SETTLEMENT AGREEMENT

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Office of the Attorney General (hereafter, "California") and the R.J. Reynolds Tobacco Company (hereafter, "Reynolds").

1. The parties to this Agreement are the People of the State of California through the

2. California and Reynolds are parties to the Master Settlement Agreement ("MSA") which settled the litigation entitled People of the State of California, et al. v. Philip Morris Inc., et al., Sacramento Superior Court 97AS03031, Judicial Council Coordination Proceeding #4041, and other claims and matters pending at the time of the settlement. Pursuant to the MSA, the Superior Court entered a Consent Decree and Final Judgment ("Consent Decree") on December 9, 1998, retaining continuing jurisdiction for the purposes of implementing and enforcing the MSA and the Consent Decree. (Consent Decree, section VI.A.)

- 3. California investigated certain conduct and activities at Reynolds-sponsored auto races in the State of California in 1999 which California believes were in violation of the MSA's and/or the Consent Decree's restrictions on outdoor advertising (MSA, section III(d)(2)), prohibition against combining advertising of tobacco products with advertising for a sponsored event (id., section III(c)(3)(A) and (B)), and restrictions on the distribution of free samples (id., section III(g), Consent Decree, section V.E). On August 26, 1999, California gave Reynolds written notice of its concerns about said conduct and activities. On September 28, 1999, Reynolds responded to California's letter of August 28, 1999. On September 30, 1999, California gave Reynolds formal Thirty-day Notice of its intent to initiate enforcement proceedings concerning said marketing practices pursuant to section VII(c)(2) of the MSA. Copies of said letters are attached hereto.
- 4. Reynolds disagrees with California's contentions. The parties have discussed the disputed issues in meetings, one of which was attended by representatives of Ohio, Pennsylvania, and the National Association of Attorneys General ("NAAG"), and in correspondence, and have worked cooperatively to resolve these disputes informally as contemplated by section VII(c)(6) of the MSA and section VI.A of the Consent Decree. The parties have decided to resolve their disputes by entering into this Agreement rather than pursuant to formal enforcement proceedings. California

5. The parties believe that this Agreement constitutes a good faith settlement of said disputes and disagreements between the parties relating to the application of the MSA and the Consent Decree to Reynolds's signage and other activities at the sites of Brand Name Sponsorship events. This Agreement is for settlement purposes only and does not constitute an admission by Reynolds that either the MSA or the Consent Decree has been violated or that the facts as alleged by California or any other state are true. The parties do not intend, by entering into this Agreement, to modify the provisions of the MSA. It is intended by the parties that the provisions of this Agreement shall apply to Reynolds's marketing practices at Brand Name Sponsorship events in California during the year 2000 and in succeeding years.

Procedural Provisions:

- 6. Except as provided in paragraph 16, the subject matter of this Agreement is limited to Reynolds's activities at Brand Name Sponsorship events in California, including the content and display of signage and other activities, as described in paragraph 3, above.
- 7. This Agreement does not supercede any existing or future Federal, State, or local laws or regulations governing the advertising, marketing, and/or promotion of tobacco products.
- 8. Following approval of this Agreement by the parties, California will promptly submit this Agreement to the NAAG Tobacco Enforcement Committee and will request that the Committee endorse the Agreement as a fair and reasonable resolution of the disputed issues and recommend the Agreement to the other Settling States (as defined in the MSA) as a fair and reasonable resolution of said issues.
- 9. "Most favored nation": In the event California later settles a dispute with another Participating Manufacturer (as defined in the MSA) which is a party to the MSA, which settlement contains one or more terms which are more favorable to said manufacturer than a provision of this Agreement, Reynolds shall be entitled to the benefit of said more favorable terms, and this Agreement

shall be deemed revised so that Reynolds is treated as favorably with respect to said signage or activity at a Brand Name Sponsorship event.

10. The parties agree to discuss in good faith any disputes or other issues which may arise with respect to this Agreement. In the event that California believes that Reynolds has acted or is acting contrary to any provision of this Agreement and the parties are unable to resolve said dispute through discussion, California may exercise its enforcement rights under the MSA and/or the Consent Decree. In addition, either party may hereafter file this Agreement with the Superior Court and may seek enforcement of the Agreement.

11. In the event that Reynolds fully complies with this Agreement, California agrees to waive any and all claims for judicial relief for Reynolds's marketing practices at Brand Name Sponsorship events in 1999 concerning the conduct and activities described in paragraph 3 of this Agreement. However, in the event there is a material breach of this Agreement, California reserves the right to assert said retroactive claims to the extent permitted by law. California also reserves its right to assert any rights or claims it may have under the MSA and/or the Consent Decree for past or future conduct or activities not specifically described in the attachments incorporated into paragraph 3 of this Agreement.

Substantive Provisions:

- 12. Reynolds will not place or cause to be placed any signs or banners advertising cigarettes ("Signs") at or on concession stands or other retail establishments at sponsored events at which cigarettes are sold, except in accordance with the following:
 - a. Signs shall be placed on the property of the retail establishment and no more than 10 feet from where cigarettes are sold;
 - b. No more than two (2) Signs advertising cigarettes will appear on any one (1) surface or side of the retail establishment; and
 - c. Signs will be separated from each other, on any one (1) surface or side or on adjoining surfaces or sides, by a distance at least equal to the length of the longest dimension of any adjacent Sign.
 - 13. Booths or facilities used to distribute free samples at sponsored events shall

be either: 1 2 a. Enclosed in a tent so that persons outside cannot observe activities inside the 3 tent unless they undertake unreasonable efforts to do so; 4 b. Within a free-standing, close-sided tent without a booth inside; or 5 c. Surrounded by a minimum six-foot high fence covered with opaque material, 6 with the entrance area to the booth or facility affording no visibility to persons 7 outside who do not undertake unreasonable efforts to see inside. 8 14. Signage used by Reynolds to identify the booth or facility from which free samples 9 will be distributed, as described in paragraph 13, will be reasonable in size and manner of display, and 10 may say "THE WINSTON BOOTH" (or similar wording, e.g., "The Camel Booth") and may not 11 bear symbols or words that would constitute cigarette advertising. 12 15. In any Adult-Only Facility operated by Reynolds at a sponsored event, Reynolds 13 will ensure that all signage which contains cigarette advertising cannot be viewed by persons outside 14 of the Adult-Only Facility who do not undertake unreasonable efforts to view such signage. 15 16. Reynolds will not display or cause to be displayed at sponsored events or at any 16 other location the following signs and banners: 17 "Never Settle for less than 100%. 100% Racing. No Bull."; a. "Without our fans there is no sport. No bull." and showing an open pack of 18 b. 19 Winston cigarettes; 20 "NASCAR Winston Racing is no bull. Just like our smokes. No Bull." and c. 21 showing an open pack of Winston cigarettes; and d. "When the green drops the bull stops" and showing an open pack of Winston 22 23 cigarettes. 24 California does not waive its right to assert that any other signs that Reynolds used 25 in 1999 or may use in the future violate the requirements of section III(c)(3)(A) or (B) of the MSA 26 concerning combining advertising of tobacco products with advertising for a sponsored event, 27 although California is not aware of any other signs or banners used prior to the date of this 28 Agreement which it would contend violates these provisions of the MSA.