internet transmission, telephone transmission or other means of electronic transmission to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission, provided that any such transmission must either set forth or be submitted with information from which the inspectors of election can determine that the transmission was authorized by the stockholder or the stockholder's duly authorized attorney-in-fact. If it is determined that such transmissions are valid, the inspectors shall specify the information upon which they relied. Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to this Section 9 may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.

Section 10. Inspectors. - At every meeting of the stockholders for election of directors, the proxies shall be received and taken in charge, all ballots shall be received and counted and all questions concerning the qualifications of voters, the validity of proxies, and the acceptance or rejection of votes shall be decided, by two or more inspectors. Such inspectors shall be appointed by the chairman of the meeting. They shall be sworn faithfully to perform their duties and shall in writing certify to the returns. No candidate for election as director shall be appointed or act as inspector.

## ARTICLE II

### Board of Directors

Section 1. General Powers. - The business and affairs of the Corporation shall be managed under the direction of the Board of Directors.

Section 2. Number. - The number of directors shall be thirteen (13).

Section 3. Term of Office and Qualification. - Each director shall serve for the term for which he or she shall have been elected and until a successor shall have been duly elected.

Section 4. Nomination and Election of Directors. - At each annual meeting of stockholders, the stockholders entitled to vote shall elect the directors. No person shall be eligible for election as a director unless nominated in accordance with the procedures set forth in this Section 4. Nominations of persons for election to the Board of Directors may be made by the Board of Directors or any committee designated by the Board of Directors or by any stockholder entitled to vote for the election of directors at the applicable meeting of stockholders who complies with the notice procedures set forth in this Section 4. Such nominations, other than those made by the Board of Directors or any committee designated by the Board of Directors, may be made only if written notice of a stockholder's intent to nominate one or more persons for election as directors at the applicable meeting of stockholders has been given, either by personal delivery or by United States certified mail, postage prepaid, to the secretary of the Corporation and received (i) not less than 120 days nor more than 150 days before the first anniversary of the date of the Corporation's proxy statement in connection with the last annual meeting of stockholders, or (ii) if no annual meeting was held in the previous year or the date of the applicable annual meeting has been changed by more than 30 days from the date contemplated at the time of the previous year's proxy statement, not less than 60 days before the date of the applicable annual meeting, or (iii) with respect to any special meeting of stockholders called for the election of directors, not later than the close of business on the seventh day following the date on which notice of such meeting is first given to stockholders. Each such stockholder's notice shall set forth (a) as to the stockholder giving the notice, (i) the name and address, as they appear on the Corporation's stock transfer books, of such stockholder, (ii) a representation that such stockholder is a stockholder of record and intends to appear in person or by proxy at such meeting to nominate the person or persons specified in the notice, (iii) the class and number of shares of stock of the Corporation beneficially owned by such stockholder, and (iv) a description of all arrangements or understandings between such stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by such stockholder; and (b) as to each person whom the stockholder proposes to nominate for

election as a director, (i) the name, age, business address and, if known, residence address of such person, (ii) the principal occupation or employment of such person, (iii) the class and number of shares of stock of the Corporation which are beneficially owned by such person, (iv) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors or is otherwise required by the rules and regulations of the Securities and Exchange Commission promulgated under the Securities Exchange Act of 1934, as amended, and (v) the written consent of such person to be named in the proxy statement as a nominee and to serve as a director if elected. The secretary of the Corporation shall deliver each such stockholder's notice that has been timely received to the Board of Directors or a committee designated by the Board of Directors for review. Any person nominated for election as director by the Board of Directors or any committee designated by the Board of Directors shall, upon the request of the Board of Directors or such committee, furnish to the secretary of the Corporation all such information pertaining to such person that is required to be set forth in a stockholder's notice of nomination. The chairman of the meeting of stockholders shall, if the facts warrant, determine that a nomination was not made in accordance with the procedures prescribed by this Section 4. If the chairman should so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

Section 5. Organization. - At all meetings of the Board of Directors, the chairman of the Board of Directors or, in the chairman's absence, the deputy chairman of the Board of Directors (if any), the vice chairman of the Board of Directors (if any), the president (if one shall have been elected by the Board of Directors) or, in the absence of all of the foregoing, the senior most executive vice president, shall act as chairman of the meeting. The secretary of the Corporation or, in the secretary's absence, an assistant secretary, shall act as secretary of meetings of the Board of Directors. In the event that neither the secretary nor any assistant secretary shall be present at such meeting, the chairman of the meeting shall appoint any person to act as secretary of the meeting.

Section 6. Vacancies. - Any vacancy occurring in the Board of Directors, including a vacancy resulting from amending these By-Laws to increase the number of directors by thirty percent or less, may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the Board of Directors.

Section 7. Place of Meeting. - Meetings of the Board of Directors, regular or special, may be held either within or without the Commonwealth of Virginia.

Section 8. Organizational Meeting. - The annual organizational meeting of the Board of Directors shall be held immediately following adjournment of the annual meeting of stockholders and at the same place, without the requirement of any notice other than this provision of the By-Laws.

Section 9. Regular Meetings: Notice. - Regular meetings of the Board of Directors shall be held at such times and places as it may from time to time determine. Notice of such meetings need not be given if the time and place have been fixed at a previous meeting.

Section 10. Special Meetings. - Special meetings of the Board of Directors shall be held whenever called by order of the chairman of the Board of Directors, the deputy chairman of the Board of Directors (if any), the vice chairman of the Board of Directors (if any), the president (if any) or two of the directors. Notice of each such meeting, which need not specify the business to be transacted thereat, shall be mailed to each director, addressed to his or her residence or usual place of business, at least two days before the day on which the meeting is to be held, or shall be sent to such place by telegraph, telex or telecopy or be delivered personally or by telephone, not later than the day before the day on which the meeting is to be held.

Section 11. Waiver of Notice. - Whenever any notice is required to be given to a director of any meeting for any purpose under the provisions of law, the Articles of Incorporation or these By-Laws, a waiver thereof in writing signed by the person or persons entitled to such notice, either before or after the time stated therein, shall be equivalent to the giving of such notice. A director's attendance at or participation in a meeting waives any required notice to him or her of the meeting unless at the beginning of the meeting or promptly upon the director's arrival, he or she objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting.

Section 12. Quorum and Manner of Acting. - Except where otherwise provided by law, a majority of the directors fixed by these By-Laws at the time of any regular or special meeting shall constitute a quorum for the transaction of business at such meeting, and the act of a majority of the directors present at any such meeting at which a quorum is present shall be the act of the Board of Directors. In the absence of a quorum, a majority of those present may adjourn the meeting from time to time until a quorum be had. Notice of any such adjourned meeting need not be given.

Section 13. Order of Business. - At all meetings of the Board of Directors business may be transacted in such order as from time to time the Board of Directors may determine.

Section 14. Committees. - In addition to the executive committee authorized by Article III of these By-Laws, other committees, consisting of two or more directors, may be designated by the Board of Directors by a resolution adopted by the greater number of (i) a majority of all directors in office at the time the action is being taken or (ii) the number of directors required to take action under Article II, Section 12 hereof.

Any such committee, to the extent provided in the resolution of the Board of Directors designating the committee, shall have and may exercise the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, except as limited by law.

### **ARTICLE III**

#### **Executive Committee**

Section 1. How Constituted and Powers. - The Board of Directors, by resolution adopted pursuant to Article II, Section 14 hereof, may designate, in addition to the chairman of the Board of Directors, one or more directors to constitute an executive committee, who shall serve during the pleasure of the Board of Directors. The executive committee, to the extent provided in such resolution and permitted by law, shall have and may exercise all of the authority of the Board of Directors.

Section 2. Organization, Etc. - The executive committee may choose a chairman and secretary. The executive committee shall keep a record of its acts and proceedings and report the same from time to time to the Board of Directors.

Section 3. Meetings. - Meetings of the executive committee may be called by any member of the committee. Notice of each such meeting, which need not specify the business to be transacted thereat, shall be mailed to each member of the committee, addressed to his or her residence or usual place of business, at least two days before the day on which the meeting is to be held or shall be sent to such place by telegraph, telex or telecopy or be delivered personally or by telephone, not later than the day before the day on which the meeting is to be held.

Section 4. Quorum and Manner of Acting. - A majority of the executive committee shall constitute a quorum for transaction of business, and the act of a majority of those present at a meeting at which a quorum is present shall be the act of the executive committee. The members of the executive committee shall act only as a committee, and the individual members shall have no powers as such.

Section 5. Removal. - Any member of the executive committee may be removed, with or without cause, at any time, by the Board of Directors.

Section 6. Vacancies. - Any vacancy in the executive committee shall be filled by the Board of Directors.

## ARTICLE IV

### Officers

Section 1. Number. - The officers of the Corporation shall be a chairman of the Board of Directors, a deputy chairman of the Board of Directors (if elected by the Board of Directors), a president (if elected by the Board of Directors), one or more vice chairmen of the Board of Directors (if elected by the Board of Directors), a chief operating officer (if elected by the Board of Directors), one or more vice presidents (one or more of whom may be designated executive vice president or senior vice president), a treasurer, a controller, a secretary, one or more assistant treasurers, assistant controllers and assistant secretaries and such other officers as may from time to time be chosen by the Board of Directors. Any two or more offices may be held by the same person.

Section 2. Election, Term of Office and Qualifications. - All officers of the Corporation shall be chosen annually by the Board of Directors, and each officer shall hold office until a successor shall have been duly chosen and qualified or until the officer resigns or is removed in the manner hereinafter provided. The chairman of the Board of Directors, the deputy chairman of the Board of Directors (if any), the president (if any) and the vice chairmen of the Board of Directors (if any) shall be chosen from among the directors.

Section 3. Vacancies. - If any vacancy shall occur among the officers of the Corporation, such vacancy shall be filled by the Board of Directors.

Section 4. Other Officers, Agents and Employees - Their Powers and Duties.

- The Board of Directors may from time to time appoint such other officers as the Board of Directors may deem necessary, to hold office for such time as may be designated by it or during its pleasure, and the Board of Directors or the chairman of the Board of Directors may appoint, from time to time, such agents and employees of the Corporation as may be deemed proper, and may authorize any officers to appoint and remove agents and employees. The Board of Directors or the chairman of the Board of Directors may from time to time prescribe the powers and duties of such other officers, agents and employees of the Corporation.

Section 5. Removal. - Any officer, agent or employee of the Corporation may be removed, either with or without cause, by a vote of a majority of the Board of Directors or, in the case of any agent or employee not appointed by the Board of Directors, by a superior officer upon whom such power of removal may be conferred by the Board of Directors or the chairman of the Board of Directors.

Section 6. Chairman of the Board of Directors and Chief Executive Officer.

- The chairman of the Board of Directors shall preside at meetings of the stockholders and of the Board of Directors and shall be a member of the executive committee. The chairman shall be the Chief Executive Officer of the Corporation and shall be responsible to the Board of Directors. He or she shall be responsible for the general management and control of the business and affairs of the Corporation and shall see to it that all orders and resolutions of the Board of Directors are implemented. The chairman shall from, time to time, report to the Board of Directors on matters within his or her knowledge which the interests of the Corporation may require be brought to its notice. The chairman shall do and perform such other duties as from time to time the Board of Directors may prescribe.

Section 7. Deputy Chairman of the Board of Directors. - In the absence of the chairman of the Board of Directors, the deputy chairman of the Board of Directors (if elected by the Board of Directors) shall preside at meetings of the stockholders and of the Board of Directors. The deputy chairman shall be responsible to the chairman of the Board of Directors and shall perform such duties as shall be assigned to him or her by the chairman of the Board of Directors. The deputy chairman shall from time to time report to the chairman of the Board of Directors on matters within the deputy chairman's knowledge which the interests of the Corporation may require be brought to the chairman's notice.

Section 8. President. - In the absence of the chairman of the Board of Directors and the deputy chairman of the Board of Directors (if any), the president (if one shall have been elected by the Board of Directors) shall preside at meetings of the stockholders and of the Board of Directors. The president shall be responsible to the chairman of the Board of Directors. Subject to the authority of the chairman of the Board of Directors, the president shall be devoted to the Corporation's business and affairs under the basic policies set by the Board of Directors and the chairman of the Board of Directors. He or she shall from, time to time, report to the chairman of the Board of Directors on matters within the president's knowledge which the interests of the Corporation may require be brought to the chairman's notice. In the absence of the chairman of the Board of Directors and the deputy chairman of the Board of Directors (if any), the president (if any) shall, except as otherwise directed by the Board of Directors, have all of the powers and the duties of the chairman of the Board of Directors. The president (if any) shall do and perform such other duties as from time to time the Board of Directors or the chairman of the Board of Directors may prescribe.

Section 9. Vice Chairmen of the Board of Directors. - In the absence of the chairman of the Board of Directors, the deputy chairman of the Board of Directors (if any) and the president (if any), the vice chairman of the Board of Directors designated for such purpose by the chairman of the Board of Directors (if any) shall preside at meetings of the stockholders and of the Board of Directors. Each vice chairman of the

Board of Directors shall be responsible to the chairman of the Board of Directors. Each vice chairman of the Board of Directors shall from time to time report to the chairman of the Board of Directors on matters within the vice chairman's knowledge which the interests of the Corporation may require be brought to the chairman's notice. In the absence or inability to act of the chairman of the Board of Directors, the deputy chairman of the Board of Directors (if any) and the president (if any), such vice chairman of the Board of Directors as the chairman of the Board of Directors may designate for the purpose shall have the powers and discharge the duties of the chairman of the Board of Directors. In the event of the failure or inability of the chairman of the Board of Directors to so designate a vice chairman of the Board of Directors, the Board of Directors may designate a vice chairman of the Board of Directors who shall have the powers and discharge the duties of the chairman of the Board of Directors.

Section 10. Chief Operating Officer. - The chief operating officer (if any) shall be responsible to the Chairman of the Board of Directors for the principal operating businesses of the Corporation and shall perform those duties which may from time to time be assigned.

Section 11. Vice Presidents. - The vice presidents of the Corporation shall assist the chairman of the Board of Directors, the deputy chairman of the Board of Directors, the president (if any) and the vice chairmen (if any) of the Board of Directors in carrying out their respective duties and shall perform those duties which may from time to time be assigned to them. The chief financial officer shall be a vice president of the Corporation (or more senior) and shall be responsible for the management and supervision of the financial affairs of the Corporation.

Section 12. Treasurer. - The treasurer shall have charge of the funds, securities, receipts and disbursements of the Corporation. He or she shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such banks or trust companies or with such bankers or other depositories as the Board of Directors may from time to time designate. The treasurer shall render to the Board of Directors, the chairman of the Board of Directors, the deputy chairman of the Board of Directors (if any), the president (if any), the vice chairmen of the Board of Directors (if any), and the chief financial officer, whenever required by any of them, an account of all of his transactions as treasurer. If required, the treasurer shall give a bond in such sum as the Board of Directors may designate, conditioned upon the faithful performance of the duties of the treasurer's office and the restoration to the Corporation at the expiration of his or her term of office or in case of death, resignation or removal from office, of all books, papers, vouchers, money or other property of whatever kind in his or her possession or under his or her control belonging to the Corporation. The treasurer shall perform such other duties as from time to time may be assigned to him or her.

Section 13. Assistant Treasurers. - In the absence or disability of the treasurer, one or more assistant treasurers shall perform all the duties of the treasurer and, when so acting, shall have all the powers of, and be subject to all restrictions upon, the treasurer. Assistant treasurers shall also perform such other duties as from time to time may be assigned to them.

Section 14. Secretary. - The secretary shall keep the minutes of all meetings of the stockholders and of the Board of Directors in a book or books kept for that purpose. He or she shall keep in safe custody the seal of the Corporation, and shall affix such seal to any instrument requiring it. The secretary shall have charge of such books and papers as the Board of Directors may direct. He or she shall attend to the giving and serving of all notices of the Corporation and shall also have such other powers and perform such other duties as pertain to the secretary's office, or as the Board of Directors, the chairman of the Board of Directors, the deputy chairman of the Board of Directors (if any), the president (if any) or any vice chairman of the Board of Directors may from time to time prescribe.

Section 15. Assistant Secretaries. - In the absence or disability of the secretary, one or more assistant secretaries shall perform all of the duties of the secretary and, when so acting, shall have all of the powers of, and be subject to all the restrictions upon, the secretary. Assistant secretaries shall also perform such other duties as from time to time may be assigned to them.

Section 16. Controller. - The controller shall be administrative head of the controller's department. He or she shall be in charge of all functions relating to accounting and the preparation and analysis of budgets and statistical reports and shall establish, through appropriate channels, recording and reporting procedures and standards pertaining to such matters. The controller shall report to the chief financial officer and shall aid in developing internal corporate policies whereby the business of the Corporation shall be conducted with the maximum safety, efficiency and economy. The controller shall be available to all departments of the Corporation for advice and guidance in the interpretation and application of policies which are within the scope of his or her authority. The controller shall perform such other duties as from time to time may be assigned to him or her.

Section 17. Assistant Controllers. - In the absence or disability of the controller, one or more assistant controllers shall perform all of the duties of the controller and, when so acting, shall have all of the powers of, and be subject to all the restrictions upon, the controller. Assistant controllers shall also perform such other duties as from time to time may be assigned to them.

## ARTICLE V

### **Contracts, Checks, Drafts, Bank Accounts, Etc.**

Section 1. Contracts. - The chairman of the Board of Directors, the deputy chairman of the Board of Directors (if any), the president (if any), any vice chairman of the Board of Directors (if any), any vice president, the treasurer and such other persons as the chairman of the Board of Directors may authorize shall have the power to execute any contract or other instrument on behalf of the Corporation; no other officer, agent or employee shall, unless otherwise in these By-Laws provided, have any power or authority to bind the Corporation by any contract or acknowledgement, or pledge its credit or render it liable pecuniarily for any purpose or to any amount.

Section 2. Loans. - The chairman of the Board of Directors, the deputy chairman of the Board of Directors (if any), the president (if any), any vice chairman of the Board of Directors (if any), any vice president, the treasurer and such other persons as the Board of Directors may authorize shall have the power to effect loans and advances at any time for the Corporation from any bank, trust company or other institution, or from any corporation, firm or individual, and for such loans and advances may make, execute and deliver promissory notes or other evidences of indebtedness of the Corporation, and, as security for the payment of any and all loans, advances, indebtedness and liability of the Corporation, may pledge, hypothecate or transfer any and all stocks, securities and other personal property at any time held by the Corporation, and to that end endorse, assign and deliver the same.

Section 3. Voting of Stock Held. - The chairman of the Board of Directors, the deputy chairman of the Board of Directors (if any), the president (if any), any vice chairman of the Board of Directors (if any), any vice president or the secretary may from time to time appoint an attorney or attorneys or agent or agents of the Corporation to cast the votes that the Corporation may be entitled to cast as a stockholder or otherwise in any other corporation, any of whose stock or securities may be held by the Corporation, at meetings of the holders of the stock or other securities of such other corporation, or to consent in writing to any action by any other such corporation, and may instruct the person or persons so appointed as to the manner of casting such votes or giving such consent, and may execute or cause to be executed on behalf of the Corporation such written proxies, consents, waivers or other instruments as such officer may deem necessary or proper in the premises; or the chairman of the Board of Directors, the deputy chairman of the Board of Directors (if any), the president (if any), any vice chairman of the Board of Directors (if any), any vice president or the secretary may attend in person any meeting of the holders of stock or other securities of such other corporation and thereat vote or exercise any and all powers of the Corporation as the holder of such stock or other securities of such other corporation.

## **ARTICLE VI**

### **Certificates Representing Shares**

Certificates representing shares of the Corporation shall be signed by the chairman of the Board of Directors, the deputy chairman of the Board of Directors (if any), or the vice chairman of the Board of Directors (if any), or the president of the Corporation (if any) and the secretary or an assistant secretary. Any and all signatures on such certificates, including signatures of officers, transfer agents and registrars, may be facsimile.

## **ARTICLE VII**

### **Dividends**

The Board of Directors may declare dividends from funds of the Corporation legally available therefor.

## **ARTICLE VIII**

### **Seal**

The Board of Directors shall provide a suitable seal or seals, which shall be in the form of a circle, and shall bear around the circumference the words "Philip Morris Companies Inc." and in the center the word and figures "Virginia, 1985."

## **ARTICLE IX**

### **Fiscal Year**

The fiscal year of the Corporation shall be the calendar year.

## **ARTICLE X**

### **Amendment**

The power to alter, amend or repeal the By-Laws of the Corporation or to adopt new By-Laws shall be vested in the Board of Directors, but By-Laws made by the Board of Directors may be repealed or changed by the stockholders, or new By-Laws may be adopted by the stockholders, and the stockholders may prescribe that any By-Laws made by them shall not be altered, amended or repealed by the directors.

## **ARTICLE XI**

### **Emergency By-Laws**

If a quorum of the Board of Directors cannot be readily assembled because of some catastrophic event, and only in such event, these By-Laws shall, without further action by the Board of Directors, be deemed to have been amended for the duration of such emergency, as follows:

Section 1. Section 6 of Article II shall read as follows:

Any vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the directors present at a meeting of the Board of Directors called in accordance with these By-Laws.

Section 2. The first sentence of Section 10 of Article II shall read as follows:

Special meetings of the Board of Directors shall be held whenever called by order of the chairman of the Board of Directors or a deputy chairman (if any), or of the president (if any) or any vice chairman of the Board of Directors (if any) or any director or of any person having the powers and duties of the chairman of the Board of Directors, the deputy chairman, the president or any vice chairman of the Board of Directors.

Section 3. Section 12 of Article II shall read as follows:

The directors present at any regular or special meeting called in accordance with these By-Laws shall constitute a quorum for the transaction of business at such meeting, and the action of a majority of such directors shall be the act of the Board of Directors, provided, however, that in the event that only one director is present at any such meeting no action except the election of directors shall be taken until at least two additional directors have been elected and are in attendance.

**EXHIBIT 12****PHILIP MORRIS COMPANIES INC. AND SUBSIDIARIES**  
**Computation of Ratios of Earnings to Fixed Charges**  
(in millions of dollars)

	Three Months Ended March 31, 2000 -----
Earnings before income taxes	\$ 3,293
Add (Deduct):	
Equity in net earnings of less than 50% owned affiliates	(61)
Dividends from less than 50% owned affiliates	25
Fixed charges	320
Interest capitalized, net of amortization	1
	-----
Earnings available for fixed charges	\$ 3,578 =====
Fixed charges:	
Interest incurred:	
Consumer products	\$ 256
Financial services	25
	-----
	281
Portion of rent expense deemed to represent interest factor	39
	-----
Fixed charges	\$ 320 =====
Ratio of earnings to fixed charges	11.2 =====

**EXHIBIT 12**

**PHILIP MORRIS COMPANIES INC. AND SUBSIDIARIES**  
**Computation of Ratios of Earnings to Fixed Charges**  
(in millions of dollars)

	Years Ended December 31,				
	1999	1998	1997	1996	1995
	-----	-----	-----	-----	-----
Earnings before income taxes and cumulative effect of accounting changes	\$ 12,695	\$ 9,087	\$ 10,611	\$ 10,683	\$ 9,347
Add (Deduct):					
Equity in net earnings of less than 50% owned affiliates	(197)	(195)	(207)	(227)	(246)
Dividends from less than 50% owned affiliates	56	70	138	160	202
Fixed charges	1,363	1,386	1,438	1,421	1,495
Interest capitalized, net of amortization	(2)	(5)	(16)	13	2
	-----	-----	-----	-----	-----
Earnings available for fixed charges	\$ 13,915	\$ 10,343	\$ 11,964	\$ 12,050	\$ 10,800
	=====	=====	=====	=====	=====
Fixed charges:					
Interest incurred:					
Consumer products	\$ 1,118	\$ 1,166	\$ 1,224	\$ 1,197	\$ 1,281
Financial services	89	77	67	81	84
	-----	-----	-----	-----	-----
Portion of rent expense deemed to represent interest factor	1,207	1,243	1,291	1,278	1,365
	-----	-----	-----	-----	-----
Fixed charges	\$ 1,363	\$ 1,386	\$ 1,438	\$ 1,421	\$ 1,495
	=====	=====	=====	=====	=====
Ratio of earnings to fixed charges	10.2	7.5	8.3	8.5	7.2
	=====	=====	=====	=====	=====

**ARTICLE 5**

Exhibit 27 This schedule contains summary information extracted from Pages 3-5 of the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2000 and is qualified in its entirety by reference to such financial statements.

MULTIPLIER: 1,000,000

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 2000
PERIOD END	MAR 31 2000
CASH	4,226
SECURITIES	0
RECEIVABLES	4,779
ALLOWANCES	158
INVENTORY	8,686
CURRENT ASSETS	20,003
PP&E	21,793
DEPRECIATION	9,412
TOTAL ASSETS	60,647
CURRENT LIABILITIES	17,440
BONDS	11,757
COMMON	935
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	14,180
TOTAL LIABILITY AND EQUITY	60,647
SALES	20,040
TOTAL REVENUES	20,040
CGS	7,303
TOTAL COSTS	11,753
OTHER EXPENSES	4,809
LOSS PROVISION	0
INTEREST EXPENSE	185
INCOME PRETAX	3,293
INCOME TAX	1,284
INCOME CONTINUING	2,009
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	2,009
EPS BASIC	0.87
EPS DILUTED	0.87

## Exhibit 99.1

### Certain Pending Litigation Matters and Recent Developments

As described in Note 4 ("Note 4") to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, there are legal proceedings covering a wide range of matters pending in various U.S. and foreign jurisdictions against the Company, its subsidiaries and affiliates, including PM Inc. and Philip Morris International, and their respective indemnitees. Various types of claims are raised in these proceedings, including product liability, consumer protection, antitrust, tax, patent infringement, employment matters, claims for contribution and claims of competitors and distributors. Pending 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 alleging personal injury and purporting to be brought on behalf of a class of individual plaintiffs, (iii) health care cost recovery cases brought by governmental and non-governmental plaintiffs seeking reimbursement for health care expenditures allegedly caused by cigarette smoking and/or disgorgement of profits, and (iv) other tobacco-related litigation, including suits by former asbestos manufacturers seeking contribution or reimbursement for amounts expended in connection with the defense and payment of asbestos claims that were allegedly caused in whole or in part by cigarette smoking. Governmental plaintiffs in the health care cost recovery actions include the federal government, various cities and counties in the United States and certain foreign governmental entities. Non-governmental plaintiffs in these cases include union health and welfare trust funds ("unions"), native American tribes, insurers and self-insurers, taxpayers and others.

The following lists certain of the pending claims included in the latter three of these categories and certain other pending claims. Certain developments in these cases since February 15, 2000, are also described. Prior developments in these cases are described in the Company's Report on Form 10-K.

#### Smoking and Health Litigation

The following lists the smoking and health class actions pending against PM Inc. and, in some cases, the Company and/or its other subsidiaries and affiliates, including PMI, as of May 1, 2000, and describes certain developments in these cases since February 15, 2000.

#### Domestic Class Actions

Engle, et al. v. R.J. Reynolds Tobacco Co., et al., Circuit Court, Dade County, Florida, filed May 5, 1994. See Note 4. Contingencies, for a more detailed discussion of this case.

Norton, et al. v. RJR Nabisco Holdings Corporation, et al., Superior Court, Madison County, Indiana, filed May 3, 1996.

Richardson, et al. v. Philip Morris Incorporated, et al., Circuit Court, Baltimore City, Maryland, filed May 24, 1996. The court granted plaintiffs' motion for class certification in February 1998. Defendants have appealed the certification to the Maryland court of Special Appeals.

Scott, et al. v. The American Tobacco Company, et al., District Court, Orleans Parish, Louisiana, filed May 24, 1996. Trial is scheduled for January 2001.

Lyons, et al. v. The American Tobacco Company, et al., United States District Court, Southern District, Alabama, filed August 8, 1996.

## Exhibit 99.1

- Perry/Champion, et al. v. American Tobacco Co., Inc., et al., Circuit Court, Coffee County, Manchester, Tennessee, filed September 6, 1996.
- Connor, et al. v. The American Tobacco Company, et al., Second Judicial District Court, Bernalillo County, New Mexico, filed October 10, 1996.
- In Re Tobacco Litigation (Medical Monitoring Cases) (formerly McCune, et al. v. The American Tobacco Company, et al.), Circuit Court of Kanawha County, West Virginia, filed January 31, 1997. Trial is scheduled for October 2000.
- Muncy (formerly Ingle and formerly Woods), et al. v. Philip Morris Incorporated, et al., Circuit Court, McDowell County, West Virginia, filed February 4, 1997.
- Peterson, et al. v. The American Tobacco Company, et al., Circuit Court, First Circuit, Hawaii, filed February 6, 1997.
- Walls, et al. v. The American Tobacco Company, et al., United States District Court, Northern District, Oklahoma, filed February 6, 1997.
- Selcer, et al. v. R.J. Reynolds Tobacco Company, et al., United States District Court, Nevada, filed March 3, 1997.
- Geiger, et al. v. The American Tobacco Company, et al., Supreme Court, Queens County, New York, filed April 30, 1997. In October 1999, plaintiffs appealed the trial court's denial of their class certification motion.
- Cole, et al. v. The Tobacco Institute, Inc., et al., United States District Court, Eastern District, Texarkana Division, Texas, filed May 5, 1997.
- Cosentino, et al. v. Philip Morris Incorporated, et al., Superior Court, Middlesex County, New Jersey, filed May 21, 1997. In July 1999, the New Jersey Supreme Court denied plaintiffs' motion for leave to appeal the trial court's decision denying class certification. In February 2000, the parties stipulated to dismissal of the case.
- Anderson, et al. v. The American Tobacco Company, Inc., et al., United States District Court, Eastern District, Tennessee, filed May 23, 1997.
- Taylor, et al. v. The American Tobacco Company, Inc., et al., Circuit Court, Wayne County, Michigan, filed May 23, 1997. In January 2000, the court denied plaintiffs' motion for class certification. In April 2000, plaintiffs voluntarily dismissed the case with prejudice.
- Brown, et al. v. The American Tobacco Company, Inc., et al., Superior Court, San Diego County, California, filed June 10, 1997. On April 10, 2000, the court denied plaintiffs' motion for class certification.
- Brammer, et al. v. R.J. Reynolds Tobacco Company, et al., United States District Court, Southern District, Iowa, filed June 20, 1997.

## Exhibit 99.1

- Denberg (formerly Daley), et al. v. American Brands, Inc., et al., United States District Court, Northern District, Illinois, filed July 7, 1997.
- Bush, et al. v. Philip Morris Incorporated, et al., United States District Court, Eastern District, Texas, filed September 10, 1997.
- Nwanze, et al. v. Philip Morris Companies Inc., et al., United States District Court, Southern District, New York, filed September 29, 1997.
- Badillo, et al. v. The American Tobacco Company, et al., United States District Court, Nevada, filed October 8, 1997.
- Young, et al. v. The American Tobacco Company, et al., Civil District Court, Orleans Parish, Louisiana, filed November 12, 1997.
- Aksamit, et al. v. Brown & Williamson Tobacco Corporation, et al., United States District Court, South Carolina, filed November 20, 1997.
- Jackson, et al. v. Philip Morris Incorporated, et al., United States District Court, Central District, Utah, filed February 13, 1998.
- Parsons, et al. v. A C & S, Inc., et al., Circuit Court, Kanawha County, West Virginia, filed February 27, 1998.
- Basik (formerly Mendys), et al. v. Lorillard Tobacco Company, et al., Circuit Court, Cook County, Illinois, filed March 17, 1998.
- Daniels, et al. v. Philip Morris Companies Inc., et al., Superior Court, San Diego County, California, filed April 2, 1998. In April 2000 the court confirmed its earlier order denying plaintiffs' motion for class certification.
- Christensen, et al. v. Philip Morris Companies Inc., et al., United States District Court, Nevada, filed April 3, 1998.
- Avallone, et al. v. The American Tobacco Company, Inc., et al., New Jersey Superior Court, Atlantic County Law Division, New Jersey, filed April 23, 1998. The trial court denied plaintiffs' motion for class certification. Plaintiffs appealed, and in April 2000 the appeals court dismissed plaintiffs' appeal.
- Cleary, et al. v. PM Inc., et al., Circuit Court, Cook County, County Law Department, Law Division, Illinois, filed June 3, 1998.
- Creekmore, et al. v. Brown & Williamson, et al., Superior Court, Bucombe County, North Carolina, filed July 31, 1998.
- Jimenez, et al. v. Brown & Williamson Tobacco Corporation, et al., Second Judicial District Court, County of Bernalillo, New Mexico, filed August 20, 1998.
- Sweeney, et al. v. The American Tobacco Company, et al., Court of Common Pleas, Allegheny County, Pennsylvania, filed October 15, 1998.

## Exhibit 99.1

Brown, et al. v. Philip Morris, Inc., et al., United States District Court, Eastern District, Pennsylvania, filed October 16, 1998. Plaintiffs allege that tobacco companies' "discriminatory targeting of menthol tobacco product sales to Black Americans" violates federal civil rights statutes. In September 1999, the court granted defendants' motion to dismiss the case. In October 1999, plaintiffs filed a notice of appeal to the United States Court of Appeals for the Third Circuit.

Gatlin, et al. v. The American Tobacco Company, et al., United States District Court, Eastern District, Missouri, filed December 21, 1998. In February 2000, plaintiffs voluntarily dismissed the case without prejudice.

Jones, et al. v. The American Tobacco Company, et al., Circuit Court, Jackson County, Missouri, filed December 22, 1998.

Tobacco Consumers' Group Number 3 v. R. J. Reynolds Tobacco Company, et al., United States District Court, Massachusetts, filed March 24, 1999.

Simon, et al. v. Philip Morris Incorporated, et al., United States District Court, Eastern District, New York, filed April 9, 1999.

Julian, et al., v. Philip Morris Companies Inc., Circuit Court for Montgomery County, Alabama, filed April 14, 1999.

Shortino, et al. v. Philip Morris Incorporated, et al., United States District Court, New Jersey, filed August 30, 1999. This putative class action is brought on behalf of New Jersey consumers who purchased and smoked cigarettes manufactured by Philip Morris and are asymptomatic of tobacco-related disease. The case was removed to the United States District Court for the District of New Jersey in October 1999. In May 2000, the court dismissed the plaintiffs' action.

Force v. Brown & Williamson Tobacco Corporation, et al., United States District Court, Southern District Illinois, filed March 29, 2000.

Decie, et al. v. The American Tobacco Company, et al., United States District Court, Eastern District, New York, filed April 21, 2000 (not yet served).

### International Cases

Caputo (formerly LeTourneau) v. Imperial Tobacco Limited, et al., Ontario Court of Justice, Toronto, Canada, filed January 13, 1995.

The Smoker Health Defense Association, et al. v. Souza Cruz, S.A. and Philip Morris Marketing, S.A., 19th Lower Civil Court of the Central Courts of the Judiciary District of Sao Paulo, Brazil, filed July 25, 1995.

DaSilva, et al. v. Nigerian Tobacco Company, et al., High Court of Lagos State, Nigeria, filed September 8, 1997. In February 2000, this action was dismissed due to improper service.

National Association for Assistance to Consumers and Workers v. Souza Cruz S.A. and Philip Morris Brasil S.A., The Fifth Court of Bankruptcies and Reorganizations of the Capital District of the State of Rio de Janeiro, Brazil, filed March 16, 1998.

## **Exhibit 99.1**

Fortin, et al. v. Imperial Tobacco Ltd., et al., Quebec Superior Court, Canada, filed on or about September 11, 1998.

Conseil Quebecois sur le Tabac v. RJR-Macdonald Inc., et al., Quebec Superior Court, Canada, filed November 20, 1998.

Associacao Cearense' de Defesa da Saude do Fumante e Ex-Fumante (ACEDESFE) v. Philip Morris Brazil, S.A., et al., Third Civil Court of the State of Ceara, Fortaleza, Brazil, filed April 12, 1999.

Nixon v. Philip Morris (Australia) Limited, et al., Federal Court, New South Wales Registry, filed April 16, 1999.

Yabin Galidi, et al. v. Dubek Ltd., et al., Tel Aviv-Yaffo Region Court, Israel, filed (but not officially served) July 12, 1999.

### **Health Care Cost Recovery Litigation**

The following lists the health care cost recovery actions pending against PM Inc. and, in some cases, the Company and/or its other subsidiaries and affiliates as of May 1, 2000, and describes certain developments in these cases since February 15, 2000. As discussed in Note 4. Contingencies, in 1998 PM Inc. and certain other United States tobacco product manufacturers entered into a Master Settlement Agreement (the "MSA") settling the health care cost recovery claims of 46 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Marianas. Settlement agreements settling similar claims had previously been entered into with the states of Mississippi, Florida, Texas and Minnesota. Exhibit 99.2 hereto sets forth the status of judicial approval of the MSA in each of the respective settling jurisdictions. The Company believes that the claims in the city/county, taxpayer and certain of the other health care cost recovery actions listed below are released in whole or in part by the MSA or that recovery in any such actions should be subject to the offset provisions of the MSA.

#### **City/County Cases**

City and County of San Francisco, et al. v. Philip Morris Incorporated, et al., United States District Court, Northern District, California, filed June 6, 1996. In February 2000, plaintiffs voluntarily dismissed their case with prejudice.

City of New York, et al. v. The Tobacco Institute, et al., Supreme Court, New York County, New York, filed October 17, 1996. Pursuant to the MSA, plaintiffs, New York City and the Health and Hospitals Corporation, have agreed to execute a release against all defendants and others, including PM Inc., and to sign a stipulation dismissing this action with prejudice.

County of Cook v. Philip Morris, Incorporated, et al., Circuit Court, Cook County, Illinois, filed April 18, 1997. In September 1999, the judge granted in part and denied in part defendants' motion to dismiss the complaint.

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Dismissed were plaintiff's claims for intentional/ negligent breach of special and general duty, performance of another's duty to the public, public nuisance and unjust enrichment/ restitution. The counts remaining are for various violations of the Illinois Consumer Fraud Act, violations of the Illinois Antitrust Act, negligence per se and conspiracy. In February 2000, the court denied defendants' motion for summary judgment on the remaining claims.

*City of St. Louis v. American Tobacco, et al.*, Circuit Court for the City of St. Louis, filed November 23, 1998. This action has been stayed by agreement of the parties until September 2000.

*County of St. Louis v. American Tobacco, et al.*, United States District Court, Eastern District, Missouri, filed December 3, 1998. This action has been stayed by agreement of the parties until September 2000.

*Craig J. Wedde v. Valley Warehousing, Inc., et al.*, Circuit Court Fond Du Lac County, Wisconsin, filed April 7, 1999.

*County of Wayne v. Philip Morris Incorporated, et al.*, United States District Court, Eastern District, Michigan, filed December 7, 1999.

### Department of Justice Case

*The United States of America v. Philip Morris, Inc., et al.*, United States District Court, Washington, D.C., filed September 22, 1999. See Note 4. Contingencies, for a discussion of this case.

### International Cases

*Republic of the Marshall Islands v. The American Tobacco Company, et al.*, High Court, Republic of the Marshall Islands, filed October 20, 1997. In July 1999, the court denied defendants' motion to dismiss. Trial of this case is scheduled for January 2001.

*The Republic of Panama v. The American Tobacco Company, Inc., et al.*, District Court of Orleans Parish, Louisiana, filed September 11, 1998.

*Kupat Holim Clalit v. Philip Morris, Inc., et al.*, Jerusalem District Court, Israel, filed September 28, 1998.

*Her Majesty the Queen in Right of British Columbia v. Imperial Tobacco Limited, et al.*, Supreme Court, British Columbia, Vancouver Registry, Canada, filed November 12, 1998. This lawsuit relies heavily upon recently enacted legislation in British Columbia which is being challenged. An agreement with the government in British Columbia provided that these separate constitutional challenges would be litigated prior to the health care cost recovery action. These constitutional challenges were heard by the British Columbia court in October 1999. In February 2000, the court dismissed the action, finding the statute upon which British Columbia's claim was based was inconsistent with the Constitution of Canada.

*The Caisse Primaire d'Assurance Maladie of Saint-Nazaires v. SEITA, et al.*, Civil Court of Saint-Nazaires, France, filed June 1999.

*The State of Rio de Janeiro of the Federal Republic of Brazil v. Philip Morris Companies Inc., et al.*, District Court, Angelina County, Texas, filed July 12, 1999.

*In re Tobacco/Governmental Health Care Costs Litigation (MDL No. 1279)*, United States District Court, District of Columbia, consolidated June 1999. The cases filed by the Ukraine, the Republics of Guatemala, Nicaragua, Bolivia, the Province of Ontario, Canada, the State of Goias, Brazil and Venezuela have been consolidated into this action. In December 1999, the court granted defendants' motion to dismiss the complaint

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filed by the Republic of Guatemala. In March 2000, the court also dismissed the complaint filed by Nicaragua and Ukraine.

The Republic of Ecuador v. Philip Morris Companies, Inc., et al., Circuit Court, Eleventh Judicial Circuit, Dade County, Florida, filed January 21, 2000.

The State of Sao Paulo of the Federal Republic of Brazil v. Philip Morris Companies, Inc., et al., Civil District Court, Parish of Orleans, Louisiana, filed February 9, 2000. The case was removed to the United States District Court, Eastern District, Louisiana.

The State of Espirito Santo of the Federal Republic of Brazil v. Brooke Group., et al., Circuit Court, Miami, Florida, filed February 20, 2000. The case was removed to the United States District Court, Southern District, Florida.

Obra Social de Empleados de la Marina Mercante, et al. v. The American Tobacco Company, et al., Superior Court, Washington, D.C., filed March 8, 2000.

### Union Cases

Stationary Engineers Local 39 Health and Welfare Trust Fund v. Philip Morris, Inc., et al., United States District Court, Northern District, California, filed April 25, 1997. In August 1999, the court dismissed the action without prejudice. Plaintiff has appealed the dismissal and several interlocutory orders of the court to the United States Court of Appeals for the Ninth Circuit. In March 2000, plaintiffs voluntarily dismissed their appeal.

Northwest Laborers-Employers Health and Security Trust Fund, et al. v. Philip Morris, Inc., et al., United States District Court, Western District, Washington, filed May 21, 1997. In July 1999, the court entered judgment for defendants. Plaintiffs appealed the judgment of dismissal to the United States Court of Appeals for the Ninth Circuit, and requested that the issues on appeal be certified to the Washington Supreme Court. On February 1, 2000, the court entered an order granting final approval of the parties' agreement to dismiss all claims with prejudice and without costs. In February 2000, the Ninth Circuit dismissed the appeal with prejudice and without costs.

Central Laborers Welfare Fund, et al. v. Philip Morris, Inc., et al., Circuit Court, Third Judicial Circuit, Madison County, Illinois, filed May 30, 1997.

Massachusetts Laborers Health and Welfare Fund v. Philip Morris, Inc., et al., United States District Court, Massachusetts, filed June 2, 1997. In August 1999, the court granted defendants' motion to dismiss as to all counts except one, ruling that plaintiffs can only proceed on that claim on the basis of subrogation. In April 2000, plaintiffs filed a voluntary stipulation of dismissal of the case.

Hawaii Health and Welfare Trust Fund for Operating Engineers v. Philip Morris, Inc., et al., United States District Court, Hawaii, filed June 13, 1997. Plaintiff has appealed the court's dismissal of its action to the United States Court of Appeals for the Ninth Circuit. In March 2000 plaintiffs voluntarily dismissed their appeal.

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Ark-La-Miss Laborers Welfare Fund, et al. v. Philip Morris, Inc. et al., United States District Court, Eastern District, Louisiana, filed June 20, 1997. In February 2000, the District Court granted plaintiffs' motion to voluntarily dismiss the case without prejudice.

Oregon Laborers Employers Health and Welfare Trust Fund, et al. v. Philip Morris, Inc., et al., United States District Court, Oregon, filed June 20, 1997. In July 1999, the United States Court of Appeals for the Ninth Circuit affirmed the trial court's dismissal of this suit. Plaintiff filed a petition for a writ of certiorari to the United States Supreme Court. In January 2000, the United States Supreme Court denied the plaintiffs' petition, letting the dismissal of the case stand. In March 2000, plaintiffs voluntarily dismissed their appeal.

Connecticut Pipe Trade, et al. v. Philip Morris Incorporated, et al., United States District Court, Connecticut, filed July 1, 1997. Plaintiffs voluntarily dismissed the case in September 1998. In April 2000, they filed a motion to reinstate the case.

Laborers and Operating Engineers Utility Agreement Health and Welfare Trust Fund for Arizona v. Philip Morris Incorporated, et al., United States District Court, Arizona, filed July 7, 1997. Plaintiffs have appealed the court's decision to grant defendants' motion to dismiss to the United States Court of Appeals for the Ninth Circuit. In November 1999, the Ninth Circuit denied plaintiffs' request for a stay of proceedings. In March 2000, plaintiffs voluntarily dismissed their appeal.

Rhode Island Laborers Health and Welfare Fund v. Philip Morris Incorporated, et al., United States District Court, Rhode Island, filed July 20, 1997. In August 1999, the Magistrate issued a report and recommendation dismissing the entire complaint, citing grounds of remoteness with respect to the injunctive claims and lack of standing with respect to the RICO and antitrust claims.

Eastern States Health and Welfare Fund, et al. v. Philip Morris, Inc., et al., Supreme Court, New York County, State of New York, filed July 28, 1997. In March 2000, the court granted defendants' motion for dismissal, stating that the plaintiff's claims were too remote and indirect. Plaintiffs are appealing the dismissal.

Asbestos Workers Local 53 Health and Welfare Fund, et al. v. Philip Morris, Inc., et al., United States District Court, Eastern District, Louisiana, filed August 15, 1997. In February 2000, the District Court dismissed the case without prejudice.

Construction Laborers of Greater St. Louis Welfare Fund, et al. v. Philip Morris, Inc., et al., Circuit Court, City of St. Louis, Missouri, filed September 2, 1997. In January 2000, plaintiffs voluntarily dismissed the case.

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Teamsters Union No. 142 Health and Welfare Trust Fund and Sheet Metal Workers Local Union No. 20 Welfare and Benefit Fund v. Philip Morris Incorporated, et al., Circuit Court, St. Joseph County, Indiana, filed September 12, 1997. In February 2000, plaintiffs voluntarily dismissed the case.

Operating Engineers Local 12 Health and Welfare Trust Fund, et al. v. American Tobacco, Inc., et al., Superior Court, San Diego County, California, filed September 17, 1997. Trial is scheduled for January 2001. See *In re TOBACCO CASES* II. In March 2000, the court ruled that plaintiffs are not permitted to use California's unfair business practices statute to seek monetary damages for their claims. In April 2000, the plaintiffs voluntarily dismissed the case with prejudice and appealed certain trial court rulings to the State court of appeals.

Puerto Rican ILGWU Health & Welfare Fund, et al. v. Philip Morris Inc., et al., Supreme Court, County of New York, New York, filed September 17, 1997. In March 2000, the court granted defendant's motion for dismissal, stating that the plaintiffs' claims were too remote and indirect.

New Mexico and West Texas Multi-Craft Health and Welfare Trust Fund, et al. v. Philip Morris, Inc., et al., Second Judicial District Court, Bernalillo County, New Mexico, filed October 10, 1997. The court granted defendants' motion to dismiss in December 1998. Plaintiffs have appealed dismissal of only their antitrust and state law consumer protection claims to the New Mexico Court of Appeals. In April 2000, plaintiffs voluntarily dismissed their appeal with prejudice.

United Food and Commercial Workers Unions and Employers Health and Welfare Fund v. Philip Morris, Inc., et al., United States District Court, Northern District, Alabama, filed November 13, 1997. In August 1999, the court granted defendants' motion to dismiss. Plaintiff has appealed to the United States Court of Appeals for the Eleventh Circuit.

IBEW Local 25 Health and Benefit Fund v. Philip Morris, Inc., et al., Supreme Court, New York County, New York, filed November 25, 1997. In March 2000, the court granted defendants' motion for dismissal, stating that the plaintiff's claims were too remote and indirect. Plaintiff has appealed the dismissal.

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IBEW Local 363 Welfare Fund v. Philip Morris, Inc., et al., Supreme Court, New York County, New York, filed November 25, 1997. In March 2000, the court granted defendants' motion for dismissal, stating that the plaintiff's claims were too remote and indirect. Plaintiff has appealed the dismissal.

Local 138, 138A and 138B International Union of Operating Engineers Welfare Fund v. Philip Morris, Inc., et al., Supreme Court, New York County, New York, filed November 25, 1997. In March 2000, the court granted defendants' motion for dismissal, stating that the plaintiff's claims were too remote and indirect. Plaintiff has appealed the dismissal.

Local 840, International Brotherhood of Teamsters Health and Insurance Fund v. Philip Morris, Inc., et al., Supreme Court, New York County, State of New York, filed November 25, 1997. In March 2000, the court granted defendants' motion for dismissal, stating that the plaintiff's claims were too remote and indirect. Plaintiff has appealed the dismissal.

Long Island Regional Council of Carpenters Welfare Fund v. Philip Morris, Inc., Supreme Court, New York County, New York, filed November 25, 1997. In March 2000, the court granted defendants' motion for dismissal, stating that the plaintiff's claims were too remote and indirect. Plaintiff has appealed the dismissal.

Day Care Council - Local 205 D.C. 1707 Welfare Fund v. Philip Morris, Inc., et al., Supreme Court, New York County, New York, filed December 8, 1997. In March 2000, the court granted defendants' motion for dismissal, stating that the plaintiff's claims were too remote and indirect. Plaintiff has appealed the dismissal.

Local 1199 Home Care Industry Benefit Fund v. Philip Morris, Inc., et al., Supreme Court, New York County, New York, filed December 8, 1997. In March 2000, the court granted defendants' motion for dismissal, stating that the plaintiff's claims were too remote and indirect. Plaintiff has appealed the dismissal.

Local 1199 National Benefit Fund for Health and Human Services Employees v. Philip Morris, Inc., et al., Supreme Court, New York County, New York, filed December 8, 1997. In March 2000, the court granted defendants' motion for dismissal, stating that the plaintiff's claims were too remote and indirect. Plaintiff has appealed the dismissal.

Operating Engineers Local 324 Health Care Fund, et al. v. Philip Morris, Inc., et al., Circuit Court, Wayne County, Michigan, filed December 30, 1997. Plaintiffs appealed the court's February 1999 decision to grant defendants' motion to dismiss to the Michigan Court of Appeals.

Robert Lyons, et al. v. Philip Morris Incorporated, et al., United States District Court, Minnesota, filed December 31, 1997. In April 1999, the court granted defendants' motion to dismiss the case on the grounds that plaintiffs' alleged injuries were "too derivative and remote" to be cognizable under federal antitrust and RICO law. Plaintiffs have appealed to the United States Court of Appeals for the Eighth Circuit.

Steamfitters Local Union No. 614 Health & Welfare Fund, et al. v. Philip Morris, Inc., et al., Circuit Court, Thirteenth Judicial District, Tennessee, filed January 7, 1998. In January 1999, the trial court granted in part and denied in part defendants' motion to dismiss. Defendants filed an interlocutory appeal from the partial denial of their motion to dismiss.

National Asbestos Workers Medical Fund, et al. v. Philip Morris Incorporated, et al., United States District Court, Eastern District, New York, filed February 27, 1998. In July 1999, the District Court denied a motion to intervene filed by another union health and welfare fund. In August 1999, the court denied defendants' motion to dismiss the amended complaint. In October 1999, the United States Court of Appeals for the Second Circuit denied defendants' appeal and mandamus petition, which sought review of the District Court's denial of defendants' motion to dismiss the amended complaint. In November 1999, defendants filed a petition for

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rehearing en banc from the previous order in October declining to review defendants' petition for writ of mandamus. In January 2000, defendants filed a petition for a writ of mandamus with the Second Circuit seeking to require that the class certification issue be resolved prior to trial. On February 8, 2000, the Second Circuit ordered further briefing on the petition. Trial is scheduled for November 2000.

*Milwaukee Carpenters, et al. v. Philip Morris Incorporated, et al.*, United States District Court, Eastern District, Wisconsin, filed March 4, 1998. In September 1999, the judge denied plaintiffs' motion to remand the case to state court. In January 2000, the court dismissed the case with prejudice pursuant to a stipulation by the parties.

*Service Employees International Union Health & Welfare Fund, et al. v. Philip Morris, Inc., et al.*, United States District Court, District of Columbia, filed March 19, 1998. In July 1999, the court denied without prejudice the motion of two health and welfare trust funds to intervene in this lawsuit. In December 1999, the court granted in part and denied in part defendants' motion to dismiss. In March 2000, the United States Court of Appeals for the District of Columbia Circuit granted the parties' petitions to appeal the District Court's partial denial of defendants' motion to dismiss. In April 2000, the District of Columbia Circuit consolidated the appeal with *Guatemala v. The Tobacco Institute* for purposes of oral argument.

*Utah Laborers' Health and Welfare Trust Fund, et al. v. Philip Morris Incorporated, et al.*, United States District Court, Utah, filed June 13, 1998. In October 1999, the District Court certified its denial of the motion to dismiss to the United States Court of Appeals for the Tenth Circuit. In November 1999, the Tenth Circuit granted the petition to review the District Court's denial of the motion to dismiss. On April 14, 2000, plaintiffs voluntarily dismissed their case with prejudice.

*S.E.I.U. Local 74 Welfare Fund, et al. v. Philip Morris, Inc., et al.*, United States District Court, District of Columbia, filed June 22, 1998. In December 1999, the court granted in part and denied in part defendants' motion to dismiss. In March 2000, the United States Court of Appeals for the District of Columbia Circuit granted the parties' petitions to appeal the District Court's partial denial of defendants' motion to dismiss. In April 2000, the District of Columbia Circuit consolidated the appeal with *Guatemala v. The Tobacco Institute* for purposes of oral argument.

*Michael H. Holland, et al. v. Philip Morris, Inc., et al.*, United States District Court, District of Columbia, filed July 9, 1998. In December 1999, the court granted in part and denied in part defendants' motion to dismiss. In March 2000, the United States Court of Appeals for the District of Columbia Circuit granted the parties' petitions to appeal the District Court's partial denial of defendants' motion to dismiss. In April 2000, the District of Columbia Circuit consolidated the appeal with *Guatemala v. The Tobacco Institute* for purposes of oral argument.

*Sheet Metal Workers Trust Fund, et al. v. Philip Morris, Inc., et al.*, United States District Court, District of Columbia, filed August 31, 1999. In December 1999, the court granted in part and denied in part defendants' motion to dismiss. In March 2000, the United States Court of Appeals for the District of Columbia Circuit granted the parties' petitions to appeal the District Court's partial denial of defendants' motion to dismiss. In April 2000, the District of Columbia Circuit consolidated the appeal with *Guatemala v. The Tobacco Institute* for purposes of oral argument.

*David B. Bergeron, et al. v. Philip Morris Incorporated, et al.*, United States District Court, Eastern District, New York, filed September 29, 1999.

### Native American Cases

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The Muscogee (Creek) Nation, et al. v. The American Tobacco Company, et al., District Court, Okmulgee District, Muscogee (Creek) Nation, filed June 20, 1997. In December 1999, plaintiffs voluntarily dismissed the case.

Crow Creek Sioux Tribe v. The American Tobacco Company, et al., Tribal Court, Crow Creek Sioux Tribe, filed September 14, 1997. On January 25, 2000, the court entered a stay of proceedings until July 2001.

Lower Brule Sioux Tribe v. American Tobacco Company, et al., Tribal Court of the Lower Brule Sioux Tribe, Lower Brule, South Dakota, filed December 4, 1997.

Sisseton-Wahpeton Sioux Tribe v. Philip Morris Incorporated, et al., Tribal Court of the Sisseton-Wahpeton Sioux Tribe, filed May 8, 1998. On December 1, 1999, the court granted defendant's petition for intermediate appeal from the trial court's order, which granted in part and denied in part defendants' motion to dismiss the complaint. The trial and appellate courts have stayed proceedings until July 2000.

Standing Rock Sioux Tribe v. Philip Morris Incorporated, et al., Tribal Court of the Standing Rock Sioux Indian Reservation, filed May 8, 1998. In May 2000, the Standing Rock Sioux v. Supreme Court entered an order affirming the trial court's denial of defendants' motion to dismiss the complaint for lack of subject matter jurisdiction.

Acoma Pueblo, et al. v. American Tobacco Co., et al., New Mexico, First Judicial District Court, Santa Fe County, New Mexico, filed June 16, 1999. On November 18, 1999, the court entered a stay of proceedings until July 2000.

Navajo Nation v. Philip Morris Incorporated, et al., District Court, Window Rock, Arizona, filed August 12, 1999.

### **Insurer and Self-Insurer Cases**

Group Health Plan, et al. v. Philip Morris, Inc., et al., United States District Court, Minnesota, filed March 11, 1998. In April 1999, the court dismissed all claims except the state antitrust and conspiracy claims. In January 2000, the court granted in part defendants' motion to dismiss and certified issues regarding plaintiffs' consumer protection claims to the Minnesota Supreme Court.

Health Care Services Corporation (formerly Arkansas Blue Cross and Blue Shield), et al. v. Philip Morris Incorporated, et al., United States District Court, Northern District, Illinois, filed April 29, 1998. In August 1999, the court denied defendants' motion to reconsider its earlier denial of defendants' motion to dismiss and granted certification of the order for interlocutory appeal to the United States Court of Appeals for the Seventh Circuit. In November 1999, the Seventh Circuit reversed the trial court's refusal to dismiss the case and instructed the trial court to dismiss it. In December 1999, the Court of Appeals denied plaintiffs' petitions for rehearing and rehearing en banc. The trial court dismissed the case in January 2000. Plaintiffs filed an appeal in the United States Court of Appeals for the Seventh Circuit. In April 2000, the court denied plaintiffs' appeal.

Blue Cross and Blue Shield of New Jersey, Inc., et al. v. Philip Morris, Incorporated, et al., United States District Court, Eastern District, New York, filed April 29, 1998. In August 1999, the court denied defendants' motion to dismiss the amended complaint. In October 1999, the United States Court of Appeals for the Second Circuit denied defendants' appeals and mandamus petition, which sought review of the District Court's denial of defendants' motion to dismiss the amended complaint. In October 1999, five of the plaintiffs agreed to dismiss their claims without prejudice. In November 1999, defendants filed a petition for rehearing and a petition for rehearing en banc from the previous order in October declining to review defendants' petition for

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writ of mandamus. In December 1999, the Second Circuit denied the petition for rehearing and in April 2000 denied the defendants' petition for rehearing en banc. Trial is scheduled for September 2000.

Regence Blue Shield, et al. v. Philip Morris, Inc., et al., United States District Court, Western District, Washington, filed April 29, 1998. Plaintiffs have appealed the trial court's dismissal of their action to the United States Court of Appeals for the Ninth Circuit.

### Taxpayer Cases

Coyne, et al. v. The American Tobacco Company, et al., Court of Common Pleas, Cuyahoga County, Ohio, filed September 17, 1996. In July 1999, the United States Court of Appeals for the Sixth Circuit affirmed the trial court's ruling that plaintiffs lacked standing to pursue the action. As a result, the case was remanded to state court for additional proceedings since there was no federal subject matter jurisdiction.

State of Tennessee, et al., ex. rel. Beckom, et al. v. The American Tobacco Company, et al., Chancery Court, Monroe County, Tennessee, filed May 8, 1997. Plaintiffs have appealed the trial court's dismissal of their action to the United States Court of Appeals for the Sixth Circuit. In April 2000, the Sixth Circuit ordered that the case be remanded to state court, holding the United States District Court lacked subject matter jurisdiction to determine plaintiffs' lack of standing.

Woods, et al. v. The American Tobacco Company, et al., United States District Court, Middle District, North Carolina, filed February 13, 1998. In March 2000, the parties stipulated the dismissal of the case without prejudice.

### Other Cases

Perry, et al. v. The American Tobacco Company, et al., Circuit Court, Coffee County, Tennessee, filed September 30, 1996.

University of South Alabama v. The American Tobacco Company, et al., United States District Court, Southern District, Alabama, filed May 19, 1997. In January 2000, the court entered an order dismissing this case with prejudice subject to the stipulation of the parties.

Mason, et al. v. The American Tobacco Company, et al., United States District Court, Northern District, Texas, filed December 23, 1997. In May 1999, the United States Justice Department advised the court that the Federal Government does not plan to intervene in this suit.

In re TOBACCO CASES II, Superior Court for the State of California, Judicial Council Coordination Proceeding No. 4042. The court in this case has consolidated 30 previously filed cases, including 26 health care cost recovery actions filed by unions (all of which were recently voluntarily dismissed by plaintiffs without prejudice) and one by native Americans, two "Proposition 65" cases, and two putative smoking and health class actions. In a July 1999 telephonic ruling, the court in the native American case denied defendants' motion to dismiss except with respect to claims for violation of the California Business and Professions Code. In January 2000, the court granted in part and denied in part defendants' motion for summary judgment in the "Proposition 65" cases and dismissed plaintiffs' "Proposition 65" claims. In April 2000, the court denied class certification in the two putative class actions. Trial on the remaining claims in these two cases, alleging violations of California's Business and Professions Code, is scheduled to begin in July 2000.

Allegheny General Hospital, et al. v. Philip Morris, Inc., et al., United States District Court, Western District, Pennsylvania, filed December 10, 1998. In November 1999, the court granted defendants' motion to dismiss. Plaintiffs are appealing this decision.

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Association of Washington Public Hospital Districts, et al. v. Philip Morris Incorporated, United States District Court, Western District, Washington, filed March 17, 1999. In December 1999, the court granted defendants' motion to dismiss and plaintiffs are appealing this decision.

A.O. Fox Memorial Hospital et al. v. The American Tobacco Company, et al., Supreme Court, Nassau County, New York, filed March 30, 2000 (not yet served).

### CERTAIN OTHER TOBACCO-RELATED ACTIONS

The following lists certain other tobacco-related litigation pending against the Company and/or various subsidiaries and others as of May 1, 2000, and describes certain developments since February 15, 2000.

#### Asbestos Contribution Cases

Raymark Industries, Inc. v. R. J. Reynolds Tobacco Company, et al., Circuit Court, Fourth Judicial Circuit, Duval County, Florida, filed September 15, 1997.

Raymark Industries, Inc. v. Brown & Williamson Tobacco Corporation, et al., United States District Court, Northern District, Atlanta Division, Georgia, filed September 15, 1997.

Fibreboard Corporation and Owens Corning v. The American Tobacco Company, et al., Superior Court, Alameda County, California, filed December 11, 1997.

Keene Creditors Trust v. Brown & Williamson Tobacco Corporation, et al., Supreme Court, New York County, New York, filed December 19, 1997.

Robert A. Falise, et al. v. The American Tobacco Company, et al., United States District Court, Southern District, New York, filed December 31, 1997. In November 1999, the court granted defendant's motion to dismiss, finding no subject matter jurisdiction. Plaintiffs refiled their complaint in November 1999, alleging violations of RICO. Trial is scheduled for July 2000.

H. K. Porter Company, Inc. v. The American Tobacco Company, et al., United States District Court, Eastern District, New York, filed December 31, 1997. In November 1999, defendants filed a petition for mandamus with the United States Court of Appeals for the Second Circuit, seeking review of the trial court's denial of defendants' motion to dismiss the new complaint. Trial is scheduled for January 2001.

Raymark Industries, Inc. v. R. J. Reynolds Tobacco Company, et al., Circuit Court, Fourth Judicial Circuit, Duval County, Florida, filed December 31, 1997.

Raymark Industries, Inc. v. The American Tobacco Company, et al., United States District Court, Eastern District, New York, filed January 30, 1998. Trial is scheduled for March 2001.

Owens Corning v. R.J. Reynolds Tobacco Company, et al., Circuit Court, Jefferson County, Mississippi, filed August 30, 1998. Trial is scheduled for February 2001.

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UNR Asbestos-Disease Claims Trust v. Brown & Williamson Tobacco Corporation, et al., Supreme Court, New York County, New York, filed March 15, 1999.

P&L Coal Holdings Corporation v. British American Tobacco Industries, et al., United States District Court, Wyoming, filed March 10, 2000. In March 2000, plaintiffs dismissed the case without prejudice.

### Lights/Ultra Lights Cases

Hogue, et al. v. Philip Morris Companies, Inc. and Philip Morris, Inc., Circuit Court for the 13th Judicial Circuit, Hillsborough County, Florida, filed June 30, 1998.

Gesser (formerly Cummis), et al. v. Philip Morris Companies, Inc. and Philip Morris, Inc., Superior Court, Middlesex County, New Jersey, filed July 9, 1998.

McNamara, et al. v. Philip Morris Companies, Inc. and Philip Morris, Inc., Court of Common Pleas, Montgomery County, Pennsylvania, filed July 16, 1998.

Aspinall, et al. v. Philip Morris Companies, Inc. and Philip Morris Incorporated, Superior Court, Suffolk County, Massachusetts, filed November 24, 1998.

Russell, et al. v. Philip Morris Incorporated and Philip Morris Companies, Inc., United States District Court, Eastern District, Tennessee, filed November 24, 1998. In April 1999, plaintiffs voluntarily dismissed this case.

McClure, et al. v. Philip Morris Companies Inc. and Philip Morris Incorporated, Circuit Court, Davidson County, Tennessee, filed February 19, 1999.

Cocca, et al. v. Philip Morris Incorporated, Superior Court, Maricopa County, Arizona, filed May 13, 1999. The United States District Court granted plaintiffs' motion to remand the case to the Superior Court of Maricopa County.

Popa, et al. v. Philip Morris Companies Inc., et al., Court of Common Pleas, Stark County, Ohio, filed June 30, 1999.

Engle, et al. v. Philip Morris Companies, Inc. and Philip Morris Inc., United States District Court, Arizona, filed July 16, 1999.

Catherine Marrone, et al. v. Philip Morris Companies Inc. and Philip Morris Incorporated, Court of Common Pleas, Medina County, Ohio, filed November 8, 1999. This putative class action is brought on behalf of all residents of Ohio who purchased and consumed Virginia Slims Lights cigarettes and who do not have a claim for personal injury resulting from the purchase or consumption of cigarettes.

Sarah Dahlgren v. Philip Morris Companies Inc. and Philip Morris Inc., et al., Superior Court, Washington, D.C., filed November 18, 1999. This putative class action, brought on behalf of all residents of Washington, D.C. who smoke Marlboro Lights cigarettes, alleges deceptive and unfair trade practices.

Miles, et al. v. Philip Morris Companies, Inc., et al., Circuit Court, Madison County, Illinois, filed February 10, 2000.

Jackie Bauer, et al. v. Philip Morris Companies Inc., United States District Court, Eastern District, Missouri, filed February 15, 2000.

**Retail Leaders Case**

R.J. Reynolds Tobacco Company, et al. v. Philip Morris Incorporated, United States District Court, Middle District, North Carolina, filed March 12, 1999.

**Vending Machine Case**

Lewis d/b/a B&H Vendors v. Philip Morris Inc., United States District Court, Middle District, Tennessee, filed February 3, 1999. Trial is scheduled for November 2000.

**California Business and Professions Code Cases**

The Company believes that these cases which were based in part on "Proposition 65", are released in whole or in part by the MSA or that recovery in any such action should be subject to the offset provisions of the MSA. In January 2000, the trial court granted in part and denied in part defendants' motion for summary judgment in the "Proposition 65" cases and dismissed plaintiffs' "Proposition 65" claims. Trial on the remaining claims, alleging violations of California's Business and Professions Code regarding unfair and fraudulent business practices, is scheduled to begin July 2000.

The People of the State of California, et al. v. Philip Morris Incorporated, et al., Superior Court, Los Angeles County, California, filed July 14, 1998. This case has been coordinated with In Re Tobacco Cases II discussed above.

The People of the State of California, et al. v. Brown & Williamson Tobacco Corporation, et al., Superior Court, San Francisco County, California, filed July 28, 1998. This case has been coordinated with In Re Tobacco Cases II discussed above.

**MSA-Related Cases**

Hise, et al. v. Philip Morris Incorporated, et al., United District Court, Northern District, Oklahoma, filed December 15, 1998. Plaintiffs have appealed the trial court's dismissal of their action to the United States Court of Appeals for the Tenth Circuit. In February 2000, the Tenth Circuit affirmed summary judgment for defendants and in March 2000 it denied plaintiffs' petition for rehearing.

Forces Action Project, LLC, et al. v. The State of California, et. al., United States District Court, Northern District, California, filed January 23, 1999. In January 2000, the court granted defendants' motion to dismiss the complaint. In March 2000, plaintiffs filed an appeal to the United States Court of Appeals for the Ninth Circuit.

A.D. Bedell Wholesale Co. v. Philip Morris Incorporated, et al., United States District Court, Western District, Pennsylvania, filed April 12, 1999. In March 2000, the court granted in part defendants' motion to dismiss the complaint. Thereafter, plaintiffs and Philip Morris stipulated to a dismissal without prejudice of the claim that had not been dismissed by the court. In April 2000, plaintiffs filed a notice of appeal to the United States Court of Appeals for the Third Circuit from the court's decision granting in part defendants' motion to dismiss.

A.D. Bedell Company, Inc. v. Philip Morris, Supreme Court, Cattaraugus County, New York, filed October 18, 1999. In November 1999, the court denied a motion to dismiss the complaint and denied a motion to vacate the temporary restraining order enjoining Philip Morris from refusing to sell products to plaintiff. Shortly

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thereafter, the parties agreed to stay further proceedings in the case pending the outcome of A.D. Bedell Wholesale Co. v. Philip Morris Incorporated, et al. pending in the Western District of Pennsylvania and any appeal therefrom. Philip Morris filed an appeal from the court's denial of the motion to dismiss and the motion to vacate. The appeals court heard argument on the appeal in February 2000.

Table Bluff Reservation (Wiyot Tribe), et al. v. Philip Morris, Inc., et al., No. C99-02621-NHP, United States District Court, Northern District, California, filed June 2, 1999. On November 12, 1999, the court dismissed the lawsuit in its entirety. Plaintiffs filed a notice of appeal in November 1999.

Turner Branch, et al. v. Brown & Williamson Tobacco Corporation, et al., United States District Court, New Mexico, filed August 3, 1999. In October 1999, the court granted defendants' motion to stay the case pending arbitration pursuant to the MSA. In April 2000, plaintiff withdrew his request for fees submitted to the arbitration panel.

PTI, Inc. et al. v. Philip Morris Incorporated, et al., United States District Court, Central District, California, filed August 13, 1999.

State of New York, et al. v. Philip Morris Incorporated, et al., Supreme Court, New York County, New York, intervention motion filed August 19, 1999. The intervention motion was denied, and is presently on appeal to the Appellate Division, First Department.

Herek, et al. v. State of Wisconsin, et al., Circuit Court, Dane County, Wisconsin, filed November 5, 1999. This lawsuit alleges that plaintiffs have a right to a portion of the proceeds Wisconsin receives pursuant to the MSA. In April 2000, the parties stipulated to dismissal of the cigarette manufacturing defendants.

### **Tobacco Price Cases**

Wholesalers and Other Direct Purchasers - The following are putative class actions filed by tobacco wholesalers and direct purchasers of cigarettes alleging that defendants, through the MSA and other activities, conspired to fix cigarette prices in violation of antitrust laws.

Buffalo Tobacco Products, et al. v. Philip Morris Companies Inc., et al., United States District Court, District of Columbia, filed February 8, 2000.

DelSeronne, et al. v. Philip Morris Companies Inc., et al., Circuit Court, Wayne County, Michigan, filed February 8, 2000.

Greer v. R. J. Reynolds, et al., Superior Court, San Francisco, California, filed February 9, 2000.

Lennon v. Philip Morris Companies Inc., et al., Supreme Court, New York County, New York, filed February 9, 2000.

Munoz v. R. J. Reynolds, et al., Superior Court, San Francisco, California, filed February 9, 2000.

Smith v. Philip Morris Companies Inc., et al., District Court, Seward County, Kansas, filed February 9, 2000.

Withers v. Philip Morris Companies Inc., et al., Circuit Court, Jefferson County, Tennessee, filed February 9, 2000.

Barnes v. Philip Morris Companies Inc., et al., Superior Court, District of Columbia, filed February 10, 2000. In April 2000 plaintiff voluntarily dismissed the action.

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Gray, M.D. v. Philip Morris Companies Inc., et al., Superior Court, Pima County, Arizona, filed February 11, 2000.

Brownstein v. Philip Morris Companies Inc., et al., Circuit Court, Broward County, Florida, filed February 14, 2000.

Quickle, et al. v. Philip Morris Companies Inc., et al., Circuit Court, Brooke County, West Virginia, filed February 14, 2000.

Faherty v. Philip Morris Companies Inc., et al., Superior Court, Cumberland County, Maine, filed February 16, 2000.

Rowlen, et al. v. Philip Morris Companies Inc., et al., United States District Court, Southern District, Mississippi, filed February 16, 2000.

Shafer v. Philip Morris Companies Inc., et al., District Court, Morton County, North Dakota, filed February 16, 2000.

Vetter v. Philip Morris Companies Inc., et al., Circuit Court, Sixth Judicial District, South Dakota, filed February 16, 2000.

Ulan v. R. J. Reynolds, et al., Superior Court, Alameda County, California, filed February 17, 2000.

Rog-Glo, Ltd. v. R.J. Reynolds Tobacco Company, et al., United States District Court, Southern District, New York, filed February 18, 2000.

Williamson Oil Company, Inc. v. Philip Morris Companies, et al., United States District Court, Northern District, Georgia, filed February 18, 2000.

Cusatis v. Philip Morris Companies Inc., et al., Circuit Court, Milwaukee County, Wisconsin, filed February 28, 2000.

Sand v. Philip Morris Companies Inc., et al., Superior Court, Los Angeles, California, filed February 28, 2000.

Amsterdam Tobacco v. Philip Morris Companies Inc., et al., United States District Court, District of Columbia, filed March 6, 2000.

Nierman v. Philip Morris Companies Inc., et al., Supreme Court, New York County, New York, filed March 6, 2000.

Sylvester v. Philip Morris Companies Inc., et al., Supreme Court, New York County, New York, filed March 8, 2000.

Goldschlack v. Philip Morris Companies Inc., et al., United States District Court, Eastern District, Pennsylvania, filed March 9, 2000.

Morse v. R. J. Reynolds, et al., Superior Court, Alameda County, California, filed March 14, 2000.

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Suwanee Swifty Stores, Inc., D.I.P. v. Philip Morris Companies, Inc., United States District Court, Northern District, Georgia, filed March 14, 2000.

Holiday Markets, Inc. et al. v. Philip Morris Companies Inc., United States District Court, Northern District, Georgia, filed March 17, 2000.

Sullivan v. R. J. Reynolds, et al., Superior Court, Alameda County, California, filed March 17, 2000.

Teitler v. R. J. Reynolds, et al., Superior Court, Alameda County, California, filed March 17, 2000.

Taylor, et al. v. Philip Morris Companies Inc., et al., Superior Court, Cumberland County, Maine, filed March 24, 2000.

Peirona v. Philip Morris Companies Inc., et al., Superior Court, San Francisco County, California, filed March 28, 2000.

Romero v. Philip Morris Companies Inc., et al., First Judicial District Court, Rio Arriba County, New Mexico, filed April 10, 2000.

Belch v. Philip Morris Companies Inc. et al., Superior Court, Alameda County, California, filed on April 11, 2000.

Kissel v. Philip Morris Companies Inc., et al., District Court, Brooke County, West Virginia, filed April 13, 2000.

Swanson v. Philip Morris Companies Inc., et al., District Court, Hughes County, South Dakota, filed April 18, 2000.

Ludke et al. v. Philip Morris Companies Inc., et al., District Court, Hennepin County, Minnesota, filed April 20, 2000.

Marins Distributors, Inc., et al. v. Philip Morris Companies Inc., et al., United States District Court, Southern District, Illinois, filed April 25, 2000.

### **Tobacco Growers' Case**

DeLoach, et al. v. Philip Morris Companies Inc., et al., United States District Court, District of Columbia, filed February 16, 2000. This purported class action alleges that defendants violated anti-trust laws by conspiring to displace the tobacco quota and price support system administered by the federal government, by bid-rigging, and by entering into the agreement with tobacco growers and quota-holders described in Note 4, contingencies.

## **CERTAIN OTHER ACTIONS**

The following lists certain other actions pending against subsidiaries of the Company and others as of May 1, 2000.

### **National Cheese Exchange Cases**

Consolidated Action: (Servais, et al. v. Kraft Foods, Inc. and the National Cheese Exchange, Inc., Circuit Court, Dane County, Wisconsin, filed May 5, 1997; Dodson, et al. v. Kraft Foods, Inc., et al., Circuit Court, Dane County,

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Wisconsin, filed July 1, 1997; Noll, et al. v. Kraft Foods, Inc., et al., Circuit Court, Dane County, Wisconsin, filed July 11, 1997.) As discussed in Note 4. Contingencies, in October 1999 the Court granted Kraft's motion for summary judgment. Plaintiffs have appealed.

Vincent, et al. v. Kraft Foods, Inc., Circuit Court, Cook County, Illinois, filed October 27, 1997. In February 2000, the appeals court reversed the trial court's dismissal.

Knevelboard Dairies, et al. v. Kraft Foods, Inc., et al., United States District Court, Central District, California, filed April 14, 1998. Plaintiffs have appealed the court's dismissal of this action.

### Environmental Matters

State of Missouri v. Kraft Foods, Inc., et al., Circuit Court, Missouri, filed March 14, 2000. In March 2000, the State of Missouri filed a civil enforcement action against Kraft and affiliated companies alleging that from 1995 through 1999 the defendants sent spent weiner casings to a farm site near Columbia, Missouri for reuse. The State claims that this practice violated the Missouri Solid Waste Law and the Missouri Clean Water Law and seeks civil penalties and the removal of the spent casings from the farm site and disposal in a permitted solid waste facility. Kraft filed a motion to dismiss the complaint.

**Exhibit 99.2**

**STATUS OF THE MASTER SETTLEMENT AGREEMENT**

The Master Settlement Agreement ("MSA") is subject to final judicial approval (i.e., trial court approval and the expiration of the time for review or appeal with respect to such approval) in each of the settling jurisdictions. If a settling jurisdiction does not obtain final judicial approval by December 31, 2001, the agreement will be terminated with respect to such state; the agreement, however, will remain in effect as to each settling jurisdiction in which final judicial approval is obtained. As noted in the chart below, the MSA has been approved by trial courts in all of the 52 settling jurisdictions and the Company believes that the time for review or appeal with respect to such approvals has expired in 49 of those jurisdictions. Interventions and/or challenges to the MSA (or appeals thereof) are pending in 4 jurisdictions. In addition, as described in Note 4. Contingencies, above, under the heading "Litigation Settlements," there are a number of other suits pending related to the MSA.

JURISDICTION	TRIAL COURT APPROVAL	FINAL JUDICIAL APPROVAL	INTERVENTION AND/OR CHALLENGE PENDING
American Samoa	X	X	
Alabama	X	X	
Alaska	X	X	
Arizona	X	X	
Arkansas	X		X
California	X	X	
Colorado	X	X	
Connecticut	X	X	
District of Columbia	X	X	
Delaware	X	X	
Georgia	X	X	
Guam	X	X	
Hawaii	X	X	
Idaho	X	X	
Illinois	X	X	
Indiana	X	X	
Iowa	X	X	
Kansas	X	X	
Kentucky	X	X	
Louisiana	X	X	
Maine	X	X	
Maryland	X	X	
Massachusetts	X	X	
Michigan	X	X	
Missouri	X		X
Montana	X	X	
Nebraska	X	X	
Nevada	X	X	
New Hampshire	X	X	
New Jersey	X	X	

New Mexico	X	X	
New York	X	X	X
North Carolina	X	X	
North Dakota	X	X	
Northern Marianas	X	X	
Ohio	X	X	
Oklahoma	X	X	
Oregon	X	X	
Pennsylvania	X	X	
Puerto Rico	X	X	
Rhode Island	X	X	
South Carolina	X	X	
South Dakota	X	X	
Tennessee	X		X
Utah	X	X	
Vermont	X	X	
Virgin Islands	X	X	
Virginia	X	X	
Washington	X	X	
West Virginia	X	X	
Wisconsin	X	X	
Wyoming	X	X	

Exhibit 99.3

TRIAL SCHEDULE FOR CERTAIN CASES

Set forth below is a list of smoking and health class actions, health care cost recovery actions, cases under the California Business and Professions Code and asbestos contribution actions currently scheduled for trial through 2001 against PM Inc. and, in some cases, the Company. Trial dates, however, are subject to change.

Case (Jurisdiction) -----	Type of Action -----	Trial Date -----
Robert A. Falise, et al. v. The American Tobacco Company, et al. (New York)	Asbestos Contribution Action	July 5, 2000
The People of the State of California, et al. v. Philip Morris, Inc., et al. (California)	California Business and Professions Code Case	July 28, 2000
Blue Cross and Blue Shield of New Jersey, Inc., et al. v. Philip Morris, Incorporated, et al. (New York)	Health Care Cost Recovery Action	September 12, 2000
In re Tobacco Litigation (West Virginia)	Medical Monitoring Class Action	October 2, 2000
National Asbestos Workers Medical Fund, et al. v. Philip Morris Incorporated, et al. (New York)	Health Care Cost Recovery Action	November 13, 2000
Republic of the Marshall Islands v. The American Tobacco Company, et al. (Marshall Islands)	Health Care Cost Recovery Action	January 15, 2001
Scott, et al. v. The American Tobacco Company, et al. (Louisiana)	Smoking and Health Class Action	January 15, 2001
H.K. Porter Company, Inc. v. The American Tobacco Company, et al. (New York)	Asbestos Contribution Action	January 29, 2001
Owens Corning v. R.J. Reynolds Tobacco Company, et al. (Mississippi)	Asbestos Contribution Action	February 2001
Raymark Industries, Inc. v. The American Tobacco Company, et al. (New York)	Asbestos Contribution Action	March 5, 2001

Case (Jurisdiction)  
-----

Type of Action  
-----

Trial Date  
-----

Below is a schedule setting forth by month the number of individual smoking and health cases against PM Inc. and, in some cases, the Company that are currently scheduled for trial through the end of the year 2001.

2000 ----	2001 ----
July (1)	January (3)
	February (1)
October (2)	March (1)
November (1)	May (3)
	July (2)
	October (1)
	November (1)

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