



Federal Trade Commission

Cigarette Report

For 2002

ISSUED: 2004

I. INTRODUCTION

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

The statistical tables appended to this report provide information on domestic sales and advertising and promotional activity for U.S.-manufactured cigarettes for the years 1963 through 2002. The tables were compiled from raw data contained in special reports submitted to the Commission pursuant to compulsory process by the six major cigarette manufacturers in the United States: Brown & Williamson Tobacco Corp., Commonwealth Brands, Inc., Liggett Group, Inc., Lorillard Tobacco Co., Altria Group, Inc., and R.J. Reynolds Tobacco Co.¹

The report shows that the total number of cigarettes sold or given away decreased by 14.8 billion cigarettes (3.7 percent) from 2001 to 2002, while advertising and promotional expenditures rose \$1.25 billion (11.1 percent) to \$12.47 billion, the most ever reported to the Commission. The largest single category of expenditures was price discounts paid to cigarette retailers or wholesalers in order to reduce the price of cigarettes to consumers. This one category accounted for \$7.87 billion, or 63.2 percent of total advertising and promotional expenditures.

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 for the years 2001 and 2002, the first years in which the Commission required the manufacturers to report the number of cigarettes they gave away as well as the number they sold.² In 2002, the major domestic cigarette

¹ Data provided in this report for the year 2002 also include information from Vector Tobacco, Inc. (which is owned by the same parent company as Liggett) and Santa Fe Natural Tobacco Company, Inc. (which is owned by the same parent company as R.J. Reynolds).

² Cigarettes given away include all cigarettes distributed for free, whether through sampling, coupons for free product, “buy 3 packs, get 1 free” type offers, or otherwise, as long as those cigarettes were not reported as sold. It is possible that in prior years some manufacturers may have included in their sales figures some cigarettes that were actually given away.

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

⁴ The reported figures include all advertising, merchandising, and promotional expenditures related to cigarettes, regardless of whether such advertising would constitute "commercial speech" or would be protected from law enforcement action under the First

where money should be reported when expenditures fell within two or more categories.⁵ The Commission also added new categories to pick up expenditures that may have previously been unreported or reported in the catch-all “other” category. Major changes are discussed below with respect to the specific expenditure categories.⁶

Table 2C shows that overall, \$12.47 billion was spent on cigarette advertising and promotion in 2002, the most ever reported by the major cigarette manufacturers. The \$12.47 billion represents an increase of 11.1 percent from the \$11.22 billion spent in 2001, and of 30.0 percent from the \$9.59 billion spent in 2000.

Newspaper advertising expenditures decreased from \$31.7 million in 2001, to \$25.5 million in 2002. This advertising category accounts for 0.2 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 \$106.9 million on magazine advertising in 2002, a decrease of 38.2 percent from 2001. Magazine advertising represented 0.9 percent of total spending. Spending on magazine advertising peaked in 1984, when the cigarette companies reported spending \$425.9 million (20.3 percent of total advertising and promotional expenditures).

Spending on “outdoor” advertising totaled \$24.2 million in 2002, or 0.2 percent of total advertising and promotional spending. For 2002, “outdoor” advertising was defined to mean billboards; signs and placards in arenas, stadiums, and shopping malls (whether they are open air or enclosed); and any other advertisements placed outdoors, regardless of their size, including those on

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

⁶ Detailed definitions of the 2002 categories are reported in Appendix A.

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. In 2001, expenditures on “outdoor” advertising were reported to be \$8.2 million. These expenditures had peaked at \$386.1 million in 1991.

As they had in 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 2002. Transit advertising peaked at \$60.2 million in 1991.⁷

Spending on point-of-sale promotional materials (ads posted at the retail location but excluding outdoor ads or retailer property) was \$260.9 million in 2002. Point-of-sale advertising accounted for 2.1 percent of total advertising and promotion in 2002. Point-of-sale advertising expenditures had been \$284.3 million in 2001. These expenditures peaked in 1993 at \$400.9 million.

For 2002, the “promotional allowance” category was broken into four new categories: price discounts, promotional allowances paid to retailers, promotional allowances paid to wholesalers, and other promotional allowances. The largest “promotional allowance” category was price discounts paid to cigarette retailers or wholesalers in order to reduce the price of cigarettes to consumers (*e.g.*, off-invoice discounts, buy downs, and voluntary price reductions), which accounted for expenditures of \$7.87 billion in 2002. In addition, the industry spent \$1.33 billion on promotional allowances paid to cigarette retailers in order to facilitate the sale or placement of cigarettes (*e.g.*, payments for stocking, shelving, displaying and merchandising brands, volume rebates, and incentive payments) and \$446.3 million on promotional allowances paid to cigarette wholesalers (*e.g.*, payments for volume rebates, incentive payments, value added services, and promotional execution). Finally, \$2.8

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

million was spent on promotional allowances paid to anyone else (other than retailers, wholesalers, and full-time company employees) involved in the cigarette distribution and sales process, in order to facilitate the sale or placement of cigarettes. When these four promotional allowance categories are combined, they total \$9.66 billion and account for 77.5 percent of all 2002 spending. In 2001, the last year before the Commission revised its definitions of promotional allowances, the companies reported expenditures of \$4.45 billion.

Money spent giving cigarette samples to the public (“sampling distribution”) was \$28.8 million in 2002. The new definition of “sampling” makes clear that when coupons are distributed for free cigarettes and no purchase is required, such activities are to be reported as “sampling.” In addition, the new definition clarifies that sampling includes the distribution of cigarettes for consumer evaluation when consumers are able to smoke the cigarettes on their own (outside of a cigarette company facility). Cigarette sampling distribution accounted for 0.2 percent of the total spent on advertising and promotion in 2002. In 2001, prior to the Commission’s clarification of what expenses should be counted as sampling, the companies reported expenditures of \$17.2 million. These expenditures have accounted for less than one percent of total spending every year since 1992.

For 2002, the specialty item distribution category was broken into two new categories: branded and non-branded. In 2002, \$49.4 million was spent on branded specialty item distribution through the mail, at promotional events, or by any means other than at the point-of-sale with the purchase of cigarettes.⁸ (Specialty items distributed along with the purchase of cigarettes were redesignated as retail value added expenses beginning in 1988.) In 2002, another \$174.2 million was spent distributing non-branded, non-cigarette items in connection with the marketing or promotion of

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

cigarettes.⁹ The total of \$223.6 million spent on specialty item distribution accounts for 1.8 percent of total advertising and promotional expenditures. In 2001, specialty item distribution expenditures were \$333.4 million.

In 2002, expenditures for the new adult-only public entertainment category were \$219.0 million, accounting for 1.8 percent of total advertising and promotion expenditures. 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. Another \$34.1 million was spent on general-audience public entertainment – *i.e.*, events (*e.g.*, sponsorship of a fishing tournament) that do not take place in an adult-only facility and that display the name or logo of a company's cigarettes or otherwise refer to cigarettes.¹⁰

The companies also reported spending \$54.2 million in 2002 on the sponsorship of sports teams or individual athletes. This is a new expenditure category and accounts for 0.4 percent of all advertising and promotional expenditures.

All reporting companies indicated that no money had been spent on endorsements and testimonials for cigarettes in 2002. No expenditures have been reported in this category since 1988.

The cigarette companies reported a total of \$111.3 million for direct mail advertising in 2002, a 16.9 percent decrease from the \$133.9 million reported in 2001.¹¹

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

¹⁰ The cigarette companies also spent \$3.6 million 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.

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

The industry reported spending \$522.2 million on coupons in 2002. The new definition of “coupons” makes clear that when coupons are distributed for free cigarettes and no purchase is required to redeem them, such activities should be reported only as “sampling.” In 2001, prior to this clarification, the companies reported spending \$602.1 million on coupons.

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.¹² For 2002, the retail value added category was broken into two new categories – one where the bonus items are additional cigarettes and one where the bonus items are non-cigarette items. The companies spent \$1.06 billion in 2002 on retail value added involving free cigarettes, accounting for 8.5 percent of all advertising and promotion expenditures. They also spent \$24.7 million on retail value added involving free non-cigarette items. In 2001, combined retail value added expenditures were \$4.76 billion, making retail value added the largest category of expenditures reported by the companies that year.

In 2002, the companies reported spending \$940,000 on advertising on a company Internet web site. The companies reported no expenditures on any other Internet advertising (*e.g.*, banner ads on third party sites and direct mail advertising using e-mail).

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¹² The cigarettes and the bonus items are often packaged together as a single unit.

television show.

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

Tables 4 and 4A give the domestic market share of cigarettes with tar ratings of 15 milligrams (mg.) or less for the years 1967 through 2002. The data for the years since 1982 are further broken down into sub-categories according to tar ratings, *e.g.*, 3 mg. or less, 6 mg. or less, etc. (categories are presented cumulatively). In 2002, cigarettes with tar ratings of 15 mg. or less constituted 84.9 percent of the domestic cigarette market. Cigarettes with tar ratings of 3 mg. or less – the lowest rated portion of the market – made up only 0.9 percent of the market.

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 98 percent of the market in 2002.

Tables 6 and 6A provide the domestic market share of the various cigarette length categories. The King-size (79-88 mm.) category continues to be the biggest seller, with 61 percent of the market. This category is followed by the Long (94-101 mm.) group, which held 37 percent of the market in 2002. Ultra-Long (110-121 mm.) and Regular (68-72 mm.) cigarettes accounted for 2 percent and 1 percent, respectively, of the market in 2002.

Table 7 gives the market share of menthol and non-menthol cigarettes. In 2002, the market share of menthol cigarettes was 27 percent, while non-menthols held 73 percent of the market.

In 1994, the Commission began requiring the cigarette companies to indicate whether “tar” and nicotine ratings were displayed on cigarette packaging and advertising. In 2002, the Commission began requiring the companies to answer separately for “tar” and for nicotine ratings. Table 8 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 disclose ratings on their packs.¹⁵ Table 8 shows that cigarette varieties that printed tar ratings on their packs represented only 1.3 percent of the overall market in 2002. Cigarettes with tar ratings of 8-11 mg. represent 42.9 percent

¹⁵ This report does not contain a table regarding the display of nicotine ratings on packaging. Only one brand of cigarettes displayed nicotine ratings on its packs in 2002.

TABLE 1

TOTAL DOMESTIC CIGARETTE UNIT SALES (IN BILLIONS)

| YEAR | TOTAL SALES REPORTED BY | | | USDA CIGARETTE CONSUMPTION ESTIMATES |
|------|-----------------------------|--------------------------------|-----------------------------|---|
| | CIGARETTE MANUFACTURERS* | UNIT CHANGE FROM PRIOR YEAR | % CHANGE FROM PRIOR YEAR | |
| 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)

| <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</u> |
|-------------|--------------------|---------------------------|--|---|--|-----------------------|
|-------------|--------------------|---------------------------|--|---|--|-----------------------|

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.

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% |

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 THE YEAR 2002 (DOLLARS IN THOUSANDS)*

| | 2002 | % |
|---|--------------|--------|
| Newspapers | \$25,538 | 0.2% |
| Magazines | \$106,852 | 0.9% |
| Outdoor | \$24,192 | 0.2% |
| Transit | \$0 | 0.0% |
| Point-of-Sale | \$260,902 | 2.1% |
| Price Discounts | \$7,873,835 | 63.2% |
| Promotional Allowances – Retailers | \$1,333,097 | 10.7% |
| Promotional Allowances – Wholesalers | \$446,327 | 3.6% |
| Promotional Allowances – Other | \$2,767 | 0.0% |
| Sampling Distribution | \$28,777 | 0.2% |
| Specialty Item Distribution – Branded | \$49,423 | 0.4% |
| Specialty Item Distribution - Non-Branded | \$174,201 | 1.4% |
| Public Entertainment – Adult-Only | \$219,016 | 1.8% |
| Public Entertainment – General-Audience | \$34,089 | 0.3% |
| Sponsorships | \$54,247 | 0.4% |
| Endorsements & Testimonials | \$0 | 0.0% |
| Direct Mail | \$111,319 | 0.9% |
| Coupons | \$522,246 | 4.2% |
| Retail Value Added – Bonus Cigarettes | \$1,060,304 | 8.5% |
| Retail Value Added – Non-Cigarette Bonus | \$24,727 | 0.2% |
| Company Web Site | \$940 | 0.0% |
| Internet – Other | \$0 | 0.0% |
| Telephone | \$679 | 0.0% |
| Other** | \$112,879 | 0.9% |
| Total | \$12,466,358 | 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.

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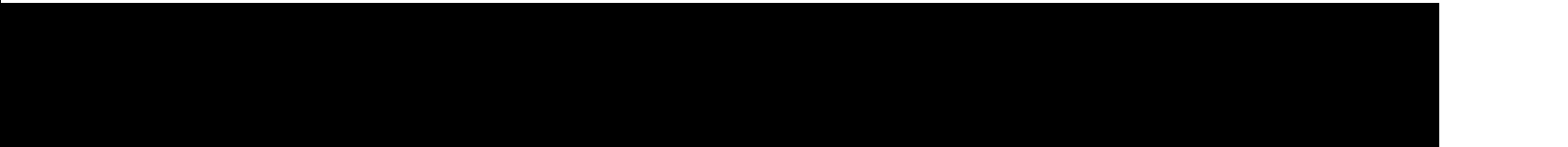
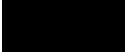


TABLE 5

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% |

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% | --- * |

TABLE 6A

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

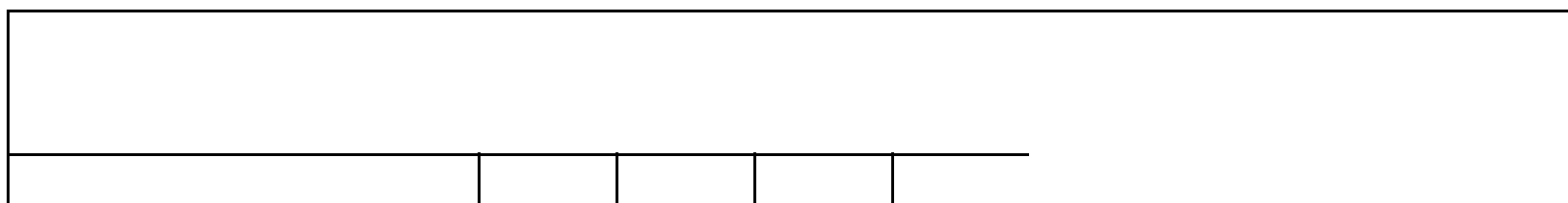
| <u>YEAR</u> | <u>68-72 mm.</u> | <u>79-88 mm.</u> | <u>94-101 mm.</u> | <u>110-121 mm.</u> |
|-------------|------------------|------------------|-------------------|--------------------|
| 2000 | 1% | 60% | 37% | 2% |
| 2001 | 1% | 60% | 38% | 1% |
| 2002 | 1% | 61% | 37% | 2%* |

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

TABLE 7

DOMESTIC MARKET SHARE OF MENTHOL
AND NON-MENTHOL CIGARETTES

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



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APPENDIX A

2002 Advertising and Promotional Expenditure Categories

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

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

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

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

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

Point-of-Sale: Point-of-sale advertisements; but excluding expenditures in connection with 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 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. Sampling also includes the distribution of coupons for free cigarettes, when no purchase or payment is required to obtain the coupons or cigarettes.

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

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

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

Public Entertainment – Adult-Only: Public entertainment events bearing or otherwise displaying the name or logo or 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.

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,