



Federal Trade Commission

Cigarette Report

For 2004 and 2005

ISSUED: 2007

I. INTRODUCTION

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

The statistical tables appended to this report provide information on domestic sales and advertising and promotional activity for U.S.-manufactured cigarettes for the years 1963 through 2005. The tables were compiled from raw data contained in special reports submitted to the Commission pursuant to compulsory process by the five major cigarette manufacturers in the United States: Altria Group, Inc. (the ultimate parent of Philip Morris); Houchens Industries, Inc. (the ultimate parent of Commonwealth Brands, Inc.); Loews Corp. (the ultimate parent of Lorillard Tobacco Co.); Reynolds American, Inc. (the ultimate parent of R.J. Reynolds Tobacco Co. and Santa Fe Natural Tobacco Company, Inc. and which acquired Brown & Williamson Tobacco Corp. in 2004); and Vector Group Ltd. (the ultimate parent of Liggett Group, Inc. and Vector Tobacco, Inc.).

II. TOTAL CIGARETTE SALES AND ADVERTISING AND PROMOTIONAL EXPENDITURES

The report shows that the total number of cigarettes sold or given away decreased by 4.2 billion cigarettes (1.1 percent) from 2003 to 2004, and then by 8.8 billion (2.4 percent) from 2004 to 2005; advertising and promotional expenditures declined from \$15.15 billion in 2003 to \$14.15 billion in 2004, and then to \$13.11 billion in 2005. The largest single category of expenditures in both 2004 and 2005 was price discounts paid to cigarette retailers or wholesalers in order to reduce the price of cigarettes to consumers. This one category accounted for \$10.93 billion (77.3 percent of total advertising and promotional expenditures) in 2004, and \$9.78 billion (74.6 percent of all expenditures) in 2005.

Tables 1 and 1A display annual cigarette sales by manufacturers to wholesalers and retailers. Table 1A displays the total number of cigarettes sold and given away in the years 2001 through 2005.¹ In 2004, the major domestic cigarette manufacturers sold or gave away 363.4 billion cigarettes domestically, down from 367.6 billion in 2003; in 2005, they sold or gave away 354.6 billion. Sales rose from 360.5 billion in 2003 to 361.3 billion in 2004, and then declined to 351.6 billion in 2005, while cigarettes given away decreased from 7.1 billion in 2003 to 2.1 billion in 2004, before rising to 3 billion in 2005.

Because the cigarette sales data reported to the Commission by the major manufacturers are based on factory shipments, and thus can reflect changes in inventory holdings by cigarette wholesalers and retailers, the Commission's annual reports also include information from the cigarette consumption series produced by the U.S. Department of Agriculture (USDA), which is based on an estimate of the number of cigarettes actually consumed.² USDA's cigarette consumption estimates, which are included in Table 1A, show a 3.0 percent decrease from 2003 to 2004 (from 400 billion cigarettes to 388 billion), and a 3.1 percent decrease from 2004 to 2005 (376 billion cigarettes).

¹ Cigarettes given away include all cigarettes distributed for free, whether through sampling, coupons for free product, "buy 3 packs, get 1 free" type offers, or otherwise, as long as those cigarettes were not reported as sold. For years prior to 2001, the Commission required the manufacturers to report the number of cigarettes they sold but not the number they gave away. It is possible, however, that in those earlier years, some manufacturers included in their sales figures some cigarettes that were actually given away.

² USDA's estimates also include sales by smaller manufacturers and importers.

III. ADVERTISING AND PROMOTIONAL EXPENDITURES BY CATEGORY

Tables 2 through 2C show the amounts spent on cigarette advertising and promotion for the years 1970, and 1975 through 2005.³ These tables list the amounts spent on the different types of media advertising (*e.g.*, newspapers and magazines) and sales promotion activities (*e.g.*, distribution of cigarette samples), and also give the percentage of the total amount spent for the various types of advertising and promotion.

Table 2C shows that overall, \$14.15 billion was spent on cigarette advertising and promotion in 2004, a decline from the record \$15.15 reported by the major cigarette manufacturers in 2003.⁴ Spending declined another \$1.04 billion, to \$13.11 billion from 2004 to 2005.

Newspaper advertising expenditures decreased from \$8.3 million in 2003 to \$4.9 million in 2004 and then to \$1.6 million in 2005, the smallest amount reported for this category since the Commission began asking about newspaper spending in 1970. This advertising category accounts for just over 1/100th of one percent of all expenditures. Although newspaper spending accounted for 23.1 percent of total expenditures in 1981, it has accounted for less than one percent of expenditures since 1992.

The manufacturers reported spending \$95.7 million on magazine advertising in 2004 – down from \$156.4 million in 2003 – and \$44.8 million in 2005. Magazine advertising represented less than one percent of total spending in both years. Spending on magazine advertising peaked in 1984, when

³ The reported figures include all advertising, merchandising, and promotional expenditures related to cigarettes, regardless of whether such expenditures would constitute “commercial speech” or would be protected from law enforcement action under the First Amendment. The Commission began requiring tobacco companies to include expenditures for such protected speech in 1989.

⁴ Definitions of the advertising and promotional expenditure categories currently used are reported in Appendix A.

the cigarette companies reported spending \$425.9 million (20.3 percent of total advertising and promotional expenditures).

Spending on “outdoor” advertising declined from \$32.6 million in 2003 to \$17.1 million in 2004, and then to \$9.8 million in 2005 (less than 1/10 of one percent of total spending). Beginning in 2002, “outdoor” advertising has been defined to mean billboards; signs and placards in arenas, stadiums, and shopping malls (whether they are open air or enclosed); and any other advertisements placed outdoors, regardless of their size, including those on cigarette retailer property. In prior years, “outdoor” advertising was not precisely defined. In particular, it was not clear that signs in arenas, shopping, stadiums, shopping malls, or on retailer property would have been reported in this category.

As they have since 2001, the companies reported that they made no expenditures on transit advertising (*i.e.*, advertising within or on private or public vehicles or any transportation facility) in 2004 or 2005. Transit advertising peaked at \$60.2 million in 1991.⁵

Spending on point-of-sale promotional materials (ads posted at the retail location but excluding outdoor ads on retailer property) declined from \$165.6 million in 2003 to \$163.6 million in 2004, before rising to \$182.2 million in 2005. Point-of-sale advertising accounted for 1.2 percent and 1.4 percent of total advertising and promotion in 2004 and 2005, respectively. These expenditures peaked in 1993 at \$400.9 million.

Beginning in 2002, the “promotional allowance” category was broken into four new categories: price discounts, promotional allowances paid to retailers, promotional allowances paid to wholesalers, and other promotional allowances. For 2004 and 2005, the largest “promotional allowance” category was price discounts paid to cigarette retailers or wholesalers in order to reduce

⁵ Prior to 2002, transit advertising was defined as advertising in or on public transportation facilities.

the price of cigarettes to consumers (*e.g.*, off-invoice discounts, buy downs, and voluntary price reductions), which accounted for expenditures of \$10.93 billion in 2004 (up from \$10.81 billion in 2003) and \$9.78 billion in 2005. In addition, the industry spent \$542.2 million in 2004 (down from \$1.23 billion in 2003) and \$435.8 million in 2005 on promotional allowances paid to cigarette retailers in order to facilitate the sale or placement of cigarettes (*e.g.*, payments for stocking, shelving, displaying, and merchandising brands, volume rebates, and incentive payments), and \$387.8 million in 2004 and \$410.4 million in 2005 on promotional allowances paid to cigarette wholesalers (*e.g.*, payments for volume rebates, incentive payments, value-added services, and promotional executions). Finally, \$1.3 million was spent in 2004 and \$1.5 million in 2005 on promotional allowances paid to anyone else (other than retailers, wholesalers, and full-time company employees) involved in the cigarette distribution and sales process, in order to facilitate the sale or placement of cigarettes. When these four promotional allowance categories are combined, they total \$11.86 billion for 2004 (accounting for 83.8 percent of all spending that year), and \$10.62 billion in 2005 (81 percent of total spending). In 2003, the companies reported expenditures of \$12.72 billion on these categories (84.0 percent of total spending).

Money spent giving cigarette samples to the public (“sampling distribution”) decreased from \$17.9 million in 2003 to \$11.6 million in 2004, before rising to \$17.2 million in 2005. “Sampling” was redefined in 2002 to include, among other things, when coupons are distributed for free cigarettes and no purchase is required. Cigarette sampling expenditures have accounted for less than one percent of total spending every year since 1992.

In 2002, the specialty item distribution category was broken into two new categories: branded and non-branded. In 2004, \$8 million was spent on branded specialty item distribution through the mail, at promotional events, or by any means other than at the point-of-sale with the purchase of

cigarettes; that figure declined to \$5.3 million in 2005.⁶ (Specialty items distributed along with the purchase of cigarettes were redesignated as retail-value-added expenses beginning in 1988.) In 2004 and 2005, respectively, \$216.6 million and \$225.3 million was spent distributing non-branded, non-cigarette items in connection with the marketing or promotion of cigarettes.⁷ The total of \$224.6 million spent on specialty item distribution in 2004 accounts for 1.6 percent of total advertising and promotional expenditures; the 2005 total of \$230.5 million represents 1.8 percent of total spending. In 2003, specialty item distribution expenditures were \$264.2 million.

In 2004, expenditures for adult-only public entertainment category dropped to \$140.1 million, from \$150.9 million in 2003; these expenditures then rose to \$214.1 million in 2005. This category includes public entertainment events (*e.g.*, sponsorship of bar nights or concerts) that take place in an adult-only facility and that display the name or logo of a company's cigarettes or otherwise refer to cigarettes. In 2004, another \$115,000 was spent on general-audience public entertainment – *i.e.*, events (*e.g.*, sponsorship of a fishing tournament) that do not take place in an adult-only facility and that display the name or logo of a company's cigarettes or otherwise refer to cigarettes – down from \$32.8 million in 2003.⁸ General-audience public entertainment spending was \$152,000 in 2005.

⁶ Branded specialty item distribution includes the practice of selling or giving to consumers non-cigarette items such as T-shirts, caps, sunglasses, key chains, calendars, lighters, and sporting goods bearing a cigarette brand's name or logo.

⁷ Non-branded specialty item distribution includes the practice of giving consumers non-cigarette items such as compact discs, lighters, and sporting goods in connection with the marketing of cigarettes.

⁸ The cigarette companies also spent \$220,000 in 2004 and \$806,000 in 2005 on public entertainment events displaying their corporate name, but not displaying the name or logo of any brand of cigarettes or otherwise referring to cigarettes. These figures are not included in the total advertising and promotional expenditures reported herein.

The companies also reported spending \$28.2 million in 2004 and \$30.6 million in 2005 on the sponsorship of sports teams or individual athletes. This expenditure category accounted for 0.2 percent of all advertising and promotional expenditures in both years.

All reporting companies indicated that no money had been spent on endorsements and testimonials for cigarettes in either 2004 or 2005. No expenditures have been reported in this category since 1988.

The cigarette companies reported spending \$93.8 million for direct mail advertising in 2004 (\$93.8 million had been spent in 2003), and \$51.8 million in 2005.⁹

The industry reported spending \$751.8 million on coupons in 2004 (an increase from the \$650.7 million reported in 2003). In 2005, spending on coupons rose to \$870.1 million.¹⁰

Retail-value-added expenditures are the costs associated with offers such as “buy one, get one free” and “buy three, get a free T-shirt,” where the bonus item is distributed at retail when the cigarettes are purchased.¹¹ The companies spent \$636.2 million in 2004 and \$725 million in 2005 on retail-value-added involving free cigarettes. They also spent \$14.3 million and \$7.5 million in those years on retail-value-added involving free non-cigarette items, down from \$20.5 million in 2003. Total retail-value-added expenditures were \$650.6 million in 2004 and \$732.5 million in 2005.

⁹ This category does not include direct mail containing coupons. Coupons sent via direct mail were reported in the “coupon and retail-value-added” category from 1988 to 1996, but have been reported separately since 1997.

¹⁰ In 2002, the Commission clarified that when coupons are distributed for free cigarettes and no purchase is required to redeem them, such activities should be reported only as “sampling,” not as “coupons.”

¹¹ The cigarettes and the bonus items are often packaged together as a single unit.

In 2004, the companies reported spending \$1.4 million on advertising on a company Internet website; that figure rose to \$2.7 million in 2005. They continued to report no expenditures on any other Internet advertising (*e.g.*, banner ads on third-party sites or direct mail advertising using e-mail).

The companies reported spending \$346,000 on telephone advertising in 2004, a figure that declined to \$59,000 in 2005. This category includes expenses associated with telemarketing calls or the operation of incoming telephone lines for consumers to participate in promotions or hear pre-recorded product messages (but excludes costs associated with customer service representatives for responding to consumer complaints or questions).

In 1988, the Commission began requiring the cigarette companies to report the total amount of money they spent advertising and promoting sports and sporting events.¹² This question is separate from, and duplicative of, the reporting of the individual various advertising and promotion categories. For example, money spent on a magazine advertisement promoting a cigarette-branded sports tournament open to those of all ages is reported under the category “general-audience public entertainment” and is also reported as an expenditure on “sports and sporting events.” Similarly, expenditures on sponsorship of sports teams and individual athletes are reported under the category “sponsorship” and are also reported as “sports and sporting events.” The major domestic cigarette companies spent \$28.2 million in 2004 and \$30.6 million in 2005 on sports and sporting events, down from \$62.8 million in 2003. These amounts are the same as those reported for sponsorships (see p. 6,

¹² This includes expenditures for: (1) the sponsoring, advertising, or promotion of sports or sporting events; support of an individual, group, or sports team; and purchase of or support for equipment, uniforms, sports facilities, and/or training facilities; (2) all expenditures for advertising in the name of the cigarette company or any of its brands in a sports facility, on a scoreboard, or in conjunction with the reporting of sports results; and (3) all expenditures for functional promotional items (clothing, hats, etc.) connected with a sporting event.

supra), which means that in 2004 and 2005, unlike in prior years, the companies did not report any “sports and sporting event” expenditures other than sponsorships.

In 2001, the Commission began requiring the major cigarette manufacturers to report expenditures on advertisements directed to youth or their parents that are intended to reduce youth smoking. For 2004, the companies reported spending \$62.7 million on such advertising, a decrease from the \$72.9 million spent in 2003.¹³ In 2005, they reported spending \$55.5 million. These figures do not include contributions to third parties that engage in such programs.

Cigarette manufacturers reported that they paid no money or other form of compensation in connection with the production or filming of any motion pictures or television shows in either 2004 or 2005, and that they paid no money or other form of compensation to anyone engaged in product placement in motion pictures or television shows. The companies also reported that neither they nor anyone working for them solicited the appearance of any cigarette product in any motion picture or television show, or granted permission for the appearance of any cigarette product in any motion picture or television show.

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

IV. TAR RATINGS, FILTERS, LENGTH, AND FLAVOR

Tables 4 and 4A give the domestic market share of cigarettes with tar ratings of 15 milligrams (mg.) or less for the years 1967 through 2005. The data for the years since 1982 are further broken down into sub-categories according to tar ratings, *e.g.*, 3 mg. or less, 6 mg. or less, etc. (categories are

¹³ These expenditures are not included in the \$14.15 billion and \$13.11 billion reported in Table 2C.

presented cumulatively). In 2004, cigarettes with tar ratings of 15 mg. or less constituted 84.8 percent of the domestic cigarette market, while cigarettes with tar ratings of 3 mg. or less – the lowest rated portion of the market – made up 0.8 percent of the market. In 2005, those figures were 83.5 percent and 0.6 percent, respectively.

As shown in Tables 5 and 5A, filtered cigarettes have dominated the market since the Commission began collecting this information in 1963. Filtered cigarettes held 99 percent of the market in both 2004 and 2005.

Table 6 provides the domestic market share of the various cigarette length categories. The King-size (79-88 mm.) category continues to be the biggest seller, with 62 percent of the market in both 2004 and 2005. This category is followed by the Long (94-101 mm.) group, which held 35 percent of the market in both years. Ultra-Long (110-121 mm.) and Regular (68-72 mm.) cigarettes accounted for two percent and one percent, respectively, of the market in both 2004 and 2005.

Table 7 gives the market share of menthol and non-menthol cigarettes. In 2004 and 2005, the market share of menthol cigarettes was 27 percent, while non-menthols held 73 percent of the market.

Tables 8 and 8A relate to whether “tar” ratings are displayed on cigarette packaging. Table 8A shows: (1) the percentage of the overall cigarette market represented by varieties with different tar ratings, and (2) within each tar group, the percentage of those varieties that discloses tar ratings on their packs.¹⁴ Table 8A shows that cigarette varieties that printed tar ratings on their packs represented only 1.2 percent of the overall market in 2004 and 0.9 percent in 2005.¹⁵ Cigarettes with

¹⁴ Prior to 2002, the Commission asked whether “tar and nicotine ratings” were displayed on cigarette packaging.

¹⁵ Table 8A also corrects several figures that were reported erroneously in prior Reports.

tar ratings of 8-11 mg. represented 42.5 percent of the market in 2004 and 43.3 percent in 2005; however, only 1.5 percent of these cigarettes disclosed their ratings on the pack in 2004, and only 1.2 percent did so in 2005. In contrast, 91.6 percent of cigarettes rated 3 mg. tar or less disclosed their ratings on the pack in 2004, and 90.7 percent did so in 2005.

TABLE 1

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

| <u>YEAR</u> | <u>TOTAL SALES REPORTED BY CIGARETTE MANUFACTURERS*</u> | <u>UNIT CHANGE FROM PRIOR YEAR</u> | <u>% CHANGE FROM PRIOR YEAR</u> | <u>USDA CIGARETTE CONSUMPTION ESTIMATES</u> |
|-------------|---|--|-------------------------------------|---|
| 1963 | 516.5 | --- | --- | 523.9 |
| 1964 | 505.0 | (11.5) | (2.2) | 511.2 |
| 1965 | 521.1 | 16.1 | 3.2 | 528.7 |
| 1966 | 529.9 | 8.8 | 1.7 | 541.2 |
| 1967 | 525.8 | 5.9 | 1.1 | 549.2 |
| 1968 | 540.3 | 4.5 | .8 | 545.7 |
| 1969 | 527.9 | (12.4) | (2.3) | 528.9 |
| 1970 | 534.2 | 6.3 | 1.1 | 536.4 |
| 1971 | 547.2 | 13.0 | 2.4 | 555.1 |
| 1972 | 561.7 | 14.5 | 2.7 | 566.8 |
| 1973 | 584.7 | 23.0 | 4.1 | 589.7 |
| 1974 | 594.5 | 9.8 | 1.7 | 599.0 |
| 1975 | 603.2 | 8.7 | 1.5 | 607.2 |
| 1976 | 609.9 | 6.7 | 1.1 | 613.5 |
| 1977 | 612.6 | 2.7 | .4 | 617.0 |
| 1978 | 615.3 | 2.7 | .4 | 616.0 |
| 1979 | 621.8 | 6.5 | 1.1 | 621.5 |
| 1980 | 628.2 | 6.4 | 1.0 | 631.5 |
| 1981 | 636.5 | 8.3 | 1.3 | 640.0 |
| 1982 | 632.5 | (4.0) | (.6) | 634.0 |
| 1983 | 603.6 | (28.9) | (4.6) | 600.0 |
| 1984 | 608.4 | 4.8 | .8 | 600.4 |
| 1985 | 599.3 | (9.1) | (1.5) | 594.0 |
| 1986 | 586.4 | (12.9) | (2.2) | 583.8 |
| 1987 | 575.4 | (11.0) | (1.9) | 575.0 |
| 1988 | 560.7 | (14.7) | (2.6) | 562.5 |
| 1989 | 525.6 | (35.1) | (6.3) | 540.0 |
| 1990 | 523.7 | (1.9) | (.4) | 525.0 |
| 1991 | 510.9 | (12.8) | (2.4) | 510.0 |
| 1992 | 506.4 | (4.5) | (.9) | 500.0 |
| 1993 | 461.4 | (45.0) | (8.9) | 485.0 |
| 1994 | 490.2 | 28.8 | 6.2 | 486.0 |
| 1995 | 482.3 | (7.9) | (1.6) | 487.0 |
| 1996 | 484.1 | 1.8 | 0.4 | 487.0 |
| 1997 | 478.6 | (5.5) | (1.1) | 480.0 |
| 1998 | 458.6 | (20.1) | (4.2) | 465.0 |
| 1999 | 411.3 | (47.2) | (10.3) | 435.0 |
| 2000 | 413.9 | 2.6 | .6 | 430.0 |

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

TABLE 1A

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

| <u>YEAR</u> | <u>UNITS SOLD*</u> | <u>UNITS GIVEN AWAY**</u> | <u>TOTAL NUMBER SOLD AND GIVEN AWAY AS REPORTED BY MANUFACTURERS</u> | <u>UNIT CHANGE IN SOLD AND GIVEN AWAY FROM PRIOR YEAR</u> | <u>PERCENT CHANGE IN SOLD AND GIVEN AWAY FROM PRIOR YEAR</u> | <u>USDA CIGARETTE CONSUMPTION ESTIMATES</u> |
|-------------|------------------------|-----------------------------------|--|---|--|---|
| 2001 | 398.3 | 3.9 | 402.2 | *** | *** | 425.0 |
| 2002 | 376.4 | 11.1 | 387.4 | (14.8) | (3.7) | 415.0 |
| 2003 | 360.5 | 7.1 | 367.6 | (19.8) | (5.1) | 400.0 |
| 2004 | 361.3 | 2.1 | 363.4 | (4.2) | (1.1) | 388.0 |
| 2005 | 351.6 | 3.0 | 354.6 | (8.8) | (2.4) | 376.0 |

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

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

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

TABLE 2

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

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

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

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

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

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

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

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

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

TABLE 2B

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

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

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

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

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

TABLE 2C

DOMESTIC CIGARETTE ADVERTISING AND PROMOTIONAL EXPENDITURES
FOR YEARS 2002-2005 (DOLLARS IN THOUSANDS)*

| | 2002 | 2003 | 2004 | 2005 |
|---|------------------------|------------------------|------------------------|------------------------|
| Newspapers | \$25,538 0.2% | \$8,251 0.1% | \$4,913 0.0% | \$1,589 0.0% |
| Magazines | \$106,852 0.9% | \$156,394 1.0% | \$95,700 0.7% | \$44,777 0.3% |
| Outdoor | \$24,192 0.2% | \$32,599 0.2% | \$17,135 0.1% | \$9,821 0.0% |
| Transit | \$0 0.0% | \$0 0.0% | \$0 0.0% | \$0 0.0% |
| Point-of-Sale | \$260,902 2.1% | \$165,573 1.1% | \$163,621 1.2% | \$182,193 1.4% |
| Price Discounts | \$7,873,835 63.2% | \$10,808,239 71.4% | \$10,932,199 77.3% | \$9,776,069 74.6% |
| Promotional Allowances – Retailers | \$1,333,097 10.7% | \$1,229,327 8.1% | \$542,213 3.8% | \$435,830 3.3% |
| Promotional Allowances – Wholesalers | \$446,327 3.6% | \$683,067 4.5% | \$387,758 2.7% | \$410,363 3.1% |
| Promotional Allowances – Other | \$2,767 0.0% | \$2,786 0.0% | \$1,323 0.0% | \$1,493 0.0% |
| Sampling Distribution | \$28,777 0.2% | \$17,853 0.1% | \$11,649 0.0% | \$17,211 0.1% |
| Specialty Item Distribution – Branded | \$49,423 0.4% | \$9,195 0.1% | \$8,011 0.0% | \$5,255 0.0% |
| Specialty Item Distribution - Non-Branded | \$174,201 1.4% | \$254,956 1.7% | \$216,577 1.5% | \$225,279 1.7% |
| Public Entertainment – Adult-Only | \$219,016 1.8% | \$150,889 1.0% | \$140,137 1.0% | \$214,075 1.6% |
| Public Entertainment – General-Audience | \$34,089 0.3% | \$32,849 0.2% | \$115 0.0% | \$152 0.0% |
| Sponsorships | \$54,247 0.4% | \$31,371 0.2% | \$28,231 0.2% | \$30,575 0.2% |
| Endorsements & Testimonials | \$0 0.0% | \$0 0.0% | \$0 0.0% | \$0 0.0% |
| Direct Mail | \$111,319 0.9% | \$92,978 0.6% | \$93,836 0.7% | \$51,844 0.0% |
| Coupons | \$522,246 4.2% | \$650,653 4.3% | \$751,761 5.3% | \$870,137 6.6% |
| Retail-Value-Added – Bonus Cigarettes | \$1,060,304 8.5% | \$677,308 4.5% | \$636,221 4.5% | \$725,010 5.5% |
| Retail-Value-Added – Non-Cigarette Bonus | \$24,727 0.2% | \$20,535 0.1% | \$14,343 0.1% | \$7,526 0.0% |
| Company Website | \$940 0.0% | \$2,851 0.0% | \$1,401 0.0% | \$2,675 0.0% |
| Internet – Other | \$0 0.0% | \$0 0.0% | \$0 0.0% | \$0 0.0% |
| Telephone | \$679 0.0% | \$760 0.0% | \$346 0.0% | \$59 0.0% |
| Other** | \$112,879 0.9% | \$117,563 0.8% | \$102,369 0.7% | \$99,025 0.8% |
| Total | \$12,466,358 100.0% | \$15,145,998 100.0% | \$14,149,859 100.0% | \$13,110,958 100.0% |

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

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

TABLE 3

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

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

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

TABLE 4
DOMESTIC MARKET SHARE OF CIGARETTES BY TAR YIELD

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

TABLE 4A
DOMESTIC MARKET SHARE OF CIGARETTES BY TAR YIELD

| Year | Market share of cigarettes having tar yields of: | | | | |
|------|--|----------------|---------------|---------------|---------------|
| | 15 mg. or less | 12 mg. or less | 9 mg. or less | 6 mg. or less | 3 mg. or less |
| 1991 | 60.5% | 52.6% | 22.0% | 12.7% | 2.6% |
| 1992 | 68.7% | 52.9% | 24.9% | 12.7% | 2.5% |
| 1993 | 66.5% | 53.3% | 23.4% | 12.6% | 1.9% |
| 1994 | 71.2% | 53.7% | 23.1% | 12.3% | 2.1% |
| 1995 | 72.7% | 53.6% | 27.1% | 12.2% | 2.2% |
| 1996 | 67.4% | 55.5% | 22.3% | 11.9% | 1.9% |
| 1997 | 70.2% | 55.6% | 21.9% | 11.5% | 1.7% |
| 1998 | 81.9% | 56.8% | 22.9% | 13.2% | 1.6% |
| 1999 | 86.6% | 57.4% | 25.3% | 13.6% | 1.6% |
| 2000 | 87.1% | 50.4% | 23.7% | 13.6% | 1.3% |
| 2001 | 85.2% | 58.1% | 22.6% | 13.2% | 1.0% |
| 2002 | 84.9% | 58.2% | 22.5% | 12.9% | 0.9% |
| 2003 | 84.9% | 59.5% | 22.5% | 12.6% | 0.8%* |
| 2004 | 84.8% | 57.7% | 19.2% | 11.5% | 0.8% |
| 2005 | 83.5% | 58.4% | 18.7% | 11.5% | 0.6% |

* This figure was erroneously reported as 1.0% in the Commission's previous report.

TABLE 5

DOMESTIC MARKET SHARE OF FILTER
AND NON-FILTER CIGARETTES

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

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

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

TABLE 5A

DOMESTIC MARKET SHARE OF FILTER
AND NON-FILTER CIGARETTES

| <u>YEAR</u> | <u>NON-FILTER</u> | <u>FILTER</u> |
|-------------|-------------------|---------------|
| 1988 | 5% | 95% |
| 1989 | 5% | 95% |
| 1990 | 5% | 95% |
| 1991 | 4% | 96% |
| 1992 | 3% | 97% |
| 1993 | 3% | 97% |
| 1994 | 3% | 97% |
| 1995 | 3% | 97% |
| 1996 | 3% | 97% |
| 1997 | 2% | 98% |
| 1998 | 2% | 98% |
| 1999 | 2% | 98% |
| 2000 | 2% | 98% |
| 2001 | 2% | 98% |
| 2002 | 2% | 98% |
| 2003 | 1% | 99% |
| 2004 | 1% | 99% |
| 2005 | 1% | 99% |

TABLE 6

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

| <u>YEAR</u> | <u>68-72 mm.</u> | <u>79-88 mm.</u> | <u>94-101 mm.</u> | <u>110-121 mm.</u> |
|-------------|------------------|------------------|-------------------|--------------------|
| 1967 | 14% | 77% | 9% | --- |
| 1968 | 12% | 74% | 13% | --- * |
| 1969 | 11% | 74% | 16% | --- * |
| 1970 | 9% | 73% | 18% | --- |
| 1971 | 8% | 72% | 20% | --- |
| 1972 | 8% | 71% | 21% | --- |
| 1973 | 7% | 71% | 22% | --- |
| 1974 | 6% | 71% | 23% | --- ** |
| 1975 | 6% | 69% | 24% | 1% |
| 1976 | 5% | 69% | 24% | 2% |
| 1977 | 5% | 67% | 26% | 2% |
| 1978 | 5% | 65% | 27% | 2% * |
| 1979 | 4% | 65% | 30% | 2% * |
| 1980 | 3% | 63% | 32% | 2% |
| 1981 | 3% | 62% | 33% | 2% |
| 1982 | 3% | 61% | 34% | 2% |
| 1983 | 3% | 60% | 34% | 2% |
| 1984 | 3% | 59% | 36% | 2% |
| 1985 | 3% | 58% | 37% | 2% |
| 1986 | 2% | 58% | 37% | 3% |
| 1987 | 2% | 57% | 38% | 3% |
| 1988 | 2% | 57% | 38% | 2% |
| 1989 | 2% | 57% | 39% | 2% |
| 1990 | 2% | 57% | 39% | 2% |
| 1991 | 2% | 56% | 40% | 2% |
| 1992 | 2% | 56% | 41% | 2% * |
| 1993 | 1% | 55% | 42% | 2% |
| 1994 | 1% | 56% | 41% | 2% |
| 1995 | 1% | 57% | 40% | 2% |
| 1996 | 1% | 57% | 40% | 2% |
| 1997 | 1% | 58% | 39% | 2% |
| 1998 | 1% | 59% | 38% | 2% |
| 1999 | 1% | 59% | 38% | 2% |
| 2000 | 1% | 60% | 37% | 2% |
| 2001 | 1% | 60% | 38% | 1% |
| 2002 | 1% | 61% | 37% | 2% * |
| 2003 | 1% | 61% | 36% | 2% |
| 2004 | 1% | 62% | 35% | 2% |
| 2005 | 1% | 62% | 35% | 2% |

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

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

TABLE 7

DOMESTIC MARKET SHARE OF MENTHOL
AND NON-MENTHOL CIGARETTES

| <u>YEAR</u> | <u>MENTHOL</u> | <u>NON-MENTHOL</u> |
|-------------|----------------|--------------------|
| 1963 | 16% | 84% |
| 1964 | 16% | 84% |
| 1965 | 18% | 82% |
| 1966 | 19% | 81% |
| 1967 | 20% | 80% |
| 1968 | 21% | 79% |
| 1969 | 22% | 78% |
| 1970 | 23% | 77% |
| 1971 | 24% | 76% |
| 1972 | 24% | 76% |
| 1973 | 25% | 75% |
| 1974 | 27% | 73% |
| 1975 | 27% | 73% |
| 1976 | 28% | 72% |
| 1977 | 28% | 72% |
| 1978 | 28% | 72% |
| 1979 | 29% | 71% |
| 1980 | 28% | 72% |
| 1981 | 28% | 72% |
| 1982 | 29% | 71% |
| 1983 | 28% | 72% |
| 1984 | 28% | 72% |
| 1985 | 28% | 72% |
| 1986 | 28% | 72% |
| 1987 | 28% | 72% |
| 1988 | 28% | 72% |
| 1989 | 27% | 73% |
| 1990 | 26% | 74% |
| 1991 | 27% | 73% |
| 1992 | 26% | 74% |
| 1993 | 26% | 74% |
| 1994 | 25% | 75% |
| 1995 | 25% | 75% |
| 1996 | 25% | 75% |
| 1997 | 25% | 75% |
| 1998 | 26% | 74% |
| 1999 | 26% | 74% |
| 2000 | 26% | 74% |
| 2001 | 26% | 74% |
| 2002 | 27% | 73% |
| 2003 | 27% | 73% |
| 2004 | 27% | 73% |
| 2005 | 27% | 73% |

TABLE 8

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

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

| TABLE 8A | | | | | |
|---|--|---------|---------|-------|-------|
| DISCLOSURE OF TAR RATINGS ON CIGARETTE PACKS (2002-2005) | | | | | |
| | | 2002 | 2003 | 2004 | 2005 |
| % of overall market that discloses ratings on the pack | | 1.4% * | 1.2% | 1.2% | 0.9% |
| more than 15 mg. tar | market share of varieties in tar group | 15.1% | 15.1% | 15.2% | 16.5% |
| | % that discloses ratings on pack | 0.0% | 0.0% | 0.0% | 0.0% |
| 12-15 mg. tar | market share of varieties in tar group | 28.8% | 28.9% | 30.3% | 28.3% |
| | % that discloses ratings on pack | 0.0% | 0.0% | 0.0% | 0.0% |
| 8-11 mg. tar | market share of varieties in tar group | 43.0% * | 43.2% * | 42.5% | 43.3% |
| | % that discloses ratings on pack | 0.9% | 0.8% * | 0.7% | 0.6% |
| 4-7 mg. tar | market share of varieties in tar group | 12.2% | 12.0% | 11.2% | 11.3% |
| | % that discloses ratings on pack | 1.8% | 1.5% | 1.5% | 1.2% |
| 3 mg. tar or less | market share of varieties in tar group | 0.9% * | 0.8% * | 0.8% | 0.6% |
| | % that discloses ratings on pack | 88.7% * | 89.9% * | 91.6% | 90.7% |

* These figures were reported erroneously in the Commission's previous report.

APPENDIX A

2004-2005 Advertising and Promotional Expenditure Categories

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

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

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

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

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

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

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

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

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

visual, transit, direct mail, point-of-sale, price discounts, and retail promotional allowances.

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

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

Specialty Item Distribution – Branded: All costs of distributing any item (other than cigarettes, items the sole function of which is to advertise or promote cigarettes, or written or electronic publications), whether distributed by sale, redemption of coupons, or otherwise, that bears the name, logo, or an image of any portion of the package of any brand or variety of cigarettes, including the cost of the items distributed but subtracting any payments received for the item. The costs associated with distributing non-cigarette items in connection with sampling or retail-value-added programs are reported in those categories, not as specialty item distribution.

Specialty Item Distribution – Non-Branded: All costs of distributing any item (other than cigarettes, items the sole function of which is to advertise or promote cigarettes, or written or electronic publications), whether distributed by sale, redemption of coupons, or otherwise, that does not bear the name, logo, or an image of any portion of the package of any brand or variety of cigarette, including the cost of the items distributed but subtracting any payments received for the item. The costs associated with distributing non-cigarette items in connection with sampling or retail-value-added programs are reported in those categories, not as specialty item distribution.

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

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

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

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

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

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

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

Endorsements & Testimonials: Endorsements and testimonials.

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

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

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

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