ALTRIA GROUP, INC.
Form 10-Q
October 27, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

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

Altria Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

At October 21, 2011, there were 2,056,422,586 shares outstanding of the registrant s common stock, par value $0.33 1/3 per share.

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ALTRIA GROUP, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Altria Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in millions of dollars)

(Unaudited)

	September 30, 2011	December 31, 2010
ASSETS		
Consumer products		
Cash and cash equivalents	$ 3,043	$ 2,314
Receivables	194	85
Inventories:		
Leaf tobacco	777	960
Other raw materials	182	160
Work in process	243	299
Finished product	423	384
	1,625	1,803
Deferred income taxes	1,187	1,165
Other current assets	526	614
Total current assets	6,575	5,981
Property, plant and equipment, at cost	4,762	5,150
Less accumulated depreciation	2,478	2,770
	2,284	2,380
Goodwill	5,174	5,174
Other intangible assets, net	12,102	12,118
Investment in SABMiller	5,539	5,367
Other assets	1,694	1,851
Total consumer products assets	33,368	32,871
Financial services		
Finance assets, net	3,814	4,502
Other assets	19	29
Total financial services assets	3,833	4,531
TOTAL ASSETS	$ 37,201	$ 37,402

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets (Continued)

(in millions of dollars, except share and per share data)

(Unaudited)

	September 30, 2011	December 31, 2010
LIABILITIES		
Consumer products		
Current portion of long-term debt	$ 600	$
Accounts payable	326	529
Accrued liabilities:		
Marketing	400	447
Taxes, except income taxes	94	231
Employment costs	178	232
Settlement charges	3,141	3,535
Other	1,202	1,069
Income taxes	192	
Dividends payable	846	797
Total current liabilities	6,979	6,840
Long-term debt	13,088	12,194
Deferred income taxes	4,839	4,618
Accrued pension costs	969	1,191
Accrued postretirement health care costs	2,430	2,402
Other liabilities	727	949
Total consumer products liabilities	29,032	28,194
Financial services		
Deferred income taxes	3,241	3,880
Other liabilities	473	101
Total financial services liabilities	3,714	3,981
Total liabilities	32,746	32,175
Contingencies (Note 11)		
Redeemable noncontrolling interest	34	32
STOCKHOLDERS EQUITY		
Common stock, par value $0.33 1/3 per share		
(2,805,961,317 shares issued)	935	935
Additional paid-in capital	5,650	5,751
Earnings reinvested in the business	23,585	23,459
Accumulated other comprehensive losses	(1,461)	(1,484)
Cost of repurchased stock		
(749,524,541 shares in 2011 and 717,221,651 shares in 2010)	(24,290)	(23,469)

Total stockholders equity attributable to Altria Group, Inc.		4,419		5,192
Noncontrolling interests		2		3
Total stockholders equity		4,421		5,195
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	37,201	$	37,402

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Earnings

(in millions of dollars, except per share data)

(Unaudited)

	For the Nine Months Ended September 30, 2011	2010
Net revenues	$ 17,671	$ 18,436
Cost of sales	5,708	5,819
Excise taxes on products	5,398	5,683
Gross profit	6,565	6,934
Marketing, administration and research costs	1,853	1,983
Changes to Kraft and PMI tax-related receivables	(19)	169
Asset impairment and exit costs	3	31
Amortization of intangibles	16	16
Operating income	4,712	4,735
Interest and other debt expense, net	865	856
Earnings from equity investment in SABMiller	(552)	(437)
Earnings before income taxes	4,399	4,316
Provision for income taxes	1,843	1,329
Net earnings	2,556	2,987
Net earnings attributable to noncontrolling interests	(2)	(1)
Net earnings attributable to Altria Group, Inc.	$ 2,554	$ 2,986
Per share data:		
Basic earnings per share attributable to Altria Group, Inc.	$ 1.23	$ 1.43
Diluted earnings per share attributable to Altria Group, Inc.	$ 1.23	$ 1.43
Dividends declared	$ 1.17	$ 1.08

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Earnings

(in millions of dollars, except per share data)

(Unaudited)

	For the Three Months Ended September 30, 2011	2010
Net revenues	$ 6,108	$ 6,402
Cost of sales	1,883	1,985
Excise taxes on products	1,780	1,941
Gross profit	2,445	2,476
Marketing, administration and research costs	581	691
Changes to Kraft and PMI tax-related receivables	(19)	
Asset impairment and exit costs		3
Amortization of intangibles	5	6
Operating income	1,878	1,776
Interest and other debt expense, net	293	279
Earnings from equity investment in SABMiller	(208)	(186)
Earnings before income taxes	1,793	1,683
Provision for income taxes	619	552
Net earnings	1,174	1,131
Net earnings attributable to noncontrolling interests	(1)	
Net earnings attributable to Altria Group, Inc.	$ 1,173	$ 1,131
Per share data:		
Basic earnings per share attributable to Altria Group, Inc.	$ 0.57	$ 0.54
Diluted earnings per share attributable to Altria Group, Inc.	$ 0.57	$ 0.54
Dividends declared	$ 0.41	$ 0.38

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Stockholders Equity

for the Year Ended December 31, 2010 and

the Nine Months Ended September 30, 2011

(in millions of dollars, except per share data)

(Unaudited)

	Attributable to Altria Group, Inc.							
	Common Stock	Additional Paid-in Capital	Earnings Reinvested in the Business	Accumulated Other Comprehen-sive Losses	Cost of Repurchased Stock	Compre-hensive Earnings	Non-controlling Interests	Total Stock-holders Equity
Balances, December 31, 2009	$ 935	$ 5,997	$ 22,599	$ (1,561)	$ (23,901)	$	$ 3	$ 4,072
Comprehensive earnings:								
Net earnings [(1)]			3,905			3,905	1	3,906
Other comprehensive earnings, net of income taxes:								
Currency translation adjustments				1		1		1
Changes in net loss and prior service cost				35		35		35
Ownership share of SABMiller s other comprehensive earnings				41		41		41
Total other comprehensive earnings						77		77
Total comprehensive earnings [(2)]						3,982	1	3,983
Exercise of stock options and other stock award activity		(246)			432			186
Cash dividends declared ($1.46 per share)			(3,045)					(3,045)
Other							(1)	(1)
Balances, December 31, 2010	935	5,751	23,459	(1,484)	(23,469)		3	5,195
Comprehensive earnings:								
Net earnings [(1)]			2,554			2,554		2,554
Other comprehensive earnings, net of income taxes:								
Currency translation adjustments				(1)		(1)		(1)
Changes in net loss and prior service cost				100		100		100
Ownership share of SABMiller s other comprehensive losses				(76)		(76)		(76)
Total other comprehensive earnings						23		23

Total comprehensive earnings (2)						2,577		2,577
Exercise of stock options and other stock award activity		(101)			179			78
Cash dividends declared ($1.17 per share)			(2,428)					(2,428)
Stock repurchased					(1,000)			(1,000)
Other							(1)	(1)
Balances, September 30, 2011	$ 935	$ 5,650	$ 23,585	$ (1,461)	$ (24,290)		$ 2	$ 4,421

(1) Net earnings attributable to noncontrolling interests for the nine months ended September 30, 2011 and for the year ended December 31, 2010 exclude $2 million and $1 million, respectively, due to the redeemable noncontrolling interest related to Stag s Leap Wine Cellars, which is reported in the mezzanine equity section in the condensed consolidated balance sheets at September 30, 2011 and December 31, 2010. See Note 11.

(2) Total comprehensive earnings were $991 million and $1,338 million for the three months ended September 30, 2011 and September 30, 2010, respectively, all of which were comprehensive earnings attributable to Altria Group, Inc. Total comprehensive earnings for the nine months ended September 30, 2010 were $3,178 million, all of which were comprehensive earnings attributable to Altria Group, Inc.

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(in millions of dollars)

(Unaudited)

	For the Nine Months Ended September 30, 2011	2010
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net earnings (loss) - Consumer products	$ 3,076	$ 2,941
- Financial services	(520)	46
Net earnings	2,556	2,987
Adjustments to reconcile net earnings to operating cash flows:		
Consumer products		
Depreciation and amortization	184	208
Deferred income tax provision	190	197
Earnings from equity investment in SABMiller	(552)	(437)
Dividends from SABMiller	264	219
Asset impairment and exit costs, net of cash paid	(28)	(166)
IRS payment related to LILO and SILO transactions		(945)
Cash effects of changes:		
Receivables, net	(9)	19
Inventories	178	192
Accounts payable	(106)	6
Income taxes	215	5
Accrued liabilities and other current assets	(208)	(181)
Accrued settlement charges	(394)	(409)
Pension plan contributions	(236)	(23)
Pension provisions and postretirement, net	182	151
Other	145	17
Financial services		
Deferred income tax benefit	(639)	(188)
PMCC Leveraged Lease Charge	490	
Other	332	70
Net cash provided by operating activities	2,564	1,722

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Continued)

(in millions of dollars)

(Unaudited)

	For the Nine Months Ended September 30, 2011	2010
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Consumer products		
Capital expenditures	$ (75)	$ (116)
Other	1	80
Financial services		
Proceeds from finance assets	248	119
Net cash provided by investing activities	174	83
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Consumer products		
Long-term debt issued	1,494	1,007
Long-term debt repaid		(775)
Repurchases of common stock	(1,000)	
Dividends paid on common stock	(2,379)	(2,165)
Issuances of common stock	29	89
Financing fees and debt issuance costs	(24)	(6)
Other	(129)	(126)
Net cash used in financing activities	(2,009)	(1,976)
Cash and cash equivalents:		
Increase (Decrease)	729	(171)
Balance at beginning of period	2,314	1,871
Balance at end of period	$ 3,043	$ 1,700

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1. Background and Basis of Presentation:

Background

At September 30, 2011, Altria Group, Inc. s wholly-owned subsidiaries included Philip Morris USA Inc. (PM USA), which is engaged in the manufacture and sale of cigarettes and certain smokeless products in the United States; UST LLC (UST), which through its direct and indirect wholly-owned subsidiaries including U.S. Smokeless Tobacco Company LLC (USSTC) and Ste. Michelle Wine Estates Ltd. (Ste. Michelle), is engaged in the manufacture and sale of smokeless products and wine; and John Middleton Co. (Middleton), which is engaged in the manufacture and sale of machine-made large cigars and pipe tobacco. Philip Morris Capital Corporation (PMCC), another wholly-owned subsidiary of Altria Group, Inc., maintains a portfolio of leveraged and direct finance leases. In addition, Altria Group, Inc. held a 27.1% economic and voting interest in SABMiller plc (SABMiller) at September 30, 2011, which is accounted for under the equity method of accounting. Altria Group, Inc. s access to the operating cash flows of its wholly-owned subsidiaries consists of cash received from the payment of dividends and distributions, and the payment of interest on intercompany loans by its subsidiaries. In addition, Altria Group, Inc. receives cash dividends on its interest in SABMiller, if and when SABMiller pays such dividends on its stock. At September 30, 2011, Altria Group, Inc. s principal wholly-owned subsidiaries were not limited by long-term debt or other agreements in their ability to pay cash dividends or make other distributions with respect to their common stock.

In January 2011, Altria Group, Inc. s Board of Directors authorized a $1.0 billion one-year share repurchase program. During the third quarter of 2011, Altria Group, Inc. repurchased 14.8 million shares of its common stock at an aggregate cost of approximately $384 million, or an average price of $25.93 per share, under this share repurchase program.

Altria Group, Inc. completed the January 2011 share repurchase program during the third quarter of 2011. Over the course of this program, Altria Group, Inc. repurchased a total of 37.6 million shares of its common stock at an average price of $26.62 per share.

On October 26, 2011, Altria Group, Inc. s Board of Directors authorized a new $1.0 billion share repurchase program, which Altria Group, Inc. intends to complete by the end of 2012. Share repurchases under this new program depend upon marketplace conditions and other factors, and the program remains subject to the discretion of Altria Group, Inc. s Board of Directors.

During the third quarter of 2011, Altria Group, Inc. s Board of Directors approved a 7.9% increase in the quarterly dividend rate to $0.41 per common share versus the previous rate of $0.38 per common share. The current annualized dividend rate is $1.64 per Altria Group, Inc. common share. Future dividend payments remain subject to the discretion of Altria Group, Inc. s Board of Directors.

Basis of Presentation

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

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

These statements should be read in conjunction with the consolidated financial statements and related notes, which appear in Altria Group, Inc. s Annual Report to Shareholders and which are incorporated by reference into Altria Group, Inc. s Annual Report on Form 10-K for the year ended December 31, 2010.

Balance sheet accounts are segregated by two broad types of businesses. 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. Asset Impairment, Exit, Implementation and Integration Costs:

For the nine months ended September 30, 2011, total pre-tax asset impairment and exit costs were $3 million, all of which were reported in the cigarettes segment. There were no asset impairment and exit costs incurred during the three months ended September 30, 2011. In addition, total pre-tax integration costs of $3 million and $1 million for the nine and three months ended September 30, 2011, respectively, were reported in the smokeless products segment. There were no implementation costs incurred during the nine months ended September 30, 2011.

Pre-tax asset impairment, exit, implementation and integration costs for the nine and three months ended September 30, 2010 consisted of the following:

	For the Nine Months Ended September 30, 2010			
	Asset Impairment and Exit Costs	Implementation Costs	Integration Costs	Total
	(in millions)			
Cigarettes	$ 28	$ 70	$	$ 98
Smokeless products	2		13	15
Cigars			1	1
Wine			2	2
General corporate	1			1
Total	$ 31	$ 70	$ 16	$ 117

	For the Three Months Ended September 30, 2010			
	Asset Impairment and Exit Costs	Implementation Costs	Integration Costs	Total
	(in millions)			
Cigarettes	$ 3	$ 21	$	$ 24
Smokeless products			2	2
Wine			1	1
Total	$ 3	$ 21	$ 3	$ 27

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

The movement in the severance liability and details of asset impairment and exit costs for Altria Group, Inc. for the nine months ended September 30, 2011 was as follows:

	Severance	Other	Total
		(in millions)	
Severance liability balance, December 31, 2010	$ 26	$	$ 26
Charges		3	3
Cash spent	(23)	(9)	(32)
Other		6	6
Severance liability balance, September 30, 2011	$ 3	$	$ 3

Manufacturing Optimization Program:

PM USA ceased production at its Cabarrus, North Carolina manufacturing facility and completed the consolidation of its cigarette manufacturing capacity into its Richmond, Virginia facility on July 29, 2009. PM USA took this action to address ongoing cigarette volume declines including the impact of the federal excise tax increase enacted in early 2009. In April 2011, PM USA completed the de-commissioning of the Cabarrus facility.

PM USA continues to market for sale the Cabarrus facility and land. The future sale of the Cabarrus facility and land is not expected to have a material impact on the financial results of Altria Group, Inc.

As a result of this program, which commenced in 2007, PM USA expects to incur total pre-tax charges of approximately $800 million, which consist of employee separation costs of $325 million, accelerated depreciation of $275 million and other charges of $200 million, primarily related to the relocation of employees and equipment, net of estimated gains on sales of land and buildings. Total pre-tax charges incurred for the program through September 30, 2011 of $827 million, which are reflected in the cigarettes segment, do not reflect estimated gains from the future sales of land and buildings.

PM USA recorded pre-tax charges for this program as follows:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2011	2010	2011	2010
		(in millions)		
Asset impairment and exit costs	$ 3	$ 28	$	$ 3
Implementation costs		70		21
Total	$ 3	$ 98	$	$ 24

Pre-tax implementation costs related to this program were primarily related to accelerated depreciation and were included in cost of sales in the condensed consolidated statements of earnings for the nine and three months ended September 30, 2010.

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

New Cost Reduction Program

On October 26, 2011, Altria Group, Inc. s Board of Directors approved a new cost reduction program for its tobacco and service company subsidiaries, reflecting Altria Group, Inc. s objective to reduce cigarette-related infrastructure ahead of PM USA s cigarette volume declines. The program is expected to deliver $400 million in annualized cost savings by the end of 2013. Altria Group, Inc. estimates total pre-tax restructuring charges in connection with this new program of approximately $375 million, with approximately $340 million or $0.11 per share to be recorded in the fourth quarter of 2011, and the balance in 2012. The estimated charges, substantially all of which will result in cash expenditures, relate primarily to employee separation costs of approximately $300 million, and other associated costs of approximately $75 million including lease termination and asset impairment. These estimated charges do not reflect the non-cash impact which may result from pension settlement and curtailment accounting.

Note 3. Benefit Plans:

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

Pension Plans

Components of Net Periodic Benefit Cost

Net periodic pension cost consisted of the following:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Service cost	$ 56	$ 59	$ 18	$ 17
Interest cost	263	266	88	88
Expected return on plan assets	(317)	(315)	(106)	(107)
Amortization:				
Net loss	129	94	43	28
Prior service cost	10	10	3	4
Net periodic pension cost	$ 141	$ 114	$ 46	$ 30

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Employer Contributions

Altria Group, Inc. makes contributions to the extent that they are tax deductible, and to pay benefits that relate to plans for salaried employees that cannot be funded under Internal Revenue Service (IRS) regulations. On January 7, 2011, Altria Group, Inc. made a voluntary $200 million contribution to its pension plans. Additional employer contributions of $36 million were made to Altria Group, Inc. s pension plans during the nine months ended September 30, 2011. Currently, Altria Group, Inc. anticipates making additional employer contributions to its pension plans during the remainder of 2011 of up to $14 million, based on current tax law. However, this estimate is subject to change as a result of changes in tax and other benefit laws, as well as asset performance significantly above or below the assumed long-term rate of return on pension assets, or changes in interest rates.

Postretirement Benefit Plans

Net postretirement health care costs consisted of the following:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Service cost	$ 25	$ 22	$ 8	$ 5
Interest cost	104	102	35	31
Amortization:				
Net loss	30	24	11	8
Prior service credit	(16)	(16)	(5)	(9)
Net postretirement health care costs	$ 143	$ 132	$ 49	$ 35

Note 4. Earnings from Equity Investment in SABMiller:

Pre-tax earnings from Altria Group, Inc. s equity investment in SABMiller consisted of the following:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Equity earnings	$ 534	$ 396	$ 201	$ 181
Gains resulting from issuances of common stock by SABMiller	18	41	7	5
	$ 552	$ 437	$ 208	$ 186

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 5. Earnings Per Share:

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

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Net earnings attributable to Altria Group, Inc.	$ 2,554	$ 2,986	$ 1,173	$ 1,131
Less: Distributed and undistributed earnings attributable to unvested restricted and deferred shares	(10)	(12)	(5)	(5)
Earnings for basic and diluted EPS	$ 2,544	$ 2,974	$ 1,168	$ 1,126
Weighted-average shares for basic EPS	2,071	2,076	2,054	2,078
Add: Incremental shares from stock options		2		2
Weighted-average shares for diluted EPS	2,071	2,078	2,054	2,080

For the nine and three months ended September 30, 2011 and 2010 computations, there were no antidilutive stock options.

Note 6. Accumulated Other Comprehensive Losses:

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

	Currency Translation Adjustments	Changes in Net Loss and Prior Service Cost	Ownership Share of SABMiller s Other Comprehensive Earnings (Losses)	Accumulated Other Comprehensive Losses
	(in millions)			
Balances, December 31, 2009	$ 3	$ (1,846)	$ 282	$ (1,561)
Period Change	1	35	41	77
Balances, December 31, 2010	4	(1,811)	323	(1,484)
Period Change	(1)	100	(76)	23

Balances, September 30, 2011	$ 3	$ (1,711)	$ 247	$ (1,461)

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 7. Segment Reporting:

The products of Altria Group, Inc. s consumer products subsidiaries include cigarettes manufactured and sold by PM USA, smokeless products manufactured and sold by or on behalf of USSTC and PM USA, machine-made large cigars and pipe tobacco manufactured and sold by Middleton, and wine produced and/or distributed by Ste. Michelle. Another subsidiary of Altria Group, Inc., PMCC, maintains a portfolio of leveraged and direct finance leases. The products and services of these subsidiaries constitute Altria Group, Inc. s reportable segments of cigarettes, smokeless products, cigars, wine and financial services.

Altria Group, Inc. s chief operating decision maker reviews operating companies income to evaluate segment performance and allocate resources. Operating companies income for the segments excludes general corporate expenses and amortization of intangibles. 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 Altria Group, Inc. s chief operating decision maker.

Segment data were as follows:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Net revenues:				
Cigarettes	$ 16,065	$ 16,441	$ 5,330	$ 5,729
Smokeless products	1,209	1,160	426	389
Cigars	435	437	169	147
Wine	349	308	132	107
Financial services	(387)	90	51	30
Net revenues	$ 17,671	$ 18,436	$ 6,108	$ 6,402
Earnings before income taxes:				
Operating companies income (loss):				
Cigarettes	$ 4,403	$ 4,213	$ 1,520	$ 1,533
Smokeless products	660	586	245	210
Cigars	124	146	55	43
Wine	54	31	23	12
Financial services	(359)	87	83	27
Amortization of intangibles	(16)	(16)	(5)	(6)
General corporate expenses	(173)	(142)	(62)	(43)
Changes to Kraft and PMI tax-related receivables	19	(169)	19	
Corporate exit costs		(1)		
Operating income	4,712	4,735	1,878	1,776
Interest and other debt expense, net	(865)	(856)	(293)	(279)
Earnings from equity investment in SABMiller	552	437	208	186

Earnings before income taxes	$ 4,399	$ 4,316	$ 1,793	$ 1,683

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Items affecting the comparability of net revenues and/or operating companies income (loss) for the segments were as follows:

PMCC Leveraged Lease Charge During the second quarter of 2011, Altria Group, Inc. recorded a one-time charge of $627 million related to the tax treatment of certain leveraged lease transactions entered into by PMCC (PMCC Leveraged Lease Charge). Included in this charge was a pre-tax charge of $490 million that was recorded as a decrease to PMCC s net revenues and operating companies income (see Note 8. *Finance Assets, net*, Note 10. *Income Taxes* and Note 11. *Contingencies* for further discussion of matters related to this charge).

PMCC Allowance for Losses: During the third quarter of 2011, PMCC decreased its allowance for losses by $35 million based on management s assessment of the credit quality of PMCC s leasing portfolio. See Note 8. *Finance Assets, net*.

Asset Impairment, Exit, Implementation and Integration Costs - See Note 2. *Asset Impairment, Exit, Implementation and Integration Costs* for a breakdown of asset impairment, exit, implementation and integration costs by segment.

Note 8. Finance Assets, net:

At September 30, 2011, finance assets, net, of $3,814 million were comprised of investments in finance leases of $3,981 million, reduced by the allowance for losses of $167 million. At December 31, 2010, finance assets, net, of $4,502 million were comprised of investments in finance leases of $4,704 million, reduced by the allowance for losses of $202 million. Finance assets, net, as of September 30, 2011 reflect the impact of the PMCC Leveraged Lease Charge.

During the second quarter of 2011, Altria Group, Inc. recorded the PMCC Leveraged Lease Charge. Approximately 50% of the charge ($315 million), which does not include potential penalties, represents a reduction in cumulative lease earnings recorded to date that will be recaptured over the remainder of the affected lease terms. The remaining portion of the charge ($312 million) primarily represents a permanent charge for interest on tax underpayments. The one-time charge was recorded in Altria Group, Inc. s condensed consolidated statements of earnings for the nine months ended September 30, 2011 as follows:

	Net Revenues	Provision for Income Taxes (in millions)	Total
Reduction to cumulative lease earnings	$ 490	$ (175)	$ 315
Interest on tax underpayments		312	312
Total	$ 490	$ 137	$ 627

See Note 10. *Income Taxes* and Note 11. *Contingencies* for further discussion of matters related to this charge.

PMCC assesses the adequacy of its allowance for losses relative to the credit risk of its leasing portfolio on an ongoing basis. During the third quarter of 2011, PMCC determined that its allowance for losses exceeded the amount required based on its assessment of the credit quality of the leasing portfolio including reductions in exposure to below investment grade lessees. As a result, the allowance for losses

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was reduced by $35 million, which was recorded as income during the third quarter of 2011. PMCC believes that, as of September 30, 2011, the allowance for losses of $167 million is adequate. PMCC continues to monitor economic and credit conditions, and the individual situations of its lessees and their respective industries, and may have to increase its allowance for losses if such conditions worsen. All PMCC lessees were current on their lease payment obligations as of September 30, 2011.

The activity in the allowance for losses on finance assets for the nine months ended September 30, 2011 and 2010 was as follows:

	For the Nine Months Ended September 30,	
	2011	2010
	(in millions)	
Balance at beginning of the year	$ 202	$ 266
Amounts written-off		(64)
Decrease to allowance	(35)	
Balance at September 30	$ 167	$ 202

During the first quarter of 2010, leases with General Motors Corporation (GM) were restructured as a result of its bankruptcy reorganization and $64 million was written off against PMCC s allowance for losses. As of September 30, 2011 and December 31, 2010, PMCC s investment in finance leases from General Motors LLC, which is the successor to GM s North American automotive business, was $101 million.

The credit quality of PMCC s investments in finance leases as assigned by Standard & Poor s Ratings Services (Standard & Poor s) and Moody s Investors Service, Inc. (Moody s) at September 30, 2011 and December 31, 2010 was as follows:

	September 30, 2011	December 31, 2010
	(in millions)	
Credit Rating by Standard & Poor s/Moody s:		
AAA/Aaa to A-/A3	$ 1,699	$ 2,343
BBB+/Baa1 to BBB-/Baa3	1,140	1,148
BB+/Ba1 and Lower	1,142	1,213
Total	$ 3,981	$ 4,704

Note 9. Debt:

Short-Term Borrowings and Borrowing Arrangements

At September 30, 2011 and December 31, 2010, Altria Group, Inc. had no short-term borrowings. The credit line available to Altria Group, Inc. at September 30, 2011 was $3.0 billion.

On June 30, 2011, Altria Group, Inc. entered into a senior unsecured 5-year revolving credit agreement (the Credit Agreement). The Credit Agreement provides for borrowings up to an aggregate principal amount of $3.0 billion and expires on June 30, 2016. The Credit Agreement replaced Altria Group, Inc. s $0.6 billion senior unsecured 364-day revolving credit agreement, which was to expire on November 16, 2011 (the 364-Day Agreement) and Altria Group, Inc. s $2.4 billion senior unsecured 3-year revolving credit agreement, which was to expire on November 20, 2012 (together with the 364-Day Agreement, the Terminated Agreements). The Terminated Agreements were terminated effective

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June 30, 2011. Pricing for interest and fees under the Credit Agreement may be modified in the event of a change in the rating of Altria Group, Inc. s long-term senior unsecured debt. Interest rates on borrowings under the Credit Agreement are expected to be based on the London Interbank Offered Rate (LIBOR) plus a percentage equal to Altria Group, Inc. s credit default swap spread subject to certain minimum rates and maximum rates based on the higher of the rating of Altria Group, Inc. s long-term senior unsecured debt from Standard & Poor s and Moody s. The applicable minimum and maximum rates based on Altria Group, Inc. s long-term senior unsecured debt ratings at September 30, 2011 for borrowings under the Credit Agreement are 0.75% and 1.75%, respectively. The Credit Agreement does not include any other rating triggers, nor does it contain any provisions that could require the posting of collateral.

The Credit Agreement is used for general corporate purposes and to support Altria Group, Inc. s commercial paper issuances. As in the Terminated Agreements, the Credit Agreement requires that Altria Group, Inc. maintain (i) a ratio of debt to consolidated EBITDA of not more than 3.0 to 1.0 and (ii) a ratio of consolidated EBITDA to consolidated interest expense of not less than 4.0 to 1.0, each calculated as of the end of the applicable quarter on a rolling four quarters basis. At September 30, 2011, the ratios of debt to consolidated EBITDA and consolidated EBITDA to consolidated interest expense, calculated in accordance with the Credit Agreement, were 1.9 to 1.0 and 6.4 to 1.0, respectively. Altria Group, Inc. expects to continue to meet its covenants associated with the Credit Agreement. The terms consolidated EBITDA, debt and consolidated interest expense, as defined in the Credit Agreement, include certain adjustments.

Any commercial paper issued by Altria Group, Inc. and borrowings under the Credit Agreement are guaranteed by PM USA (see Note 12. *Condensed Consolidating Financial Information*).

Long-Term Debt

On May 5, 2011, Altria Group, Inc. issued $1.5 billion (aggregate principal amount) of 4.75% senior unsecured long-term notes due May 5, 2021, with interest payable semi-annually. The net proceeds from the issuance of these senior unsecured notes were added to Altria Group, Inc. s general funds and will be used for general corporate purposes.

The notes are Altria Group, Inc. s senior unsecured obligations and rank equally in right of payment with all of Altria Group, Inc. s existing and future senior unsecured indebtedness. Upon the occurrence of both (i) a change of control of Altria Group, Inc. and (ii) the notes ceasing to be rated investment grade by each of Moody s, Standard & Poor s and Fitch Ratings Ltd. within a specified time period, Altria Group, Inc. will be required to make an offer to purchase the notes at a price equal to 101% of the aggregate principal amount of such notes, plus accrued and unpaid interest to the date of repurchase as and to the extent set forth in the terms of the notes.

The obligations of Altria Group, Inc. under the notes are guaranteed by PM USA (see Note 12. *Condensed Consolidating Financial Information*).

The aggregate fair value, based substantially on readily available quoted market prices, of Altria Group, Inc. s total debt at September 30, 2011, was $17.2 billion, as compared with its carrying value of $13.7 billion. The aggregate fair value, based substantially on readily available quoted market prices, of Altria Group, Inc. s total debt at December 31, 2010, was $15.5 billion, as compared with its carrying value of $12.2 billion.

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Note 10. Income Taxes:

The income tax rate of 41.9% for the nine months ended September 30, 2011 increased 11.1 percentage points from 30.8% for the nine months ended September 30, 2010. The increase in the income tax rate was due in part to a $312 million charge that primarily represents a permanent charge for interest on tax underpayments, associated with the previously discussed PMCC Leveraged Lease Charge which was recorded during the second quarter of 2011 (see Note 8. *Finance Assets, net* and Note 11. *Contingencies* for further discussion of matters related to this charge). The increase in the income tax rate was also attributable in part to the reversal of tax reserves and associated interest in 2010 following the resolution of various tax matters arising out of the 2000-2003 IRS audit as discussed below, partially offset by the reversal of tax accruals no longer required in 2011. The income tax rate of 34.5% for the three months ended September 30, 2011 increased 1.7 percentage points from 32.8% for the three months ended September 30, 2010 due primarily to the expiration of statutes of limitations in 2010, partially offset by the reversal of tax accruals no longer required in 2011. In addition, the income tax rate for the nine and three months ended September 30, 2011 was further impacted by $19 million of additional tax provision and associated interest related to various tax matters for Altria Group, Inc. s former subsidiary Kraft Foods Inc. (Kraft).

As discussed in Note 11. *Contingencies*, Altria Group, Inc. and the IRS executed a closing agreement during the second quarter of 2010 in connection with the IRS s examination of Altria Group, Inc. s consolidated federal income tax returns for the years 2000-2003, which resolved various tax matters for Altria Group, Inc. and its subsidiaries, including its former subsidiaries - Kraft and Philip Morris International Inc. (PMI). As a result of the closing agreement, Altria Group, Inc. paid the IRS approximately $945 million of tax and associated interest during the third quarter of 2010 with respect to certain PMCC leveraged lease transactions entered into during the 1996-2003 years. During the first quarter of 2011, Altria Group, Inc. filed claims for a refund of the approximately $945 million paid to the IRS. The IRS disallowed the claims during the third quarter of 2011.

In addition, as a result of this closing agreement, in the second quarter of 2010, Altria Group, Inc. recorded (i) a $47 million income tax benefit primarily attributable to the reversal of tax reserves and associated interest related to Altria Group, Inc. and its current subsidiaries; and (ii) an income tax benefit of $169 million attributable to the reversal of federal income tax reserves and associated interest related to the resolution of certain Kraft and PMI tax matters.

Under the Tax Sharing agreements entered into in connection with the spin-offs between Altria Group, Inc. and its former subsidiaries, Kraft and PMI are responsible for their respective pre-spin-off tax obligations. Altria Group, Inc., however, remains severally liable for Kraft s and PMI s pre-spin-off federal tax obligations pursuant to regulations governing federal consolidated income tax returns. As a result, Altria Group, Inc. continues to include the pre-spin-off federal income tax reserves of Kraft and PMI in its liability for uncertain tax positions, and also includes corresponding receivables from Kraft and PMI in its assets. The additional 2011 tax provision of $19 million was offset by an increase to the corresponding receivable from Kraft, which was recorded as an increase to operating income on Altria Group, Inc. s condensed consolidated statements of earnings for the nine and three months ended September 30, 2011. The 2010 tax benefit of $169 million was offset by a reduction to the corresponding receivables from Kraft and PMI, which was recorded as a reduction to operating income on Altria Group, Inc. s condensed consolidated statement of earnings for the nine months ended September 30, 2010. There was no impact on Altria Group, Inc. s net earnings associated with the Kraft and PMI tax matters discussed above.

Altria Group, Inc. is subject to income taxation in many jurisdictions. Uncertain tax positions reflect the difference between tax positions taken or expected to be taken on income tax returns and the

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amounts recognized in the financial statements. Resolution of the related tax positions with the relevant tax authorities may take many years to complete, since such timing is not entirely within the control of Altria Group, Inc. During the next twelve months, management believes that it is reasonably possible that the liability for uncertain tax positions could decrease by as much as $248 million, the majority of which includes uncertain tax positions related to Kraft and PMI, for which Altria Group, Inc. is indemnified.

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Note 11. Contingencies:

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

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

Although PM USA has historically been able to obtain required bonds or relief from bonding requirements in order to prevent plaintiffs from seeking to collect judgments while adverse verdicts have been appealed, there remains a risk that such relief may not be obtainable in all cases. This risk has been substantially reduced given that 44 states now limit the dollar amount of bonds or require no bond at all. As discussed below, however, tobacco litigation plaintiffs have challenged the constitutionality of Florida s bond cap statute in several cases and plaintiffs may challenge other state bond cap statutes. Although we cannot predict the outcome of such challenges, it is possible that the consolidated results of operations, cash flows or financial position of Altria Group, Inc., or one or more of its subsidiaries, could be materially affected in a particular fiscal quarter or fiscal year by an unfavorable outcome of one or more such challenges.

Altria Group, Inc. and its subsidiaries record provisions in the consolidated financial statements for pending litigation when they determine that an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. At the present time, while it is reasonably possible that an unfavorable outcome in a case may occur, except as discussed elsewhere in this Note 11. *Contingencies*: (i) management has concluded that it is not probable that a loss has been incurred in any of the pending tobacco-related cases; (ii) management is unable to estimate the possible loss or range of loss that could result from an unfavorable outcome in any of the pending tobacco-related cases; and (iii) accordingly, management has not provided any amounts in the consolidated financial statements for unfavorable outcomes, if any. Legal defense costs are expensed as incurred.

Altria Group, Inc. and its subsidiaries have achieved substantial success in managing litigation. Nevertheless, litigation is subject to uncertainty and significant challenges remain. It is possible that the consolidated results of operations, cash flows or financial position of Altria Group, Inc., or one or more of its subsidiaries, could be materially affected in a particular fiscal quarter or fiscal year by an unfavorable outcome or settlement of certain pending litigation. Altria Group, Inc. and each of its subsidiaries named as a defendant believe, and each has been so advised by counsel handling the respective cases, that it has valid defenses to the litigation pending against it, as well as valid bases for

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appeal of adverse verdicts. Each of the companies has defended, and will continue to defend, vigorously against litigation challenges. However, Altria Group, Inc. and its subsidiaries may enter into settlement discussions in particular cases if they believe it is in the best interests of Altria Group, Inc. to do so.

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

Types and Number of Cases

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

The table below lists the number of certain tobacco-related cases pending in the United States against PM USA and, in some instances, Altria Group, Inc. as of October 24, 2011, October 25, 2010 and October 26, 2009.

Type of Case	Number of Cases Pending as of October 24, 2011	Number of Cases Pending as of October 25, 2010	Number of Cases Pending as of October 26, 2009
Individual Smoking and Health Cases (1)	79	85	93
Smoking and Health Class Actions and Aggregated Claims Litigation (2)	7	9	8
Health Care Cost Recovery Actions	2	3	3
Lights/Ultra Lights Class Actions	18	29	33
Tobacco Price Cases	1	1	2

(1) Does not include 2,585 cases brought by flight attendants seeking compensatory damages for personal injuries allegedly caused by exposure to environmental tobacco smoke (ETS). The flight attendants allege that they are members of an ETS smoking and health class action, which was settled in 1997 (*Broin*). The terms of the court-approved settlement in that case allow class members to file individual lawsuits seeking compensatory damages, but prohibit them from seeking punitive damages. Certain *Broin* plaintiffs have filed a motion seeking approximately $50 million in sanctions for alleged interference by R.J. Reynolds Tobacco Company (R.J. Reynolds) and PM USA with Lorillard, Inc. s acceptance of offers of settlement in the *Broin* progeny cases. In May 2011, the trial court denied this motion. Plaintiffs have appealed.

Also, does not include approximately 6,572 individual smoking and health cases (3,322 state court cases and 3,250 federal court cases) brought by or on behalf of approximately 8,152 plaintiffs in Florida (4,901 state court plaintiffs and 3,251 federal court plaintiffs) following the decertification of the *Engle* case discussed below. It is possible that some of these cases are duplicates and that additional cases have been filed but not yet recorded on the courts dockets.

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(2) Includes as one case the 613 civil actions (of which 352 are actions against PM USA) that are proposed to be tried in a single proceeding in West Virginia (*In re: Tobacco Litigation*). The West Virginia Supreme Court of Appeals has ruled that the United States Constitution does not preclude a trial in two phases in this case. Under the current trial plan, issues related to defendants conduct and plaintiffs entitlement to punitive damages would be determined in the first phase. The second phase would consist of individual trials to determine liability, if any, as well as compensatory and punitive damages, if any. Trial in the case began on October 19, 2011.

International Tobacco-Related Cases

As of October 24, 2011, PM USA is a named defendant in Israel in one Lights class action and one health care cost recovery action. PM USA is a named defendant in four health care cost recovery actions in Canada, three of which also name Altria Group, Inc. as a defendant. PM USA and Altria Group, Inc. are also named defendants in six smoking and health class actions filed in various Canadian provinces. See *Guarantees* for a discussion of the Distribution Agreement between Altria Group, Inc. and PMI that provides for indemnities for certain liabilities concerning tobacco products.

Pending and Upcoming Tobacco-Related Trials

As of October 24, 2011, one *Engle* progeny case and no individual smoking and health cases against PM USA are set for trial for the remainder of 2011. Cases against other companies in the tobacco industry are also scheduled for trial in 2011. Trial dates are subject to change.

Trial Results

Since January 1999, excluding the *Engle* progeny cases (separately discussed below), verdicts have been returned in 50 smoking and health, Lights/Ultra Lights and health care cost recovery cases in which PM USA was a defendant. Verdicts in favor of PM USA and other defendants were returned in 33 of the 50 cases. These 33 cases were tried in California (5), Florida (9), Louisiana (1), Massachusetts (1), Mississippi (1), Missouri (3), New Hampshire (1), New Jersey (1), New York (4), Ohio (2), Pennsylvania (1), Rhode Island (1), Tennessee (2), and West Virginia (1). A motion for a new trial was granted in one of the cases in Florida.

Of the 17 non-*Engle* progeny cases in which verdicts were returned in favor of plaintiffs, twelve have reached final resolution and one case (*Williams* see *Non-Engle Progeny Trial Results* below) has reached partial resolution. A verdict against defendants in one health care cost recovery case (*Blue Cross/Blue Shield*) was reversed and all claims were dismissed with prejudice. In addition, a verdict against defendants in a purported Lights class action in Illinois (*Price*) was reversed and the case was dismissed with prejudice in December 2006. In December 2008, the plaintiff in *Price* filed a motion with the state trial court to vacate the judgment dismissing this case in light of the United States Supreme Court s decision in *Good* (see below for a discussion of developments in *Good* and *Price*).

As of October 24, 2011, twenty-six *Engle* progeny cases involving PM USA have resulted in verdicts since the Florida Supreme Court s *Engle* decision. Thirteen verdicts were returned in favor of plaintiffs and thirteen verdicts were returned in favor of PM USA. See *Smoking and Health Litigation Engle Progeny Trial Results* below for a discussion of these verdicts.

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After exhausting all appeals in those cases resulting in adverse verdicts (*Engle* progeny and non-*Engle* progeny), PM USA has paid judgments (and related costs and fees) totaling approximately $177.1 million and interest totaling approximately $80.0 million.

Security for Judgments

To obtain stays of judgments pending current appeals, as of September 30, 2011, PM USA has posted various forms of security totaling approximately $49 million, the majority of which has been collateralized with cash deposits that are included in other assets on the condensed consolidated balance sheets.

Smoking and Health Litigation

Overview

Plaintiffs allegations of liability in smoking and health cases are based on various theories of recovery, including negligence, gross negligence, strict liability, fraud, misrepresentation, design defect, failure to warn, nuisance, breach of express and implied warranties, breach of special duty, conspiracy, concert of action, violations of deceptive trade practice laws and consumer protection statutes, and claims under the federal and state anti-racketeering statutes. Plaintiffs in the smoking and health 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.

Non-Engle Progeny Trial Results

Summarized below are the non-*Engle* progeny smoking and health cases that were pending during 2011 in which verdicts were returned in favor of plaintiffs. A chart listing the verdicts for plaintiffs in the *Engle* progeny cases can be found in *Smoking and Health Litigation Engle Progeny Trial Results* below.

D. Boeken: On August 9, 2011, a California jury returned a verdict in favor of plaintiff, awarding $12.8 million in compensatory damages against PM USA. PM USA s motions for judgment notwithstanding the verdict and for a new trial were denied on October 13, 2011. PM USA has filed a notice of appeal.

Bullock: In October 2002, a California jury awarded against PM USA $850,000 in compensatory damages and $28 billion in punitive damages. In December 2002, the trial court reduced the punitive damages award to $28 million. In April 2006, the California Court of Appeal affirmed the $28 million punitive damages award. In August 2006, the California Supreme Court denied plaintiffs petition to overturn the trial court s reduction of the punitive damages award and granted PM USA s petition for review challenging the punitive damages award. In May 2007, the California Supreme Court transferred the case to the Second District of the California Court of Appeal with directions that the court vacate its 2006 decision and reconsider the case in light of the United States Supreme Court s decision in the *Williams* case discussed below. In January 2008, the California Court of Appeal reversed the judgment with respect to the $28 million punitive damages award, affirmed the judgment in all other respects, and remanded the case to the trial court to conduct a new trial on the amount of punitive damages. In March 2008, plaintiffs and PM USA appealed to the California Supreme Court. In April 2008, the California Supreme Court denied both petitions for review. In July 2008, $43.3 million of escrow funds were returned to PM USA. The case was remanded to the superior court for a new trial on the amount of

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punitive damages, if any. In August 2009, the jury returned a verdict, and in December 2009, the superior court entered a judgment, awarding plaintiff $13.8 million in punitive damages, plus costs. In December 2009, PM USA filed a motion for judgment notwithstanding the verdict that seeks a reduction of the punitive damages award, which motion was denied in January 2010. PM USA noticed an appeal in February 2010 and posted an appeal bond of approximately $14.7 million. On August 17, 2011, the California Court of Appeal affirmed the final judgment entered in favor of the plaintiffs. PM USA has filed a petition for review with the California Supreme Court. As of September 30, 2011, PM USA has recorded a provision of approximately $1.8 million for compensatory damages, costs and interest.

Schwarz: In March 2002, an Oregon jury awarded against PM USA $168,500 in compensatory damages and $150 million in punitive damages. In May 2002, the trial court reduced the punitive damages award to $100 million. In October 2002, PM USA posted an appeal bond of approximately $58.3 million. In May 2006, the Oregon Court of Appeals affirmed the compensatory damages verdict, reversed the award of punitive damages and remanded the case to the trial court for a second trial to determine the amount of punitive damages, if any. In June 2006, plaintiff petitioned the Oregon Supreme Court to review the portion of the court of appeals decision reversing and remanding the case for a new trial on punitive damages. In June 2010, the Oregon Supreme Court affirmed the court of appeals decision and remanded the case to the trial court for a new trial limited to the question of punitive damages. In December 2010, the Oregon Supreme Court reaffirmed its earlier ruling and awarded PM USA approximately $500,000 in costs. In January 2011, the trial court issued an order releasing PM USA s appeal bond. In March 2011, PM USA filed a claim against the plaintiff for its costs and disbursements on appeal, plus interest. Trial on the question of punitive damages has been set for January 30, 2012.

Williams: In March of 1999, an Oregon jury awarded against PM USA $800,000 in compensatory damages (capped statutorily at $500,000), $21,500 in medical expenses, and $79.5 million in punitive damages. The trial court reduced the punitive damages award to approximately $32 million, and PM USA and plaintiff appealed. In June 2002, the Oregon Court of Appeals reinstated the $79.5 million punitive damages award. In October 2003, the United States Supreme Court set aside the Oregon appellate court s ruling and directed the Oregon court to reconsider the case in light of the 2003 *State Farm* decision by the United States Supreme Court, which limited punitive damages. In June 2004, the Oregon Court of Appeals reinstated the $79.5 million punitive damages award. In February 2006, the Oregon Supreme Court affirmed the Court of Appeals decision. The United States Supreme Court granted PM USA s petition for *writ of certiorari* in May 2006. In February 2007, the United States Supreme Court vacated the $79.5 million punitive damages award and remanded the case to the Oregon Supreme Court for further proceedings consistent with its decision. In January 2008, the Oregon Supreme Court affirmed the Oregon Court of Appeals June 2004 decision, which in turn, upheld the jury s compensatory damages award and reinstated the jury s award of $79.5 million in punitive damages. After the United States Supreme Court declined to issue a *writ of certiorari,* PM USA paid $61.1 million to the plaintiff, representing the compensatory damages award, forty percent of the punitive damages award and accrued interest. Although Oregon state law requires that sixty percent of any punitive damages award be paid to the state, PM USA believes that, as a result of the Master Settlement Agreement (MSA), it is not liable for the sixty percent that would be paid to the state. Oregon and PM USA are parties to a proceeding in Oregon state court that seeks a determination of PM USA s liability for that sixty percent. If PM USA prevails, its obligation to pay punitive damages will be limited to the forty percent previously paid to the plaintiff. The court has consolidated that MSA proceeding with *Williams*, where plaintiff is challenging the constitutionality of the Oregon statute apportioning the punitive damages award and claiming that any punitive damages award released by the state reverts to plaintiff. In February 2010, the trial court ruled that the state is not entitled to collect its sixty percent share of the punitive damages award. In June 2010, after hearing argument, the trial court held that, under the Oregon statute, PM USA is not required to pay the sixty percent share to plaintiff. In October 2010, the trial court rejected plaintiff's argument that the Oregon statute regarding allocation of punitive damages is unconstitutional. The combined effect of these rulings is that PM USA would not be required to pay the state's sixty percent share of the punitive damages award. Both the plaintiff in *Williams* and the state appealed these rulings to the Oregon Court of Appeals. In December 2010, on its own motion, the Oregon Court of Appeals certified the appeals to the Oregon Supreme Court, and the Oregon Supreme Court accepted certification. Argument on the merits of the appeals was heard on September 19, 2011.

See *Scott Class Action* below for a discussion of the verdict and post-trial developments in the *Scott* class action and *Federal Government Lawsuit* below for a discussion of the verdict and post-trial developments in the *United States of America* healthcare cost recovery case.

Engle Class Action

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

In May 2001, the trial court approved a stipulation providing that execution of the punitive damages component of the *Engle* judgment will remain stayed against PM USA and the other participating defendants through the completion of all judicial review. As a result of the stipulation, PM USA placed $500 million into a separate interest-bearing escrow account that, regardless of the outcome of the judicial review, will be paid to the court and the court will determine how to allocate or distribute it consistent with Florida Rules of Civil Procedure. In connection with the stipulation, PM USA recorded a $500 million pre-tax charge in its consolidated statement of earnings for the quarter ended March 31, 2001. In May 2003, the Florida Third District Court of Appeal reversed the judgment entered by the trial court and instructed the trial court to order the decertification of the class. Plaintiffs petitioned the Florida Supreme Court for further review.

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

In August 2006, PM USA sought rehearing from the Florida Supreme Court on parts of its July 2006 opinion, including the ruling (described above) that certain jury findings have *res judicata* effect in subsequent individual trials timely brought by *Engle* class members. The rehearing motion also asked, among other things, that legal errors that were raised but not expressly ruled upon in the Third District

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

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

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

The deadline for filing *Engle* progeny cases, as required by the Florida Supreme Court s decision, expired in January 2008. As of October 24, 2011, approximately 6,572 cases (3,322 state court cases and 3,250 federal court cases) were pending against PM USA or Altria Group, Inc. asserting individual claims by or on behalf of approximately 8,152 plaintiffs (4,901 state court plaintiffs and 3,251 federal court plaintiffs). It is possible that some of these cases are duplicates. Some of these cases have been removed from various Florida state courts to the federal district courts in Florida, while others were filed in federal court.

Federal Engle Progeny Cases

Three federal district courts (in the *Merlob*, *B. Brown* and *Burr* cases) ruled that the findings in the first phase of the *Engle* proceedings cannot be used to satisfy elements of plaintiffs claims, and two of those rulings (*B. Brown* and *Burr*) were certified by the trial court for interlocutory review. The certification in both cases was granted by the United States Court of Appeals for the Eleventh Circuit and the appeals were consolidated. In February 2009, the appeal in *Burr* was dismissed for lack of prosecution. In July 2010, the Eleventh Circuit ruled in *B. Brown* that, as a matter of Florida law, plaintiffs do not have an unlimited right to use the findings from the original *Engle* trial to meet their burden of establishing the elements of their claims at trial. The Eleventh Circuit did not reach the issue of whether the use of the *Engle* findings violates the defendants due process rights. Rather, plaintiffs may only use the findings to establish those specific facts, if any, that they demonstrate with a reasonable degree of certainty were actually decided by the original *Engle* jury. The Eleventh Circuit remanded the case to the district court to determine what specific factual findings the *Engle* jury actually made. In the *Burr* case, PM USA

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filed a motion seeking a ruling from the district court regarding the preclusive effect of the *Engle* findings pursuant to the Eleventh Circuit s decision in *B. Brown*. In May 2011, the district court denied that motion without prejudice on procedural grounds.

In the *Waggoner* case in the United States District Court for the Middle District of Florida (Jacksonville), PM USA and R.J. Reynolds, the other defendant in this case, have filed a motion asking the federal court to rule that application of the *Engle* findings consistent with *Martin* or *J. Brown* would violate defendants due process rights. There has been no federal appellate review of the federal due process issues raised by the use of findings from the original *Engle* trial in *Engle* progeny cases.

Engle progeny cases pending in the federal district courts in the Middle District of Florida asserting individual claims by or on behalf of approximately 3,200 plaintiffs remain stayed. There are currently 11 active cases pending in federal court. Discovery is proceeding in these cases and the first trial is set to begin in February 2012.

Florida Bond Cap Statute

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

Trial court rulings have been rendered in *Clay, Alexander, Townsend* and *Hall* rejecting the plaintiffs bond cap statute challenges in those cases. The plaintiffs have appealed these rulings. In *Alexander*, *Clay* and *Hall*, the District Court of Appeal for the First District of Florida affirmed the trial court decisions and certified the decision in *Hall* for appeal to the Florida Supreme Court, but declined to certify the question of the constitutionality of the bond cap statute in *Clay* and *Alexander*. The parties are awaiting a decision by the Florida Supreme Court as to whether it will grant review of the *Hall* decision.

Engle Progeny Trial Results

As of October 24, 2011, twenty-six *Engle* progeny cases involving PM USA have resulted in verdicts since the Florida Supreme Court *Engle* decision. Thirteen verdicts (see *Hess, Barbanell, F. Campbell, Naugle, Douglas*, *R. Cohen, Putney, Tate, Piendle*, *Hatziyannakis, Huish*, *Tullo* and *Allen* descriptions in the table below) were returned in favor of plaintiffs and thirteen verdicts were returned in favor of PM USA (*Gelep, Kalyvas, Gil de Rubio, Warrick, Willis, Frazier, C. Campbell, Rohr, Espinosa, Oliva, Weingart Junious* and *Szymanski*). The jury in the *Weingart* case returned a verdict against PM USA awarding no damages. On September 16, 2011, the trial court granted an *additur*. For a further discussion of this case, see the verdict chart below. In addition, there have been a number of mistrials, only some of which have resulted in new trials as of October 24, 2011.

In *Lukacs*, a case that was tried to verdict before the Florida Supreme Court *Engle* decision, the Florida Third District Court of Appeal in March 2010 affirmed *per curiam* the trial court decision without issuing an opinion. Under Florida procedure, further review of a *per curiam* affirmance without opinion by the Florida Supreme Court is generally prohibited. Subsequently in 2010, after defendants petition for rehearing with the Court of Appeal was denied, defendants paid the judgment.

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The chart below lists the verdicts and post-trial developments in the *Engle* progeny cases that were pending during 2011 in which verdicts were returned in favor of plaintiffs.

Date	Plaintiff	Verdict	Post-Trial Developments
July 2011	*Weingart*	A Palm Beach County jury returned a verdict in the amount of zero damages and allocated 3% of the fault to each of the defendants (PM USA, R.J. Reynolds and Lorillard Tobacco Company).	On September 16, 2011, the trial court granted plaintiff s motion for *additur* or a new trial, concluding that an *additur* of $150,000 is required for plaintiff s pain and suffering. Since PM USA was allocated 3% of the fault, its portion of the damages would be $4,500. On October 17, 2011, PM USA filed its notice of appeal.
April 2011	*Allen*	A Duval County jury returned a verdict in favor of plaintiffs and against PM USA and R.J. Reynolds. The jury awarded a total of $6 million in compensatory damages and allocated 15% of the fault to PM USA (an amount of $900,000). The jury also awarded $17 million in punitive damages against each of the defendants.	In May 2011, the defendants filed various post-trial motions, and the trial court entered final judgment. Argument was heard in June 2011. On October 11, 2011, the trial court awarded the defendants motion for *remittitur*, reducing the punitive damages award against PM USA to $2.7 million, and denied defendants remaining post-trial motions.
April 2011	*Tullo*	A Palm Beach County jury returned a verdict in favor of plaintiff and against PM USA, Lorillard Tobacco Company and Liggett Group. The jury awarded a total of $4.5 million in compensatory damages and allocated 45% of the fault to PM USA (an amount of $2,025,000).	In April 2011, the trial court entered final judgment. In July 2011, PM USA filed its notice of appeal and posted a $2 million bond.
February 2011	*Huish*	An Alachua County jury returned a verdict in favor of plaintiff and against PM USA. The jury awarded $750,000 in compensatory damages and allocated 25% of the fault to PM USA (an amount of $187,500). The jury also awarded $1.5 million in punitive damages against PM USA.	In March 2011, the trial court entered final judgment. PM USA filed post-trial motions, which were denied in April 2011. In May 2011, PM USA filed its notice of appeal and posted a $1.7 million appeal bond.
February 2011	*Hatziyannakis*	A Broward County jury returned a verdict in favor of plaintiff and against PM USA. The jury awarded approximately $270,000 in	In April 2011, the trial court denied PM USA s post-trial motions for a new trial and to set aside the verdict. In June 2011,

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Date	Plaintiff	Verdict	Post-Trial Developments
		compensatory damages and allocated 32% of the fault to PM USA (an amount of approximately $86,000).	PM USA filed its notice of appeal and posted an $86,000 appeal bond.
August 2010	*Piendle*	A Palm Beach County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds. The jury awarded $4 million in compensatory damages and allocated 27.5% of the fault to PM USA (an amount of approximately $1.1 million). The jury also awarded $90,000 in punitive damages against PM USA.	In September 2010, the trial court entered final judgment. In January 2011, the trial court denied the parties post-trial motions. PM USA filed its notice of appeal and posted a $1.2 million appeal bond.
July 2010	*Tate*	A Broward County jury in the *Tate* trial returned a verdict in favor of the plaintiff and against PM USA. The jury awarded $8 million in compensatory damages and allocated 64% of the fault to PM USA (an amount of approximately $5.1 million). The jury also awarded approximately $16.2 million in punitive damages against PM USA.	In August 2010, the trial court entered final judgment, and PM USA filed its notice of appeal and posted a $5 million appeal bond.
April 2010	*Putney*	A Broward County jury in the *Putney* trial returned a verdict in favor of the plaintiff and against PM USA, R.J. Reynolds and Liggett Group. The jury awarded approximately $15.1 million in compensatory damages and allocated 15% of the fault to PM USA (an amount of approximately $2.3 million). The jury also awarded $2.5 million in punitive damages against PM USA.	In August 2010, the trial court entered final judgment. PM USA filed its notice of appeal and posted a $1.6 million appeal bond.
March 2010	*R. Cohen*	A Broward County jury in the *R. Cohen* trial returned a verdict in favor of the plaintiff and against PM USA and R.J. Reynolds. The jury awarded $10 million in compensatory damages and allocated 33 1/3% of the fault to PM USA (an amount of approximately	In July 2010, the trial court entered final judgment and, in August 2010, PM USA filed its notice of appeal. In October 2010, PM USA posted a $2.5 million appeal bond.

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Date	Plaintiff	Verdict	Post-Trial Developments
		$3.3 million). The jury also awarded a total of $20 million in punitive damages, assessing separate $10 million awards against each defendant.	
March 2010	*Douglas*	The jury in the *Douglas* trial (conducted in Hillsborough County) returned a verdict in favor of the plaintiff and against PM USA, R.J. Reynolds and Liggett Group. The jury awarded $5 million in compensatory damages. Punitive damages were dismissed prior to trial. The jury allocated 18% of the fault to PM USA, resulting in an award of $900,000.	In June 2010, PM USA filed its notice of appeal and posted a $900,000 appeal bond. In September 2010, the plaintiff filed with the trial court a challenge to the constitutionality of the Florida bond cap statute but withdrew the challenge on August 17, 2011. Argument on the merits of the appeal was heard on October 4, 2011.
November 2009	*Naugle*	A Broward County jury in the *Naugle* trial returned a verdict in favor of the plaintiff and against PM USA. The jury awarded approximately $56.6 million in compensatory damages and $244 million in punitive damages. The jury allocated 90% of the fault to PM USA.	In March 2010, the trial court entered final judgment reflecting a reduced award of approximately $13 million in compensatory damages and $26 million in punitive damages. In April 2010, PM USA filed its notice of appeal and posted a $5 million appeal bond. In August 2010, upon the motion of PM USA, the trial court entered an amended final judgment of approximately $12.3 million in compensatory damages and approximately $24.5 million in punitive damages to correct a clerical error. The case remains on appeal.
August 2009	*F. Campbell*	The jury in the *F. Campbell* trial (conducted in Escambia County) returned a verdict in favor of the plaintiff and against R.J. Reynolds, PM USA and Liggett Group. The jury awarded $7.8 million in compensatory damages. In September 2009, the trial court entered final judgment and awarded the plaintiff $156,000 in damages against PM USA due to the jury allocating only 2% of the fault to	In January 2010, defendants filed their notice of appeal, and PM USA posted a $156,000 appeal bond. In March 2011, the Florida First District Court of Appeal affirmed *per curiam* (with citation) the trial court s decision without issuing an opinion. PM USA s motion to certify the Court of Appeal s decision to the Florida Supreme Court as a matter of public importance was denied in May 2011. In

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Date	Plaintiff	Verdict	Post-Trial Developments
		PM USA.	June 2011, PM USA filed a petition for discretionary review with the Florida Supreme Court. In July 2011, the Florida Supreme Court declined to hear PM USA s petition. On October 7, 2011, defendants were granted until December 16, 2011 to file a petition for a *writ of certiorari* with the United States Supreme Court. As of September 30, 2011, PM USA has recorded a provision of approximately $237,000 for compensatory damages, costs and interest.
August 2009	*Barbanell*	A Broward County jury in the *Barbanell* trial returned a verdict in favor of the plaintiff, awarding $5.3 million in compensatory damages. The judge had previously dismissed the punitive damages claim. In September 2009, the trial court entered final judgment and awarded plaintiff $1.95 million in actual damages. The judgment reduced the jury s $5.3 million award of compensatory damages due to the jury allocating 36.5% of the fault to PM USA.	A notice of appeal was filed by PM USA in September 2009, and PM USA posted a $1.95 million appeal bond. Argument on the merits of the appeal was heard on September 7, 2011.
February 2009	*Hess*	A Broward County jury in the *Hess* trial found in favor of plaintiffs and against PM USA. The jury awarded $3 million in compensatory damages and $5 million in punitive damages. In June 2009, the trial court entered final judgment and awarded plaintiffs $1,260,000 in actual damages and $5 million in punitive damages. The judgment reduced the jury s $3 million award of compensatory damages due to the jury allocating 42% of the fault to PM USA.	PM USA noticed an appeal to the Fourth District Court of Appeal in July 2009. Argument was heard in March 2011.

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Appeals of Engle Progeny Verdicts

Plaintiffs in various *Engle* progeny cases have appealed adverse rulings or verdicts, and in some cases, PM USA has cross-appealed. PM USA s appeals of adverse verdicts are discussed in the chart above.

Since the remand of *B. Brown*, the Eleventh Circuit s ruling on Florida state law is currently superseded by two state appellate rulings in *Martin*, an *Engle* progeny case against R.J. Reynolds in Escambia County and *J. Brown*, an *Engle* progeny case against R.J. Reynolds in Broward County. In *Martin*, the Florida First District Court of Appeal rejected the *B. Brown* ruling as a matter of state law and upheld the use of the *Engle* findings to relax plaintiffs burden of proof. R.J. Reynolds had sought Florida Supreme Court review in that case but, in July 2011, the Florida Supreme Court declined to hear the appeal. In *J. Brown*, the Florida Fourth District Court of Appeal also rejected the *B. Brown* ruling as a matter of state law and upheld the use of the *Engle* findings to relax plaintiffs burden of proof. However, the Fourth District expressly disagreed with the First District s *Martin* decision by ruling that *Engle* progeny plaintiffs must prove legal causation on their claims. In addition, the *J. Brown* court expressed concerns that using the *Engle* findings to reduce plaintiffs burden may violate defendants due process rights. R.J. Reynolds filed a motion in September 2011 asking the Fourth District to certify *J. Brown* to the Florida Supreme Court for review, which was denied on October 21, 2011.

As noted above in *Federal Engle Progeny Cases*, there has been no federal appellate review of the federal due process issues raised by the use of findings from the original *Engle* trial in *Engle* progeny cases.

Because of the substantial period of time required for the federal and state appellate processes, it is possible that PM USA may have to pay certain outstanding judgments in the *Engle* progeny cases before the final adjudication of these issues by the Florida Supreme Court or the United States Supreme Court.

Other Smoking and Health Class Actions

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

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

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

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Scott Class Action

In July 2003, following the first phase of the trial in the *Scott* class action, in which plaintiffs sought creation of a fund to pay for medical monitoring and smoking cessation programs, a Louisiana jury returned a verdict in favor of defendants, including PM USA, in connection with plaintiffs medical monitoring claims, but also found that plaintiffs could benefit from smoking cessation assistance. The jury also found that cigarettes as designed are not defective but that the defendants failed to disclose all they knew about smoking and diseases and marketed their products to minors. In May 2004, in the second phase of the trial, the jury awarded plaintiffs approximately $590 million against all defendants jointly and severally, to fund a 10-year smoking cessation program. Defendants appealed.

In April 2010, the Louisiana Fourth Circuit Court of Appeal issued a decision that affirmed in part prior decisions ordering the defendants to fund a statewide 10-year smoking cessation program. After conducting its own independent review of the record, the Court of Appeal made its own factual findings with respect to liability and the amount owed, lowering the amount of the judgment to approximately $241 million, plus interest commencing July 21, 2008, the date of entry of the amended judgment. In addition, the Court of Appeal declined plaintiffs cross appeal requests for a medical monitoring program and reinstatement of other components of the smoking cessation program. The Court of Appeal specifically reserved to the defendants the right to assert claims to any unspent or unused surplus funds at the termination of the smoking cessation program. In June 2010, defendants and plaintiffs filed separate *writ of certiorari* applications with the Louisiana Supreme Court. The Louisiana Supreme Court denied both sides applications. In September 2010, upon defendants application, the United States Supreme Court granted a stay of the judgment pending the defendants filing and the Court s disposition of the defendants petition for a *writ of certiorari*. In June 2011, the United States Supreme Court denied the defendants petition.

On August 1, 2011, PM USA paid its share of the judgment in an amount of approximately $70 million. The defendants payments have been deposited into a court-supervised fund that is intended to pay for smoking cessation programs. Plaintiffs counsel has advised that they will ask the court to award them attorneys fees and costs.

Other Medical Monitoring Class Actions

In addition to the *Scott* class action discussed above, two purported medical monitoring class actions are pending against PM USA. These two cases were brought in New York (*Caronia*, filed in January 2006 in the United States District Court for the Eastern District of New York) and Massachusetts (*Donovan*, filed in December 2006 in the United States District Court for the District of Massachusetts) on behalf of each state s respective residents who: are age 50 or older; have smoked the *Marlboro* brand for 20 pack-years or more; and have neither been diagnosed with lung cancer nor are under investigation by a physician for suspected lung cancer. Plaintiffs in these cases seek to impose liability under various product-based causes of action and the creation of a court-supervised program providing members of the purported class Low Dose CT Scanning in order to identify and diagnose lung cancer. Plaintiffs in these cases do not seek punitive damages. A case brought in California (*Xavier*) was dismissed in July 2011, and a case brought in Florida (*Gargano*) was voluntarily dismissed with prejudice on August 10, 2011.

In *Caronia*, in February 2010, the district court granted in part PM USA s summary judgment motion, dismissing plaintiffs strict liability and negligence claims and certain other claims, granted plaintiffs leave to amend their complaint to allege a medical monitoring cause of action and requested further briefing on PM USA s summary judgment motion as to plaintiffs implied warranty claim and, if plaintiffs amend their complaint, their medical monitoring claim. In March 2010, plaintiffs filed their amended complaint and PM USA moved to dismiss the implied warranty and medical monitoring claims. In January 2011, the district court granted PM USA s motion, dismissed plaintiffs claims and declared plaintiffs motion for class certification moot in light of the dismissal of the case. The plaintiffs have appealed that decision to the United States Court of Appeals for the Second Circuit.

In *Donovan*, the Supreme Judicial Court of Massachusetts, in answering questions certified to it by the district court, held in October 2009 that under certain circumstances state law recognizes a claim by individual smokers for medical monitoring despite the absence of an actual injury. The court also ruled that whether or not the case is barred by the applicable statute of limitations is a factual issue to be determined by the trial court. The case was remanded to federal court for further proceedings. In June 2010, the district court granted in part the plaintiffs motion for class certification, certifying the class as to plaintiffs claims for breach of implied warranty and violation of the Massachusetts Consumer Protection Act, but denying certification as to plaintiffs negligence claim. In July 2010, PM USA petitioned the United States Court of Appeals for the First Circuit for appellate review of the class certification decision. The petition was denied in September 2010. As a remedy, plaintiffs have proposed a 28-year medical monitoring program with an approximate cost of $190 million. In April 2011, plaintiffs moved to amend their class certification to extend the cut-off date for individuals to satisfy the class membership criteria from December 14, 2006 to August 1, 2011. The district court granted this motion in May 2011. Trial has been postponed. In June 2011, plaintiffs filed various motions for summary judgment and to strike affirmative defenses.

Evolving medical standards and practices could have an impact on the defense of medical monitoring claims. For example, the first publication of the findings of the National Cancer Institute s National Lung Screening Trial (NLST) in June 2011 reported a 20% reduction in lung cancer deaths among certain long term smokers receiving Low Dose CT Scanning for lung cancer. Since then, various public health organizations have begun to develop new lung cancer screening guidelines. Also, a number of hospitals have advertised the availability of screening programs.

Health Care Cost Recovery Litigation

Overview

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

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

Defenses raised include lack of proximate cause, remoteness of injury, failure to state a valid claim, lack of benefit, adequate remedy at law, unclean hands (namely, that plaintiffs cannot obtain equitable relief because they participated in, and benefited from, the sale of cigarettes), lack of antitrust standing and injury, federal preemption, lack of statutory authority to bring suit, and statutes of limitations. In addition, defendants argue that they should be entitled to set off any alleged damages to the extent the

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plaintiffs benefit economically from the sale of cigarettes through the receipt of excise taxes or otherwise. Defendants also argue that these cases are improper because plaintiffs must proceed under principles of subrogation and assignment. Under traditional theories of recovery, a payor of medical costs (such as an insurer) can seek recovery of health care costs from a third party solely by standing in the shoes of the injured party. Defendants argue that plaintiffs should be required to bring any actions as subrogees of individual health care recipients and should be subject to all defenses available against the injured party.

Although there have been some decisions to the contrary, most judicial decisions have dismissed all or most health care cost recovery claims against cigarette manufacturers. Nine federal circuit courts of appeals and eight state appellate courts, relying primarily on grounds that plaintiffs claims were too remote, have ordered or affirmed dismissals of health care cost recovery actions. The United States Supreme Court has refused to consider plaintiffs appeals from the cases decided by five circuit courts of appeals.

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

In addition to the cases brought in the United States, health care cost recovery actions have also been brought against tobacco industry participants, including PM USA and Altria Group, Inc., in Israel (1), the Marshall Islands (dismissed), and Canada (4), and other entities have stated that they are considering filing such actions. In the case in Israel, in July 2011, the Israel Supreme Court reversed the trial court s decision denying defendants motion to dismiss and dismissed the case. On August 28, 2011, plaintiff filed a motion for rehearing with the Israel Supreme Court.

In September 2005, in the first of the four health care cost recovery cases filed in Canada, the Canadian Supreme Court ruled that legislation passed in British Columbia permitting the lawsuit is constitutional, and, as a result, the case, which had previously been dismissed by the trial court, was permitted to proceed. PM USA s and other defendants challenge to the British Columbia court s exercise of jurisdiction was rejected by the Court of Appeals of British Columbia and, in April 2007, the Supreme Court of Canada denied review of that decision. In December 2009, the Court of Appeals of British Columbia ruled that certain defendants can proceed against the Federal Government of Canada as third parties on the theory that the Federal Government of Canada negligently misrepresented to defendants the efficacy of a low tar tobacco variety that the Federal Government of Canada developed and licensed to defendants. In May 2010, the Supreme Court of Canada granted leave to the Federal Government of Canada to appeal this decision and leave to defendants to cross-appeal the Court of Appeals decision to dismiss claims against the Federal Government of Canada based on other theories of liability. On July 29, 2011, the Supreme Court of Canada dismissed the third-party claims against the Federal Government of Canada.

During 2008, the Province of New Brunswick, Canada, proclaimed into law previously adopted legislation allowing reimbursement claims to be brought against cigarette manufacturers, and it filed suit shortly thereafter. In September 2009, the Province of Ontario, Canada, filed suit against a number of cigarette manufacturers based on previously adopted legislation nearly identical in substance to the New Brunswick health care cost recovery legislation. In February 2011, the Province of Newfoundland and Labrador filed a case substantially similar to the ones brought by New Brunswick and Ontario.

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PM USA is named as a defendant in the British Columbia case, while Altria Group, Inc. and PM USA are named as defendants in the New Brunswick, Ontario and Newfoundland cases. Several other provinces and territories in Canada have enacted similar legislation or are in the process of enacting similar legislation. See *Guarantees* for a discussion of the Distribution Agreement between Altria Group, Inc. and PMI that provides for indemnities for certain liabilities concerning tobacco products.

Settlements of Health Care Cost Recovery Litigation

In November 1998, PM USA and certain other United States tobacco product manufacturers entered into the MSA with 46 states, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Marianas to settle asserted and unasserted health care cost recovery and other claims. PM USA and certain other United States tobacco product manufacturers had previously settled similar claims brought by Mississippi, Florida, Texas and Minnesota (together with the MSA, the State Settlement Agreements). The State Settlement Agreements require that the original participating manufacturers make substantial annual payments of approximately $9.4 billion each year, subject to adjustments for several factors, including inflation, market share and industry volume. In addition, the original participating manufacturers are required to pay settling plaintiffs attorneys fees, subject to an annual cap of $500 million. For the three months ended September 30, 2011 and September 30, 2010, the aggregate amount recorded in cost of sales with respect to the State Settlement Agreements and the Fair and Equitable Tobacco Reform Act of 2004 (FETRA) was approximately $1.2 billion and $1.3 billion, respectively. For the nine months ended September 30, 2011 and September 30, 2010, the aggregate amount recorded in cost of sales with respect to the State Settlement Agreements and FETRA was approximately $3.6 billion and $3.7 billion, respectively.

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

Possible Adjustments in MSA Payments for 2003 to 2010

Pursuant to the provisions of the MSA, domestic tobacco product manufacturers, including PM USA, who are original signatories to the MSA (the Original Participating Manufacturers or OPMs) are participating in proceedings that may result in downward adjustments to the amounts paid by the OPMs and the other MSA-participating manufacturers to the states and territories that are parties to the MSA for each of the years 2003 to 2009. The proceedings relate to an MSA payment adjustment (the NPM Adjustment) based on the collective loss of market share for the relevant year by all participating manufacturers who are subject to the payment obligations and marketing restrictions of the MSA to non-participating manufacturers (NPMs) who are not subject to such obligations and restrictions.

As part of these proceedings, an independent economic consulting firm jointly selected by the MSA parties or otherwise selected pursuant to the MSA s provisions is required to determine whether the disadvantages of the MSA were a significant factor contributing to the participating manufacturers collective loss of market share for the year in question. If the firm determines that the disadvantages of the MSA were such a significant factor, each state may avoid a downward adjustment to its share of the participating manufacturers annual payments for that year by establishing that it diligently enforced a qualifying escrow statute during the entirety of that year. Any potential downward adjustment would then be reallocated to any states that do not establish such diligent enforcement. PM USA believes that the MSA s arbitration clause requires a state to submit its claim to have diligently enforced a qualifying escrow statute to binding arbitration before a panel of three former federal judges in the manner provided for in the MSA. A number of states have taken the position that this claim should be decided in state court on a state-by-state basis.

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An independent economic consulting firm, jointly selected by the MSA parties, determined that the disadvantages of the MSA were a significant factor contributing to the participating manufacturers collective loss of market share for each of the years 2003 2005. A different independent economic consulting firm, jointly selected by the MSA parties, determined that the disadvantages of the MSA were a significant factor contributing to the participating manufacturers collective loss of market share for the year 2006. Following the determination for 2006, the OPMs and the states agreed that the states would not contest that the disadvantages of the MSA were a significant factor contributing to the participating manufacturers collective loss of market share for the years 2007, 2008 and 2009. Accordingly, the OPMs and the states have agreed that no significant factor determination by an independent economic consulting firm will be necessary with respect to the participating manufacturers collective loss of market share for the years 2007, 2008 and 2009. This agreement became effective for 2007 and 2008 on February 1, 2010 and February 1, 2011, respectively, and will become effective for 2009 on February 1, 2012. The MSA s Independent Auditor has determined that the participating manufacturers collectively lost market share for 2010. A proceeding before an economic consulting firm with respect to a significant factor determination for the loss of market share for 2010 cannot be commenced until April 2012.

Following the significant factor determination with respect to 2003, thirty-eight states filed declaratory judgment actions in state courts seeking a declaration that the state diligently enforced its escrow statute during 2003. The OPMs and other MSA-participating manufacturers responded to these actions by filing motions to compel arbitration in accordance with the terms of the MSA, including filing motions to compel arbitration in eleven MSA states and territories that did not file declaratory judgment actions. Courts in all but one of the forty-six MSA states and the District of Columbia and Puerto Rico have ruled that the question of whether a state diligently enforced its escrow statute during 2003 is subject to arbitration. Several of these rulings may be subject to further review. One state court (in *State of Montana*) has ruled that the diligent enforcement claims of that state may be litigated in state court, rather than in arbitration. In January 2010, the OPMs filed a petition for a *writ of certiorari* in the United States Supreme Court seeking further review of the Montana decision holding that a state s diligent enforcement claims may be litigated in state court, rather than in arbitration. The petition was denied in June 2010. Following the denial of this petition, Montana renewed an action in its state court seeking a declaratory judgment that it diligently enforced its escrow statute during 2003 and other relief. The case is now proceeding in the trial court.

PM USA, the other OPMs and approximately twenty-five other MSA-participating manufacturers have entered into an agreement regarding arbitration with forty-five MSA states concerning the 2003 NPM Adjustment, including the states claims of diligent enforcement for 2003. The agreement further provides for a partial liability reduction for the 2003 NPM Adjustment for states that entered into the agreement by January 30, 2009 and are determined in the arbitration not to have diligently enforced a qualifying escrow statute during 2003. Based on the number of states that entered into the agreement by January 30, 2009 (forty-five), the partial liability reduction for those states is 20%. The partial liability reduction would reduce the amount of PM USA s 2003 NPM Adjustment by up to a corresponding percentage. The selection of the arbitration panel for the 2003 NPM Adjustment was completed in July 2010, and the arbitration is currently ongoing. Proceedings to determine state diligent enforcement claims for the years 2004 through 2009 have not yet been scheduled.

Once a significant factor determination in favor of the participating manufacturers for a particular year has been made by an economic consulting firm, or the states agreement not to contest significant factor for a particular year has become effective, PM USA has the right under the MSA to pay the disputed amount of the NPM Adjustment for that year into a disputed payments account or withhold it altogether. PM USA has made its full MSA payment due in each year from 2006 - 2010 to the states (subject to a right to recoup the NPM Adjustment amount in the form of a credit against future MSA payments), even

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though it had the right to deduct the disputed amounts of the 2003 2007 NPM Adjustments, as described above, from such MSA payments. PM USA paid its share of the amount of the disputed 2008 NPM Adjustment shown below into the MSA s disputed payments account in connection with its MSA payment due in 2011. The approximate maximum principal amounts of PM USA s share of the disputed NPM Adjustment for the years 2003 through 2009, as currently calculated by the MSA s Independent Auditor, are as follows (the amounts shown below do not include the interest or earnings thereon to which PM USA believes it would be entitled in the manner provided in the MSA):

Year for which NPM Adjustment calculated	2003	2004	2005	2006	2007	2008	2009
Year in which deduction for NPM Adjustment may be taken	2006	2007	2008	2009	2010	2011	2012
PM USA s Approximate Share of Disputed NPM Adjustment (in millions)	$ 337	$ 388	$ 181	$ 154	$ 207	$ 267	$ 211

As indicated above, the MSA s Independent Auditor has determined that the participating manufacturers have collectively lost market share for 2010, but a significant factor proceeding for a 2010 NPM Adjustment cannot be commenced until April 2012. Based on the Independent Auditor s current calculations, the approximate maximum principal amount of PM USA s share of any NPM Adjustment for 2010 would be $209 million.

The foregoing amounts may be recalculated by the Independent Auditor if it receives information that is different from or in addition to the information on which it based these calculations, including, among other things, if it receives revised sales volumes from any participating manufacturer. Disputes among the manufacturers could also reduce the foregoing amounts. The availability and the precise amount of any NPM Adjustment for 2003-2010 will not be finally determined until 2012 or thereafter. There is no certainty that the OPMs and other MSA-participating manufacturers will ultimately receive any adjustment as a result of these proceedings, and the amount of any adjustment received for a year could be less than the amount for that year listed above. If the OPMs do receive such an adjustment through these proceedings, the adjustment would be allocated among the OPMs pursuant to the MSA s provisions. It is expected that PM USA would receive its share of any adjustments for 2003 - 2007 in the form of a credit against future MSA payments and its share of any adjustment for 2008 in the form of a withdrawal from the disputed payments account.

PM USA intends to pursue vigorously the disputed NPM Adjustments for 2003-2010 through the proceedings described above. PM USA would be willing, however, to enter into a settlement of those disputed NPM Adjustments if it determined that such a settlement were in its best interests.

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Other MSA-Related Litigation

PM USA was named as a defendant in an action (*Vibo*) brought in October 2008 in federal court in Kentucky by an MSA participating manufacturer that is not an OPM. Other defendants include various other participating manufacturers and the Attorneys General of all 52 states and territories that are parties to the MSA. The plaintiff alleged that certain of the MSA s payment provisions discriminate against it in favor of certain other participating manufacturers in violation of the federal antitrust laws and the United States Constitution. The plaintiff also sought injunctive relief, alteration of certain MSA payment provisions as applied to it, treble damages under the federal antitrust laws, and/or rescission of its joinder in the MSA. The plaintiff also filed a motion for a preliminary injunction enjoining the states from enforcing the allegedly discriminatory payment provisions against it during the pendency of the action. In January 2009, the district court dismissed the complaint and denied plaintiff s request for preliminary injunctive relief. In January 2010, the court entered final judgment dismissing the case. Plaintiff appealed this decision to the United States Court of Appeals for the Sixth Circuit. Argument was heard on October 6, 2011.

Without naming PM USA or any other private party as a defendant, NPMs and/or their distributors or customers have filed several legal challenges to the MSA and related legislation. New York state officials and the Attorneys General for thirty other states are defendants in a lawsuit (*Pryor*) filed in the United States District Court for the Southern District of New York in which plaintiffs allege that the MSA and/or related legislation violates federal antitrust laws and the Commerce Clause of the United States Constitution. The United States Court of Appeals for the Second Circuit has held that the allegations in that lawsuit, if proven, establish a basis for relief on antitrust and Commerce Clause grounds and that the trial courts in New York have personal jurisdiction sufficient to enjoin other states officials from enforcing their MSA-related legislation. On remand, the trial court held that plaintiffs are unlikely to succeed on the merits and refused to enjoin the enforcement of New York s allocable share amendment to the MSA s Model Escrow Statute. That decision was affirmed by the United States Court of Appeals for the Second Circuit. In March 2011, the trial court granted summary judgment on all claims for the New York state officials. Plaintiffs have filed a motion to modify the judgment and a notice of appeal.

In addition to the *Pryor* decision above, the United States Courts of Appeals for the Second, Fifth, Sixth, Eighth, Ninth and Tenth Circuits have affirmed dismissals or grants of summary judgment in favor of state officials in seven other cases asserting antitrust and constitutional challenges to the allocable share amendment legislation in those states.

In January 2011, an international arbitration tribunal rejected claims brought against the United States challenging MSA-related legislation in various states under the North American Free Trade Agreement.

Federal Government s Lawsuit

In 1999, the United States government filed a lawsuit in the United States District Court for the District of Columbia against various cigarette manufacturers, including PM USA, and others, including Altria Group, Inc. asserting claims under three federal statutes, namely the Medical Care Recovery Act (MCRA), the MSP provisions of the Social Security Act and the civil provisions of RICO. Trial of the case ended in June 2005. The lawsuit sought to recover an unspecified amount of health care costs for tobacco-related illnesses allegedly caused by defendants fraudulent and tortious conduct and paid for by the government under various federal health care programs, including Medicare, military and veterans health benefits programs, and the Federal Employees Health Benefits Program. The complaint alleged that such costs total more than $20 billion annually. It also sought what it alleged to be equitable and declaratory relief, including disgorgement of profits which arose from defendants allegedly tortious

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conduct, 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. In September 2000, the trial court dismissed the government s MCRA and MSP claims, but permitted discovery to proceed on the government s claims for relief under the civil provisions of RICO.

The government alleged that disgorgement by defendants of approximately $280 billion is an appropriate remedy. In May 2004, the trial court issued an order denying defendants motion for partial summary judgment limiting the disgorgement remedy. In February 2005, a panel of the United States Court of Appeals for the District of Columbia Circuit held that disgorgement is not a remedy available to the government under the civil provisions of RICO and entered summary judgment in favor of defendants with respect to the disgorgement claim. In July 2005, the government petitioned the United States Supreme Court for further review of the Court of Appeals ruling that disgorgement is not an available remedy, and in October 2005, the Supreme Court denied the petition.

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

In August 2006, the federal trial court entered judgment in favor of the government. The court held that certain defendants, including Altria Group, Inc. and PM USA, violated RICO and engaged in 7 of the 8 sub-schemes to defraud that the government had alleged. Specifically, the court found that:

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

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

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

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

defendants falsely denied that they intentionally marketed to youth;

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

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defendants suppressed scientific research.

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

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

- its application to defendants subsidiaries;
- the prohibition on the use of express or implied health messages or health descriptors, but only to the extent of extraterritorial application;
- its point-of-sale display provisions; and
- its application to Brown & Williamson Holdings.

The Court of Appeals panel remanded the case for the trial court to reconsider these four aspects of the injunction and to reformulate its remedial order accordingly.

Furthermore, the Court of Appeals panel rejected all of the government s and intervenors cross appeal arguments and refused to broaden the remedial order entered by the trial court. The Court of Appeals

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panel also left undisturbed its prior holding that the government cannot obtain disgorgement as a permissible remedy under RICO.

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

In February 2011, the government submitted its proposed corrective statements and the trial court referred issues relating to a document repository to a special master. In March 2011, the defendants filed a response to the government s proposed corrective statements and filed a motion to vacate the trial court s injunction in light of the FSPTCA. In April 2011, the defendants filed a motion on the exclusivity of the court s jurisdiction to enforce the injunction.

In June 2011, the trial court denied the defendants motion to vacate the trial court s injunction in light of the FSPTCA. The defendants have appealed the trial court s ruling to the United States Court of Appeals for the District of Columbia Circuit. Also in June 2011, the trial court denied defendants motion on the exclusivity of the court s jurisdiction to enforce the injunction.

Lights/Ultra Lights Cases

Overview

Plaintiffs in certain pending matters seek certification of their cases as class actions and allege, among other things, that the uses of the terms Lights and/or Ultra Lights constitute deceptive and unfair trade practices, common law fraud, or RICO violations, and seek injunctive and equitable relief, including restitution and, in certain cases, punitive damages. These class actions have been brought against PM USA and, in certain instances, Altria Group, Inc. or its subsidiaries, on behalf of individuals who purchased and consumed various brands of cigarettes, including *Marlboro* Lights, *Marlboro Ultra* Lights, *Virginia Slims* Lights and Superslims, *Merit* Lights and *Cambridge* Lights. Defenses raised in these cases include lack of misrepresentation, lack of causation, injury, and damages, the statute of limitations, express preemption by the Federal Cigarette Labeling and Advertising Act (FCLAA) and implied preemption by the policies and directives of the FTC, non-liability under state statutory provisions exempting conduct that complies with federal regulatory directives, and the First Amendment. As of October 24, 2011, a total of eighteen such cases were pending in the United States. Four of these cases were pending in a multidistrict litigation proceeding in a single U.S. federal court as discussed below. The other cases were pending in various U.S. state courts. In addition, a purported

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Lights class action is pending against PM USA in Israel. Other entities have stated that they are considering filing such actions against Altria Group, Inc. and PM USA.

In the one Lights case pending in Israel, hearings on plaintiffs motion for class certification were held in November and December 2008. An additional hearing on class certification is scheduled for November 2011. See *Guarantees* for a discussion of the Distribution Agreement between Altria Group, Inc. and PMI that provides for indemnities for certain liabilities concerning tobacco products.

The Good Case

In May 2006, a federal trial court in Maine granted PM USA s motion for summary judgment in *Good*, a purported Lights class action, on the grounds that plaintiffs claims are preempted by the FCLAA and dismissed the case. In August 2007, the United States Court of Appeals for the First Circuit vacated the district court s grant of PM USA s motion for summary judgment on federal preemption grounds and remanded the case to district court. The district court stayed the case pending the United States Supreme Court s ruling on defendants petition for *writ of certiorari* with the United States Supreme Court, which was granted in January 2008. The case was stayed pending the United States Supreme Court s decision. In December 2008, the United States Supreme Court ruled that plaintiffs claims are not barred by federal preemption. Although the Court rejected the argument that the FTC s actions were so extensive with respect to the descriptors that the state law claims were barred as a matter of federal law, the Court s decision was limited: it did not address the ultimate merits of plaintiffs claim, the viability of the action as a class action, or other state law issues. The case was returned to the federal court in Maine and consolidated with other federal cases in the multidistrict litigation proceeding discussed below. In June 2011, the plaintiffs voluntarily dismissed the case without prejudice after the district court denied plaintiffs motion for class certification.

Federal Multidistrict Proceeding

Since the December 2008 United States Supreme Court decision in *Good*, and through October 24, 2011, twenty-four purported Lights class actions were served upon PM USA and, in certain cases, Altria Group, Inc. These cases were filed in 14 states, the U.S. Virgin Islands and the District of Columbia. All of these cases either were filed in federal court or were removed to federal court by PM USA.

A number of purported Lights class actions were transferred and consolidated by the Judicial Panel on Multidistrict Litigation (JPMDL) before the United States District Court for the District of Maine for pretrial proceedings (MDL proceeding). These cases, and the states in which each originated, included: *Biundo* (Illinois), *Calistro* (U.S. Virgin Islands), *Corse* (Tennessee), *Domaingue* (New York), *Good* (Maine), *Haubrich* (Pennsylvania), *McClure* (Tennessee), *Mirick* (Mississippi), *Mulford* (New Mexico), *Parsons* (District of Columbia), *Phillips* (Ohio), *Slater* (District of Columbia), *Tang* (New York), *Tyrer* (California), *Williams* (Arkansas) and *Wyatt* (Wisconsin).

In November 2010, the district court in the MDL proceeding denied plaintiffs motion for class certification in four cases, covering the jurisdictions of California, the District of Columbia, Illinois and Maine. These jurisdictions were selected by the parties as sample cases, with two selected by plaintiffs and two selected by defendants. Plaintiffs sought appellate review of this decision but, in February 2011, the United States Court of Appeals for the First Circuit denied plaintiffs petition for leave to appeal. In June 2011, plaintiffs in twelve cases voluntarily dismissed without prejudice their cases, and on August 8, 2011, plaintiff in *McClure* voluntarily dismissed the case without prejudice. Plaintiffs in the remaining four cases (*Phillips*, *Tang, Wyatt* and *Cabbat*) have requested the transfer of their cases back to the courts in which the suits originated.

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Lights Cases Dismissed, Not Certified or Ordered De-Certified

To date, in addition to the district court in the MDL proceeding, 15 courts in 16 Lights cases have refused to certify class actions, dismissed class action allegations, reversed prior class certification decisions or have entered judgment in favor of PM USA.

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

Several appellate courts have issued rulings that either affirmed rulings in favor of Altria Group, Inc. and/or PM USA or reversed rulings entered in favor of plaintiffs. In Florida, an intermediate appellate court overturned an order by a trial court that granted class certification in *Hines*. The Florida Supreme Court denied review in January 2008. The Supreme Court of Illinois has overturned a judgment that awarded damages to a certified class in the *Price* case. See *The Price Case* below for further discussion. In Louisiana, the United States Court of Appeals for the Fifth Circuit dismissed a purported Lights class action brought in Louisiana federal court (*Sullivan*) on the grounds that plaintiffs claims were preempted by the FCLAA. In New York, the United States Court of Appeals for the Second Circuit overturned a decision by a New York trial court in *Schwab* that denied defendants summary judgment motions and granted plaintiffs motion for certification of a nationwide class of all United States residents that purchased cigarettes in the United States that were labeled Light or Lights. In July 2010, plaintiffs in *Schwab* voluntarily dismissed the case with prejudice. In Ohio, the Ohio Supreme Court overturned class certifications in the *Marrone* and *Phillips* cases. Plaintiffs voluntarily dismissed without prejudice both cases in August 2009. The Supreme Court of Washington denied a motion for interlocutory review filed by the plaintiffs in the *Davies* case that sought review of an order by the trial court that refused to certify a class. Plaintiffs subsequently voluntarily dismissed the *Davies* case with prejudice.

In Oregon (*Pearson*), a state court denied plaintiff s motion for interlocutory review of the trial court s refusal to certify a class. In February 2007, PM USA filed a motion for summary judgment based on federal preemption and the Oregon statutory exemption. In September 2007, the district court granted PM USA s motion based on express preemption under the FCLAA, and plaintiffs appealed this dismissal and the class certification denial to the Oregon Court of Appeals. Argument was held in April 2010.

In *Cleary*, which was pending in an Illinois federal court, the district court dismissed plaintiffs Lights claims against one defendant and denied plaintiffs request to remand the case to state court. In September 2009, the court issued its ruling on PM USA s and the remaining defendants motion for summary judgment as to all Lights claims. The court granted the motion as to all defendants except PM USA. As to PM USA, the court granted the motion as to all Lights and other low tar brands other than *Marlboro* Lights. As to *Marlboro* Lights, the court ordered briefing on why the 2002 state court order dismissing the *Marlboro* Lights claims should not be vacated based upon *Good*. In January 2010, the court vacated the previous dismissal. In February 2010, the court granted summary judgment in favor of defendants as to all claims except for the *Marlboro* Lights claims, based on the statute of limitations and deficiencies relating to the named plaintiffs. In June 2010, the court granted summary judgment in favor of all defendants on all remaining claims, dismissing the case. In July 2010, plaintiffs filed a motion for reconsideration with the district court, which was denied. In August 2010, plaintiffs filed an appeal with the United States Court of Appeals for the Seventh Circuit. On August 25, 2011,

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the Seventh Circuit affirmed the trial court s dismissal of the case. Plaintiffs have filed a petition for rehearing with the Seventh Circuit.

Other Developments

In December 2009, the state trial court in the *Carroll (*formerly known as *Holmes)* case (pending in Delaware), denied PM USA s motion for summary judgment based on an exemption provision in the Delaware Consumer Fraud Act. In January 2011, the trial court allowed the plaintiffs to file an amended complaint substituting class representatives and naming Altria Group, Inc. and PMI as additional defendants. In July 2011, the parties stipulated to the dismissal without prejudice of Altria Group, Inc. and PMI. The stipulation is signed by the parties but not yet approved by the trial court. See *Guarantees* for a discussion of the Distribution Agreement between Altria Group, Inc. and PMI that provides for indemnities for certain liabilities concerning tobacco products.

In June 2007, the United States Supreme Court reversed the lower court rulings in the *Watson* case that denied plaintiffs motion to have the case heard in a state, as opposed to federal, trial court. The Supreme Court rejected defendant s contention that the case must be tried in federal court under the federal officer statute. The case was removed to federal court in Arkansas and the case was transferred to the MDL proceeding discussed above. In November 2010, the district court in the MDL proceeding remanded the *Watson* case to Arkansas state court.

The Price Case

Trial in the *Price* case commenced in state court in Illinois in January 2003, and in March 2003, the judge found in favor of the plaintiff class and awarded $7.1 billion in compensatory damages and $3 billion in punitive damages against PM USA. In December 2005, the Illinois Supreme Court reversed the trial court s judgment in favor of the plaintiffs. In November 2006, the United States Supreme Court denied plaintiffs petition for *writ of certiorari* and, in December 2006, the Circuit Court of Madison County enforced the Illinois Supreme Court s mandate and dismissed the case with prejudice.

In December 2008, plaintiffs filed with the trial court a petition for relief from the final judgment that was entered in favor of PM USA. Specifically, plaintiffs sought to vacate the judgment entered by the trial court on remand from the 2005 Illinois Supreme Court decision overturning the verdict on the ground that the United States Supreme Court s December 2008 decision in *Good* demonstrated that the Illinois Supreme Court s decision was inaccurate. PM USA filed a motion to dismiss plaintiffs petition and, in February 2009, the trial court granted PM USA s motion on the basis that the petition was not timely filed. In March 2009, the *Price* plaintiffs filed a notice of appeal with the Fifth Judicial District of the Appellate Court of Illinois. In February 2011, the intermediate appellate court ruled that the petition was timely filed and reversed the trial court s dismissal of the plaintiffs petition and, on September 28, 2011, the Illinois Supreme Court declined PM USA s petition for review. As a result, the case has returned to the trial court for proceedings on whether the court should grant the plaintiffs petition to reopen the prior judgment.

In June 2009, the plaintiff in an individual smoker lawsuit (*Kelly*) brought on behalf of an alleged smoker of Lights cigarettes in Madison County, Illinois state court filed a motion seeking a declaration that his claims under the Illinois Consumer Fraud Act are not (1) barred by the exemption in that statute based on his assertion that the Illinois Supreme Court s decision in *Price* is no longer good law in light of the decisions by the United States Supreme Court in *Good* and *Watson*, and (2) preempted in light of the United States Supreme Court s decision in *Good*. In September 2009, the court granted plaintiff s motion as to federal preemption, but denied it with respect to the state statutory exemption.

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State Trial Court Class Certifications

State trial courts have certified classes against PM USA in Massachusetts (*Aspinall*), Minnesota (*Curtis*), Missouri (*Larsen*) and New Hampshire (*Lawrence*). Significant developments in these cases include:

Aspinall: In August 2004, the Massachusetts Supreme Judicial Court affirmed the class certification order. In August 2006, the trial court denied PM USA s motion for summary judgment and granted plaintiffs motion for summary judgment on the defenses of federal preemption and a state law exemption to Massachusetts consumer protection statute. On motion of the parties, the trial court subsequently reported its decision to deny summary judgment to the appeals court for review and stayed further proceedings pending completion of the appellate review. In December 2008, subsequent to the United States Supreme Court s decision in *Good*, the Massachusetts Supreme Judicial Court issued an order requesting that the parties advise the court within 30 days whether the *Good* decision is dispositive of federal preemption issues pending on appeal. In January 2009, PM USA notified the Massachusetts Supreme Judicial Court that *Good* is dispositive of the federal preemption issues on appeal, but requested further briefing on the state law statutory exemption issue. In March 2009, the Massachusetts Supreme Judicial Court affirmed the order denying summary judgment to PM USA and granting the plaintiffs cross-motion. In January 2010, plaintiffs moved for partial summary judgment as to liability claiming collateral estoppel from the findings in the case brought by the Department of Justice (see *Federal Government s Lawsuit* described above). Argument on plaintiffs motion was held in July 2011.

Curtis: In April 2005, the Minnesota Supreme Court denied PM USA s petition for interlocutory review of the trial court s class certification order. In October 2009, the trial court denied plaintiffs motion for partial summary judgment, filed in February 2009, claiming collateral estoppel from the findings in the case brought by the Department of Justice (see *Federal Government s Lawsuit* described above). In October 2009, the trial court granted PM USA s motion for partial summary judgment as to all consumer protection counts and, in December 2009, dismissed the case in its entirety. In December 2010, the Minnesota Court of Appeals reversed the trial court s dismissal of the case and affirmed the trial court s prior certification of the class under Minnesota s consumer protection statutes. The Court of Appeals also affirmed the trial court s denial of the plaintiffs motion for partial summary judgment claiming collateral estoppel from the findings in the case brought by the Department of Justice. PM USA s petition for review with the Minnesota Supreme Court was granted in March 2011. Argument on the petition was heard on September 12, 2011.

Larsen: In August 2005, a Missouri Court of Appeals affirmed the class certification order. In December 2009, the trial court denied plaintiffs motion for reconsideration of the period during which potential class members can qualify to become part of the class. The class period remains 1995 2003. In June 2010, PM USA s motion for partial summary judgment regarding plaintiffs request for punitive damages was denied. In April 2010, plaintiffs moved for partial summary judgment as to an element of liability in the case, claiming collateral estoppel from the findings in the case brought by the Department of Justice (see *Federal Government s Lawsuit* described above). The plaintiffs motion was denied in December 2010. In June 2011, PM USA filed various summary judgment motions challenging the plaintiffs claims. On August 31, 2011, the trial court granted PM USA s motion for partial summary judgment, ruling that plaintiffs could not present a damages claim based on allegations that *Marlboro* Lights are more

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dangerous than *Marlboro* Reds. The trial court denied PM USA s remaining summary judgment motions. Trial in the case began on September 6, 2011 and, on October 25, 2011, the court declared a mistrial after the jury failed to reach a verdict.

Lawrence: In November 2010, the trial court certified a class consisting of all persons who purchased *Marlboro* Lights cigarettes in the state of New Hampshire at any time from the date the brand was introduced into commerce until the date trial in the case begins. PM USA s motion for reconsideration of this decision was denied in January 2011. On September 15, 2011, the New Hampshire Supreme Court accepted review of the class certification decision.

Certain Other Tobacco-Related Litigation

Tobacco Price Case: As of October 24, 2011, one case remains pending in Kansas (*Smith*) in which plaintiffs allege that defendants, including PM USA and Altria Group, Inc., conspired to fix cigarette prices in violation of antitrust laws. Plaintiffs motion for class certification has been granted. No trial date has been set.

Case Under the California Business and Professions Code: In June 1997, a lawsuit (*Brown*) was filed in California state court alleging that domestic cigarette manufacturers, including PM USA and others, have violated California Business and Professions Code Sections 17200 and 17500 regarding unfair, unlawful and fraudulent business practices. Class certification was granted as to plaintiffs claims that class members are entitled to reimbursement of the costs of cigarettes purchased during the class periods and injunctive relief. In September 2004, the trial court granted defendants motion for summary judgment as to plaintiffs claims attacking defendants cigarette advertising and promotion and denied defendants motion for summary judgment on plaintiffs claims based on allegedly false affirmative statements. In March 2005, the court granted defendants motion to decertify the class based on a California law, which *inter alia* limits the ability to bring a lawsuit to only those plaintiffs who have suffered injury in fact and lost money or property as a result of defendants alleged statutory violations (Proposition 64).

In September 2006, an intermediate appellate court affirmed the trial court s order decertifying the class. In May 2009, the California Supreme Court reversed the trial court decision that was affirmed by the appellate court and remanded the case to the trial court. In March 2010, the trial court granted reconsideration of its September 2004 order granting partial summary judgment to defendants with respect to plaintiffs Lights claims on the basis of judicial decisions issued since its order was issued, including the United States Supreme Court s ruling in *Good*, thereby reinstating plaintiffs Lights claims. Since the trial court s prior ruling decertifying the class was reversed on appeal by the California Supreme Court, the parties and the court are treating all claims currently being asserted by the plaintiffs as certified, subject, however, to defendants challenge to the class representatives standing to assert their claims. The class is defined as people who, at the time they were residents of California, smoked in California one or more cigarettes between June 10, 1993 and April 23, 2001, and who were exposed to defendants marketing and advertising activities in California.

In July 2010, plaintiffs filed a motion seeking collateral estoppel effect from the findings in the case brought by the Department of Justice (see *Federal Government s Lawsuit* described above). In September 2010, plaintiffs filed a motion for preliminary resolution of legal issues regarding restitutionary relief. The trial court denied both of plaintiffs motions in November 2010. In November 2010, defendants filed a motion seeking a determination that *Brown* class members who were also part of the class in *Daniels* (a previously disclosed consumer fraud case in which the California Supreme Court affirmed summary judgment in PM USA s favor based on preemption and First Amendment grounds) are precluded by the *Daniels* judgment from recovering in *Brown*. This motion was denied in December 2010. Defendants sought review of this decision before the Fourth District Court of Appeal

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but were denied review in March 2011. In December 2010, defendants filed a motion for a determination that the class representatives lack standing and are not typical or adequate to represent the class. In February 2011, the trial court ruled on this motion in the defendants favor and vacated the previously scheduled trial date. In July 2011, plaintiffs filed a new amended complaint adding new putative class representatives. The trial court has now scheduled trial for September 14, 2012.

Ignition Propensity Cases: PM USA is currently a defendant in two wrongful death actions in which plaintiffs contend that fires caused by cigarettes led to other individuals deaths. In one case pending in federal court in Massachusetts (*Sarro*), the district court in August 2009 granted in part PM USA s motion to dismiss, but ruled that two claims unrelated to product design could go forward. In November 2010, PM USA filed a motion for summary judgment. Argument was heard in March 2011. In a Kentucky federal court case (*Walker*), the court dismissed plaintiffs claims in February 2009 and plaintiffs subsequently filed a notice of appeal. The appeal is pending before the United States Court of Appeals for the Sixth Circuit. Argument was held in October 2010.

UST Litigation

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

First, UST and/or its tobacco subsidiaries has been named in certain health care cost reimbursement/third-party recoupment/class action litigation against the major domestic cigarette companies and others seeking damages and other relief. The complaints in these cases on their face predominantly relate to the usage of cigarettes; within that context, certain complaints contain a few allegations relating specifically to smokeless tobacco products. These actions are in varying stages of pretrial activities.

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

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

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Certain Other Actions

IRS Challenges to PMCC Leases

Background. The IRS has concluded its examination of Altria Group, Inc. s consolidated federal income tax returns for the years 1996 through 2003, and for each year has disallowed tax benefits pertaining to certain leveraged lease transactions entered into by PMCC (referred to by the IRS as lease-in/lease-out (LILO) and sale-in/lease-out (SILO) transactions). For financial reporting purposes, PMCC accounted for LILO and SILO transactions as leveraged lease transactions under the guidance in Accounting Standards Codification (ASC) 840, *Leases* (ASC 840). For income tax purposes, PMCC treated these transactions as leases under case law and applicable IRS administrative guidance for the 1996 through 2009 tax years.

Refund Claims and Litigation. Altria Group, Inc. believes that its tax treatment of PMCC s LILO and SILO transactions on federal and state income tax returns for the 1996 through 2009 tax years was proper and complied with applicable tax laws in effect during the relevant periods. Altria Group, Inc. has contested the disallowances for the 1996 through 2003 tax years, filed claims for refunds of federal income tax and associated interest paid and is pursuing refund litigation in federal court with respect to certain of the refund claims, as discussed below.

In October 2006, Altria Group, Inc. filed a complaint in the United States District Court for the Southern District of New York to claim a refund on a portion of these federal income tax payments and associated interest for the years 1996 and 1997. In July 2009, the jury returned a unanimous verdict in favor of the IRS and, in April 2010, after denying Altria Group, Inc. s post-trial motions, the district court entered final judgment in favor of the IRS. Altria Group, Inc. filed an appeal with the United States Court of Appeals for the Second Circuit in June 2010. On September 27, 2011, the Second Circuit affirmed the district court decision in favor of the IRS.

In March 2008, Altria Group, Inc. filed a second complaint in the United States District Court for the Southern District of New York seeking a refund of the federal income tax payments and associated interest for the years 1998 and 1999 attributable to the disallowance of tax benefits claimed in those years with respect to the LILO and SILO transactions subject to the jury verdict and with respect to the additional LILO and SILO transactions entered into in 1998 and 1999. In May 2009, the district court granted a stay pending the decision by the United States Court of Appeals for the Second Circuit in the appeal involving the 1996 and 1997 years. The case for the 1998 and 1999 years will be reactivated if Altria Group, Inc. does not seek further review of the Second Circuit decision discussed above.

In March 2011, Altria Group, Inc. filed claims for a refund with the IRS for the years 2000 through 2003 of the tax and associated interest paid with respect to the LILO and SILO transactions that PMCC entered into during the 1996-2003 years. The IRS disallowed the claims in July 2011, and Altria Group, Inc. intends to commence litigation in federal court.

In a closing agreement entered into in May 2010, Altria Group, Inc. and the IRS agreed that, with the exception of the LILO and SILO transactions, the tax treatment reported by Altria Group, Inc. on its consolidated federal income tax returns for the 2000-2003 years, as amended by the agreed-upon adjustments in the closing agreement, is appropriate and final. The IRS may not assess against Altria Group, Inc. any further taxes or additions to tax (including penalties) with respect to these years.

As a prerequisite to commencing in federal court the refund litigation described above following the IRS disallowance of tax benefits of the LILO and SILO transactions for the 1996-1999 audit cycle, in 2006 Altria Group, Inc. paid approximately $150 million related to disallowed tax benefits and associated interest. Similarly, following the IRS disallowance of tax benefits of the LILO and SILO transactions for the 2000-2003 audit cycle, also described above, in 2010, Altria Group, Inc. paid

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approximately $945 million in disallowed tax benefits and associated interest in order to pursue its legal challenge to the disallowances in federal court.

Payments to the IRS. As indicated in *Refund Claims and Litigation* above, Altria Group, Inc. has paid a total of approximately $1.1 billion in federal income tax payments and interest with respect to the LILO and SILO transactions for the 1996 through 2003 tax years. The tax component of this amount represents an acceleration of taxes that Altria Group, Inc. would have otherwise paid over the later stages of the LILO and SILO transactions. Altria Group, Inc. treated the amounts paid to the IRS for these years as deposits for financial reporting purposes pending the ultimate outcomes of the litigation and included such amounts in Other assets on its consolidated balance sheets. If Altria Group, Inc. prevails in its refund litigation, it would receive a refund of the amounts previously paid to the IRS plus interest. If the IRS s position with respect to the LILO and SILO transactions is ultimately sustained, Altria Group, Inc. would reduce its tax liabilities and eliminate the asset discussed above.

Anticipated Future Disallowances and Additional Payments to the IRS. Altria Group, Inc. further expects the IRS and impacted states to disallow income tax benefits claimed in years 2004 through 2009 related to the LILO and SILO transactions that PMCC entered into from 1996 through 2003. The disallowance of federal and state income tax benefits for the 2004 through 2009 tax years and associated interest through the 2011 tax year, as well as additional taxes paid or payable for the 2010 and 2011 tax years, would result in additional payments of approximately $1.0 billion, excluding potential penalties. The tax component of this amount represents an acceleration of taxes that Altria Group, Inc. would have otherwise paid over the later stages of the LILO and SILO transactions. This amount is net of federal and state income taxes paid or payable on gains associated with sales of leased assets from January 1, 2008 through September 30, 2011; thus, while the initial amount payable may be greater than $1.0 billion, such taxes paid or payable on gains associated with sales of leased assets will be subsequently recovered no later than the closing of the audits for the cycles in which the sales have occurred.

The payments of disallowed tax benefits, if any, would depend upon the timing and outcome of future IRS audits and any related administrative challenges or litigation. The IRS is currently auditing the 2004-2006 tax years.

2010 and Future Tax Years. Altria Group, Inc. did not claim tax benefits pertaining to PMCC s LILO and SILO transactions on its federal and state income tax returns for 2010 and, at this time, does not intend to claim such tax benefits in future years. Altria Group, Inc., however, intends to preserve its right to file amended returns for these years claiming the tax benefits pertaining to PMCC s LILO and SILO transactions if Altria Group, Inc. is successful in the current and/or anticipated litigation discussed above.

Second Quarter 2011 Earnings Charge. Altria Group, Inc. has continually re-evaluated the likelihood of sustaining its tax position on PMCC s LILO and SILO transactions, as required by ASC 740, *Income Taxes* (ASC 740). In the second quarter of 2011, in accordance with ASC 840 and ASC 740, Altria Group, Inc. recorded a one-time charge of $627 million against its 2011 reported earnings related to the tax treatment of the LILO and SILO transactions that PMCC entered into between 1996 and 2003, as announced in June 2011. Altria Group, Inc. s decision to record the charge was based on the Federal Circuit s April 2011 adverse decision in *Wells Fargo & Co. v. United States*, involving SILO transactions entered into by another taxpayer. Altria Group, Inc. concluded that the decision introduced incremental risk to its tax analysis and, as a result, that it was no longer more likely than not that it would prevail in its defense of its tax position on PMCC s LILO and SILO transactions.

The charge of $627 million reflects the re-characterization of PMCC s LILO and SILO transactions as loans (as opposed to leases) for income tax purposes, which changes the timing of income recognition for tax purposes over the term of the deemed loan. This change, in turn, impacts the income of the leases recorded pursuant to leveraged lease accounting (ASC 840) resulting in a lowering of the

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cumulative income from the transactions that had been recorded from inception of the transactions to the date of the charge. This earnings charge is incremental to $146 million recorded as a reduction to stockholders equity upon the adoption of new accounting standards for leases (FAS 13-2) and for uncertainty in income taxes (FIN 48) on January 1, 2007, and approximately $95 million recorded to the statements of earnings from January 1, 2007 through March 31, 2011. In quantifying the reduction in cumulative leveraged lease income to include in the second quarter 2011 earnings charge, Altria Group, Inc. was required to make assumptions regarding a potential settlement of these matters with the IRS. To the extent the assumptions change, there may be additional impact on Altria Group, Inc. s earnings but Altria Group, Inc. does not expect such impact, if any, to be significant.

Approximately 50% of the $627 million charge represents the effects of re-characterization of the transactions as loans and the resulting reduction in cumulative leveraged lease income described above. This reduction in income will be recaptured over the remaining terms of the respective transactions. The remaining portion of the charge primarily represents a permanent charge for interest on tax underpayments. The charge does not include potential penalties as Altria Group, Inc. believes that it met the applicable standards to avoid any associated penalties at the time it claimed the deductions on its tax returns.

Impact of the Second Circuit Decision. Altria Group, Inc. is currently evaluating its options following the September 2011 decision by the United States Court of Appeals for the Second Circuit regarding the LILO and SILO transactions that PMCC entered into in 1996 and 1997. If Altria Group, Inc. elects not to further pursue judicial review of its claims for a refund of the taxes paid related to the 1996 and 1997 transactions, Altria Group, Inc. would reduce its tax liabilities and Other assets on its consolidated balance sheet by approximately $300 million, which is the amount of tax and interest that Altria Group, Inc. has previously paid related to these transactions for the 1996-2003 tax years. The impact on Altria Group, Inc. s statement of earnings would not be significant as Altria Group, Inc. has already recorded an earnings charge for these amounts on its financial statements, as discussed above.

As of September 30, 2011, the LILO and SILO transactions represented approximately 32% of the Net Finance Assets of PMCC s lease portfolio. PMCC has not entered into any LILO or SILO transactions since 2003.

Kraft Thrift Plan Cases: Four participants in the Kraft Foods Global, Inc. Thrift Plan (Kraft Thrift Plan), a defined contribution plan, filed a class action complaint (*George II*) on behalf of all participants and beneficiaries of the Kraft Thrift Plan in July 2008 in the United States District Court for the Northern District of Illinois alleging breach of fiduciary duty under the Employee Retirement Income Security Act (ERISA). Named defendants in this action include Altria Corporate Services, Inc. (now Altria Client Services Inc.) and certain company committees that allegedly had a relationship to the Kraft Thrift Plan. Plaintiffs request, among other remedies, that defendants restore to the Kraft Thrift Plan all losses improperly incurred.

In December 2009, the court granted in part and denied in part defendants motion to dismiss plaintiffs complaint. In addition to dismissing certain claims made by plaintiffs for equitable relief under ERISA as to all defendants, the court dismissed claims alleging excessive administrative fees and mismanagement of company stock funds as to one of the Altria Group, Inc. defendants. In February 2010, the court granted a joint stipulation dismissing the fee and stock fund claims without prejudice as to the remaining defendants, including Altria Corporate Services, Inc. Accordingly, the only claim remaining at this time in *George II* relates to the alleged negligence of plan fiduciaries for including the Growth Equity Fund and Balanced Fund as Kraft Thrift Plan investment options. Plaintiffs filed a motion for class certification in March 2010, which the court granted in August 2010. Defendants filed a motion for summary judgment in January 2011, and plaintiffs filed a motion for partial summary judgment. In March 2011, defendants filed a motion to vacate the class certification in light of recent

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federal judicial precedent. In July 2011, the court granted defendants' summary judgment motion in part, finding that claims for periods prior to July 2, 2002 were time barred, and that the defendants properly monitored the funds. The court also denied plaintiffs motion for partial summary judgment. Remaining in the case are claims after July 2, 2002 relating to whether it was prudent to retain actively managed investments (Growth Equity Fund and Balanced Fund) in the Kraft Thrift Plan after 1999. In July 2011, the court also granted defendants motion to vacate the class certification, and allowed plaintiffs leave to file a new motion for class certification in light of recent precedent and the court s summary judgment findings. Plaintiffs have since filed a new motion to certify the class.

On August 19, 2011, Altria Client Services, Inc. and a company committee that allegedly had a relationship to the Kraft Thrift Plan were added as defendants in another class action previously brought by the same plaintiffs in 2006 (*George I*), in which plaintiffs allege defendants breached their fiduciary duties under ERISA by offering company stock funds in a unitized format and by allegedly overpaying for recordkeeping services.

The Altria Group, Inc. defendants deny any violation of ERISA or other unlawful conduct and are defending these cases vigorously. Trial in both cases is expected to be scheduled to occur in the first half of 2012. Under the terms of a Distribution Agreement between Altria Group, Inc. and Kraft, the Altria Group, Inc. defendants may be entitled to indemnity against any liabilities incurred in connection with these cases.

Environmental Regulation

Altria Group, Inc. and its subsidiaries (and former subsidiaries) are subject to various federal, state and local laws and regulations concerning the discharge of materials into the environment, or otherwise related to environmental protection, including, in the United States: The Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act and the Comprehensive Environmental Response, Compensation and Liability Act (commonly known as Superfund), which can impose joint and several liability on each responsible party. Subsidiaries (and former subsidiaries) of Altria Group, Inc. are involved in several matters subjecting them to potential costs of remediation and natural resource damages under Superfund or other laws and regulations. Altria Group, Inc. s subsidiaries expect to continue to make capital and other expenditures in connection with environmental laws and regulations. Altria Group, Inc. provides for expenses associated with environmental remediation obligations on an undiscounted basis when such amounts are probable and can be reasonably estimated. Such accruals are adjusted as new information develops or circumstances change. Other than those amounts, it is not possible to reasonably estimate the cost of any environmental remediation and compliance efforts that subsidiaries of Altria Group, Inc. may undertake in the future. In the opinion of management, however, compliance with environmental laws and regulations, including the payment of any remediation costs or damages and the making of related expenditures, has not had, and is not expected to have, a material adverse effect on Altria Group, Inc. s consolidated results of operations, capital expenditures, financial position or cash flows.

Guarantees

In the ordinary course of business, certain subsidiaries of Altria Group, Inc. have agreed to indemnify a limited number of third parties in the event of future litigation. At September 30, 2011, subsidiaries of Altria Group, Inc. were also contingently liable for $29 million of guarantees related to their own performance, consisting primarily of surety bonds. These items have not had, and are not expected to have, a significant impact on Altria Group, Inc. s liquidity.

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Under the terms of a distribution agreement between Altria Group, Inc. and PMI, entered into as a result of the PMI spin-off, liabilities concerning tobacco products will be allocated based in substantial part on the manufacturer. PMI will indemnify Altria Group, Inc. and PM USA for liabilities related to tobacco products manufactured by PMI or contract manufactured for PMI by PM USA, and PM USA will indemnify PMI for liabilities related to tobacco products manufactured by PM USA, excluding tobacco products contract manufactured for PMI. Altria Group, Inc. does not have a related liability recorded on its condensed consolidated balance sheet at September 30, 2011 as the fair value of this indemnification is insignificant.

As more fully discussed in Note 12. *Condensed Consolidating Financial Information*, PM USA has issued guarantees relating to Altria Group, Inc. s obligations under its outstanding debt securities, borrowings under its Credit Agreement and amounts outstanding under its commercial paper program.

Redeemable Noncontrolling Interest

In September 2007, Ste. Michelle completed the acquisition of Stag s Leap Wine Cellars through one of its consolidated subsidiaries, Michelle-Antinori, LLC (Michelle-Antinori), in which Ste. Michelle holds an 85% ownership interest with a 15% noncontrolling interest held by Antinori California (Antinori). In connection with the acquisition of Stag s Leap Wine Cellars, Ste. Michelle entered into a put arrangement with Antinori. The put arrangement, as later amended, provides Antinori with the right to require Ste. Michelle to purchase its 15% ownership interest in Michelle-Antinori at a price equal to Antinori s initial investment of $27 million. The put arrangement became exercisable on September 11, 2010 and has no expiration date. As of September 30, 2011, the redemption value of the put arrangement did not exceed the noncontrolling interest balance. Therefore, no adjustment to the value of the redeemable noncontrolling interest was recognized in the condensed consolidated balance sheet for the put arrangement.

The noncontrolling interest put arrangement is accounted for as mandatorily redeemable securities because redemption is outside of the control of Ste. Michelle. As such, the redeemable noncontrolling interest is reported in the mezzanine equity section in the condensed consolidated balance sheets at September 30, 2011 and December 31, 2010.

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Note 12. Condensed Consolidating Financial Information:

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

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

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

PM USA will be unconditionally released and discharged from its obligations under each of the Guarantees upon the earliest to occur of:

- the date, if any, on which PM USA consolidates with or merges into Altria Group, Inc. or any successor;
- the date, if any, on which Altria Group, Inc. or any successor consolidates with or merges into PM USA;
- the payment in full of the Obligations pertaining to such Guarantees; and
- the rating of Altria Group, Inc. s long-term senior unsecured debt by Standard & Poor s of A or higher.

At September 30, 2011, the respective principal wholly-owned subsidiaries of Altria Group, Inc. and PM USA were not limited by long-term debt or other agreements in their ability to pay cash dividends or make other distributions with respect to their common stock.

The following sets forth the condensed consolidating balance sheets as of September 30, 2011 and December 31, 2010, condensed consolidating statements of earnings for the nine and three months ended September 30, 2011 and 2010, and condensed consolidating statements of cash flows for the nine months ended September 30, 2011 and 2010 for Altria Group, Inc., PM USA and Altria Group,

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Inc. s other subsidiaries that are not guarantors of Altria Group, Inc. s debt instruments (the Non-Guarantor Subsidiaries). The financial information is based on Altria Group, Inc. s understanding of the SEC interpretation and application of Rule 3-10 of SEC Regulation S-X.

The financial information may not necessarily be indicative of results of operations or financial position had PM USA and the Non-Guarantor Subsidiaries operated as independent entities. Altria Group, Inc. and PM USA account for investments in their subsidiaries under the equity method of accounting.

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Condensed Consolidating Balance Sheets

September 30, 2011

(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
ASSETS					
Consumer products					
Cash and cash equivalents	$ 3,015	$	$ 28	$	$ 3,043
Receivables	115	9	70		194
Inventories:					
Leaf tobacco		441	336		777
Other raw materials		141	41		182
Work in process		8	235		243
Finished product		161	262		423
		751	874		1,625
Due from Altria Group, Inc. and subsidiaries	432	2,611	1,444	(4,487)	
Deferred income taxes	10	1,191		(14)	1,187
Other current assets	6	454	66		526
Total current assets	3,578	5,016	2,482	(4,501)	6,575
Property, plant and equipment, at cost	2	3,307	1,453		4,762
Less accumulated depreciation	2	1,990	486		2,478
		1,317	967		2,284
Goodwill			5,174		5,174
Other intangible assets, net		2	12,100		12,102
Investment in SABMiller	5,539				5,539
Investment in consolidated subsidiaries	7,483	337		(7,820)	
Due from Altria Group, Inc. and subsidiaries	6,500			(6,500)	
Other assets	1,384	572	124	(386)	1,694
Total consumer products assets	24,484	7,244	20,847	(19,207)	33,368
Financial services					
Finance assets, net			3,814		3,814
Due from Altria Group, Inc. and subsidiaries			601	(601)	

Other assets			19		19
Total financial services assets			4,434	(601)	3,833
TOTAL ASSETS	$ 24,484	$ 7,244	$ 25,281	$ (19,808)	$ 37,201

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Condensed Consolidating Balance Sheets (Continued)

September 30, 2011

(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
LIABILITIES					
Consumer products					
Current portion of long-term debt	$	$	$ 600	$	$ 600
Accounts payable	69	122	135		326
Accrued liabilities:					
Marketing		384	16		400
Taxes, except income taxes		85	9		94
Employment costs	26	11	141		178
Settlement charges		3,136	5		3,141
Other	350	549	317	(14)	1,202
Income taxes	3	163	26		192
Dividends payable	846				846
Due to Altria Group, Inc. and subsidiaries	3,658	261	1,169	(5,088)	
Total current liabilities	4,952	4,711	2,418	(5,102)	6,979
Long-term debt	12,789		299		13,088
Deferred income taxes	1,861		3,364	(386)	4,839
Accrued pension costs	202		767		969
Accrued postretirement health care costs		1,494	936		2,430
Due to Altria Group, Inc. and subsidiaries			6,500	(6,500)	
Other liabilities	261	289	177		727
Total consumer products liabilities	20,065	6,494	14,461	(11,988)	29,032
Financial services					
Deferred income taxes			3,241		3,241
Other liabilities			473		473
Total financial services liabilities			3,714		3,714
Total liabilities	20,065	6,494	18,175	(11,988)	32,746
Contingencies					
Redeemable noncontrolling interest			34		34
STOCKHOLDERS EQUITY					
Common stock	935		9	(9)	935

Additional paid-in capital	5,650	408	8,238	(8,646)	5,650
Earnings reinvested in the business	23,585	606	183	(789)	23,585
Accumulated other comprehensive losses	(1,461)	(264)	(1,360)	1,624	(1,461)
Cost of repurchased stock	(24,290)				(24,290)
Total stockholders equity attributable to Altria Group, Inc.	4,419	750	7,070	(7,820)	4,419
Noncontrolling interests			2		2
Total stockholders equity	4,419	750	7,072	(7,820)	4,421
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 24,484	$ 7,244	$ 25,281	$ (19,808)	$ 37,201

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Balance Sheets

December 31, 2010

(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
ASSETS					
Consumer products					
Cash and cash equivalents	$ 2,298	$	$ 16	$	$ 2,314
Receivables	1	9	75		85
Inventories:					
Leaf tobacco		594	366		960
Other raw materials		121	39		160
Work in process			299		299
Finished product		145	239		384
		860	943		1,803
Due from Altria Group, Inc. and subsidiaries	429	2,902	1,556	(4,887)	
Deferred income taxes	18	1,190		(43)	1,165
Other current assets	64	420	130		614
Total current assets	2,810	5,381	2,720	(4,930)	5,981
Property, plant and equipment, at cost	2	3,749	1,399		5,150
Less accumulated depreciation	2	2,343	425		2,770
		1,406	974		2,380
Goodwill			5,174		5,174
Other intangible assets, net		2	12,116		12,118
Investment in SABMiller	5,367				5,367
Investment in consolidated subsidiaries	7,561	325		(7,886)	
Due from Altria Group, Inc. and subsidiaries	6,500			(6,500)	
Other assets	1,511	680	98	(438)	1,851
Total consumer products assets	23,749	7,794	21,082	(19,754)	32,871
Financial services					
Finance assets, net			4,502		4,502
Due from Altria Group, Inc. and subsidiaries			690	(690)	
Other assets			29		29

Total financial services assets			5,221	(690)	4,531
TOTAL ASSETS	$ 23,749	$ 7,794	$ 26,303	$ (20,444)	$ 37,402

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Balance Sheets (Continued)

December 31, 2010

(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
LIABILITIES					
Consumer products					
Accounts payable	$	$ 215	$ 314	$	$ 529
Accrued liabilities:					
Marketing		347	100		447
Taxes, except income taxes		212	19		231
Employment costs	30	18	184		232
Settlement charges		3,531	4		3,535
Other	312	467	333	(43)	1,069
Dividends payable	797				797
Due to Altria Group, Inc. and subsidiaries	3,674	454	1,449	(5,577)	
Total current liabilities	4,813	5,244	2,403	(5,620)	6,840
Long-term debt	11,295		899		12,194
Deferred income taxes	1,800		3,256	(438)	4,618
Accrued pension costs	204		987		1,191
Accrued postretirement health care costs		1,500	902		2,402
Due to Altria Group, Inc. and subsidiaries			6,500	(6,500)	
Other liabilities	445	335	169		949
Total consumer products liabilities	18,557	7,079	15,116	(12,558)	28,194
Financial services					
Deferred income taxes			3,880		3,880
Other liabilities			101		101
Total financial services liabilities			3,981		3,981
Total liabilities	18,557	7,079	19,097	(12,558)	32,175
Contingencies					
Redeemable noncontrolling interest			32		32
STOCKHOLDERS EQUITY					
Common stock	935		9	(9)	935
Additional paid-in capital	5,751	408	8,217	(8,625)	5,751
Earnings reinvested in the business	23,459	583	385	(968)	23,459
Accumulated other comprehensive losses	(1,484)	(276)	(1,440)	1,716	(1,484)

Cost of repurchased stock	(23,469)				(23,469)
Total stockholders equity attributable to Altria Group, Inc.	5,192	715	7,171	(7,886)	5,192
Noncontrolling interests			3		3
Total stockholders equity	5,192	715	7,174	(7,886)	5,195
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 23,749	$ 7,794	$ 26,303	$ (20,444)	$ 37,402

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Statements of Earnings

For the Nine Months Ended September 30, 2011

(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net revenues	$	$ 16,009	$ 1,681	$ (19)	$ 17,671
Cost of sales		5,139	588	(19)	5,708
Excise taxes on products		5,139	259		5,398
Gross profit		5,731	834		6,565
Marketing, administration and research costs	133	1,551	169		1,853
Changes to Kraft and PMI tax-related receivables	(19)				(19)
Asset impairment and exit costs		3			3
Amortization of intangibles			16		16
Operating (expense) income	(114)	4,177	649		4,712
Interest and other debt expense, net	517	5	343		865
Earnings from equity investment in SABMiller	(552)				(552)
(Loss) earnings before income taxes and equity earnings of subsidiaries	(79)	4,172	306		4,399
(Benefit) provision for income taxes	(122)	1,569	396		1,843
Equity earnings of subsidiaries	2,511	45		(2,556)	
Net earnings (loss)	2,554	2,648	(90)	(2,556)	2,556
Net earnings attributable to noncontrolling interests			(2)		(2)
Net earnings (loss) attributable to Altria Group, Inc.	$ 2,554	$ 2,648	$ (92)	$ (2,556)	$ 2,554

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Statements of Earnings

For the Nine Months Ended September 30, 2010

(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net revenues	$	$ 16,405	$ 2,051	$ (20)	$ 18,436
Cost of sales		5,308	531	(20)	5,819
Excise taxes on products		5,431	252		5,683
Gross profit		5,666	1,268		6,934
Marketing, administration and research costs	90	1,635	258		1,983
Changes to Kraft and PMI tax-related receivables	169				169
Asset impairment and exit costs		28	3		31
Amortization of intangibles			16		16
Operating (expense) income	(259)	4,003	991		4,735
Interest and other debt expense, net	411	4	441		856
Earnings from equity investment in SABMiller	(437)				(437)
(Loss) earnings before income taxes and equity earnings of subsidiaries	(233)	3,999	550		4,316
(Benefit) provision for income taxes	(285)	1,411	203		1,329
Equity earnings of subsidiaries	2,934	31		(2,965)	
Net earnings	2,986	2,619	347	(2,965)	2,987
Net earnings attributable to noncontrolling interests			(1)		(1)
Net earnings attributable to Altria Group, Inc.	$ 2,986	$ 2,619	$ 346	$ (2,965)	$ 2,986

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Statements of Earnings

For the Three Months Ended September 30, 2011

(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net revenues	$	$ 5,311	$ 804	$ (7)	$ 6,108
Cost of sales		1,684	206	(7)	1,883
Excise taxes on products		1,687	93		1,780
Gross profit		1,940	505		2,445
Marketing, administration and research costs	49	499	33		581
Changes to Kraft and PMI tax-related receivables	(19)				(19)
Amortization of intangibles			5		5
Operating (expense) income	(30)	1,441	467		1,878
Interest and other debt expense, net	177	1	115		293
Earnings from equity investment in SABMiller	(208)				(208)
Earnings before income taxes and equity earnings of subsidiaries	1	1,440	352		1,793
(Benefit) provision for income taxes	(51)	553	117		619
Equity earnings of subsidiaries	1,121	17		(1,138)	
Net earnings	1,173	904	235	(1,138)	1,174
Net earnings attributable to noncontrolling interests			(1)		(1)
Net earnings attributable to Altria Group, Inc.	$ 1,173	$ 904	$ 234	$ (1,138)	$ 1,173

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Statements of Earnings

For the Three Months Ended September 30, 2010

(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net revenues	$	$ 5,716	$ 693	$ (7)	$ 6,402
Cost of sales		1,813	179	(7)	1,985
Excise taxes on products		1,853	88		1,941
Gross profit		2,050	426		2,476
Marketing, administration and research costs	30	589	72		691
Asset impairment and exit costs		3			3
Amortization of intangibles			6		6
Operating (expense) income	(30)	1,458	348		1,776
Interest and other debt expense (income), net	134	(3)	148		279
Earnings from equity investment in SABMiller	(186)				(186)
Earnings before income taxes and equity earnings of subsidiaries	22	1,461	200		1,683
(Benefit) provision for income taxes	(30)	509	73		552
Equity earnings of subsidiaries	1,079	10		(1,089)	
Net earnings attributable to Altria Group, Inc.	$ 1,131	$ 962	$ 127	$ (1,089)	$ 1,131

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Statements of Cash Flows

For the Nine Months Ended September 30, 2011

(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Net cash (used in) provided by operating activities	$ (106)	$ 2,553	$ 117	$	$ 2,564
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES					
Consumer products					
Capital expenditures		(16)	(59)		(75)
Other		1			1
Financial services					
Proceeds from finance assets			248		248
Net cash (used in) provided by investing activities		(15)	189		174
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES					
Consumer products					
Long-term debt issued	1,494				1,494
Repurchases of common stock	(1,000)				(1,000)
Dividends paid on common stock	(2,379)				(2,379)
Issuances of common stock	29				29
Changes in amounts due to/from Altria Group, Inc. and subsidiaries	(34)	150	(116)		
Financing fees and debt issuance costs	(24)				(24)
Cash dividends received from/(paid by) subsidiaries	2,702	(2,592)	(110)		
Other	35	(96)	(68)		(129)
Net cash provided by (used in) financing activities	823	(2,538)	(294)		(2,009)
Cash and cash equivalents:					
Increase	717		12		729
Balance at beginning of period	2,298		16		2,314
Balance at end of period	$ 3,015	$	$ 28	$	$ 3,043

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Statements of Cash Flows

For the Nine Months Ended September 30, 2010

(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Net cash (used in) provided by operating activities	$ (606)	$ 1,933	$ 395	$	$ 1,722
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES					
Consumer products					
Capital expenditures		(30)	(86)		(116)
Other		2	78		80
Financial services					
Proceeds from finance assets			119		119
Net cash (used in) provided by investing activities		(28)	111		83
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES					
Consumer products					
Long-term debt issued	1,007				1,007
Long-term debt repaid	(775)				(775)
Dividends paid on common stock	(2,165)				(2,165)
Issuances of common stock	89				89
Changes in amounts due to/from Altria Group, Inc. and subsidiaries	(400)	636	(236)		
Financing fees and debt issuance costs	(6)				(6)
Cash dividends received from/(paid by) subsidiaries	2,616	(2,470)	(146)		
Other	55	(71)	(110)		(126)
Net cash provided by (used in) financing activities	421	(1,905)	(492)		(1,976)
Cash and cash equivalents:					
(Decrease) increase	(185)		14		(171)
Balance at beginning of period	1,862		9		1,871
Balance at end of period	$ 1,677	$	$ 23	$	$ 1,700

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 13. Recent Accounting Guidance Not Yet Adopted:

In September 2011, the Financial Accounting Standards Board (FASB) issued authoritative guidance to simplify how entities test goodwill for impairment. The guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the currently required two-step goodwill impairment test. The new guidance is effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011; however, early adoption is permitted. Altria Group, Inc. intends to perform the two-step impairment test under existing guidance for the 2011 annual goodwill impairment test, and will evaluate the impact of performing a qualitative assessment in 2012.

In June 2011, the FASB issued authoritative guidance that will eliminate the option of presenting components of other comprehensive earnings as part of the statement of stockholders equity. The guidance will instead require the reporting of other comprehensive earnings in a single continuous statement of comprehensive earnings or in a separate statement immediately following the statement of earnings. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2011; however, early adoption is permitted. Altria Group, Inc. intends to comply with the new reporting requirements beginning in the first quarter of 2012.

In May 2011, the FASB issued authoritative guidance relating to fair value measurement and disclosure requirements. The new guidance is effective for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. Altria Group, Inc. does not anticipate that the adoption of this guidance will have a significant impact on Altria Group, Inc. s existing fair value measurements or disclosures.

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Item 2. **MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Description of the Company

At September 30, 2011, Altria Group, Inc. s wholly-owned subsidiaries included Philip Morris USA Inc. (PM USA), which is engaged in the manufacture and sale of cigarettes and certain smokeless products in the United States; UST LLC (UST), which through its direct and indirect wholly-owned subsidiaries including U.S. Smokeless Tobacco Company LLC (USSTC) and Ste. Michelle Wine Estates Ltd. (Ste. Michelle), is engaged in the manufacture and sale of smokeless products and wine; and John Middleton Co. (Middleton), which is engaged in the manufacture and sale of machine-made large cigars and pipe tobacco. Philip Morris Capital Corporation (PMCC), another wholly-owned subsidiary of Altria Group, Inc., maintains a portfolio of leveraged and direct finance leases. In addition, Altria Group, Inc. held a 27.1% economic and voting interest in SABMiller plc (SABMiller) at September 30, 2011, which is accounted for under the equity method of accounting. Altria Group, Inc. s access to the operating cash flows of its wholly-owned subsidiaries consists of cash received from the payment of dividends and distributions, and the payment of interest on intercompany loans by its subsidiaries. In addition, Altria Group, Inc. receives cash dividends on its interest in SABMiller, if and when SABMiller pays such dividends on its stock. At September 30, 2011, Altria Group, Inc. s principal wholly-owned subsidiaries were not limited by long-term debt or other agreements in their ability to pay cash dividends or make other distributions with respect to their common stock.

The products and services of Altria Group, Inc. s subsidiaries constitute Altria Group, Inc. s reportable segments of cigarettes, smokeless products, cigars, wine and financial services.

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Executive Summary

The following executive summary is intended to provide significant highlights of the *Discussion and Analysis* that follows.

Consolidated Results of Operations for the Nine Months Ended September 30, 2011 The changes in Altria Group, Inc. s net earnings and diluted earnings per share (EPS) attributable to Altria Group, Inc. for the nine months ended September 30, 2011, from the nine months ended September 30, 2010, were due primarily to the following:

	Net Earnings	Diluted EPS
	(in millions, except per share data)	
For the nine months ended September 30, 2010	$ 2,986	$ 1.43
2010 Asset impairment, exit, implementation and integration costs	75	0.04
2010 UST acquisition-related costs	9	
2010 SABMiller special items	55	0.03
2010 Tax items	(79)	(0.04)
Subtotal 2010 items	60	0.03
2011 Asset impairment, exit and integration costs	(4)	
2011 UST acquisition-related costs	(4)	
2011 SABMiller special items	(24)	(0.01)
2011 PMCC Leveraged Lease Charge	(627)	(0.30)
2011 Tax items*	24	0.01
Subtotal 2011 items	(635)	(0.30)
Operations	143	0.07
For the nine months ended September 30, 2011	$ 2,554	$ 1.23

* *Excludes the tax impact included in the 2011 PMCC Leveraged Lease Charge.*

See discussion of events affecting the comparability of statement of earnings amounts in the Consolidated Operating Results section of the following Discussion and Analysis.

Operations The increase of $143 million shown in the table above was due primarily to the following:

Higher income from the cigarettes, smokeless products, financial services and wine segments; and

Higher ongoing equity earnings from SABMiller;

partially offset by:

Higher general corporate expenses,

Lower income from the cigars segment; and

Higher interest and other debt expense, net.

For further details, see the Consolidated Operating Results and Operating Results by Business Segment sections of the following Discussion and Analysis.

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Consolidated Results of Operations for the Three Months Ended September 30, 2011 The changes in Altria Group, Inc. s net earnings and diluted EPS attributable to Altria Group, Inc. for the three months ended September 30, 2011, from the three months ended September 30, 2010, were due primarily to the following:

	Net Earnings	Diluted EPS
	(in millions, except per share data)	
For the three months ended September 30, 2010	$ 1,131	$ 0.54
2010 Asset impairment, exit, implementation and integration costs	16	0.01
2010 UST acquisition-related costs	3	
2010 SABMiller special items	14	
2010 Tax items	(33)	(0.01)
Subtotal 2010 items		
2011 Asset impairment, exit and integration costs	(1)	
2011 UST acquisition-related costs	(1)	
2011 SABMiller special items	(8)	
2011 Tax items	24	0.01
Subtotal 2011 items	14	0.01
Fewer shares outstanding		0.01
Operations	28	0.01
For the three months ended September 30, 2011	$ 1,173	$ 0.57

See discussion of events affecting the comparability of statement of earnings amounts in the Consolidated Operating Results section of the following Discussion and Analysis.

Shares Outstanding Fewer shares outstanding during the three months ended September 30, 2011 compared with the prior-year period were due primarily to shares repurchased by Altria Group, Inc. under its previously announced $1.0 billion one-year share repurchase program, which was completed during the third quarter of 2011.

Operations The increase of $28 million shown in the table above was due primarily to the following:

- Higher income from the financial services, smokeless products, cigars and wine segments; and

- Higher ongoing equity earnings from SABMiller;

partially offset by:

- Lower income from the cigarettes segment;

- Higher general corporate expenses; and

Higher interest and other debt expense, net.

For further details, see the Consolidated Operating Results and Operating Results by Business Segment sections of the following Discussion and Analysis.

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2011 Forecasted Results On October 27, 2011, Altria Group, Inc. revised its 2011 full-year guidance for reported diluted EPS to a range of $1.60 to $1.66 from a range of $1.70 to $1.76, due primarily to estimated 2011 fourth-quarter charges associated with the new cost reduction program (for further details see Note 2. *Asset Impairment, Exit, Implementation and Integration Costs* to the condensed consolidated financial statements (Note 2)). This forecast includes estimated total net charges of $0.41 per share as detailed in the table below, as compared with 2010 full-year reported diluted EPS of $1.87, which included $0.03 per share of total net charges, as detailed in the table below. On October 27, 2011, Altria Group, Inc. reaffirmed its 2011 full-year guidance for adjusted diluted EPS, which excludes the total net charges in the table below, representing a growth rate of 6% to 9% over 2010 full-year adjusted diluted EPS.

The factors described in the *Cautionary Factors That May Affect Future Results* section of the following *Discussion and Analysis* represent continuing risks to this forecast.

Net Charges Included In Reported Diluted EPS

	2011	**2010**
Asset impairment, exit, implementation and integration costs	$ 0.11	$ 0.04
UST acquisition-related costs		0.01
SABMiller special items	0.02	0.03
PMCC Leveraged Lease Charge	0.30	
Tax items*	(0.02)	(0.05)
	$ 0.41	$ 0.03

* *Excludes the tax impact of the 2011 PMCC Leveraged Lease Charge.*

Adjusted diluted EPS is a financial measure that is not consistent with accounting principles generally accepted in the United States of America (U.S. GAAP). Certain income and expense items that management believes are not part of underlying operations are excluded from adjusted diluted EPS because such items can obscure underlying business trends. Management believes it is appropriate to disclose this non-GAAP financial measure to help investors analyze underlying business performance and trends. This adjusted measure is regularly provided to Altria Group, Inc. s chief operating decision maker for use in the evaluation of segment performance and allocation of resources. This information should be considered as supplemental in nature and is not meant to be considered in isolation or as a substitute for the related financial information prepared in accordance with U.S. GAAP.

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Discussion and Analysis

Consolidated Operating Results

See pages 110-114 for a discussion of *Cautionary Factors That May Affect Future Results*.

	For the Nine Months Ended September 30, 2011	2010	For the Three Months Ended September 30, 2011	2010
	(in millions)			
Net revenues:				
Cigarettes	$ 16,065	$ 16,441	$ 5,330	$ 5,729
Smokeless products	1,209	1,160	426	389
Cigars	435	437	169	147
Wine	349	308	132	107
Financial services	(387)	90	51	30
Net revenues	$ 17,671	$ 18,436	$ 6,108	$ 6,402
Excise taxes on products:				
Cigarettes	$ 5,139	$ 5,431	$ 1,687	$ 1,853
Smokeless products	81	79	28	26
Cigars	165	160	60	57
Wine	13	13	5	5
Excise taxes on products	$ 5,398	$ 5,683	$ 1,780	$ 1,941
Operating income:				
Operating companies income (loss):				
Cigarettes	$ 4,403	$ 4,213	$ 1,520	$ 1,533
Smokeless products	660	586	245	210
Cigars	124	146	55	43
Wine	54	31	23	12
Financial services	(359)	87	83	27
Amortization of intangibles	(16)	(16)	(5)	(6)
General corporate expenses	(173)	(142)	(62)	(43)
Changes to Kraft and PMI tax-related receivables	19	(169)	19	
Corporate exit costs		(1)		
Operating income	$ 4,712	$ 4,735	$ 1,878	$ 1,776

As discussed further in Note 7. *Segment Reporting* to the condensed consolidated financial statements, Altria Group, Inc. s chief operating decision maker reviews operating companies income, which is defined as operating income before general corporate expenses and amortization of intangibles, to evaluate segment performance and allocate resources. Management believes it is appropriate to disclose this measure to help investors analyze the business performance and trends of the various business segments.

The following events that occurred during the nine months and three months ended September 30, 2011 and 2010 affected the comparability of statement of earnings amounts.

Asset Impairment, Exit, Implementation and Integration Costs For the nine months ended September 30, 2011, total pre-tax asset impairment and exit costs were $3 million, all of which were reported in the cigarettes segment. There were no asset impairment and exit costs incurred during the three months ended September 30, 2011. In addition, total pre-tax integration costs of $3 million and $1 million for the nine and three months ended September 30, 2011, respectively, were reported in the smokeless products segment. There were no implementation costs incurred during the nine months ended September 30, 2011.

Pre-tax asset impairment, exit, implementation and integration costs for the nine and three months ended September 30, 2010 consisted of the following:

	For the Nine Months Ended September 30, 2010			
	Asset Impairment and Exit Costs	Implementation Costs	Integration Costs	Total
	(in millions)			
Cigarettes	$ 28	$ 70	$	$ 98
Smokeless products	2		13	15
Cigars			1	1
Wine			2	2
General corporate	1			1
Total	$ 31	$ 70	$ 16	$ 117

	For the Three Months Ended September 30, 2010			
	Asset Impairment and Exit Costs	Implementation Costs	Integration Costs	Total
	(in millions)			
Cigarettes	$ 3	$ 21	$	$ 24
Smokeless products			2	2
Wine			1	1
Total	$ 3	$ 21	$ 3	$ 27

For further details on asset impairment, exit, implementation and integration costs, see Note 2.

Altria Group, Inc. completed its 2007 to 2011 cost reduction program in the third quarter of 2011 exceeding its $1.5 billion goal versus its 2006 cost base.

Altria Group, Inc. had a severance liability balance of $3 million at September 30, 2011 related to restructuring programs.

SABMiller Special Items Altria Group, Inc. s earnings from its equity investment in SABMiller for the nine months ended September 30, 2011 included pre-tax costs for SABMiller s business capability programme and asset impairment charges related to the disposal of a distribution business in Italy, partially offset by pre-tax gains resulting from SABMiller s hotel and gaming transaction. Altria Group, Inc. s earnings from its equity investment in SABMiller for the nine months ended September 30, 2010 included pre-tax costs for SABMiller s business capability programme and costs for SABMiller s transaction to promote sustainable economic and social development in South Africa. Altria Group, Inc. s earnings from its equity investment in SABMiller for the three months ended September 30, 2011 and 2010 included pre-tax costs for SABMiller s business capability programme.

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PMCC Leveraged Lease Charge During the second quarter of 2011, Altria Group, Inc. recorded a one-time charge of $627 million related to the tax treatment of certain leveraged lease transactions entered into by PMCC (PMCC Leveraged Lease Charge). Approximately 50% of the charge ($315 million), which does not include potential penalties, represents a reduction in cumulative lease earnings recorded to date that will be recaptured over the remainder of the affected lease terms. The remaining portion of the charge ($312 million) primarily represents a permanent charge for interest on tax underpayments. The one-time charge was recorded in Altria Group, Inc. s condensed consolidated statements of earnings for the nine months ended September 30, 2011 as follows:

	Net Revenues	Provision for Income Taxes (in millions)	Total
Reduction to cumulative lease earnings	$ 490	$ (175)	$ 315
Interest on tax underpayments		312	312
Total	$ 490	$ 137	$ 627

For further discussion of matters relating to this charge, see Note 11. *Contingencies* to the condensed consolidated financial statements (Note 11).

PMCC Allowance for Losses During the third quarter of 2011, PMCC decreased its allowance for losses by $35 million based on management s assessment of the credit quality of PMCC s leasing portfolio. For further discussion, see Note 8. *Finance Assets, net* to the condensed consolidated financial statements (Note 8).

Tax Items Tax items for the nine and three months ended September 30, 2011 included the reversal of tax accruals no longer required and the expiration of statutes of limitations. Tax items for the nine and three months ended September 30, 2010 included the reversal of tax reserves and associated interest related to federal and various state audits, and the expiration of statutes of limitations. For further discussion, see Note 10. *Income Taxes* to the condensed consolidated financial statements (Note 10).

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Consolidated Results of Operations for the Nine Months Ended September 30, 2011

The following discussion compares consolidated operating results for the nine months ended September 30, 2011, with the nine months ended September 30, 2010.

Net revenues, which include excise taxes billed to customers, decreased $765 million (4.1%), due primarily to lower net revenues from the financial services segment as a result of the PMCC Leveraged Lease Charge discussed above, and the cigarettes segment, partially offset by higher net revenues from the smokeless products and wine segments.

Excise taxes on products decreased $285 million (5.0%), due primarily to lower cigarettes volume.

Cost of sales decreased $111 million (1.9%), due primarily to lower cigarettes volume and 2010 implementation costs, partially offset by higher per unit settlement charges, higher user fees imposed by the United States Food and Drug Administration (FDA) and higher manufacturing costs.

Marketing, administration and research costs decreased $130 million (6.6%), primarily reflecting the cost reduction initiatives discussed above, a $35 million reduction to the allowance for losses in the financial services segment and lower integration costs, partially offset by a $36 million charge for the *Scott* case in 2011 (See Note 11) and higher general corporate expenses.

Operating income decreased $23 million (0.5%), due primarily to lower operating results from the financial services segment (reflecting the impact to net revenues associated with the PMCC Leveraged Lease Charge) and cigars segment, and higher general corporate expenses, partially offset by higher operating results from the cigarettes, smokeless products and wine segments (which included lower asset impairment, exit, implementation and integration costs) and changes to the Kraft Foods Inc. (Kraft) and Philip Morris International Inc. (PMI) tax-related receivables. As discussed in Note 10, changes to Kraft and PMI tax-related receivables were fully offset by a corresponding provision/benefit for income taxes associated with Kraft and PMI.

Interest and other debt expense, net, increased $9 million (1.1%), as a result of the issuance of senior unsecured long-term notes in May 2011, partially offset by debt refinancing activities in 2010.

Earnings from Altria Group, Inc. s equity investment in SABMiller increased $115 million (26.3%), due primarily to higher ongoing equity earnings and higher net charges in 2010 for SABMiller special items, partially offset by lower gains in 2011 resulting from issuances of common stock by SABMiller.

Altria Group, Inc. s income tax rate increased 11.1 percentage points to 41.9%, due primarily to the $312 million portion of the PMCC Leveraged Lease Charge that primarily represents a permanent charge for interest on tax underpayments, and the reversal of tax reserves and associated interest in 2010 following the resolution of federal and various state audits.

Net earnings attributable to Altria Group, Inc. of $2,554 million decreased $432 million (14.5%), due primarily to lower operating income, higher interest and other debt expense, net, and a higher tax rate, partially offset by higher earnings from Altria Group, Inc. s equity investment in SABMiller. Diluted and basic EPS attributable to Altria Group, Inc. of $1.23, each decreased by 14.0%.

Consolidated Results of Operations for the Three Months Ended September 30, 2011

The following discussion compares consolidated operating results for the three months ended September 30, 2011, with the three months ended September 30, 2010.

Net revenues, which include excise taxes billed to customers, decreased $294 million (4.6%), due primarily to lower net revenues from the cigarettes segment, partially offset by higher net revenues from the smokeless products, cigars, wine and financial services segments.

Excise taxes on products decreased $161 million (8.3%), due primarily to lower cigarettes volume.

Cost of sales decreased $102 million (5.1%), due primarily to lower cigarettes volume and 2010 implementation costs, partially offset by higher user fees imposed by the FDA and higher per unit settlement charges.

Marketing, administration and research costs decreased $110 million (15.9%), due primarily to the cost reduction initiatives discussed above and a $35 million reduction to the allowance for losses in the financial services segment, partially offset by higher general corporate expenses.

Operating income increased $102 million (5.7%), due primarily to higher operating results from the financial services, smokeless products, cigars and wine segments and an increase to a Kraft tax-related receivable, partially offset by higher general corporate expenses and lower operating results from the cigarettes segment. As discussed in Note 10, the increase to the Kraft tax-related receivable was fully offset by an additional tax provision associated with Kraft.

Interest and other debt expense, net, increased $14 million (5.0%), as a result of the issuance of senior unsecured long-term notes in May 2011, partially offset by debt refinancing activities in 2010.

Earnings from Altria Group, Inc. s equity investment in SABMiller increased $22 million (11.8%), due primarily to higher ongoing equity earnings and higher charges in 2010 for SABMiller special items.

Altria Group, Inc. s income tax rate increased 1.7 percentage points to 34.5%, due primarily to the expiration of statutes of limitations in 2010 and the 2011 tax provision related to Kraft, partially offset by the reversal of tax accruals no longer required in 2011.

Net earnings attributable to Altria Group, Inc. of $1,173 million increased $42 million (3.7%), due primarily to higher operating income and higher earnings from Altria Group, Inc. s equity investment in SABMiller, partially offset by higher interest and other debt expense, net, and a higher tax rate. Diluted and basic EPS attributable to Altria Group, Inc. of $0.57, each increased by 5.6%.

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Operating Results by Business Segment

Tobacco Space

Business Environment

Summary

The United States tobacco industry faces a number of business and legal challenges that have adversely affected and may adversely affect the business and sales volume of our tobacco subsidiaries and our consolidated results of operations, cash flows and financial position. These challenges, some of which are discussed in more detail below, in Note 11. *Contingencies* to the condensed consolidated financial statements (Note 11) and in *Cautionary Factors That May Affect Future Results*, include:

- pending and threatened litigation and bonding requirements as discussed in Note 11;
- restrictions imposed by the Family Smoking Prevention and Tobacco Control Act (the FSPTCA) enacted in June 2009, and restrictions that have been, and in the future may be, imposed by the FDA under this statute;
- actual and proposed excise tax increases, as well as changes in tax structures and tax stamping requirements;
- bans and restrictions on tobacco use imposed by governmental and private entities;
- other federal, state and local government actions, including:
  - restrictions on the sale of tobacco products by certain retail establishments, the use of characterizing flavors and the sale of tobacco products in certain package sizes;
  - additional restrictions on the advertising and promotion of tobacco products;
  - other actual and proposed tobacco product legislation and regulation; and
  - governmental investigations;
- the diminishing prevalence of cigarette smoking and increased efforts by tobacco control advocates and others to further restrict tobacco use;
- price gaps and changes in price gaps between premium and lowest price brands;
- competitive disadvantages related to cigarette price increases attributable to the settlement of certain litigation;

illicit trade practices, including the sale of counterfeit tobacco products by third parties; the sale of tobacco products by third parties over the Internet and by other means designed to avoid the collection of applicable taxes; diversion into one market of products intended for sale in another; the potential assertion of claims and other issues relating to contraband shipments of tobacco products; and the imposition of additional legislative or regulatory requirements related to illicit trade practices; and

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- potential adverse changes in tobacco leaf price, availability and quality.

We have provided additional detail on the following topics below:

- FSPTCA and FDA Regulation;
- Excise Taxes;
- International Treaty on Tobacco Control;
- State Settlement Agreements;
- Other Federal, State and Local Regulation and Activity;
- Illicit Trade;
- Tobacco Price, Availability and Quality; and
- Timing of Sales.

FSPTCA and FDA Regulation

The Regulatory Framework

The FSPTCA expressly establishes certain restrictions and prohibitions on our cigarette and smokeless tobacco businesses and authorizes or requires further FDA action. Under the FSPTCA, the FDA has broad authority to regulate the design, manufacture, packaging, advertising, promotion, sale and distribution of cigarettes, cigarette tobacco and smokeless tobacco products; the authority to require disclosures of related information; and the authority to enforce the FSPTCA and related regulations. The law also grants the FDA authority to extend its application, by regulation, to other tobacco products, including cigars. The FDA has indicated that regulation of cigars and other tobacco products is on its agenda of items to consider for possible rule-making.

Among other measures, the FSPTCA:

- imposes restrictions on the advertising, promotion, sale and distribution of tobacco products, including at retail;
- prohibits cigarettes with characterizing flavors other than menthol and tobacco;
- bans descriptors such as light, mild or low or similar descriptors unless expressly authorized by the FDA;
- requires extensive ingredient disclosure to the FDA and may require more limited public ingredient disclosure;

prohibits any express or implied claims that a tobacco product is or may be less harmful than other tobacco products without FDA authorization;

imposes reporting obligations relating to contraband activity and grants the FDA authority to impose other recordkeeping and reporting obligations to address counterfeit and contraband products;

changes the language of the cigarette and smokeless tobacco product health warnings, enlarges their size and requires the development by the FDA of graphic warnings for cigarettes, which it published in June 2011, and gives the FDA the authority to require new warnings;

authorizes the FDA to adopt product regulations and related actions, including:

to impose tobacco product standards that are appropriate for the protection of the public health through a regulatory process including, among other possibilities, restrictions on ingredients, constituents or other properties, performance or design criteria as well as to impose testing, measurement, reporting and disclosure requirements;

to subject tobacco products that are modified or first introduced into the market after March 22, 2011 to application and premarket review and authorization requirements (the New Product Application Process) if the FDA does not find them to be substantially equivalent to products commercially marketed as of February 15, 2007, and to deny any such new product application thus preventing the distribution and sale of any product affected by such denial;

to determine that certain existing tobacco products modified or introduced into the market for the first time between February 15, 2007 and March 22, 2011 are not substantially equivalent to products commercially marketed as of February 15, 2007, in which case the FDA could require the removal of such products or subject them to the New Product Application Process and, if any such applications are denied, prevent the continued distribution and sale of such products (see *FDA Regulatory Actions* below);

to restrict or otherwise regulate menthol cigarettes, as well as other tobacco products with characterizing flavors;

to regulate nicotine yields and to reduce or eliminate harmful constituents or harmful ingredients or other components of tobacco products;

to impose manufacturing standards for tobacco products; and

equips the FDA with a variety of investigatory and enforcement tools, including the authority to inspect tobacco product manufacturing and other facilities.

Implementation Timing

The implementation of the FSPTCA began in 2009 and will continue over time. Some provisions took effect immediately, some provisions have taken effect since the enactment of the FSPTCA and other provisions will not take effect for some time. Those provisions that require the FDA to take action through rulemaking generally involve consideration of public comment and, for some issues, scientific review. Altria Group, Inc. s tobacco subsidiaries are participating actively in processes established by the FDA to develop and implement its regulatory framework, including submission of comments to FDA proposals and draft guidelines and participation in public hearings and engagement sessions.

Impact on Our Business; Compliance Costs

Regulations imposed by the FDA under the FSPTCA could have a material adverse impact on the business and sales volume of Altria Group, Inc. s tobacco businesses in a number of different ways. For example, actions by the FDA could:

- impact the consumer acceptability of tobacco products;
- delay or prevent the sale or distribution of existing, new or modified tobacco products;
- limit adult consumer choices;
- restrict communications to adult consumers;
- create a competitive advantage or disadvantage for certain tobacco companies;
- impose additional manufacturing, labeling or packaging requirements;
- impose restrictions at retail; or
- otherwise significantly increase the cost of doing business.

The failure to comply with FDA regulatory requirements, even by inadvertence, and FDA enforcement actions could have a material adverse effect on the business, financial condition and results of operations of Altria Group, Inc. and its tobacco subsidiaries.

The law imposes fees on tobacco product manufacturers and importers to pay for the cost of regulation and other matters. The cost of the FDA user fee is allocated first among tobacco product categories subject to FDA regulation according to a process set out in the statute, and then among manufacturers and importers within each respective class based on their relative market shares. For a discussion of the impact of the State Settlement Agreements, FETRA and FDA user fee payments on Altria Group, Inc., see *Debt and Liquidity Payments Under State Settlement and Other Tobacco Agreements, and FDA Regulation.* In addition, compliance with the law s regulatory requirements has resulted and will result in additional costs for our tobacco businesses. The amount of additional compliance and related costs has not been material in any given quarter to date but could become substantial, either individually or in the aggregate, and will depend on the nature of the requirements imposed by the FDA.

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Investigation and Enforcement

The FDA has a number of investigatory and enforcement tools available to it, including document requests and other required information submissions, facility inspections, examinations and investigations, injunction proceedings, money penalties, product withdrawals and recalls, and product seizures. The use of any of these investigatory or enforcement tools by the FDA could result in significant costs to the tobacco businesses of Altria Group, Inc. or otherwise have a material adverse effect on the business, financial condition and results of operations of Altria Group, Inc. and its tobacco subsidiaries.

For example, in June 2010, the FDA issued a document request regarding changes to *Marlboro* Gold Pack cigarette packaging in connection with the FSPTCA s ban of certain descriptors. PM USA submitted documents in response to the FDA s request.

TPSAC

The Role of the TPSAC

As required by the FSPTCA, the FDA has established a tobacco product scientific advisory committee (the TPSAC), which consists of both voting and non-voting members, to provide advice, reports, information and recommendations to the FDA on scientific and health issues relating to tobacco products. The TPSAC:

- advises the FDA about modified risk products (products marketed with reduced risk claims), good manufacturing practices, the effects of the alteration of nicotine yields from tobacco products and nicotine dependence thresholds; and

- makes reports and recommendations to the FDA on menthol cigarettes, including the impact of the use of menthol in cigarettes on the public health, and the nature and impact of dissolvable tobacco products on the public health.

The FDA may seek advice from the TPSAC about other safety, dependence or health issues relating to tobacco products, including tobacco product standards and applications to market new tobacco products.

TPSAC Membership

PM USA and USSTC have raised with the FDA their concerns that certain of the voting members of the TPSAC have financial and other conflicts (including services as paid experts for plaintiffs in tobacco litigation) that could hamper the full and fair consideration of issues by the TPSAC and requested that their appointments be withdrawn. The FDA declined PM USA s and USSTC s requests, stating that the FDA had satisfied itself, after inquiry, that the TPSAC members did not have disqualifying conflicts of interest. The FDA stated further that it would continue to screen, in accordance with relevant statutory and regulatory provisions and FDA guidance, all TPSAC members for potential conflicts of interest for matters that the TPSAC would be considering. The FDA also engaged two individuals to serve as consultants to a TPSAC subcommittee who also served as paid experts for plaintiffs in tobacco litigation. PM USA and USSTC raised similar concerns related to the engagement of these individuals and the FDA similarly declined to terminate these engagements. In February 2011, Lorillard Tobacco Company and R.J. Reynolds Tobacco Company filed suit in the U.S. District Court for the District of Columbia against the United States Department of Health and Human Services and individual defendants (sued in their official capacities) asserting that the composition of the TPSAC and the composition of the Constituents Subcommittee of the TPSAC violates several federal laws, including the Federal Advisory Committee Act.

TPSAC Action on Menthol

As mandated by the FSPTCA, in March 2011, the TPSAC submitted to the FDA a report on the impact of the use of menthol in cigarettes on the public health and related recommendations. The TPSAC report stated that [m]enthol cigarettes have an adverse impact on public health in the United States. The TPSAC report recommended that the [r]emoval of menthol cigarettes from the marketplace would benefit public health in the United States. The report noted the potential that any ban on menthol cigarettes could lead to an increase in contraband cigarettes and other potential unintended consequences and suggested that the FDA consult with appropriate experts on this matter. The TPSAC report also recommended that additional research could address gaps in understanding menthol cigarettes.

In March 2011, PM USA submitted a report to the FDA outlining its position that neither science nor other evidence demonstrates that regulatory actions or restrictions related to the use of menthol cigarettes are warranted. The report noted PM USA s belief that significant restrictions on the use of menthol cigarettes would have unintended consequences detrimental to public health and society.

In July 2011, the TPSAC revised and approved its March 2011 report. The revisions were editorial in nature and did not change the substantive conclusions and recommendations of the TPSAC.

The FSPTCA does not set a deadline or required timeline for the FDA to act on the TPSAC report. The FDA has stated that the TPSAC report is only a recommendation and that the FDA s receipt of the TPSAC s menthol report will not have an immediate effect on the availability of menthol cigarettes. The FDA has also stated that it will review the various submitted reports and available scientific information on menthol to determine what future regulatory action, if any, is warranted. Such future action could include restrictions, or a possible ban, on the manufacturing, marketing and sale of menthol cigarettes. As part of its 90-day progress report on menthol, the FDA announced that it plans to submit its draft review of the science on menthol to an external peer review panel. The FDA indicated that it plans to eventually make the results of this peer review and of the FDA s preliminary scientific assessment available for public comment. Any future action taken by the FDA to regulate the manufacture, marketing or sale of menthol cigarettes will require formal rulemaking that includes public notice and the opportunity for public comment.

Final Tobacco Marketing Rule

As required by the FSPTCA, the FDA re-promulgated in March 2010 certain advertising and promotion restrictions in substantially the same form as regulations that were previously adopted in 1996 (but never imposed on tobacco manufacturers due to a United States Supreme Court ruling) (the Final Tobacco Marketing Rule). The Final Tobacco Marketing Rule:

- bans the use of color and graphics in tobacco product labeling and advertising;
- prohibits the sale of cigarettes and smokeless tobacco to underage persons;
- requires the sale of cigarettes and smokeless tobacco in direct, face-to-face transactions;
- prohibits sampling of cigarettes and prohibits sampling of smokeless tobacco products except in qualified adult-only facilities;
- prohibits gifts or other items in exchange for buying cigarettes or smokeless tobacco products;
- prohibits the sale or distribution of items such as hats and tee shirts with tobacco brands or logos; and
- prohibits brand name sponsorship of any athletic, musical, artistic, or other social or cultural event, or any entry or team in any event.

Subject to the limitations imposed by the injunction in the *Commonwealth Brands* case described below, the Final Tobacco Marketing Rule took effect in June 2010. At the time of the re-promulgation of the Final Tobacco Marketing Rule, the FDA also issued an advance notice of proposed rulemaking regarding the so-called 1000 foot rule, which would establish restrictions on the placement of outdoor tobacco advertising in relation to schools and playgrounds. PM USA and USSTC submitted comments on this advance notice.

Since enactment, several lawsuits have been filed challenging various provisions of the FSPTCA and the Final Tobacco Marketing Rule, including their constitutionality and the scope of the FDA s authority thereunder. Altria Group, Inc. and its tobacco subsidiaries are not parties to any of these lawsuits. In January 2010, in one such challenge (*Commonwealth Brands*), the United States District Court of the Western District of Kentucky struck down as unconstitutional, and enjoined enforcement of, the portion of the Final Tobacco Marketing Rule that bans the use of color and graphics in labeling and advertising and claims implying that a tobacco product is safer because of FDA regulation. The parties have appealed and argument on the appeal was heard on July 27, 2011. The FDA has indicated that it does not intend to enforce the ban on the use of color and graphics in labeling and advertising for the duration of the injunction. It is not possible to predict the outcome of any such litigation or its effect on the extent of the FDA s authority to regulate tobacco products.

Contraband

The FSPTCA imposes on manufacturers reporting obligations relating to knowledge of suspected contraband activity and also grants the FDA the authority to impose certain other recordkeeping and reporting obligations to address counterfeit and contraband tobacco products. The FSPTCA also empowers the FDA to assess whether additional tools should be employed to track and trace tobacco products through the distribution chain.

FDA Regulatory Actions

Graphic Warnings

In June 2011, as required by the FSPTCA, the FDA issued its final rule to modify the required warnings that appear on cigarette packages and in cigarette advertisements. The FSPTCA requires the warnings to consist of nine new textual warning statements accompanied by color graphics depicting the negative health consequences of smoking. The graphic health warnings will (i) be located beneath the cellophane, and comprise the top 50 percent of the front and rear panels of cigarette packages and (ii) occupy 20 percent of a cigarette advertisement and be located at the top of the advertisement. The rule requires that cigarette packaging manufactured after September 22, 2012 contain the new graphic warnings and all cigarette advertising contain the new warnings by that date.

On August 16, 2011, R.J. Reynolds Tobacco Company, Lorillard Tobacco Company, and several other plaintiffs filed suit in the United States District Court for the District of Columbia against the FDA challenging its graphic warnings rule. A hearing on the plaintiffs motion for a preliminary injunction was held on September 21, 2011.

PM USA is not a party to this lawsuit. On August 13, 2011, the FDA confirmed that, should an injunction or stay be entered in the graphic warnings lawsuit, it will not enforce the graphic warnings rule against PM USA on the same terms and with the same effect as any such injunction or stay.

New Product Marketing Authorization Processes

In January 2011, the FDA issued guidance concerning reports that manufacturers must submit for certain FDA-regulated tobacco products that the manufacturer modified or introduced for the first time into the market after February 15, 2007. These reports must be reviewed by the agency to determine if such tobacco products are substantially equivalent to products commercially available as of February 15, 2007. In general, in order to continue marketing these products sold before March 22, 2011, manufacturers of FDA-regulated tobacco products were required to send to the FDA a report demonstrating substantial equivalence by March 22, 2011. PM USA and USSTC submitted timely reports. PM USA and USSTC can continue marketing these products unless the FDA makes a determination that a specific product is not substantially equivalent. If the FDA ultimately makes such a determination, it could require the removal of such products or subject them to the New Product Application Process and, if any such applications are denied, prevent the continued distribution and sale of such products. PM USA and USSTC believe all of their current products meet the statute s requirements, but cannot predict when or how the FDA will respond to their reports.

Manufacturers intending to introduce new products and certain modified products into the market after March 22, 2011 must submit a report to the FDA and obtain a substantial equivalence order from the agency before introducing the products into the market. If the FDA declines to issue a so-called substantial equivalence order for a product or if the manufacturer itself determines that the product does not meet the substantial equivalence requirements, the product would need to undergo the New Product Application Process. At this time, it is not possible to predict how long agency reviews of either substantial equivalence reports or new product applications will take.

The FDA also published a final regulation in July 2011, establishing a process for requesting an exemption from the substantial equivalence requirements for certain minor modifications to tobacco additives. The final rule became effective on August 4, 2011.

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Excise Taxes

Tobacco products are subject to substantial excise taxes in the United States. Significant increases in tobacco-related taxes or fees have been proposed or enacted and are likely to continue to be proposed or enacted at the federal, state and local levels within the United States.

Federal, state and local excise taxes have increased substantially over the past decade, far outpacing the rate of inflation. For example, in 2009, the federal excise tax (FET) on cigarettes increased from 39 cents per pack to approximately $1.01 per pack and on July 1, 2010, the New York state excise tax increased $1.60 to $4.35 per pack. Between the end of 1998 and October 24, 2011, the weighted-average state and certain local cigarette excise taxes increased from $0.36 to $1.37 per pack. As of October 24, 2011, Connecticut, Hawaii and Vermont increased their cigarette excise taxes this year and New Hampshire decreased its cigarette excise tax.

Tax increases are expected to continue to have an adverse impact on sales of tobacco products by our tobacco subsidiaries, due to lower consumption levels and to a potential shift in adult consumer purchases from the premium to the non-premium or discount segments or to other low-priced or low-taxed tobacco products or to counterfeit and contraband products. Such shifts may have an impact on the reported share performance of tobacco products of Altria Group, Inc. s tobacco subsidiaries.

A majority of states currently tax smokeless tobacco products using an *ad valorem* method, which is calculated as a percentage of the price of the product, typically the wholesale price. This *ad valorem* method results in more tax being paid on premium products than is paid on lower-priced products of equal weight. Altria Group, Inc. s subsidiaries support legislation to convert *ad valorem* taxes on smokeless tobacco to a weight-based methodology because, unlike the *ad valorem* tax, a weight-based tax subjects cans of equal weight to the same tax. As of October 24, 2011, twenty-one states, Washington, D.C. and Philadelphia, Pennsylvania have adopted a weight-based tax methodology for smokeless tobacco.

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International Treaty on Tobacco Control

The World Health Organization s Framework Convention on Tobacco Control (the FCTC) entered into force in February 2005. As of October 24, 2011, 174 countries, as well as the European Community, have become parties to the FCTC. While the United States is a signatory of the FCTC, it is not currently a party to the agreement, as the agreement has not been submitted to, or ratified by, the United States Senate. The FCTC is the first international public health treaty and its objective is to establish a global agenda for tobacco regulation with the purpose of reducing initiation of tobacco use and encouraging cessation. The treaty recommends (and in certain instances, requires) signatory nations to enact legislation that would, among other things:

- establish specific actions to prevent youth tobacco product use;
- restrict or eliminate all tobacco product advertising, marketing, promotion and sponsorship;
- initiate public education campaigns to inform the public about the health consequences of tobacco consumption and exposure to tobacco smoke and the benefits of quitting;
- implement regulations imposing product testing, disclosure and performance standards;
- impose health warning requirements on packaging;
- adopt measures intended to combat tobacco product smuggling and counterfeit tobacco products;
- restrict smoking in public places;
- implement fiscal policies (tax and price increases);
- adopt and implement measures that ensure that descriptive terms do not create the false impression that one brand of tobacco product is safer than another;
- phase out duty-free tobacco product sales;
- encourage litigation against tobacco product manufacturers; and
- adopt and implement guidelines for testing and measuring the contents and emissions of tobacco products.

In addition, there are a number of proposals currently under consideration by the governing body of the FCTC, some of which call for substantial restrictions on the manufacture and marketing of tobacco products. It is not possible to predict the outcome of these proposals or the impact of any FCTC actions on legislation or regulation in the United States, either directly as a result of the United States becoming a party to the FCTC, or whether or how these actions might indirectly influence FDA regulation and enforcement.

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State Settlement Agreements

As discussed in Note 11, during 1997 and 1998, PM USA and other major domestic tobacco product manufacturers entered into agreements with states and various United States jurisdictions settling asserted and unasserted health care cost recovery and other claims (collectively, the State Settlement Agreements). These settlements require participating manufacturers to make substantial annual payments. For a discussion of the impact of the State Settlement Agreements, FETRA and FDA user fee payments on Altria Group, Inc., see *Debt and Liquidity Payments Under State Settlement and Other Tobacco Agreements, and FDA Regulation.* The settlements also place numerous requirements and restrictions on participating manufacturers business operations, including prohibitions and restrictions on the advertising and marketing of cigarettes and smokeless tobacco products. Among these are prohibitions of outdoor and transit brand advertising, payments for product placement, and free sampling (except in adult-only facilities). Restrictions are also placed on the use of brand name sponsorships and brand name non-tobacco products. The State Settlement Agreements also place prohibitions on targeting youth and the use of cartoon characters. In addition, the State Settlement Agreements require companies to affirm corporate principles directed at reducing 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.

In November 1998, USSTC entered into the Smokeless Tobacco Master Settlement Agreement (the STMSA) with the attorneys general of various states and United States territories to resolve the remaining health care cost reimbursement cases initiated against USSTC. The STMSA required USSTC to adopt various marketing and advertising restrictions. USSTC is the only smokeless tobacco manufacturer to sign the STMSA.

Other Federal, State and Local Regulation and Activity

Federal, State and Local Laws

State and Local Laws Addressing Certain Characterizing Flavors

In a growing number of states and localities, legislation has been enacted or proposed that prohibits or would prohibit the sale of certain tobacco products with certain characterizing flavors. The legislation varies in terms of the type of tobacco products subject to prohibition, the conditions under which the sale of such products is or would be prohibited, and exceptions to the prohibitions. For example, a number of proposals would prohibit characterizing flavors in smokeless tobacco products, with no exception for mint- or wintergreen-flavored products.

To date, the following states have enacted legislation that prohibits certain tobacco products with certain characterizing flavors:

Maine has enacted legislation that prohibits the sale of certain flavored cigar and cigarette products. As implemented, including the application of certain statutory exemptions, this prohibition does not ban any PM USA, USSTC, or Middleton product. In 2010, Maine amended the characterizing flavor prohibition. The amendment allows the continued sale of cigars that obtained favorable exemption rulings under the previous statute but does not provide for the possibility of further exemptions, such as for future products with characterizing flavors.

New Jersey has enacted legislation banning the sale and marketing of cigarettes with a characterizing flavor other than menthol, mint or clove. This legislation does not ban any PM USA, USSTC or Middleton product.

In addition, such legislation has been enacted or is being considered in a number of localities. For example:

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New York City has adopted an ordinance that prohibits the sale of certain flavored tobacco products other than cigarettes. This legislation affects certain USSTC and Middleton products. The ordinance and related final regulations took effect in August 2010. Certain subsidiaries of USSTC have filed a lawsuit in the United States District Court for the Southern District of New York challenging the New York City legislation on the grounds that it is preempted by the FSPTCA. In March 2010, the trial court denied plaintiffs motion for preliminary injunction against enforcement of the ordinance. Plaintiffs and the City have moved for summary judgment on the preemption claim. USSTC and Middleton are complying with the ordinance pending resolution of the litigation.

Whether other states or localities will enact legislation in this area, and the precise nature of such legislation if enacted, cannot be predicted. See *FDA Regulation* above for a summary of the FSPTCA s regulation of certain tobacco products with characterizing flavors.

State and Local Laws Imposing Certain Speech Requirements and Restrictions

In several jurisdictions, legislation or regulations have been enacted or proposed that would require the disclosure of health information separate from or in addition to federally-mandated health warnings or that would restrict commercial speech in certain respects. For example, New York City has adopted a regulation requiring retailers selling tobacco products to display a sign, issued by the New York City Board of Health, depicting graphic images of the potential health consequences of smoking and urging smokers to quit. In June 2010, PM USA and other plaintiffs filed a lawsuit in the United States District Court for the Southern District of New York challenging New York City s graphic health warnings regulation and filed a motion seeking to preliminarily enjoin the regulation. In December 2010, the district court declared the regulation null and void, finding that such requirements were preempted by federal law. The City has appealed the decision to the United States Court of Appeals for the Second Circuit.

Federal Tobacco Quota Buy-Out

In October 2004, the Fair and Equitable Tobacco Reform Act of 2004 (FETRA) was signed into law. PM USA, Middleton and USSTC are subject to the requirements of FETRA. FETRA eliminated the federal tobacco quota and price support program through an industry-funded buy-out of tobacco growers and quota holders. The cost of the buy-out is approximately $9.5 billion and is being paid over 10 years by manufacturers and importers of each kind of tobacco product. The cost is being allocated based on the relative market shares of manufacturers and importers of each kind of tobacco product.

In February 2011, PM USA filed a lawsuit in federal court challenging the United States Department of Agriculture s (the USDA) method for calculating the 2011 and future tobacco product class shares that are used to allocate liability for the industry payments that fund the FETRA buy-out described above and are used by the FDA to calculate the industry s FDA user fees. PM USA asserts in this litigation that the USDA violated FETRA and its own regulations by failing to apply the most current FET rates enacted by Congress, which became effective in April 2009, in calculating the class share allocations. PM USA also filed administrative appeals of its FETRA assessments for the first, second and third quarters of fiscal year 2011 (the first two of which have been denied by the USDA) and has submitted a petition for rulemaking with USDA (which petition is still pending), in each case asserting that USDA erroneously failed to base the FETRA class share allocations on the current FET rates.

For a discussion of the impact of the State Settlement Agreements, FETRA and FDA user fee payments on Altria Group, Inc., see *Debt and Liquidity Payments Under State Settlement and Other Tobacco Agreements, and FDA Regulation.* We do not anticipate that the quota buy-out will have a material adverse impact on our consolidated results in 2011 and beyond.

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Health Effects of Tobacco Consumption and Exposure to Environmental Tobacco Smoke (ETS)

It is the policy of Altria Group, Inc. and its tobacco subsidiaries to defer to the judgment of public health authorities as to the content of warnings in advertisements and on product packaging regarding the health effects of tobacco consumption, addiction and exposure to ETS. Altria Group, Inc. and its tobacco subsidiaries believe that the public should be guided by the messages of the United States Surgeon General and public health authorities worldwide in making decisions concerning the use of tobacco products.

Reports with respect to the health effects of smoking have been publicized for many years, including in a June 2006 United States Surgeon General report on ETS entitled The Health Consequences of Involuntary Exposure to Tobacco Smoke. Many jurisdictions within the United States have restricted smoking in public places. The pace and scope of public smoking bans have increased significantly. Some public health groups have called for, and various jurisdictions have adopted or proposed, bans on smoking in outdoor places, in private apartments and in cars with minors in them. It is not possible to predict the results of ongoing scientific research or the types of future scientific research into the health risks of tobacco exposure.

Other Legislation or Governmental Initiatives

In addition to the actions discussed above, other regulatory initiatives affecting the tobacco industry have been adopted or are being considered at the federal level and in a number of state and local jurisdictions. For example, in recent years, legislation has been introduced or enacted at the state or local level to subject tobacco products to various reporting requirements and performance standards (such as reduced cigarette ignition propensity standards); establish educational campaigns relating to tobacco consumption or tobacco control programs, or provide additional funding for governmental tobacco control activities; restrict the sale of tobacco products in certain retail establishments and the sale of tobacco products in certain packing sizes; require tax stamping of moist smokeless tobacco products; require the use of state tax stamps using data encryption technology; and further restrict the sale, marketing and advertising of cigarettes and other tobacco products.

It is not possible to predict what, if any, additional legislation, regulation or other governmental action will be enacted or implemented relating to the manufacturing, design, packaging, marketing, advertising, sale or use of tobacco products, or the tobacco industry generally. It is possible, however, that legislation, regulation or other governmental action could be enacted or implemented in the United States that might materially adversely affect the business and volume of our tobacco subsidiaries and our consolidated results of operations and cash flows.

Governmental Investigations

From time to time, Altria Group, Inc. and its subsidiaries are subject to governmental investigations on a range of matters. Altria Group, Inc. and its subsidiaries cannot predict whether new investigations may be commenced.

Illicit Trade

Altria Group, Inc. and its tobacco subsidiaries support appropriate regulations and enforcement measures to prevent illicit trade in tobacco products. For example, Altria Group, Inc. s tobacco subsidiaries are engaged in a number of initiatives to help prevent trade in contraband tobacco products, including: enforcement of wholesale and retail trade programs and policies on trade in contraband tobacco products; engagement with and support of law enforcement and regulatory agencies; litigation to protect their trademarks; and support for a variety of federal and state legislative initiatives. Legislative initiatives to address trade in contraband tobacco products are designed to protect the legitimate channels of distribution, impose more stringent penalties for the violation of illegal trade laws and provide additional tools for law enforcement. Regulatory measures and related governmental actions to prevent the illicit manufacture and trade of tobacco products

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are being considered by a number of jurisdictions. For example, in March 2010, the President signed into law the Prevent All Cigarette Trafficking (PACT) Act, which addresses illegal Internet sales by, among other things, imposing a series of restrictions and requirements on the delivery sale of cigarettes and smokeless tobacco products and makes such products non-mailable to consumers through the United States Postal Service, subject to limited exceptions. Certain Internet cigarette sellers have filed lawsuits challenging the constitutionality of various aspects of this statute and seek injunctive relief in the United States District Courts for the District of Columbia, the Western District of New York and the Eastern District of Pennsylvania. To date, plaintiffs have received injunctive relief in only one of these courts (the Western District of New York), and that injunction is limited to only certain elements of the PACT Act, including a requirement that delivery-sellers obey the laws of the jurisdiction to which they ship cigarettes. The balance of the PACT Act, including the non-mailability provision, has been fully implemented.

Tobacco Price, Availability and Quality

Shifts in crops driven by economic conditions and adverse weather patterns, government mandated prices and production control programs may increase or decrease the cost or reduce the quality of tobacco and other agricultural products used to manufacture our products. As with other agriculture commodities, the price of tobacco leaf can be influenced by economic conditions and imbalances in supply and demand and crop quality and availability can be influenced by variations in weather patterns, including those caused by climate change. Tobacco production in certain countries is subject to a variety of controls, including government mandated prices and production control programs. Changes in the patterns of demand for agricultural products and the cost of tobacco production could cause tobacco leaf prices to increase and could result in farmers growing less tobacco. Any significant change in tobacco leaf prices, quality or availability could affect our tobacco subsidiaries profitability and business.

Timing of Sales

In the ordinary course of business, our tobacco subsidiaries are subject to many influences that can impact the timing of sales to customers, including the timing of holidays and other annual or special events, the timing of promotions, customer incentive programs and customer inventory programs, as well as the actual or speculated timing of pricing actions and tax-driven price increases.

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Operating Results

The following discussion compares tobacco space operating results for the nine and three months ended September 30, 2011, with the nine and three months ended September 30, 2010.

	For the Nine Months Ended September 30,			
	Net Revenues		Operating Companies Income	
	(in millions)			
	2011	2010	2011	2010
Cigarettes	$ 16,065	$ 16,441	$ 4,403	$ 4,213
Smokeless products	1,209	1,160	660	586
Cigars	435	437	124	146
Total tobacco space	$ 17,709	$ 18,038	$ 5,187	$ 4,945

	For the Three Months Ended September 30,			
	Net Revenues		Operating Companies Income	
	(in millions)			
	2011	2010	2011	2010
Cigarettes	$ 5,330	$ 5,729	$ 1,520	$ 1,533
Smokeless products	426	389	245	210
Cigars	169	147	55	43
Total tobacco space	$ 5,925	$ 6,265	$ 1,820	$ 1,786

Cigarettes segment

Trade inventory dynamics impacted the cigarettes segment s results for the three months ended September 30, 2011. The cigarettes segment s 2011 first-half results benefited from the trade building cigarette inventory levels, and PM USA believes that the trade depleted these inventories in the third quarter, which negatively impacted PM USA s third-quarter net revenues, operating companies income and volume comparisons. Relative changes in manufacturers promotional activities in the third quarter impacted *Marlboro* s retail share performance as PM USA focused on expanding margins.

PM USA reports volume and retail share performance as follows: *Marlboro*; Other Premium brands, such as *Virginia Slims*, *Parliament* and *Benson & Hedges*; and Discount brands, which include *Basic, L&M* and other discount brands.

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The following table summarizes cigarettes segment volume performance, which includes units sold as well as promotional units, but excludes Puerto Rico, U.S. Territories, Overseas Military and Philip Morris Duty Free Inc., none of which, individually or in the aggregate, is material to the cigarettes segment:

	Shipment Volume			
	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	(in billion units)			
	2011	2010	2011	2010
Marlboro	88.2	92.7	28.7	31.8
Other Premium	7.1	7.9	2.4	2.8
Discount	6.1	6.6	2.2	2.0
Total Cigarettes	101.4	107.2	33.3	36.6

The following table summarizes cigarettes segment retail share performance:

	Retail Share			
	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2011	2010	2011	2010
Marlboro	42.1%	42.7%	41.7%	42.6%
Other Premium	3.7	3.9	3.7	3.9
Discount	3.2	3.4	3.3	3.1
Total Cigarettes	49.0%	50.0%	48.7%	49.6%

Cigarettes segment retail share results are based on data from SymphonyIRI Group/Capstone, which is a retail tracking service that uses a sample of stores to project market share performance in retail stores selling cigarettes. The panel was not designed to capture sales through other channels, including the Internet, direct mail and some illicitly tax-advantaged outlets.

PM USA executed the following pricing and promotional allowance actions during 2011 and 2010:

- Effective July 8, 2011, PM USA increased the list price on all of its cigarette brands by $0.09 per pack.

- Effective December 6, 2010, PM USA increased the list price on all of its cigarette brands by $0.08 per pack.

- Effective May 10, 2010, PM USA increased the list price on all of its cigarette brands by $0.08 per pack. In addition, PM USA cancelled its wholesale promotional allowance of $0.21 per pack on *Basic*.

Net revenues, which include excise taxes billed to customers, for the nine months ended September 30, 2011, decreased $376 million (2.3%) versus the prior-year period due primarily to lower volume ($1,029 million) and higher promotional allowances ($79 million), partially offset by higher list prices ($732 million). Operating companies income for the nine months ended September 30, 2011 increased $190 million (4.5%) versus the prior-year period, due primarily to higher list prices ($732 million), marketing, administration, and research savings reflecting the cost reduction initiatives discussed above ($115 million) and lower asset impairment, exit and implementation costs related to the closure of the Cabarrus, North Carolina manufacturing facility ($95 million), partially offset by lower volume ($503 million),

higher promotional allowances ($79 million), higher per unit settlement charges ($75 million), higher FDA user fees ($71 million) and a $36 million charge for the *Scott* case in 2011 (See Note 11).

Net revenues, which include excise taxes billed to customers, for the three months ended September 30, 2011, decreased $399 million (7.0%) versus the prior-year period due primarily to lower volume ($590 million) and higher promotional allowances ($78 million), partially offset by higher list prices ($269 million). Operating companies income for the three months ended September 30, 2011 decreased $13 million (0.8%) versus the prior-year period, due primarily to lower volume ($286 million), higher promotional allowances ($78 million) and higher FDA user fees ($25 million), partially offset by higher list prices ($269 million), marketing, administration, and research savings reflecting the cost reduction initiatives discussed above ($85 million) and lower asset impairment, exit and implementation costs related to the closure of the Cabarrus, North Carolina manufacturing facility ($24 million).

For the nine and three months ended September 30, 2011, PM USA s reported domestic cigarette shipment volume declined 5.4% and 9.0%, respectively, versus the prior-year periods due primarily to trade inventory dynamics and retail share losses. PM USA believes that third-quarter volume comparisons were negatively impacted because the trade depleted cigarette inventories in the third quarter that had been built in the first half of 2011. After adjusting for changes in trade inventories, PM USA s domestic cigarette shipment volume for both the nine and three months ended September 30, 2011 was estimated to be down approximately 5% versus the prior-year periods. For both the nine and three months ended September 30, 2011, total cigarette category volume was estimated to be down approximately 3.5% versus the prior-year periods, when adjusted primarily for changes in trade inventories.

PM USA s total premium brands (*Marlboro* and Other Premium brands) shipment volume decreased 5.3% and 10.1%, for the nine months and three months ended September 30, 2011, respectively, versus the prior-year periods. *Marlboro* shipment volume decreased 4.5 billion units (4.9%) for the nine months ended September 30, 2011 and decreased 3.1 billion units (10.0%) for the three months ended September 30, 2011 versus the prior-year periods. In the Discount brands, PM USA s shipment volume for the nine months ended September 30, 2011 decreased 7.1% versus the prior-year period, and increased 9.5% for the three months ended September 30, 2011 versus the prior-year period. Shipments of premium cigarettes accounted for 93.9% and 93.2% of PM USA s total volume for the nine and three months ended September 30, 2011, respectively, versus 93.8% and 94.4% of PM USA s total volume for the nine and three months ended September 30, 2010, respectively.

For the nine months ended September 30, 2011, PM USA s and *Marlboro* s retail share declined 1.0 and 0.6 share points, respectively, versus the prior-year period as *Marlboro* had delivered record retail share results for the nine months ended September 30, 2010 that were achieved at lower margin levels. For the three months ended September 30, 2011, PM USA s and *Marlboro* s retail share each decreased 0.9 share points versus the prior-year period, due primarily to relative changes in manufacturers promotional activities. Following PM USA s July 2011 list price increase, *Marlboro* s third-quarter retail price increased more than major competitive premium and discount brands as PM USA focused on growing its margins.

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Smokeless products segment

The smokeless products segment delivered higher operating companies income and improved margins for the nine and three months ended September 30, 2011 versus the comparable prior-year periods driven by its leading premium brands *Copenhagen* and *Skoal*. *Copenhagen* achieved strong volume and retail share growth for the nine and three months ended September 30, 2011. *Skoal* grew its volume for the nine and three months ended September 30, 2011 versus the prior-year periods as a result of its brand-building initiatives and new product introductions. *Copenhagen* and *Skoal* s combined retail share grew in the third-quarter on both a year-over-year and sequential basis.

The following table summarizes smokeless products segment volume performance:

	Shipment Volume			
	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	(cans and packs in millions)			
	2011	2010	2011	2010
Copenhagen	258.5	244.9	90.0	80.9
Skoal	214.9	208.7	70.9	69.8
Copenhagen and *Skoal*	473.4	453.6	160.9	150.7
Other	71.9	98.3	22.6	33.2
Total Smokeless products	545.3	551.9	183.5	183.9

Volume includes cans and packs sold, as well as promotional units but excludes international volume, which is not material to the smokeless products segment. Other includes certain USSTC and PM USA smokeless products.

New types of smokeless products, as well as new packaging configurations of existing smokeless products, may or may not be equivalent to existing moist smokeless tobacco (MST) products on a can for can basis. USSTC and PM USA have assumed the following equivalent ratios to calculate volumes of cans and packs shipped:

One pack of snus, irrespective of the number of pouches in the pack, is equivalent to one can of MST;

One can of *Skoal* Slim Can pouches is equivalent to a 0.53 can of MST; and

All other products are considered to be equivalent on a can for can basis.

If assumptions regarding these equivalent ratios change, it may result in a change to these reported results.

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The following table summarizes smokeless products segment retail share performance (excluding international volume):

	Retail Share			
	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2011	2010	2011	2010
Copenhagen	25.8%	24.7%	26.5%	24.5%
Skoal	22.9	23.6	22.8	23.4
Copenhagen and *Skoal*	48.7	48.3	49.3	47.9
Other	6.2	7.2	5.9	7.4
Total Smokeless products	54.9%	55.5%	55.2%	55.3%

Other includes certain USSTC and PM USA smokeless products. New types of smokeless products, as well as new packaging configuration of existing smokeless products, may or may not be equivalent to existing MST products on a can for can basis. USSTC and PM USA have made the following assumptions for calculating retail share:

One pack of snus, irrespective of the number of pouches in the pack, is equivalent to one can of MST; and

All other products are considered to be equivalent on a can for can basis.

If assumptions regarding these equivalent ratios change, it may result in a change to these reported results.

Smokeless products segment retail share performance is based on data from the SymphonyIRI Group (SymphonyIRI) InfoScan Smokeless Tobacco Database 2011 for Food, Drug, Mass Merchandisers (excluding Wal-Mart) and Convenience trade classes (InfoScan Smokeless Tobacco Database), which tracks smokeless products market share performance based on the number of cans and packs sold. Smokeless products is defined by SymphonyIRI as moist smokeless and spit-less tobacco products. It is SymphonyIRI s standard practice to periodically refresh its InfoScan syndicated services, which could restate retail share results that were previously released.

SymphonyIRI performed a restatement of its InfoScan Smokeless Tobacco Database in the second quarter of 2011. As a result of the InfoScan Smokeless Tobacco Database restatement, USSTC and PM USA s previously released quarterly and year-to-date retail share results for smokeless products were restated.

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USSTC and PM USA executed the following pricing actions during 2011 and 2010:

Effective May 22, 2011, USSTC increased the list prices on its MST brands by $0.10 per can and *Skoal* Snus by $0.31 per can.

Effective May 18, 2011, PM USA increased the list price on *Marlboro* Snus tins by $0.31 per tin.

Effective May 28, 2010, USSTC increased the list price on substantially all of its brands by $0.10 per can.

Net revenues, which include excise taxes billed to customers, for the nine months ended September 30, 2011, increased $49 million (4.2%) versus the prior-year period, due primarily to higher pricing ($62 million), partially offset by lower volume. Operating companies income for the nine months ended September 30, 2011 increased $74 million (12.6%) versus the prior-year period, due primarily to higher pricing ($62 million), lower marketing, administration and research costs ($36 million) reflecting the cost reduction initiatives discussed above, and lower asset impairment, exit and integration costs, partially offset by lower volume and higher manufacturing costs.

Net revenues, which include excise taxes billed to customers, for the three months ended September 30, 2011, increased $37 million (9.5%) versus the prior-year period, due primarily to higher pricing ($22 million) and higher premium volume. Operating companies income for the three months ended September 30, 2011 increased $35 million (16.7%) versus the prior-year period, due primarily to higher pricing ($22 million) and lower marketing, administration and research costs reflecting the cost reduction initiatives discussed above.

For the nine months and three months ended September 30, 2011, USSTC and PM USA s combined domestic smokeless products shipment volume decreased 1.2% and 0.2%, respectively versus the prior-year periods, as shipment declines in its Other portfolio brands, including *Marlboro* Snus, were partially offset by volume growth on *Copenhagen* and *Skoal*. *Copenhagen* s volume continued to benefit from recent product introductions, including *Copenhagen* Wintergreen Pouches. *Skoal* s volume growth benefited from the *Skoal* X-tra and *Skoal* Snus new products introduced in the first quarter of 2011, partially offset by the de-listing of seven *Skoal* stock-keeping units (SKUs) that occurred in the second quarter of 2011. *Marlboro* Snus s volume was negatively impacted by significantly lower levels of promotional support, when compared to activity around last year s national expansion, and the shift in mix from packages with six pouches to tins with fifteen pouches.

After adjusting for changes in trade inventories, USSTC and PM USA s combined domestic smokeless products shipment volume for the nine and three months ended September 30, 2011 was estimated to be up approximately 4% and 5%, respectively, versus the prior-year periods. USSTC and PM USA believe that the smokeless category s volume in the first nine months of 2011 grew at an estimated rate of approximately 5% versus the prior-year period.

For the nine and three months ended September 30, 2011, *Copenhagen* and *Skoal* s combined retail share increased 0.4 and 1.4 share points, respectively, versus the prior-year periods, and on a sequential basis, their combined third-quarter of 2011 retail share increased 0.4 share points versus the second quarter of 2011.

Copenhagen s retail share for the nine and three months ended September 30, 2011 increased 1.1 and 2.0 share points, respectively, versus the prior-year periods. *Copenhagen* s retail share results continued to benefit from recent product introductions, which include the June 2011 introduction of *Copenhagen* Wintergreen Pouches. *Skoal* s retail share for the nine and three months ended September 30, 2011, decreased 0.7 and 0.6 share points, respectively, versus the prior-year periods, as share losses, which include the impact of the second-quarter of 2011 de-listing of seven SKUs, were partially offset by share gains on its new *Skoal* X-tra products and two new *Skoal* Snus variants that were introduced earlier this year.

USSTC and PM USA s combined retail share for the nine and three months ended September 30, 2011, decreased 0.6 and 0.1 share points, respectively, versus the prior-year periods, due to share losses on Other portfolio brands, including *Marlboro* Snus, and *Skoal*, partially offset by share gains on *Copenhagen*. On a sequential basis, USSTC and PM USA s 2011 third-quarter combined retail share increased 0.1 share point versus the second quarter of 2011, due primarily to sequential retail share growth on *Copenhagen*, partially offset by share losses in the balance of the portfolio.

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Cigars segment

Middleton s operating companies income and volume gains for the three months ended September 30, 2011 were due to new product introductions and other brand-building initiatives on *Black & Mild*. In the third quarter of 2011, Middleton achieved double-digit growth in net revenues and operating companies income, and substantially increased its margins versus the comparable prior-year period.

The following table summarizes cigars segment volume performance for machine-made large cigars:

	Shipment Volume (units in millions)			
	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2011	2010	2011	2010
Black & Mild	945	924	346	332
Other	15	19	5	6
Total Cigars	960	943	351	338

The following table summarizes cigars segment retail share performance:

	Retail Share			
	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2011	2010	2011	2010
Black & Mild	29.1%	28.7%	29.2%	29.7%
Other	0.2	0.4	0.3	0.3
Total Cigars	29.3%	29.1%	29.5%	30.0%

Cigars segment retail share results are based on data from the SymphonyIRI InfoScan Cigar Database 2011 for Food, Drug, Mass Merchandisers (excluding Wal-Mart) and Convenience trade classes (InfoScan Cigar Database), which tracks machine-made large cigars market share performance. Middleton defines machine-made large cigars as cigars made by machine that weigh greater than three pounds per thousand, except cigars sold at retail in packages of 20 cigars. This service was developed to provide a representation of retail business performance in key trade channels. It is SymphonyIRI s standard practice to periodically refresh its InfoScan syndicated services, which could restate retail share results that were previously released.

SymphonyIRI performed a restatement of its InfoScan Cigar Database in the second quarter of 2011. As a result of the InfoScan Cigar Database restatement, Middleton s previously released quarterly and year-to-date retail share results for machine-made large cigars were restated.

Middleton executed the following pricing actions during 2010:

- Effective November 15, 2010, Middleton executed various list price increases across substantially all of its brands resulting in a weighted-average increase of approximately $0.09 per five-pack.

- Effective January 11, 2010, Middleton executed various list price increases across substantially all of its brands resulting in a weighted-average increase of approximately $0.18 per five-pack.

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Net revenues, which include excise taxes billed to customers, for the nine months ended September 30, 2011, decreased $2 million (0.5%) versus the prior-year period, due primarily to higher promotional investments ($24 million), partially offset by higher pricing ($13 million) and higher volume. Operating companies income for the nine months ended September 30, 2011 decreased $22 million (15.1%) versus the prior-year period, due primarily to higher promotional investments ($24 million) and higher manufacturing costs ($15 million), partially offset by higher pricing ($11 million) and higher volume.

Net revenues, which include excise taxes billed to customers, for the three months ended September 30, 2011, increased $22 million (15.0%), versus the prior-year period, due primarily to lower promotional investments ($12 million), higher volume and higher pricing. Operating companies income for the three months ended September 30, 2011 increased $12 million (27.9%) versus the prior-year period, due primarily to lower promotional investments ($12 million) and higher volume, partially offset by higher manufacturing costs.

Middleton s reported cigars shipment volume for the nine and three months ended September 30, 2011 increased 1.8% and 3.7%, respectively, versus the prior-year periods. Shipment volume benefited from new product introductions and changes in trade inventories as wholesalers increased *Black & Mild* cigar inventories in the third quarter of 2011.

For the nine months ended September 30, 2011, *Black & Mild* s retail share increased 0.4 share points versus the prior-year period as the brand benefited from new product introductions. *Black & Mild* s 2011 third-quarter retail share decreased 0.5 share points versus the prior-year period due primarily to heightened competitive activity and lower *Black & Mild* promotional spending. On a sequential basis, *Black & Mild* s 2011 third-quarter retail share improved 0.4 share points versus the second quarter of 2011.

Middleton expects to continue building *Black & Mild* s marketplace position with new products and other initiatives. Middleton announced plans in September 2011 to broaden its untipped cigarillo portfolio with the 2011 fourth-quarter national introduction of *Black & Mild* Wine which, along with *Black & Mild* Sweets and Classic, will be available in a new Aroma Wrap foil pouch.

During the second quarter of 2011, Middleton entered into a contract manufacturing arrangement to source the production of a portion of its cigars overseas. Middleton entered into this arrangement to access additional production capacity in an uncertain competitive environment and a tax environment that potentially benefits imported large cigars over those manufactured domestically.

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Wine segment

Business Environment

Ste. Michelle is a leading producer of Washington state wines, primarily *Chateau Ste. Michelle* and *Columbia Crest*, and owns wineries in or distributes wines from several other wine regions. As discussed in Note 11, Ste. Michelle holds an 85% ownership interest in Michelle-Antinori, LLC, which owns *Stag s Leap Wine Cellars* in Napa Valley. Ste. Michelle also owns *Conn Creek* in Napa Valley and *Erath* in Oregon. In addition, Ste. Michelle distributes *Antinori* and *Villa Maria Estate* wines and *Champagne Nicolas Feuillatte* in the United States. A key element of Ste. Michelle s strategy is expanded domestic distribution of its wines, especially in certain account categories such as restaurants, wholesale clubs, supermarkets, wine shops and mass merchandisers.

Ste. Michelle s business is subject to significant competition, including competition from many larger, well-established domestic and international companies, as well as from many smaller wine producers. Wine segment competition is primarily based on quality, price, consumer and trade wine tastings, competitive wine judging, third-party acclaim and advertising.

Federal, state and local governmental agencies regulate the alcohol beverage industry through various means, including licensing requirements, pricing, labeling and advertising restrictions, and distribution and production policies. Further regulatory restrictions or additional excise or other taxes on the manufacture and sale of alcoholic beverages may have an adverse effect on Ste. Michelle s wine business.

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Operating Results

For the nine and three months ended September 30, 2011 the wine segment delivered higher financial and volume results, versus the prior-year periods, as it continued to focus on improving its mix to higher margin, premium products. Net revenues and operating companies income experienced double-digit growth, and Ste. Michelle achieved margin growth for the nine and three months ended September 30, 2011 versus the comparable prior-year periods.

The following discussion compares wine segment results for the nine and three months ended September 30, 2011, with the nine and three months ended September 30, 2010.

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	(in millions)			
	2011	2010	2011	2010
Net revenues	$ 349	$ 308	$ 132	$ 107
Operating companies income	$ 54	$ 31	$ 23	$ 12

The following table summarizes wine segment case shipment volume performance:

	Shipment Volume			
	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	(cases in thousands)			
	2011	2010	2011	2010
Chateau Ste. Michelle	1,718	1,625	605	557
Columbia Crest	1,356	1,406	479	445
Other	1,892	1,527	757	536
Total Wine	4,966	4,558	1,841	1,538

Net revenues, which include excise taxes billed to customers, for the nine and three months ended September 30, 2011 increased $41 million (13.3%) and $25 million (23.4%), respectively, versus the prior-year periods, due primarily to higher premium shipment volume. Operating companies income for the nine and three months ended September 30, 2011 increased $23 million (74.2%) and $11 million (91.7%), respectively, versus the prior-year periods, due primarily to higher premium shipment volume and lower integration and UST acquisition-related costs.

During the nine and three months ended September 30, 2011, Ste. Michelle s reported wine shipment volume increased 8.9% and 19.7% respectively, versus the prior-year periods. Ste. Michelle s 2011 third-quarter reported wine shipment volume increased due primarily to the national expansion of select wines into off-premise channels, growth in its *Chateau Ste. Michelle* brand and the timing of shipments for *Columbia Crest*.

Financial services segment

Business Environment

In 2003, PMCC ceased making new investments and began focusing exclusively on managing its existing portfolio of finance assets in order to maximize gains and generate cash flow from asset sales and related activities. Accordingly, PMCC s operating companies income will fluctuate over time as investments mature or are sold. During the nine months ended September 30, 2011 and 2010, proceeds from asset management activities totaled $248 million and $119 million, respectively, and gains included in operating companies income totaled $48 million and $42 million, respectively. During the three months ended September 30, 2011 and 2010, proceeds from asset management activities totaled $119 million and $47 million, respectively, and gains included in operating companies income totaled $36 million and $12 million, respectively.

As discussed previously, during the second quarter of 2011, Altria Group, Inc. recorded the PMCC Leverage Lease Charge. Approximately 50% of the charge ($315 million), which does not include potential penalties, represents a reduction in cumulative lease earnings recorded to date that will be recaptured over the remainder of the affected lease terms. The remaining portion of the charge ($312 million) primarily represents a permanent charge for interest on tax underpayments. See Note 8, Note 10 and Note 11 for further discussion of matters related to this charge.

PMCC assesses the adequacy of its allowance for losses relative to the credit risk of its leasing portfolio on an ongoing basis. During the third quarter of 2011, PMCC determined that its allowance for losses exceeded the amount required based on its assessment of the credit quality of the leasing portfolio including reductions in exposure to below investment grade lessees. As a result, the allowance for losses was reduced by $35 million, which was recorded as income during the third quarter of 2011. PMCC believes that, as of September 30, 2011, the allowance for losses of $167 million is adequate. PMCC continues to monitor economic and credit conditions, and the individual situations of its lessees and their respective industries, and may have to increase its allowance for losses if such conditions worsen. All PMCC lessees were current on their lease payment obligations as of September 30, 2011. For further discussion of finance assets, see Note 8.

Operating Results

The following discussion compares financial services segment results for the nine and three months ended September 30, 2011, with the nine and three months ended September 30, 2010.

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Net revenues	$ (387)	$ 90	$ 51	$ 30
Operating companies (loss) income	$ (359)	$ 87	$ 83	$ 27

PMCC s net revenues for the nine months ended September 30, 2011 decreased $477 million (100+%) from the prior-year period, due primarily to the PMCC Leveraged Lease Charge, partially offset by higher gains on asset sales. Operating companies income for the nine months ended September 30, 2011 decreased $446 million (100+%) from the prior-year period, due primarily to the PMCC Leveraged Lease Charge, partially offset by the $35 million reduction to the allowance for losses and higher gains on asset sales.

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PMCC s net revenues for the three months ended September 30, 2011 increased $21 million (70.0%) from the prior-year period, due primarily to higher gains on asset sales. Operating companies income for the three months ended September 30, 2011 increased $56 million (100+%) from the prior-year period, due primarily to the $35 million reduction to the allowance for losses and higher gains on asset sales.

Financial Review

Net Cash Provided by Operating Activities

During the first nine months of 2011, net cash provided by operating activities was $2,564 million compared with $1,722 million during the first nine months of 2010. This increase was due primarily to a payment of approximately $945 million for taxes and associated interest in July 2010 to the Internal Revenue Service (IRS) associated with certain leveraged lease transactions entered into by PMCC (referred to by the IRS as lease-in/lease-out (LILO) and sale-in/lease-out (SILO) transactions) for the 1996-2003 tax years, and lower payments in 2011 related to exit and integration costs and State Settlement Agreements, partially offset by a voluntary $200 million contribution made to Altria Group, Inc. s pension plan during the first quarter of 2011, and higher tax payments in 2011 related to the decision not to claim tax benefits for PMCC s LILO and SILO transactions beginning in 2010 as discussed in Note 11.

Altria Group, Inc. had a working capital deficit at September 30, 2011 and December 31, 2010. Altria Group, Inc. s management believes that it has the ability to fund these working capital deficits with cash provided by operating activities and/or its short-term borrowings availability as discussed in the *Debt and Liquidity* section.

Net Cash Provided by Investing Activities

During the first nine months of 2011, net cash provided by investing activities was $174 million compared with $83 million during the first nine months of 2010. This increase was due primarily to higher proceeds from finance asset sales in the first nine months of 2011.

Net Cash Used in Financing Activities

During the first nine months of 2011, net cash used in financing activities was essentially unchanged at $2.0 billion versus the prior-year period as higher net issuances of debt during the first nine months of 2011 were mostly offset by the completion of Altria Group, Inc. s $1.0 billion one-year share repurchase program, which was authorized in January 2011, and a higher dividend rate in 2011.

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Debt and Liquidity

Credit Ratings Altria Group, Inc. s cost and terms of financing and its access to commercial paper markets may be impacted by applicable credit ratings. Under the terms of certain of Altria Group, Inc. s existing debt instruments, a change in a credit rating could result in an increase or a decrease of the cost of borrowings. For instance, the interest rate payable on certain of Altria Group, Inc. s outstanding notes is subject to adjustment from time to time if the rating assigned to the notes of such series by Moody s Investors Service, Inc. (Moody s) or Standard & Poor s Ratings Services (Standard & Poor s) is downgraded (or subsequently upgraded) as and to the extent set forth in the notes. The impact of credit ratings on the cost of borrowings under Altria Group, Inc. s credit agreements is discussed below.

At September 30, 2011, the credit ratings and outlook for Altria Group, Inc. s indebtedness by major credit rating agencies were:

	Short-term Debt	Long-term Debt	Outlook
Moody s	P-2	Baa1	Stable
Standard & Poor s	A-2	BBB	Stable
Fitch	F2	BBB+	Stable

Credit Lines From time to time, Altria Group, Inc. has short-term borrowing needs to meet its working capital requirements and generally uses its commercial paper program to meet those needs. At September 30, 2011 and 2010, Altria Group, Inc. had no short-term borrowings.

For the nine and three months ended September 30, 2011 and 2010, Altria Group, Inc. s average daily short-term borrowings, peak short-term borrowings outstanding and weighted-average interest rate on short-term borrowings were as follows:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	(dollars in millions)			
	2011	2010	2011	2010
Average daily short-term borrowings	$ 91	$ 249	$	$ 149
Peak short-term borrowings outstanding	$ 865	$ 1,419	$	$ 550
Weighted-average interest rate on short-term borrowings	0.40%	0.39%		0.47%

Short-term borrowings were repaid with cash provided by operating activities. Peak borrowings for the nine months ended September 30, 2011 and 2010 were due primarily to payments related to State Settlement Agreements as further discussed in *Payments Under State Settlement and Other Tobacco Agreements, and FDA Regulation, Tobacco Space Business Environment* and Note 11. Peak borrowings for the three months ended September 30, 2010 were due primarily to the payment of approximately $945 million of tax and associated interest in July 2010 with respect to certain PMCC leveraged lease transactions, as further discussed in Note 11.

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At September 30, 2011, the credit line available to Altria Group, Inc. was $3.0 billion and there were no short-term borrowings. As discussed further below, Altria Group, Inc. s credit line provides support for its commercial paper program.

On June 30, 2011, Altria Group, Inc. entered into a senior unsecured 5-year revolving credit agreement (the Credit Agreement). The Credit Agreement provides for borrowings up to an aggregate principal amount of $3.0 billion and expires on June 30, 2016. The Credit Agreement replaced Altria Group, Inc. s $0.6 billion senior unsecured 364-day revolving credit agreement, which was to expire on November 16, 2011 (the 364-Day Agreement), and Altria Group, Inc. s $2.4 billion senior unsecured 3-year revolving credit agreement, which was to expire on November 20, 2012 (together with the 364-Day Agreement, the Terminated Agreements). The Terminated Agreements were terminated effective June 30, 2011. Pricing for interest and fees under the Credit Agreement may be modified in the event of a change in the rating of Altria Group, Inc. s long-term senior unsecured debt. Interest rates on borrowings under the Credit Agreement are expected to be based on the London Interbank Offered Rate (LIBOR) plus a percentage equal to Altria Group, Inc. s credit default swap spread subject to certain minimum rates and maximum rates based on the higher of the rating of Altria Group, Inc. s long-term senior unsecured debt from Standard & Poor s and Moody s. The applicable minimum and maximum rates based on Altria Group, Inc. s long-term senior unsecured debt ratings at September 30, 2011 for borrowings under the Credit Agreement are 0.75% and 1.75%, respectively. The Credit Agreement does not include any other rating triggers, nor does it contain any provisions that could require the posting of collateral.

The Credit Agreement is used for general corporate purposes and to support Altria Group, Inc. s commercial paper program. As in the Terminated Agreements, the Credit Agreement requires that Altria Group, Inc. maintain (i) a ratio of debt to consolidated EBITDA of not more than 3.0 to 1.0 and (ii) a ratio of consolidated EBITDA to consolidated interest expense of not less than 4.0 to 1.0, each calculated as of the end of the applicable quarter on a rolling four quarters basis. At September 30, 2011, the ratios of debt to consolidated EBITDA and consolidated EBITDA to consolidated interest expense, calculated in accordance with the Credit Agreement, were 1.9 to 1.0 and 6.4 to 1.0, respectively. Altria Group, Inc. expects to continue to meet its covenants associated with the Credit Agreement. The terms consolidated EBITDA, debt and consolidated interest expense as defined in the Credit Agreement include certain adjustments. Exhibit 99.3 sets forth the definitions of these terms as they appear in the Credit Agreement.

Any commercial paper issued by Altria Group, Inc. and borrowings under the Credit Agreement are guaranteed by PM USA as further discussed in Note 12. *Condensed Consolidating Financial Information* to the condensed consolidated financial statements (Note 12).

Financial Market Environment Altria Group, Inc. believes it has adequate liquidity and access to financial resources to meet its anticipated obligations and ongoing business needs in the foreseeable future. Altria Group, Inc. continues to monitor the credit quality of its bank group and is not aware of any potential non-performing credit provider in that group. Altria Group, Inc. believes the lenders in its bank group will be willing and able to advance funds in accordance with their legal obligations.

Debt At September 30, 2011 and December 31, 2010, Altria Group, Inc. s total debt, all of which is consumer products debt, was $13.7 billion and $12.2 billion, respectively.

As discussed in Note 9. *Debt* to the condensed consolidated financial statements, on May 5, 2011, Altria Group, Inc. issued $1.5 billion (aggregate principal amount) of 4.75% senior unsecured long-term notes due May 5, 2021, with interest payable semi-annually. The net proceeds from the issuance of these senior unsecured notes were added to Altria Group, Inc. s general funds and will be used for general corporate purposes.

The obligations of Altria Group, Inc. under the notes are guaranteed by PM USA. For further discussion, see Note 12.

Guarantees and Redeemable Noncontrolling Interest As discussed in Note 11, Altria Group, Inc. had guarantees (including third-party guarantees) and a redeemable noncontrolling interest outstanding at September 30, 2011. In addition, as discussed above and in Note 12, PM USA has issued guarantees related to Altria Group, Inc. s indebtedness.

Payments Under State Settlement and Other Tobacco Agreements, and FDA Regulation As discussed previously and in Note 11, PM USA has entered into State Settlement Agreements with the states and territories of the United States. PM USA also entered into a trust agreement to provide certain aid to U.S. tobacco growers and quota holders, but PM USA s obligations under this trust expired on December 15, 2010 (these obligations had been offset by the obligations imposed on PM USA by FETRA, which expires in 2014). USSTC and Middleton are also subject to obligations imposed by FETRA. In addition, in June 2009, PM USA and a subsidiary of USSTC became subject to quarterly user fees imposed by the FDA as a result of the FSPTCA. The State Settlement Agreements, FETRA, and the FDA user fees call for payments that are based on variable factors, such as volume, market share and inflation, depending on the subject payment. Altria Group, Inc. s subsidiaries account for the cost of the State Settlement Agreements, FETRA and FDA user fees as a component of cost of sales. As a result of the State Settlement Agreements, FETRA and FDA user fees, Altria Group, Inc. s subsidiaries recorded charges to cost of sales of $3.7 billion and $3.8 billion for the nine months ended September 30, 2011 and 2010, respectively, and $1.2 billion and $1.3 billion for the three months ended September 30, 2011 and 2010, respectively.

Based on current agreements, 2010 market share, and historical annual industry volume decline rates, the estimated amounts that Altria Group, Inc. s subsidiaries may charge to cost of sales for these payments will approximate $5 billion in 2011 and each year thereafter.

The estimated amounts due under the State Settlement Agreements and FETRA charged to cost of sales in each year would generally be paid in the following year. The amounts charged to cost of sales for the FDA user fees are generally paid in the quarter in which the fees are incurred. As previously stated, the payments due under the terms of the State Settlement Agreements, FETRA and FDA user fees are subject to adjustment for several factors, including volume, inflation and certain contingent events and, in general, are allocated based on each manufacturer s market share. Future payment amounts are estimates, and actual amounts will differ as underlying assumptions differ from actual future results. See Note 11 for a discussion of proceedings that may result in a downward adjustment of amounts paid under State Settlement Agreements for the years 2003 to 2010.

Litigation Escrow Deposits With respect to certain adverse verdicts currently on appeal, as of September 30, 2011, PM USA has posted various forms of security totaling approximately $49 million, the majority of which have been collateralized with cash deposits, to obtain stays of judgments pending appeals. These cash deposits are included in other assets on the condensed consolidated balance sheet.

Although litigation is subject to uncertainty and could result in material adverse consequences for the financial condition, cash flows or results of operations of PM USA, UST or Altria Group, Inc. in a particular fiscal quarter or fiscal year as more fully disclosed in Note 11 and in *Cautionary Factors That May Affect Future Results*, management expects cash flow from operations, together with Altria Group, Inc. s access to capital markets, to provide sufficient liquidity to meet ongoing business needs.

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Leases PMCC s investment in leases is included in the line item finance assets, net, on the condensed consolidated balance sheets as of September 30, 2011 and December 31, 2010. At September 30, 2011, PMCC s net finance receivables of approximately $3.7 billion in leveraged leases, which are included in finance assets, net on Altria Group, Inc. s condensed consolidated balance sheet, consisted of rents receivable ($11.6 billion) and the residual value of assets under lease ($1.3 billion), reduced by third-party nonrecourse debt ($7.3 billion) and unearned income ($1.9 billion). The repayment of the nonrecourse debt is collateralized by lease payments receivable and the leased property, and is nonrecourse to the general assets of PMCC. The third-party nonrecourse debt has been offset against the related rents receivable and has been presented on a net basis within finance assets, net on Altria Group, Inc. s condensed consolidated balance sheets. Finance assets, net, at September 30, 2011, also included net finance receivables for direct finance leases ($0.3 billion) and an allowance for losses ($0.2 billion).

See Note 11 for a discussion of the IRS s disallowance of certain tax benefits pertaining to several PMCC leveraged lease transactions. See Note 8, Note 10 and Note 11 for a discussion of the PMCC Leveraged Lease Charge.

Equity and Dividends

On January 25, 2011, Altria Group, Inc. granted 2.2 million shares of restricted and deferred stock to eligible employees. Restrictions on these shares lapse in the first quarter of 2014. The market value per share was $24.33 on the date of grant.

During the nine months ended September 30, 2011, 2.2 million shares of restricted and deferred stock vested. The total fair value of restricted and deferred stock vested during the nine months ended September 30, 2011 was approximately $53 million. The weighted-average grant date fair value per share of these awards was $22.66.

Dividends paid in the first nine months of 2011 and 2010 were approximately $2.4 billion and $2.2 billion, respectively, an increase of 9.9%, primarily reflecting a higher dividend rate.

During the third quarter of 2011, Altria Group, Inc. s Board of Directors approved a 7.9% increase in the quarterly dividend rate to $0.41 per common share versus the previous rate of $0.38 per common share. Altria Group, Inc. continues to maintain a dividend payout ratio target of approximately 80% of its adjusted diluted EPS. The current annualized dividend rate is $1.64 per Altria Group, Inc. common share. Future dividend payments remain subject to the discretion of Altria Group, Inc. s Board of Directors.

In January 2011, Altria Group, Inc. s Board of Directors authorized a $1.0 billion one-year share repurchase program. During the third quarter of 2011, Altria Group, Inc. repurchased 14.8 million shares of its common stock at an aggregate cost of approximately $384 million, or an average price of $25.93 per share, under this share repurchase program.

Altria Group, Inc. completed the January 2011 share repurchase program during the third quarter of 2011. Over the course of this program, Altria Group, Inc. repurchased a total of 37.6 million shares of its common stock at an average price of $26.62 per share.

On October 26, 2011, Altria Group, Inc. s Board of Directors authorized a new $1.0 billion share repurchase program, which Altria Group, Inc. intends to complete by the end of 2012. Share repurchases under this new program depend upon marketplace conditions and other factors, and the program remains subject to the discretion of Altria Group, Inc. s Board of Directors.

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Recent Accounting Guidance Not Yet Adopted

See Note 13. *Recent Accounting Guidance Not Yet Adopted* to the condensed consolidated financial statements for a discussion of recent accounting guidance issued but not yet adopted.

Contingencies

See Note 11 for a discussion of contingencies.

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Cautionary Factors That May Affect Future Results

Forward-Looking and Cautionary Statements

We[1] may from time to time make written or oral forward-looking statements, including earnings guidance and other statements contained in filings with the SEC, in reports to security holders and in press releases and investor webcasts. You can identify these forward-looking statements by use of words such as strategy, expects, continues, plans, anticipates, believes, will, estimates, forecasts, intends, targets and other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and assumptions that may prove to be inaccurate. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements and whether to invest in or remain invested in Altria Group, Inc. s securities. In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we are identifying important factors that, individually or in the aggregate, could cause actual results and outcomes to differ materially from those contained in any forward-looking statements made by us; any such statement is qualified by reference to the following cautionary statements. We elaborate on these and other risks we face throughout this document, particularly in the Business Environment sections preceding our discussion of operating results of our subsidiaries businesses. You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider the following to be a complete discussion of all potential risks or uncertainties. We do not undertake to update any forward-looking statement that we may make from time to time except as required by applicable law.

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

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

Although PM USA has historically been able to obtain required bonds or relief from bonding requirements in order to prevent plaintiffs from seeking to collect judgments while adverse verdicts have been appealed, there remains a risk that such relief may not be obtainable in all cases. This risk has been substantially reduced given that 44 states now limit the dollar amount of bonds or require no bond at all. Tobacco

[1] This section uses the terms we, our and us when it is not necessary to distinguish among Altria Group, Inc. and its various operating subsidiaries or when any distinction is clear from the context.

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litigation plaintiffs, however, have challenged the constitutionality of Florida s bond cap statute in several cases and plaintiffs may challenge other state bond cap statutes. Although we cannot predict the outcome of such challenges, it is possible that the consolidated results of operations, cash flows or financial position of Altria Group, Inc., or one or more of its subsidiaries, could be materially affected in a particular fiscal quarter or fiscal year by an unfavorable outcome of one or more such challenges.

Altria Group, Inc. and its subsidiaries have achieved substantial success in managing litigation. Nevertheless, litigation is subject to uncertainty and significant challenges remain. It is possible that the consolidated results of operations, cash flows or financial position of Altria Group, Inc., or one or more of its subsidiaries, could be materially affected in a particular fiscal quarter or fiscal year by an unfavorable outcome or settlement of certain pending litigation. Altria Group, Inc. and each of its subsidiaries named as a defendant believe, and each has been so advised by counsel handling the respective cases, that it has valid defenses to the litigation pending against it, as well as valid bases for appeal of adverse verdicts. Each of the companies has defended, and will continue to defend, vigorously against litigation challenges. However, Altria Group, Inc. and its subsidiaries may enter into settlement discussions in particular cases if they believe it is in the best interests of Altria Group, Inc. to do so. See Note 11 and Exhibits 99.1 and 99.2 for a discussion of pending tobacco-related litigation.

Tobacco Regulation and Control Action in the Public and Private Sectors. Our tobacco subsidiaries face significant governmental action, including efforts aimed at reducing the incidence of tobacco use, restricting marketing and advertising, imposing regulations on packaging, warnings and disclosure of flavors or other ingredients, prohibiting the sale of tobacco products with certain characterizing flavors or other characteristics, limiting or prohibiting the sale of tobacco products by certain retail establishments and the sale of tobacco products in certain packing sizes, and seeking to hold them responsible for the adverse health effects associated with both smoking and exposure to environmental tobacco smoke.

PM USA, USSTC and other Altria Group, Inc. subsidiaries are subject to regulation, and may become subject to additional regulation, by the FDA, as discussed in detail in *Tobacco Space Business Environment FSPTCA and FDA Regulation*. We cannot predict how the FDA will implement and enforce its statutory authority, including by promulgating additional regulations and pursuing possible investigatory or enforcement actions.

Governmental actions, combined with the diminishing social acceptance of smoking and private actions to restrict smoking, have resulted in reduced cigarette industry volume, and we expect that these factors will continue to reduce cigarette consumption levels. Actions by the FDA or other federal, state or local governments or agencies may impact the consumer acceptability of tobacco products, limit adult consumer choices, delay or prevent the launch of new or modified tobacco products, restrict communications to adult consumers, restrict the ability to differentiate tobacco products, create a competitive advantage or disadvantage for certain tobacco companies, impose additional manufacturing, labeling or packing requirements, require the recall or removal of tobacco products from the marketplace or otherwise significantly increase the cost of doing business, all or any of which may have a material adverse impact on the results of operations or financial condition of Altria Group, Inc.

Excise Taxes. Tobacco products are subject to substantial excise taxes, and significant increases in tobacco product-related taxes or fees have been proposed or enacted and are likely to continue to be proposed or enacted within the United States at the state, federal and local levels. Tax increases are expected to continue to have an adverse impact on sales of our tobacco products due to lower consumption levels and to a potential shift in adult consumer purchases from the premium to the non-premium or discount segments or to other low-priced or low-taxed tobacco products or to counterfeit and contraband products. Such shifts may have an impact on the reported share performance of tobacco products of Altria Group, Inc. s tobacco subsidiaries. For further discussion, see *Tobacco Space Business Environment Excise Taxes*.

Increased Competition in the United States Tobacco Categories. Each of Altria Group, Inc. s tobacco subsidiaries operates in highly competitive tobacco categories. Settlements of certain tobacco litigation in the United States have resulted in substantial cigarette price increases. PM USA faces competition from lowest priced brands sold by certain United States and foreign manufacturers that have cost advantages because they are not parties to these settlements. These manufacturers may fail to comply with related state escrow legislation or may avoid escrow deposit obligations on the majority of their sales by concentrating on certain states where escrow deposits are not required or are required on fewer than all such manufacturers cigarettes sold in such states. Additional competition has resulted from diversion into the United States market of cigarettes intended for sale outside the United States, the sale of counterfeit cigarettes by third parties, the sale of cigarettes by third parties over the Internet and by other means designed to avoid collection of applicable taxes, and increased imports of foreign lowest priced brands. USSTC faces significant competition in the smokeless tobacco category, both from existing competitors and new entrants, and has experienced consumer down-trading to lower-priced brands. In the cigar category, additional competition has resulted from increased imports of machine-made large cigars manufactured offshore.

Governmental Investigations. From time to time, Altria Group, Inc. and its subsidiaries are subject to governmental investigations on a range of matters. We cannot predict whether new investigations may be commenced or the outcome of such investigations, and it is possible that our subsidiaries businesses could be materially affected by an unfavorable outcome of future investigations.

New Tobacco Product Technologies. Altria Group, Inc. s tobacco subsidiaries continue to seek ways to develop and to commercialize new tobacco product technologies that may reduce the health risks associated with current tobacco products, while continuing to offer adult tobacco consumers products that meet their taste expectations. Potential solutions being researched include tobacco products that reduce or eliminate exposure to cigarette smoke and/or constituents identified by public health authorities as harmful. Our tobacco subsidiaries may not succeed in these efforts. If they do not succeed, but one or more of their competitors does, our subsidiaries may be at a competitive disadvantage. Further, we cannot predict whether regulators, including the FDA, will permit the marketing or sale of tobacco products with claims of reduced risk to consumers or whether consumers purchase decisions would be affected by such claims, which could affect the commercial viability of any tobacco products that might be developed.

Adjacency Strategy. Altria Group, Inc. and its subsidiaries have adjacency growth strategies involving moves and potential moves into complementary products or processes. We cannot guarantee that these strategies, or any products introduced in connection with these strategies, will be successful.

Tobacco Price, Availability and Quality. Any significant change in tobacco leaf prices, quality or availability could affect our tobacco subsidiaries profitability and business. For a discussion of factors that influence leaf prices, availability and quality, see *Tobacco Space Business Environment Tobacco Price, Availability and Quality*.

Tobacco Key Facilities; Supply Security. Altria Group, Inc. s tobacco subsidiaries face risks inherent in reliance on a few significant facilities and a small number of significant suppliers. A natural or man-made disaster or other disruption that affects the manufacturing facilities of any of Altria Group, Inc. s tobacco subsidiaries or the facilities of any significant suppliers of any of Altria Group, Inc. s tobacco subsidiaries could adversely impact the operations of the affected subsidiaries. An extended interruption in operations experienced by one or more Altria Group, Inc. subsidiaries or significant suppliers could have a material adverse effect on the results of operations and financial condition of Altria Group, Inc.

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Attracting and Retaining Talent. Our ability to implement our strategy of attracting and retaining the best talent may be impaired by the decreasing social acceptance of tobacco usage. The tobacco industry competes for talent with the consumer products industry and other companies that enjoy greater societal acceptance. As a result, our tobacco subsidiaries may be unable to attract and retain the best talent.

Competition, Evolving Consumer Preferences and Economic Downturns. Each of our tobacco and wine subsidiaries is subject to intense competition, changes in consumer preferences and changes in economic conditions. To be successful, they must continue to:

- promote brand equity successfully;
- anticipate and respond to new and evolving consumer preferences;
- develop new products and markets and to broaden brand portfolios in order to compete effectively with lower-priced products;
- improve productivity; and
- protect or enhance margins through cost savings and price increases.

The willingness of adult consumers to purchase premium consumer product brands depends in part on economic conditions. In periods of economic uncertainty, adult consumers may purchase more discount brands and/or, in the case of tobacco products, consider lower-priced tobacco products. The volumes of our tobacco and wine subsidiaries could suffer accordingly.

Our finance subsidiary, PMCC, holds investments in finance leases, principally in transportation (including aircraft), power generation and manufacturing equipment and facilities. Its lessees are also subject to intense competition and economic conditions. If parties to PMCC s leases fail to manage through difficult economic and competitive conditions, PMCC may have to increase its allowance for losses, which would adversely affect our earnings.

Acquisitions. Altria Group, Inc. from time to time considers acquisitions. From time to time we may engage in confidential acquisition negotiations that are not publicly announced unless and until those negotiations result in a definitive agreement. Although we seek to maintain or improve our credit ratings over time, it is possible that completing a given acquisition or other event could impact our credit ratings or the outlook for those ratings. Furthermore, acquisition opportunities are limited, and acquisitions present risks of failing to achieve efficient and effective integration, strategic objectives and anticipated revenue improvements and cost savings. There can be no assurance that we will be able to continue to acquire attractive businesses on favorable terms, that we will realize any of the anticipated benefits from an acquisition or that acquisitions will be quickly accretive to earnings.

Capital Markets. Access to the capital markets is important for us to satisfy our liquidity and financing needs. Disruption and uncertainty in the capital markets and any resulting tightening of credit availability, pricing and/or credit terms may negatively affect the amount of credit available to us and may also increase our costs and adversely affect our earnings or our dividend rate.

Exchange Rates. For purposes of financial reporting, the equity earnings attributable to Altria Group, Inc. s investment in SABMiller are translated into U.S. dollars from various local currencies based on average exchange rates prevailing during a reporting period. During times of a strengthening U.S. dollar against these currencies, our reported equity earnings in SABMiller will be reduced because the local currencies will translate into fewer U.S. dollars.

Asset Impairment. We periodically calculate the fair value of our goodwill and intangible assets to test for impairment. This calculation may be affected by general economic conditions, regulatory developments, changes in category growth rates as a result of changing consumer preferences, success of planned new product introductions, competitive activity and tobacco-related taxes. If an impairment is determined to exist, we will incur impairment losses, which will reduce our earnings.

IRS Challenges to PMCC Leases. The IRS has challenged and is expected to further challenge the tax treatment of certain of PMCC s leveraged leases. As discussed in Note 11, should Altria Group, Inc. not prevail in any one or more of these matters, Altria Group, Inc. will have to accelerate the payment of significant amounts of federal and state income tax and pay associated interest costs and penalties, if imposed. In the second quarter of 2011, Altria Group, Inc. recorded the PMCC Leveraged Lease Charge, which is discussed in Note 8, Note 10 and Note 11. The PMCC Leveraged Lease Charge excludes potential penalties because Altria Group, Inc. believes that it met the applicable standards to avoid any associated penalties at the time it claimed the deductions on its tax returns.

Wine Competition; Grape Supply; Regulation and Excise Taxes. Ste. Michelle s business is subject to significant competition, including from many large, well-established national and international organizations. The adequacy of Ste. Michelle s grape supply is influenced by consumer demand for wine in relation to industry-wide production levels as well as by weather and crop conditions, particularly in eastern Washington state. Supply shortages related to any one or more of these factors could increase production costs and wine prices, which ultimately may have a negative impact on Ste. Michelle s sales. In addition, federal, state and local governmental agencies regulate the alcohol beverage industry through various means, including licensing requirements, pricing, labeling and advertising restrictions, and distribution and production policies. New regulations or revisions to existing regulations, resulting in further restrictions or taxes on the manufacture and sale of alcoholic beverages, may have an adverse effect on Ste. Michelle s wine business. For further discussion, see *Wine Segment Business Environment*.

Information Systems. Altria Group, Inc. and its subsidiaries use information systems to help manage business processes, collect and interpret business data and communicate internally and externally with employees, suppliers, customers and others. Many of these information systems are managed by third-party service providers. We have backup systems and business continuity plans in place and we take care to protect our systems and data from unauthorized access. Nevertheless, failure of our systems to function as intended, or penetration of our systems by outside parties intent on extracting or corrupting information or otherwise disrupting business processes, could result in loss of revenue, assets or personal or other sensitive data, cause damage to the reputation of our companies and their brands and result in significant remediation and other costs to Altria Group, Inc. and its subsidiaries.

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Item 4. Controls and Procedures.

Altria Group, Inc. carried out an evaluation, with the participation of Altria Group, Inc. s management, including Altria Group, Inc. s Chief Executive Officer and Chief Financial Officer, of the effectiveness of Altria Group, Inc. s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation, Altria Group, Inc. s Chief Executive Officer and Chief Financial Officer concluded that Altria Group, Inc. s disclosure controls and procedures are effective. There have been no changes in Altria Group, Inc. s internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, Altria Group, Inc. s internal control over financial reporting.

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Part II - OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 11. *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 Altria Group, Inc. and its subsidiaries. See also Exhibits 99.1 and 99.2 to this report.

Item 1A. Risk Factors.

Information regarding Risk Factors appears in MD&A *Cautionary Factors That May Affect Future Results*, in Part I Item 2 of this Form 10-Q and in Part I Item 1A. *Risk Factors* of our Report on Form 10-K for the year ended December 31, 2010. Other than as set forth in Part I Item 2 of this Form 10-Q, there have been no material changes from the risk factors previously disclosed in our Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On October 26, 2011, Altria Group, Inc. s Board of Directors authorized a new $1.0 billion share repurchase program, which Altria Group, Inc. intends to complete by the end of 2012. Share repurchases under this new program depend upon marketplace conditions and other factors, and the program remains subject to the discretion of Altria Group, Inc. s Board of Directors.

Altria Group, Inc. s share repurchase activity for each of the three months in the period ended September 30, 2011, was as follows:

Period	Total Number of Shares Purchased[1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [1] [2]	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
July 1-31, 2011	3,480,000	$ 26.29	26,236,999	$ 292,429,728
August 1-31, 2011	9,520,000	$ 25.59	35,756,999	$ 48,790,142
September 1-30, 2011	1,807,884	$ 26.99	37,564,883	
For the Quarter Ended September 30, 2011	14,807,884	$ 25.93		

(1) The total number of shares purchased represents shares purchased under Altria Group, Inc. s $1.0 billion one-year share repurchase program, which was authorized by its Board of Directors in January 2011. In September 2011, Altria Group, Inc. completed the program, repurchasing a total of 37.6 million shares of its common stock at an average price of $26.62 per share.

(2) Aggregate number of shares repurchased under the share repurchase program as of the end of the period presented.

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Item 5. Other Information.

New Cost Reduction Program

On October 26, 2011, Altria Group, Inc. s Board of Directors approved a new cost reduction program for its tobacco and service company subsidiaries, reflecting Altria Group, Inc. s objective to reduce cigarette-related infrastructure ahead of Philip Morris USA Inc. s cigarette volume declines. The program is expected to deliver $400 million in annualized cost savings by the end of 2013. Altria Group, Inc. estimates total pre-tax restructuring charges in connection with this new program of approximately $375 million, with approximately $340 million or $0.11 per share to be recorded in the fourth quarter of 2011, and the balance in 2012. The estimated charges, substantially all of which will result in cash expenditures, relate primarily to employee separation costs of approximately $300 million, and other associated costs of approximately $75 million including lease termination and asset impairment. These estimated charges do not reflect the non-cash impact which may result from pension settlement and curtailment accounting.

New Share Repurchase Program

On October 26, 2011, Altria Group, Inc. s Board of Directors authorized a new $1.0 billion share repurchase program, which Altria Group, Inc. intends to complete by the end of 2012. Share repurchases under this new program depend upon marketplace conditions and other factors, and the program remains subject to the discretion of Altria Group, Inc. s Board of Directors.

Item 6. Exhibits.

3.1	Amended and Restated By-Laws of Altria Group, Inc. (incorporated by reference to Exhibit 3.1 to Altria Group, Inc. s Current Report on Form 8-K filed on October 25, 2011 (File No. 1-08940).
12	Statement regarding computation of ratios of earnings to fixed charges.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Certain Litigation Matters.
99.2	Trial Schedule for Certain Cases.
99.3	Definitions of Terms Related to Financial Covenants included in Altria Group, Inc. s 5-Year Revolving Credit Agreement dated as of June 30, 2011.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation Linkbase

101.DEF XBRL Taxonomy Extension Definition Linkbase

101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

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Signature

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

ALTRIA GROUP, INC.

/s/ HOWARD A. WILLARD III

Howard A. Willard III
Executive Vice President and
Chief Financial Officer

October 27, 2011