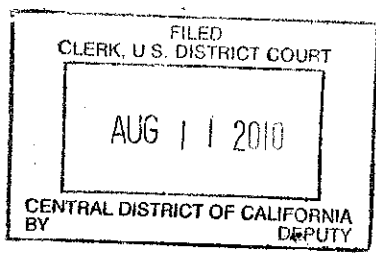


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10 UNITED STATES DISTRICT COURT
11 CENTRAL DISTRICT OF CALIFORNIA

12
13 AMANDA SATERIALE, JEFFREY)
14 FEINMAN, PAMELA BURNS,)
15 PATRICK GRIFFITHS, JACKIE)
16 WARREN, HEATHER POLESE,)
17 DAN POLESE, FRED JAVAHERI,)
18 RICHARD HOLTER and)
19 DONALD WILSON,)
20 Individually and on Behalf of All)
21 Others Similarly Situated,)
22 Plaintiffs,)
23 v.)
24 R.J. REYNOLDS TOBACCO CO.)
25 Defendant.)

Case No. 09-CV-08394 CAS (SSx)

CLASS ACTION

**THIRD AMENDED
CLASS ACTION COMPLAINT**

JURY TRIAL DEMANDED

1 Plaintiffs Amanda Sateriale (“Sateriale”), Jeffrey Feinman (“Feinman”), Pamela Burns
2 (“Burns”), Patrick Griffiths (“Griffiths”), Jackie Warren (“Warren”) Heather Polese (“Ms.
3 Polese”), Dan Polese (“Mr. Polese”), Fred Javaheri (“Javaheri”), Richard Holter (“Holter”)
4 and Donald Wilson (“Wilson”) individually and on behalf of all persons similarly situated, by
5 and through counsel, bring this class action complaint for damages against defendant R.J.
6 Reynolds Tobacco Company (“RJR Tobacco” or “defendant”) for breach of contract,
7 promissory estoppel, and unfair and deceptive business practices. Plaintiffs allege the
8 following based on knowledge of their own acts and upon information and belief as to all
9 other allegations:

10 NATURE OF THE ACTION

11 1. Defendant RJR Tobacco is a corporation incorporated under the laws of the
12 State of North Carolina, with its principal place of business in North Carolina. RJR Tobacco
13 conducts a substantial amount of its business in California which is one of the largest, if not
14 the largest, markets for defendant. Defendant is the second largest manufacturer of cigarettes
15 in the United States, and Camel is its most popular cigarette brand. According to the RJR
16 Tobacco website, Camel is currently the third best-selling cigarette brand in the United States.
17 Camel had a market share of 7.39% in 2007, and has a slightly higher market share today.

18 2. In 1991, defendant began a loyalty program called "Camel Cash". The Camel
19 Cash loyalty program worked like this: defendant sold together with each pack of Camel
20 cigarettes Camel Cash certificates. Defendant represented on the Camel Cash certificates that
21 the certificates were redeemable for various items of merchandise listed in catalogs distributed
22 by defendant. By enrolling and participating in the program, consumers were encouraged to,
23 and did, increase their use of defendant’s products. As explained below, like members of
24 frequent flyer programs, members of the Camel Cash program had a vested right to redeem
25 the certificates they purchased and saved in reliance on defendant’s promise that at least
26 limited quantities of merchandise would be available throughout the duration of the program.

27 3. Defendant carefully examined the parameters of the program, including
28 recognizing the necessity of recording a financial reserve for the liability it incurred as a result

1 of its obligations under the program, calculating that financial reserve, and the amount and
2 value of merchandise defendant would be required to make available to members of the
3 program. Defendant performed pursuant to the program for nearly fifteen years and reaped
4 substantial rewards from the program, as the market share of Camel cigarettes nearly doubled
5 from approximately 4% in 1991, to 7.39% in 2007.

6 4. The contract with defendant was as follows: in order to join the program,
7 plaintiffs purchased Camel cigarettes together with Camel Cash. Plaintiffs then performed,
8 or, as explained below, were excused from performing, each and every subsequent act
9 required by the contract between plaintiffs and defendant. Plaintiffs registered for the Camel
10 Cash program by filling out an enrollment form and submitting such a form to defendant.
11 Defendant then accepted and processed each plaintiff's enrollment form and provided each
12 plaintiff with an enrollment number and one or more catalogs containing merchandise. The
13 catalogs listed the merchandise available, the number of certificates needed to receive the
14 merchandise and the procedures to be followed to receive the merchandise. Defendant stated
15 that quantities of merchandise were "limited", however, principles of good faith and fair
16 dealing required defendant to provide merchandise in reasonable quantities. As of October 1,
17 2006, defendant breached the contract by failing to provide any merchandise or catalogs.
18 Defendant's breach excused plaintiffs from any further performance under the contract and, in
19 fact would, and did, render any attempt at further performance by plaintiffs, futile.

20 5. Through these acts and communications, the parties formed a contract that was
21 in effect until March 31, 2007, the date defendant terminated the program. Defendant gave
22 approximately six months prior notice of the termination of the program by a direct mail flyer
23 on or about October 1, 2006 (quoted, *infra*) stating that it would terminate the Camel Cash
24 program on March 31, 2007.

25 6. Plaintiffs do not dispute that defendant had the right to terminate the Camel
26 Cash program. However, defendant made a deliberate and calculated choice to waive any
27 right to terminate the program "without notice" and instead provided six months prior notice.
28

1 Thus, during that six-month period, from approximately October 2006 through March 2007,
2 defendant was obligated to comply with the terms of its contract with plaintiffs.

3 7. Defendant, however, although internally recognizing it had incurred a
4 contractual obligation to plaintiffs and the Class, deliberately determined to breach that
5 obligation and suffer the consequences. Defendant decided it would rather take the risk of a
6 lawsuit than fulfill its obligations. Beginning in October 2006, defendant breached its
7 contract with plaintiffs and engaged in unfair business practices by failing to supply to
8 plaintiffs and the Class with any catalogs or merchandise (including merchandise such as trips
9 to Las Vegas, which required no inventory at all). Defendant stopped distributing catalogs in
10 order to deter customers from redeeming their coupons and failed to have merchandise
11 available for redemption. Thus, from October 2006 through March 31, 2007, any efforts by
12 plaintiffs or the Class to redeem their certificates were, and would have been, futile.
13 Defendant repudiated the contract through these acts and excused plaintiffs from any further
14 performance thereunder.

15 8. As a result, defendant broke its promises to customers and consumers, engaged
16 in unfair business practices and caused them damages.

17 **JURISDICTION AND VENUE**

18 9. This Court has subject matter jurisdiction over this action pursuant to 28 U.S.C.
19 § 1332(d)(2) because the matter in controversy, upon information and belief, exceeds
20 \$5,000,000, exclusive of interests and costs, and this matter is a class action in which Class
21 members are citizens of a different state than that of defendant.

22 10. Venue is proper in this Court pursuant to 28 U.S.C. § 1391 because the acts of
23 the defendant occurred in this County.

24 **THE PARTIES**

25 11. Plaintiffs Sateriale (a resident of California), Feinman (a resident of New
26 York), Burns (a resident of California), Griffiths (a resident of California), Warren (a resident
27 of Texas), Mr. Polese (a resident of California), Ms. Polese (a resident of California),
28 Javaheri, (a resident of California), Holter (a resident of South Dakota) and Wilson (a resident

1 of Iowa) purchased Camel cigarettes together with Camel Cash during all or part of the period
2 of time (1991 through March 2007) that the defendant offered the "Camel Cash" program.
3 Within that time, Sateriale, Feinman, Burns, Griffiths, Warren, Mr. Polese, Ms. Polese,
4 Javaheri, Holter and Wilson were smokers 21 years or older, purchased defendant's cigarettes,
5 signed up with Reynolds and were assigned an enrollment number for participation in the
6 Camel Cash program. Plaintiffs purchased defendant's cigarettes together with Camel Cash in
7 reliance on defendant's promises set forth on the Camel Cash certificates (quoted, *infra*) that,
8 during the life of the Camel Cash loyalty program, they could exchange Camel Cash for
9 merchandise. By the time defendant breached the contract in October 2006, plaintiffs had
10 saved hundreds or thousands of Camel Cash certificates but were unable to redeem their
11 Camel Cash because defendant failed to make merchandise (or even catalogs containing such
12 merchandise) available.

13 12. Defendant RJR Tobacco is a wholly-owned subsidiary of Reynolds American,
14 Inc. RJR Tobacco sells its products throughout the United States, including the State of
15 California, and sells millions of dollars worth of products annually in the State of California.
16 At the beginning of the relevant time period, in 1991, RJR Tobacco was a wholly-owned
17 subsidiary of RJR Nabisco Holdings Corp. ("RJR Nabisco"). In 1999, RJR Nabisco spun off
18 RJR Tobacco to its shareholders. In 2004, RJR Tobacco combined with British American
19 Tobacco PLC to form Reynolds American, Inc.

20 CLASS ACTION ALLEGATIONS

21 13. Plaintiffs bring this action as a class action pursuant to Rule 23 of the Federal
22 Rules of Civil Procedure on behalf of a Class consisting of all persons who reside in the
23 United States, who purchased Camel Cash together with defendant's cigarettes, enrolled in the
24 Camel Cash program before October 2006 and received from defendant an enrollment number
25 and one or more catalogs of merchandise. Because defendant breached the contract as of
26 October 2006, any further performance by plaintiffs was excused or would have been
27 rendered a futile act. Thus, under the circumstances of this case, no member of the Class
28 should be precluded from recovery for not having attempted to redeem their certificates

1 between October 1, 2006 (six months before defendant ended the Camel Cash program),
2 through March 31, 2007, because of defendant's prior breach, and because plaintiffs' attempts
3 to obtain catalogs and to redeem certificates were and/or would have been, completely futile.
4 Excluded from the Class is defendant, any entity in which defendant has a controlling interest,
5 and any of defendant's subsidiaries, affiliates, and officers, directors or employees, and any
6 legal representative, heir, successor, or assignee of defendant.

7 14. Plaintiffs Sateriale, Burns, Mr. Polese, Ms. Polese, Javaheri and Griffiths also
8 bring this action on behalf of a proposed California Subclass ("the California Subclass")
9 consisting of all California residents, who purchased Camel Cash together with defendant's
10 cigarettes, enrolled in the Camel Cash program before October 2006 and received from
11 defendant an enrollment number and one or more catalogs of merchandise. Because
12 defendant breached the contract as of October 2006, any further performance by plaintiffs was
13 excused or would have been futile. Thus, under the circumstances of this case, no member of
14 the California Subclass should be precluded from recovery for not having attempted to redeem
15 their certificates between October 1, 2006 (six months before defendant ended the Camel
16 Cash program), through March 31, 2007, because of defendant's prior breach, and because
17 plaintiffs' attempts to obtain catalogs and to redeem certificates were and/or would have been,
18 completely futile. Excluded from the California Subclass is defendant, any entity in which
19 defendant has a controlling interest, and any of defendant's subsidiaries, affiliates, and
20 officers, directors or employees, and any legal representative, heir, successor, or assignee of
21 defendant.

22 15. This action has been brought and may properly be maintained as a class action
23 pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3).

24 16. The members of the Class are so numerous that joinder of all members is
25 impracticable. While the precise number of Class members and their addresses are unknown
26 to plaintiffs, plaintiffs believe that Reynolds retains a record of Class members' names and
27 addresses. Plaintiffs are informed and believe, and on that basis allege, that thousands of
28

1 persons are members of the Class. Class members may be notified of the pendency of this
2 action by published and/or mailed notice.

3 17. There is a well-defined community of interest in the questions of law and fact
4 affecting the parties represented in this action.

5 18. Common questions of law and fact exist as to all members of the Class. These
6 common questions predominate over the questions affecting only individual Class members.

7 19. The questions common to members of the Class and/or Subclass are, *inter alia*:

8 a. Whether defendant entered into a contract with plaintiffs and the other
9 members of the Class;

10 b. Whether defendant breached a contract with plaintiffs and the other
11 members of the Class;

12 c. Whether defendant is promissory estopped;

13 d. Whether defendant made false and/or misleading statements of fact to
14 the Class and the public concerning Camel Cash;

15 e. Whether defendant's false and/or misleading statements of fact and
16 concealment of material facts concerning Camel Cash were likely to deceive the public;

17 f. Whether, by the misconduct set forth in this Complaint, defendant has
18 engaged in unfair, fraudulent or unlawful business practices with respect to the advertising,
19 marketing and sales of Camel Cash;

20 g. Whether defendant violated the Consumer Legal Remedies Act; and

21 h. Whether, as a result of defendant's misconduct as alleged herein,
22 plaintiffs and the Class are entitled to damages, restitution and/or other remedies to which
23 Class members are entitled as a result of defendant's wrongful conduct, and, if so, the amount
24 and nature of such relief.

25 20. Plaintiffs' claims are typical of the claims of the members of the Class and
26 California Subclass as all members of the Class and California Subclass are similarly affected
27 by defendant's wrongful conduct. Plaintiffs have no interests antagonistic to the interests of
28 the other members of the Class. Plaintiffs and all members of the Class have sustained

1 economic injury arising out of the defendant's violations of common and statutory law as
2 alleged herein.

3 21. Plaintiffs are adequate representatives of the Class because their interests do
4 not conflict with the interests of the members of the Class they seek to represent; they have
5 retained counsel competent and experienced in complex class action litigation; and plaintiffs
6 intend to prosecute this action vigorously. The interests of members of the Class will be fairly
7 and adequately protected by plaintiffs and their counsel.

8 22. A class action is superior to all other available methods for the fair and efficient
9 adjudication of this controversy since joinder of all members is impracticable. Furthermore,
10 as the damages suffered by individual Class members may be relatively small, the expense
11 and burden of individual litigation make it impossible for members of the Class individually
12 to redress the wrongs done to them. There will be no difficulty in the management of this
13 class action. Individual litigation presents the potential for inconsistent or contradictory
14 judgments. A class action presents far fewer management difficulties and provides the
15 benefits of single adjudication, economy of scale, and comprehensive supervision by a single
16 court.

17 **SUBSTANTIVE ALLEGATIONS**

18 23. Since 1913, defendant or its predecessors have sold Camel cigarettes
19 throughout the United States.

20 24. In the fall of 1991, defendant initiated a loyalty program called "Camel Cash",
21 representing on the Camel Cash certificates, on packages of Camel cigarettes and in the media
22 that consumers who registered for its program could redeem Camel Cash certificates, or "C-
23 Notes", purchased together with Camel cigarettes, for merchandise described in catalogs
24 circulated by defendant. The purpose of this program was to increase sales of Camel
25 cigarettes by adding value to the Camel brand in order to retain then-current smokers and to
26 attract smokers of competitive brands.

27 25. The Camel Cash program was extremely successful. In 1992, David Iauco,
28 senior vice-president of marketing for defendant, was quoted in the New York Times as

1 attributing Camel's increase in market share over the previous year largely to the Camel Cash
2 program. By the time defendant discontinued the Camel Cash program on March 31, 2007,
3 Camel's market share had grown from approximately 4% in 1991 to 7.39% in 2007.

4 26. Camel Cash certificates and/or program materials contained certain terms of
5 the program including the method to redeem Camel Cash or obtain a catalog from defendant.
6 The language on a Camel Cash "C-Note" stated:

7 USE THIS **NEW** C-NOTE AND THE C-NOTES YOU'VE BEEN SAVING
8 TO GET THE BEST GOODS CAMEL HAS TO OFFER. CALL 1-800-
9 CAMEL CASH (1800-266-3522) for a free catalog. **Offer** restricted to
10 smokers 21 years of age or older. Value: 1/1000 of 1¢. **Offer** good only in
11 the USA, and void where restricted or prohibited by law. Check catalog for
12 expiration date. Limit 5 requests for a catalog per household. (Emphasis
13 added).

14 27. The Camel Cash program was open only to smokers 21 years or older. Like
15 frequent flyer programs, each of the plaintiffs joined the Camel Cash program by purchasing
16 defendant's products, filling out and submitting signed forms to defendant. In response,
17 defendant sent each plaintiff a unique enrollment number that was used in future
18 communications between the parties.¹ These communications included, among other things,
19 catalogs that defendant distributed to plaintiffs and the Class that contained merchandise that
20 could be redeemed in exchange for Camel Cash certificates.

21 28. From time to time, defendant would issue a new catalog with merchandise
22 offered in exchange for Camel Cash, either upon request, or by mailing catalogs to plaintiffs
23 and the Class. As explained more fully below, however, defendant breached its contract
24 beginning in October 2006 contrary to its representations and promises made to plaintiffs.

25
26 ¹ For example, Burns enrolled in the program in approximately 1991 and was assigned enrollment number
27 296678357, Feinman's enrollment number was 435388896 and Griffiths' enrollment number was 149271639.
28 In addition, though they no longer have their enrollment numbers, Mr. Polese joined the program in
approximately 1995, Ms. Polese joined the program in approximately 1997, Sateriale joined the program in
approximately 2005, Warren joined the program in approximately the mid 1990s, Holter joined the program in
approximately 2002 and Wilson joined the program in approximately the early 90s.

1 29. The number of Camel Cash certificates needed to obtain merchandise offered
2 by defendant varied from as little as one hundred to many thousands. This encouraged
3 consumers to buy more packages of cigarettes together with Camel Cash and also to save or
4 obtain Camel Cash certificates to redeem them for more valuable items. Also, defendant
5 further encouraged plaintiffs and other Class members to collect their Camel Cash (as
6 opposed to redeeming them as soon as possible) because merchandise listed in defendant's
7 catalogs for redemption by a greater number of coupons was disproportionately more valuable
8 than the merchandise which could be redeemed by fewer coupons.

9 30. Loyalty programs such as the Camel Cash program create binding contracts
10 where the original owners of the certificates use or do business with the company offering the
11 incentive. Thus, through purchasing defendant's products, registering for and being accepted
12 into the Camel Cash program, a contractual relationship was formed which vested the
13 plaintiffs with the right to accumulate and redeem their Camel Cash certificates for
14 merchandise and other rewards that defendant offered during the duration of the program.
15 The Camel Cash program was, in essence, modeled after similar rewards programs such as
16 frequent flyer programs. Both programs: (i) offered rewards to encourage greater use of the
17 company's services or products; (ii) required participants to complete and submit the
18 company's form; (iii) allowed consumers to earn rewards through purchasing the company's
19 products; (iv) provided members with catalogs, or access to catalogs, that contained the
20 merchandise or services that were available for redemption; (v) stated the number of points or
21 certificates necessary to redeem for a variety of flights or merchandise; and (vi) provided that
22 the company would offer flights or merchandise throughout the duration of the program.

23 31. Accordingly, through their mutual acts, the parties formed a contract that was
24 in effect until March 31, 2007, the date defendant terminated the program. The contract was
25 an agreement that upon the purchase of Camel cigarettes and enrollment in the loyalty
26 program, defendant would provide its members with a catalog and maintain a reasonable,
27 albeit limited, quantity of goods available for redemption. Thus, the agreement at issue is the
28 mutual obligations that the parties incurred as a result of participating in the Camel Cash

1 program; it was not a contract to obtain a specific item or good, such as a “Joe Camel” jacket
2 or ashtray.

3 32. Also, the breach of contract alleged is not that Reynolds was prohibited from
4 terminating the program but that, during the program’s duration, Reynolds had the obligation
5 to perform through the program’s termination date. Certain (but not all) of the Camel Cash
6 catalogs state that Reynolds could terminate the Camel Cash program without notice.
7 Defendant, however, waived any right to terminate without notice when, on or about October
8 1, 2006, it announced by mailing a notice to program members, that the program would
9 terminate as of March 31, 2007. Namely, defendant gave notice of termination and
10 represented that plaintiffs could redeem their Camel Cash certificates for six months.

11 33. Such announcement stated:

12 As a loyal Camel smoker we wanted to tell you our Camel Cash
13 program is expiring. C-Notes will no longer be included on packs,
14 which means whatever Camel Cash you have is among the last of its
15 kind. *Now, this isn’t happening overnight—there’ll be plenty of time to*
16 *redeem your C-Notes before the program ends. In fact, you’ll have from*
17 *OCTOBER ’06 through MARCH ’07 to go to camelsmokes.com and*
18 *redeem your C-Notes. Supplies will be limited, so it won’t hurt to get*
19 *there before the rush.*

20 (Attached hereto as Exhibit A, emphasis added).

21 34. Beginning in October 2006 (well before the announced termination date),
22 defendant, however, stopped printing and issuing catalogs and/or stated to plaintiffs and/or
23 Class members that it did not have any merchandise available for redemption. These acts
24 were in direct contravention of defendant’s promises and in clear breach of its contractual
25 obligations. Although defendant represented that quantities would be “limited”, in fact,
26 defendant provided no merchandise. Moreover, despite defendant’s statements that quantities
27 of merchandise were “limited”, defendant’s course of dealing during the approximately 15
28 years of the program was to the contrary. When defendant determined that quantities of
merchandise on hand were insufficient, defendant’s practice was to reorder merchandise so

1 that redemptions could be satisfied. (See Exhibit B, annexed hereto, under "Fulfillment" at
2 Bates No. 50764 9214). "All available measures (air shipping, etc.) are being taken daily to
3 ensure continued expeditious fulfillment of all orders."... "Weekly meetings are being held to
4 ensure premium inventory is maintained with reorders of premiums already initiated."
5 After defendant repudiated the contract, any further performance by plaintiffs,
6 including attempts to redeem their Camel Cash certificates or obtain catalogs, was
7 excused; both because of defendant's prior breach, and because such acts would have
8 been futile.

9 35. Further, plaintiffs' investigation has uncovered internal documents from
10 defendant which shows defendant's recognition that, as a result of the Camel Cash
11 program, it had incurred liability and needed to create a financial reserve to cover such
12 liability. Through its own documents, it is clear that defendant intended to be, and
13 considered itself, bound to its obligations pursuant to the Camel Cash program --
14 specifically, that defendant was required to have a reasonable, albeit limited, quantity
15 of merchandise available in exchange for members' certificates.

16 36. Although additional discovery is likely necessary, these documents
17 show that the Camel Cash program was not simply a voluntary program or a mere
18 advertisement that defendant believed created no obligation or liability. To the
19 contrary, the Camel Cash program was a concerted, long term loyalty program that
20 defendant believed and understood was binding upon it and created obligations and
21 liabilities for defendant.

22 37. Indeed, defendant's documents show that the program was carefully,
23 thoughtfully and deliberately executed; that defendant recognized and admitted
24 internally that it had incurred liability in excess of \$100 million as a result of the
25 program; that defendant created a financial reserve to cover this liability; that
26 defendant was concerned about the amount of the liability; and considered a variety of
27 means to limit its exposure.

28

1 38. For example,

2 a. A Promotion Research Report released on October 13, 1992,
3 attached hereto as Exhibit C, which was produced by defendant in *Mangini v*
4 *R.J.Reynolds Tobacco Company*, Civil No. 939359 ("*Mangini*") listed as among its
5 "Key Conclusions" that "C-Note exposure liability from unredeemed C-Notes is large
6 and will continue to grow...." (Bates No. 002469). Defendant warned of a C-Note
7 exposure "issue," noting that "an estimated nearly \$38 million worth of 'extra' C-
8 Notes is [sic] currently being held by people who are likely to redeem them at some
9 point" (Bates No. 002470, emphasis in original) and reasoned that "there will very
10 likely need to be a final extremely low value C-Note catalog in conjunction with C-
11 Note expiration, unless the brand and the agency can devise other effective means to
12 continually siphon C-Notes out of the system at a greatly reduced cost" (Bates No.
13 002479).

14 b. A report entitled "Camel Cash Promotion Evaluation Final
15 Report" dated October 1992, and produced by defendant in *Mangini*, analyzed
16 participation in Camel Cash II & III and admitted that according to two separate
17 projection models, the "financial liability" for Cash II and Cash III redemptions was
18 "higher than currently budgeted" (Bates No. 002489). Also, in a section entitled
19 "Exposure/Potential Liability at Conclusion of Camel Cash II", defendant noted that
20 the "outstanding dollar liability (in terms of as yet unredeemed C-Notes) at the end of
21 Camel Cash II will be about \$37.5 million...." (Bates No. 002490). (A copy of this
22 report is attached hereto as Exhibit D).

23 c. Another document produced by defendant in *Mangini*, defendant found
24 that 82% of Camel smokers who saved C-Notes were stockpiling them for future use. (*See*
25 Bates No. 002507). Defendant recognized that "A large C-Note exposure/liability exists" and
26 expressed its concern that overall exposure would grow with each program (*See* Bates No.
27 002504). Defendant further noted that, "The remaining financial liability/exposure issue
28

1 needs to be addressed" (Bates No. 002505). (A copy of this document is attached hereto as
2 Exhibit E).

3 d. An internal "Agenda for Camel Cash Brainstorming Meeting - Friday
4 10am-12pm", attached hereto as Exhibit F, produced by defendant in *State of Minnesota et al.*
5 *v. Philip Morris et al.*, No. C1-94-8565 (Minn. Dist. Court. 2005) (the "*Minnesota Action*"),
6 outlines a meeting convened to discuss an anticipated last Camel Cash catalog. In a section
7 entitled "FACTS" defendant admitted that "[m]illions of unredeemed C-Notes in the
8 marketplace raise[s] a potentially serious liability issue" and, in the section entitled
9 "STRATEGIES", considered the need to create "a new Camel Cash offering which [would]
10 act[] as a low cost c-note redemption vehicle" (Bates No. 51705 3739).

11 e. An internal document produced by defendant in *Mangini*, entitled
12 "Camel Cash", attached hereto as Exhibit G, estimated that the "Total Potential Liability"
13 from Camel Cash programs I through IV would be "\$152 [million]". (Bates No. 50882 4016).
14 Defendant also noted the uncertainties surrounding the C-Note pool exposure (*see* Bates No.
15 50882 4017) and concluded there was a need to explore ways to siphon off the C-Note pool to
16 minimize liability (*see* Bates No. 50882 4018).

17 f. Another internal document produced by defendant in *Mangini*, attached
18 hereto as Exhibit H, examined lessons from Camel Cash I. Defendant noted that
19 "continuation of program with same proofs increase liability tremendously" (Bates No. 50868
20 2017).

21 39. Shortly after beginning the Camel Cash program, defendant considered various
22 methods to attempt to limit its liability from the program. For example:

23 a. A March 18, 1992 letter produced by defendant in *Mangini*, attached
24 hereto as Exhibit I, proposed an insert to be circulated to consumers, which "informed
25 consumers of the mechanics of the program" and was intended to "limit the liability of Cash
26 II. . . ." (Bates No. 50764 4237).

27 b. A December 20, 1991 internal memorandum produced by defendant in
28 *Mangini*, attached hereto as Exhibit B (quoted, *supra*), expressed defendant's concerns that

1 customers were improperly redeeming Camel Cash. The document noted defendant's "effort
2 to minimize [its] financial liability due to the potential of suppliers or consumers [to obtain]
3 C-Notes through means other than product purchase" (Bates No. 50764 9213, emphasis
4 added).

5 c. An undated internal memorandum produced by defendant in *Mangini*,
6 attached hereto as Exhibit J, stated defendant's objectives were to "Minimize/eliminate long
7 term liability associated with C-Notes pool" (Bates No. 50929 6530, emphasis added).
8 Defendant noted that by expiring C-Notes at the end of Cash IV, a "one time end to [its]
9 largest liability", it could exploit slippage and save \$8-12 million (Bates No. 50929 6530,
10 emphasis added).

11 d. An internal report produced by defendant in the *Minnesota* Action, attached
12 hereto as Exhibit K, contains a section entitled "Camel Cash Liability Management" and notes
13 that defendant has a "liability balance" of \$10.8 million. (*See* Bates No. 52057 1911). The
14 report suggests expiring C-Notes as well as reducing cost per incremental competitive smoker
15 through the reduction of excess inventory, and by the "Offer [of] occasional high end items."
16 (*Id.*)

17 40. In sum, defendant's internal documents show that defendant believed that the
18 Camel Cash program was not a mere "advertisement", and that defendant could not simply
19 terminate the program, walk away, and incur no liability. Defendant believed that it had
20 incurred a multi-million dollar liability as a result of the Camel Cash Program. Defendant
21 recognized this exposure, tried to limit this exposure and in fact, created a financial reserve to
22 cover the exposure.

23 41. In particular, the creation of a financial reserve shows that defendant believed
24 that the Camel Cash program was not an advertisement or a voluntary program. An internal
25 memorandum entitled, "Accounting Policy Camel Cash Reserve" dated December 31, 1992,
26 attached hereto as Exhibit L, which was produced by defendant in the *Minnesota* Action,
27 described the Camel Cash program not as an "advertisement", but stated that "Camel Cash is
28

1 a promotional continuity program that began in October 1991.” (Bates No. 51705 4950,
2 emphasis added). The memorandum states that:

3
4 The Company realized that *a liability needed to be*
5 *recognized for C-Notes that were being saved by*
6 *consumers for use in future programs.* Therefore a
reserve was established as of 12/31/92 to recognize this
[Camel Cash] liability. (*Id.*, emphasis added)

7 The memorandum furthers states:

8 Accounting Methodology

9 The Company’s current accounting practice is to
10 recognize the estimated cost (premiums and fulfillment)
11 of continuity programs based on the percentage of offers
12 (or catalogs distributed) during the year. Program
13 participation and cost are based on management approved
14 forecasts. Premium items purchased in excess of
estimated redemption by the consumer are set up as
inventory until such time as they are utilized in future
continuity or retail promotional programs.

15 Camel Cash Reserve

16 The reserve establishes a liability for C-Notes saved by
17 consumers but redeemed during future Camel Cash
18 catalog programs. These C-Notes are not accounted for in
19 current program costs. Accounting for this reserve is
based on matching current period expense with current
period revenue. (*Id.*)

20 42. A financial reserve is only appropriate for those costs that are estimable and
21 probable (*see* FASB Rule 5, emphasis added). Accordingly, it would have been improper
22 under GAAP for defendant to create a financial reserve if it believed its performance was
23 merely voluntary.

24 43. Defendant's budgets for the Camel Cash program assumed only a percentage of
25 the certificates issued would be redeemed. As the use of the internet grew in the late 1990s
26 and the early 2000s, customers began to trade or sell the Camel Cash certificates on the
27 internet and on websites such as eBay.com. Unlike a merchant who has no control over the
28

1 demand for its products, defendant's printing of Camel Cash certificates gave defendant
2 complete control over the number of certificates available for redemption.

3 44. In or about 2006, Reynolds named a new brand manager for Camel. That new
4 brand manager reviewed the program and saw that Reynolds for years had deliberately issued
5 Camel Cash certificates without an expiration date and that Reynolds knew that many of those
6 certificates had been collected and remained outstanding.

7 45. On or about October 1, 2006, defendant determined to end the Camel Cash
8 program as of March 31, 2007. Reynolds gave six months notice in October that the Camel
9 Cash program would be terminated on March 31, 2007.

10 46. Reynolds estimated that to supply merchandise and catalogs to permit the
11 redemption of certificates until the program terminated would cost Reynolds millions of
12 dollars. Upon information and belief, the Camel brand manager sought advice from Reynolds
13 whether he could simply decline to redeem the certificates and was told that he could not
14 lawfully do that. Nevertheless, the brand manager made the determination to do that anyway,
15 believing that the costs of compliance would, in fact, be much greater than the costs of
16 breaching Reynolds' obligation.

17 47. Defendant was aware that there were many millions of Camel Cash certificates
18 outstanding. Defendant knew, and defendant estimated that holders would attempt to redeem
19 many, if not all, of their Camel Cash certificates before the March 31, 2007 deadline. In fact,
20 defendant's announcement falsely claimed that members of the Camel Cash program would
21 have "plenty of time to redeem [their] C-Notes before the program ends" (Ex. A).

22 48. Plaintiffs, registered members of the program, like thousands of Class
23 members, accumulated Camel Cash certificates they wanted to redeem during the six month
24 period (from October 2006 through March 2007) that defendant claimed the program would
25 remain open. From in or about October 2006, defendant, however, failed to honor its
26 promise. Defendant stopped honoring any requests to redeem Camel Cash certificates and
27 stopped distributing catalogs in order to deter customers from redeeming their coupons.
28

1 52. Defendant offered for sale Camel Cash certificates together with Camel
2 cigarettes and the rights of redemption afforded by the Camel Cash certificates. In response
3 to defendant's offer, plaintiffs purchased Camel cigarettes together with Camel Cash and
4 submitted enrollment forms to defendant, who accepted such forms and provided plaintiffs
5 with an enrollment number. Plaintiffs thus joined the Camel Cash program, which entitled
6 them to redeem their Camel Cash certificates in exchange for merchandise.

7 53. Plaintiffs and defendant entered into a valid and enforceable contract when
8 plaintiffs enrolled in the Camel Cash program, pursuant to which defendant incurred liability
9 and the obligation to deal fairly and in good faith. Pursuant to the terms of the contract, prior
10 to the program's termination, defendant was obligated, among other things, to maintain
11 reasonable, albeit limited, quantities of catalogs and goods available for the plaintiffs to
12 redeem in exchange for their Camel Cash.

13 54. In or about October 2006, defendant announced that it was terminating the
14 Camel Cash program as of March 31, 2007. Thus, the contract was in effect until March 31,
15 2007 when defendant terminated the program.

16 55. Beginning in October 2006, defendant, however, breached its contract
17 with plaintiffs and the Class when it stopped issuing catalogs and failed to make
18 merchandise available for redemption.

19 56. After defendant repudiated the contract, any further performance by
20 plaintiffs and the Class, including attempting to redeem their Camel Cash certificates
21 or obtain catalogs, was excused as a result of defendant's prior breach, and because
22 any such attempt was, and would have been, futile.

23 57. Defendant's failure to provide reasonable quantities of merchandise redeemable
24 for Camel Cash constituted a breach of its duty of good faith and its contract with plaintiffs
25 and the Class.

26 58. As a direct and proximate result of defendant's breach of contract, plaintiffs and
27 the proposed Class have suffered monetary damages.

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COUNT II

(Promissory Estoppel)

59. Plaintiffs, on behalf of themselves and the Class, reallege and incorporate herein by reference each of the foregoing paragraphs, and further allege as follows.

60. From the commencement of the Camel Cash program, defendant promised plaintiffs and members of the Class that if they purchased Camel Cigarettes together with Camel Cash certificates and enrolled in the program, defendant would have reasonable, albeit limited, quantities of merchandise available to redeem for Camel Cash. The promise reasonably induced reliance on it.

61. In reliance on this promise, to their detriment, plaintiffs and the Class purchased Camel cigarettes together with Camel Cash, enrolled in the Camel Cash program, and saved Camel Cash certificates.

62. From in or about October 2006, defendant, however, failed to honor its promise. Defendant stopped distributing catalogs in order to deter customers from redeeming their coupons and/or failed to have merchandise available for redemption.

63. Defendant's failure to provide reasonable, albeit limited, quantities of merchandise redeemable by Camel Cash constitutes a breach of its promise to plaintiffs and the Class.

64. As a result of defendant's breach of promise, plaintiffs and the Class suffered damages, in an amount to be determined at trial.

COUNT III

**(Unfair Business Practices Act
Cal. Bus. & Prof. Code § 17200 et seq.)**

65. Plaintiffs Sateriale, Burns, Mr. Polese, Ms. Polese, Javaheri and Griffiths, on behalf of themselves and the California Subclass, reallege each and every allegation above as if fully set forth herein, and further allege as follows.

66. The Unfair Business Practices Act defines unfair business competition to include any "unfair," "unlawful," or "fraudulent" business or practice. Cal. Bus. & Prof. Code

1 §17200. Unfair competition also includes "unfair, deceptive, untrue or misleading
2 advertising." The Act also provides for restitution for violations.

3 67. Throughout the California Subclass Period, defendant ran its Camel Cash
4 program throughout the country, including the State of California, and described the terms of
5 the program on the Camel Cash certificates, and elsewhere. In or about October 2006,
6 defendant announced that it was terminating the Camel Cash program as of March 31, 2007.
7 Defendant represented that holders of the Camel Cash certificates could redeem their coupons
8 for another six months. Indeed, upon announcing the expiration of the program, defendant
9 stated:

10 Now, this isn't happening overnight—there'll be plenty of time to
11 redeem your C-Notes before the program ends. In fact, you'll have from
12 OCTOBER '06 through MARCH '07 to go to camelsmokes.com and
13 redeem your C-Notes.

14 These representations were unfair and deceptive, as defined by Business & Professions Code
15 §17200, in that they stated that defendant would provide merchandise redeemable by Camel
16 Cash from at least October 2006 through March 2007 when defendant had no intention of
17 honoring any requests to redeem Camel Cash certificates. From in or about October 2006,
18 defendant did not provide merchandise, or even catalogs containing merchandise, to plaintiffs
19 and the California Subclass.

20 68. Defendant's conduct is unfair in that the harm to plaintiffs and the California
21 Subclass arising from defendant's conduct outweighs the utility, if any, of those practices.

22 69. Defendant engaged in conduct that is unlawful in that it is a violation of the
23 Consumer Legal Remedies Act, in addition to other potential statutory violations.

24 70. As a direct and proximate result of the acts and practices alleged above,
25 pursuant to California Business & Professions Code §17203, plaintiffs and the California
26 Subclass are therefore entitled to: (a) full restitution of all monies paid to defendant as a result
27 of its deceptive practices; (b) interest at the highest rate allowable by law; and (c) the payment
28

1 of plaintiffs' attorneys' fees and costs pursuant to, *inter alia*, California Code of Civil
2 Procedure §1021.5.

3 **COUNT IV**
4 **(Deceptive Practices**
5 **Consumer Legal Remedies Act, California Civil Code §1750 *et seq.*)**

6 71. Plaintiffs Sateriale, Burns, Mr. Polese, Ms. Polese, Javaheri and Griffiths, on
7 behalf of themselves and the California Subclass, reallege and incorporate herein by reference
8 each of the foregoing paragraphs.

9 72. At all relevant times, plaintiffs were "consumers," as that term is defined in
10 Civ. Code § 1761(d).

11 73. At all relevant times, Camel cigarettes and Camel Cash constituted "goods," as
12 that term is defined in Civ. Code § 1761(a).

13 74. At all relevant times, defendant was a "person," as that term is defined in Civ.
14 Code § 1761(c).

15 75. At all relevant times, plaintiffs and the California Subclass' purchases of
16 Camel cigarettes together with Camel Cash constituted a "transaction," as that term is defined
17 in Civ. Code § 1761(e).

18 76. The policies, acts, and practices described in this Complaint were intended to
19 and did result in the sale of Camel cigarettes together with Camel Cash certificates to
20 consumers.

21 77. In or about October 2006, Defendant announced that the Camel Cash program
22 was ending as of March 30, 2007. Defendant further represented in this announcement that
23 Camel Cash certificates could be redeemed for another six months. However, beginning in
24 October 2006, defendant did not provide merchandise, or even catalogs containing
25 merchandise, to plaintiffs and the California Subclass.

26 78. Had plaintiffs and members of the California Subclass known that they would
27 be unable to redeem their Camel Cash for merchandise as represented by defendant, they
28 would not have purchased Camel cigarettes and saved Camel Cash. Defendant, at all relevant

1 times, knew that plaintiffs and members of the California Subclass did not know or could not
2 have reasonably discovered this fact prior to their purchases.

3 79. Plaintiffs and the California Subclass were harmed by defendant's deceptive
4 acts when, after purchasing Camel cigarettes together with Camel Cash, they were unable
5 between October 2006 and March 2007, to obtain merchandise described in the Camel Cash
6 program as supposedly redeemable by Camel Cash.

7 80. Defendant's practices, acts, policies, and course of conduct violated the
8 California Consumer Legal Remedies Act, California Civil Code §1750 *et seq.*, (the
9 "CLRA"), in that defendant represented that goods had characteristics, uses and benefits or
10 quantities which they did not have, in violation of §1770(a)(5) of the CLRA.

11 81. Defendant's practices, acts, policies, and course of conduct violated the CLRA,
12 in that defendant advertised goods with intent not to supply reasonably expectable demand in
13 violation of §1770(a)(10) of the CLRA.

14 82. Defendant's practices, acts, policies, and course of conduct violated the CLRA,
15 in that defendant represented that a transaction confers rights, remedies or obligations which it
16 does not have or involve, in violation of §1770(a)(14) of the CLRA.

17 83. As a result of defendant's illegal conduct alleged herein, plaintiffs seek
18 damages and restitution of all monies received by defendant as provided in California Civil
19 Code §1780. Plaintiffs are informed and believe that the amount of said damages and
20 restitution is unknown at this time, but will seek relief to amend this complaint at the time of
21 trial when the same has been ascertained.

22 84. In compliance with the provisions of Civil Code §1782, plaintiffs have given
23 written notice to defendant of their intention to file a complaint for damages under Civil Code
24 §1750, *et seq.* However, over 30 days have elapsed, and defendant has failed to offer
25 appropriate consideration or other remedy to all affected consumers as described in the written
26 notice.

27 85. As a result of violation of the CLRA, plaintiffs and the California Subclass
28 suffered damages, in an amount to be determined at trial.

1 **PRAYER FOR RELIEF**

2 WHEREFORE, plaintiffs request on behalf of themselves and other members of the
3 Class and California Subclass, for judgment against defendant as follows:

4 1. An Order certifying the proposed Class and California Subclass herein under
5 Federal Rule of Civil Procedure 23 and Civil Code §1781, and certifying plaintiffs as class
6 representatives and their undersigned counsel of record to represent the Class;

7 2. For actual damages for injuries suffered by plaintiffs and the members of the
8 proposed Class and California Subclass as a result of defendant's conduct toward plaintiffs
9 and the members of the proposed Class;

10 3. Awarding plaintiffs and the Class and California Subclass their reasonable
11 costs and expenses incurred in this action, including counsel fees and expert fees pursuant to
12 California Code of Civil Procedure §1021.5, California Civil Code §1780(e); and

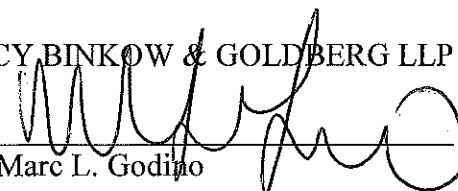
13 4. Awarding such other and further relief as this Court may deem just and proper
14 including any extraordinary equitable relief as permitted by law or equity to attach, impound
15 or otherwise restrict defendant's assets to assure plaintiffs and the members of the Class and
16 California Subclass have an effective remedy.

17 **JURY TRIAL DEMANDED**

18 Plaintiffs hereby demand a trial by jury.

19 Dated: August 11, 2010

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EXHIBIT A

Here are some coupons you can use
to continue enjoying our products.

CAMEL

10 CASH COUPONS
10 CASH COUPONS

CAMEL

10 CASH COUPONS
10 CASH COUPONS

**CAMEL
CASH**

**WE'RE SAYING
GOODBYE TO
AN OLD FRIEND**



CAMEL



As a loyal Camel smoker, we
wanted to tell you our Camel
Cash program is ending.

C-Notes will no longer be
included on packs, which
means whatever Camel Cash
you have is among the last
of its kind.

Now, this isn't happening overnight —
there'll be plenty of time to redeem
your C-Notes before the program
ends. In fact, you'll have from
OCTOBER '06 through MARCH '07
to go to camel.smokes.com and redeem
your C-Notes. Supplies will be limited,
so it won't hurt to get there before
the rush.

Thanks for checking our brand.
—Camel

**SURGEON GENERAL'S WARNING: Smoking
Causes Lung Cancer, Heart Disease,**

EXHIBIT B

000906

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PROMOTION RESEARCH REPORT

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*cc: B2
D2
M2
H. Goulson
A. M...
M. ...
J. ...
J. ...
J. ...
J. ...*

BIAD #92-13145 October 13, 1982

TO: Mr. E. C. Leary

FROM: Ms. G. R. Davis

CAMEL CASH III QUANTITATIVE RESEARCH

Copies To:

- Mr. E. M. Blackmer
- Ms. J. P. Cattano
- Ms. A. V. Howell
- Mr. D. S. Hodges
- Ms. A. L. Bellis
- Ms. J. R. McKinney
- Mr. J. D. Weber/Mr. E. J. Fackelman
- Ms. R. C. Pastarczyk
- Mr. J. R. Moore (Presentation Only)
- Mr. W. M. Dotson (Presentation Only)
- Mr. G. J. Totterdale (NARC: Memo only)
- Mr. H. A. Morrissey (N/S)
- BIAC

MENNINA 00002497

**PUBLISHED BY THE BUSINESS INFORMATION AND ANALYSIS DEPARTMENT
R.J. REYNOLDS TOBACCO COMPANY, WINSTON-SALEM, N.C. 27102**

ME (2) 02467

CAMEL CASH III CATALOG QUANTITATIVE RESEARCH
(BIAD #92-13148)

MANAGEMENT SUMMARY

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BACKGROUND:

Given the success encountered with the CAMEL Cash program in attracting and converting competitive smokers to CAMEL, the business unit is moving forward with plans to introduce the third CAMEL Cash catalog.

While the BU had already established the C-Note structure for Cash III (15 cents vs. 14 cents in Cash II), research was needed to address expected overall participation levels relative to previous Cash programs as well as incremental volume projections and an evaluation of the number of inventory items to be ordered for premium fulfillment. In order to address these last two issues, a different methodological approach was necessary versus that utilized in Cash II.

Also, because the previous quantitative research on the Cash II catalog did not provide projections for inventory fulfillment, this new methodology was also used for the Cash II catalog to determine what item inventory levels were recommended. This enabled the business unit to have a much quicker evaluation of the new method's forecasting accuracy.

RESEARCH OBJECTIVES:

- Predict the level of competitive and franchise participation
- Project incremental volume
- Project fulfillment needs for each item in the catalog

KEY CONCLUSIONS:

- The CAMEL Cash III Catalog is expected to slightly outperform CAMEL Cash II in providing incremental business to CAMEL, assuming both are equally supported.
 - Value perceptions of Cash III relative to Cash II were significantly better among both competitive and franchise participants.
 - Model projections indicate that CAMEL Cash II should provide an incremental .18% SOM while the Cash III catalog should provide a .17% incremental SOM (assuming support to each catalog equal to that provided to Cash I).
- Two-thirds of competitive smokers who played in Cash I are expected to continue playing in either Cash II or Cash III.
 - The competitive savers who are expected to drop out were only "marginal" interactors with CAMEL to begin with (their "pre-CASH" purchases of CAMEL were on average significantly below the CAMEL purchasing rate of competitive smokers who plan to continue to save).
 - There is an upside to competitive participation/incremental SOM which could be obtained if spending levels/execution plan behind CASH III are sufficient to generate broader awareness than was achieved in Cash I. For every 5% increase in program awareness, CAMEL Cash could reap an incremental .05% SOM gain.

How?

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CAMEL CASH III CATALOG QUANTITATIVE RESEARCH

MANAGEMENT SUMMARY
(Continued)

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KEY CONCLUSIONS: (Cont'd)

- Projections for inventory/fulfillment suggest that budgets for both Cash II and Cash III are underfunded.
 - Cash II projections indicate a "richer" mix than is currently planned, as the current trend of orders will shift later in the program when "stockpilers" redeem their C-Notes for items with higher C-Note costs (and a higher real cost for the brand).
 - Similarly, Cash III projections indicate that a budget of \$39MM is necessary, versus the current planned expenditures for premiums/fulfillment of \$22.5MM.
- C-Note exposure/liability from unredeemed C-Notes is large and will continue to grow with each program unless redemption rates grow or C-Note values are further reduced.
 - C-Note exposure at the end of Cash II is projected at \$37.5MM beyond the \$37.8MM fulfillment projection.

*MULTI
CASH
CASH*

IMPLICATIONS:

- The incremental share projections and the estimates of total item and C-Note redemption in both catalogs are based on the assumptions that each catalog will have marketing support identical to that provided for the Cash I program.
 - Since we know that Cash II was not given the same level of introductory support as Cash I, the .15% incremental \$GM may not be fully realized. However, given the additional support planned in 4Q92, CAMEL may reap some of this incremental share during that time.
 - Given that the introductory plan behind Cash III is similar to the Cash I plan, the .17% incremental \$GM should be realized over the course of the program. Again, there is an upside to this projection if awareness of program (and intuitively catalog distribution) is broader than was obtained during Cash I.
 - Also, a valid point that was raised after the presentation was that if the timing of the Cash III catalog introduction is different than it was for Cash II (i.e., before the current catalog expires rather than after it expires), then this could result in some percentage of the C-Notes projected to be redeemed in Cash II being retained for redemption in Cash III.

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CAMEL CASH III CATALOG QUANTITATIVE RESEARCH

MANAGEMENT SUMMARY
(Continued)

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IMPLICATIONS: (Cont'd)

- Because of exposure implications, the average C-Note value of items in the catalog should not be raised significantly above current levels as the means of attracting new competitive players into the program.
 - However, results do suggest that lower cost of entry on some items may be effective at bringing new players/past dropouts into the program, enabling those "light" occasional users of CAMEL to be easily rewarded, thereby quickly providing them a tangible reason to continue smoking CAMEL more frequently/to convert.
 - Therefore, items that are "out of reach" of most competitive smokers (i.e., over 150 C-Notes) should be priced at C-Note values less than 15 cents to offset the "loss leader" items priced above 15 cents, so that the franchise ultimately "pays for" the competitive incentives.
- The budget for Cash III fulfillment needs to be increased. Overall, this suggests that CAMEL should begin to plan in advance for a larger portion of its total budget to be used for CAMEL Cash.
 - If it is not, CAMEL will again be in the position of pulling support dollars from Cash IV to pay for fulfillment in Cash III, similar to what has occurred in Cash II (which is why it may not provide the projected share gains). If this "cycle" is not adjusted for, then we will witness a continual pattern of "effective" programs followed by "ineffective" programs with the only real difference being the effort and spending behind getting the message, catalogs, and any possible "bonus incentives" out to consumers in a timely fashion.
- The C-Note "carryover" exposure issue needs to be addressed. At the current C-Note value of 15 cents, an estimated nearly \$38 million worth of "extra" C-Notes is currently being held by people who are likely to redeem them at some point. It should be assumed that if a third catalog was not going to be introduced, the redemption costs for Cash II would be double what is currently projected.
 - A C-Notes expiration date is currently not a valid recommendation assuming CAMEL does not have an extra \$40 million to pay for fulfillment of carryover C-Notes. If and when an ending to CAMEL Cash appears to be the right decision, then there will very likely need to be a final extremely low value C-Note catalog in conjunction with C-Note expirations, unless the brand and the agency can devise other effective means to continually siphon C-Notes out of the system at a greatly reduced cost.
 - In the meantime, the BU needs to assess whether this carryover exposure is "material" enough to warrant adding it to the corporate balance sheets.

*Dieter
C. [unclear]
[unclear]*

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Yes

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EXHIBIT C

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RJR Reynolds
Tobacco Company

**Camel Cash
Promotion Evaluation
Final Report**

**MACRO
STRATEGIES INC.**

October 1992

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Background

- **The original Camel Cash promotion program generated significant response in the marketplace**
 - approximately 961M smokers redeemed C-Notes for merchandise
 - approximately 5.5MM items distributed to smokers.
- **The Camel Cash II program is currently underway and scheduled to run through the end of January 1993. Camel Cash III is planned to follow the Camel Cash II program.**
- **The original program's success identified the need to better forecast participation and fulfillment quantities**
 - internal projections underestimated marketplace redemptions
 - BIAD developed a regression based model to better estimate fulfillment needs (i.e., to provide ballpark projections for each item in the catalog for Camel Cash II & III)
 - BIAD is also testing the MACRO promotion evaluation system on Camel Cash II and Camel Cash III to assess its viability as an improved forecasting approach.

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Exhibit C, p. 32

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Objectives

The primary objectives of the MACRO promotion evaluation of Camel Cash II and Camel Cash III are to:

- Estimate program participation
 - among franchise smokers
 - among competitive usual brand smokers
- Project fulfillment needs for all items in the catalogs, and
- Forecast incremental volume for the Camel brand.

A secondary objective is to contrast fulfillment projections from the MACRO promotion evaluation vs. projections using the BIAD regression model and identify any major differences.

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B.R. Reynolds

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Overview of Conclusions

- **Cash III slightly outperforms Cash II in terms of incremental business potential.**
 - **Perceived as better value than Cash II.**
- **Compared with BIAD forecasts, MACRO projects a higher number of total C-Notes to be redeemed while projecting a lower number of catalog items to be ordered for both Cash II and III.**
 - **MACRO projections skew more to high-ticket catalog items.**
- **Cash II and Cash III redemption budgets are low relative to projected orders.**
- **C-Note exposure is not only large, but it also grows with each successive program.**

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RJ Reynolds

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Methodology

- Two cell consumer evaluation of the promotion programs
 - Camel Cash II
 - Camel Cash III
- Telephone and mall intercept recruiting
- Central location / mall interview
 - past purchase / usage / preferences for brands
 - participation in Camel Cash I program
 - exposure to new Camel Cash catalog (II / III)
 - assessment of promotion participation / purchase response
 - selection of catalog items based on C-Note quantities available to individual consumers
 - low end: available from Camel purchases
 - high end: available from Camel purchases, quantity on hand from previous program and solicited from others
 - selected diagnostics on appeal / value of catalog items

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BBB

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UNIVERSITY MICROFILMS

Consumer Sample

- Consumer sample consisted of male and female NM smokers (21 to 64 years of age).

	Cell 1 (Cash ID)	Cell 2 (Cash ID)
• Total	326	300
• Camel UB	114	101
- participating	98	90
- non-participating	16	11
• Competitive UB	212	199
- participating	99	96
- non-participating	113	103

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- Evaluation conducted in sixteen geographically dispersed market areas.

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Camel Cash I Penetration

- As one would expect, Camel Cash I generated its strongest penetration among franchise smokers.

	Total Non-Menthol %	Camel UB %	Competitive NM UB %
Awareness	38	96	35
Saved C-Notes	9	69	6
Redeemed C-Notes	3	36	1

Source: Camel Cash I Tracking

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Camel Cash I Penetration

- While Camel Cash I generated strong levels of penetration among franchise smokers on a percentage basis, more competitive brand users saved C-Notes from a numbers point of view.
- The majority of smokers who saved C-Notes during the Camel Cash I did not redeem by the end of the program.

	Total Non-Menthol M's	Camel UB M's	Competitive NM UB M's
Saved C-Notes	2,911	1,078	1,833
Redeemed	961	558	403
Did Not Redeem	1,950	520	1,430

Source: Camel Cash I Tracking

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B.P. Smith

MB(2) 03478

Exhibit C, p. 38

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Camel Cash I: Projections vs. Actual

- Projections for Camel Cash I based on consumer data are in the ballpark relative to actual levels obtained through the program.

	<u>Projected*</u> MM's	<u>Actual</u> MM's	<u>Projected As</u> <u>% of Actual</u>
Total Items	5.332	5.550	96%
Total C-Notes	141.974	127.875	111%

- * Projections reflect the size of Camel UB and Comp. UB C-Note redeemer groups (derived from tracking data) and reported redemption among our consumer sample (21-64 years of age).

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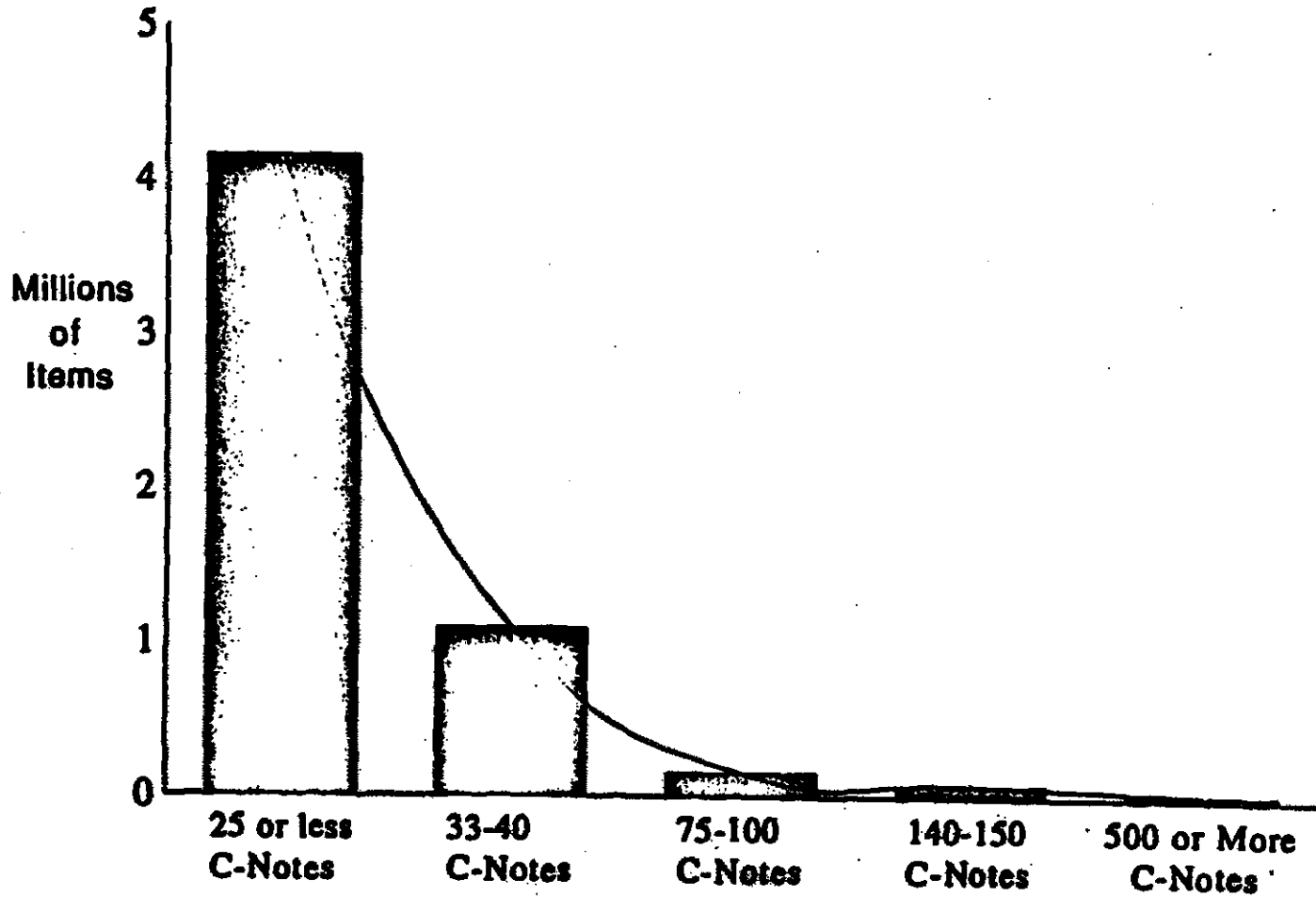
NB(2) 02479

Exhibit C, p. 39

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Camel Cash I Redemptions By C-Note Value



MS (2) 65480

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Exhibit C, p. 40

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MINN-24 11 2 11 11 11

Evaluation of Camel Cash II and Camel Cash III

**Participation
Catalog item projections
Incremental business potential**

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Participation in Camel Cash II / III

- **Roughly two-thirds of Camel Cash I participants are projected to save C-Notes in Camel Cash II and III**
 - Most franchise smokers will continue to collect C-Notes
 - About half of Comp. UB participants from Cash I will continue to save C-Notes.
- **Camel Cash III generates a somewhat stronger level of participation than Cash II.**
- **Similar level of interest for Camel Cash II and III among Comp. UB smokers who did not participate in Cash I.**

	<u>% of Smokers Projected To Save</u>			
	<u>Saved C-Notes in Camel Cash I</u>			<u>Comp. UB Smokers Non-Participants</u>
	<u>Total</u>	<u>Camel UB</u>	<u>Comp. UB</u>	
	%	%	%	%
Camel Cash II	64	89	50	23
Camel Cash III	69	95	54	23

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MR(2) 02483

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Perceived Value of Cash III Items vs. Cash II Items (Cell 1 Only)

	<u>Total</u>	<u>Camel UB Savers</u> (98)	<u>Comp. UB Savers</u> (99)	<u>Comp. UB Non-Savers</u> (113)
	%	%	%	%
• Perceived Value				
- Cash III is better value	36	35	31	42
- Cash II is better value	16	14	18	14

Note: "Savers" reflect participation in Cash I

• Includes Camel UB Non-participants

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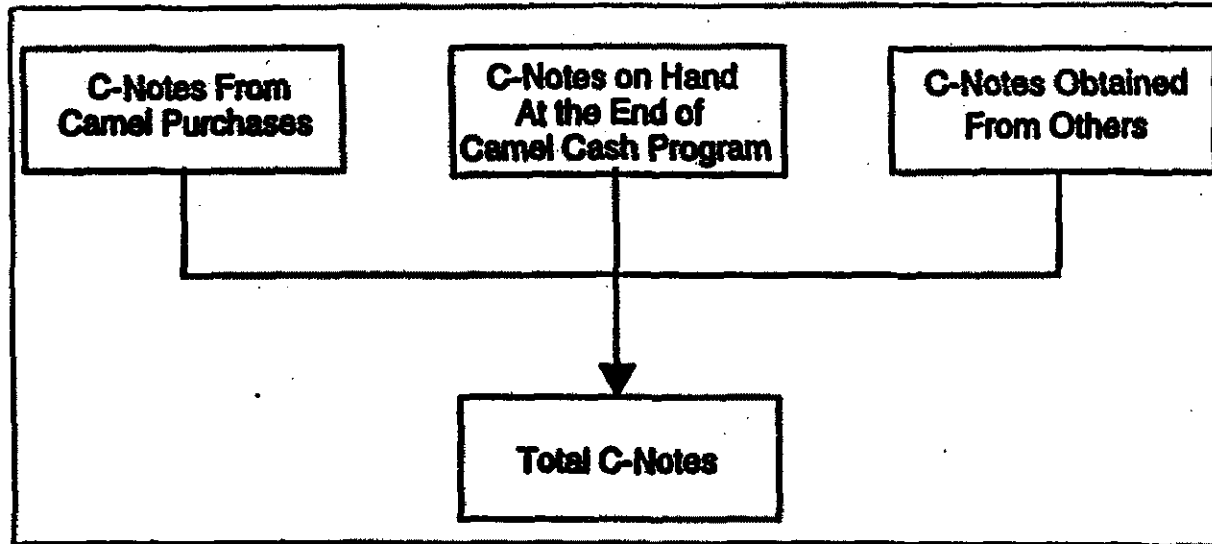
B.P. Reynolds

AX
000923

NUNN-24 CC CC J CB J

Sources of C-Notes / Basis For Catalog Orders

- Participants have three sources of C-Notes which they can use in Camel Cash II/III.



- Smokers order items from the catalog based on the number of C-Notes they obtain from all sources during the course of the Camel Cash program.

MB(2) 02485

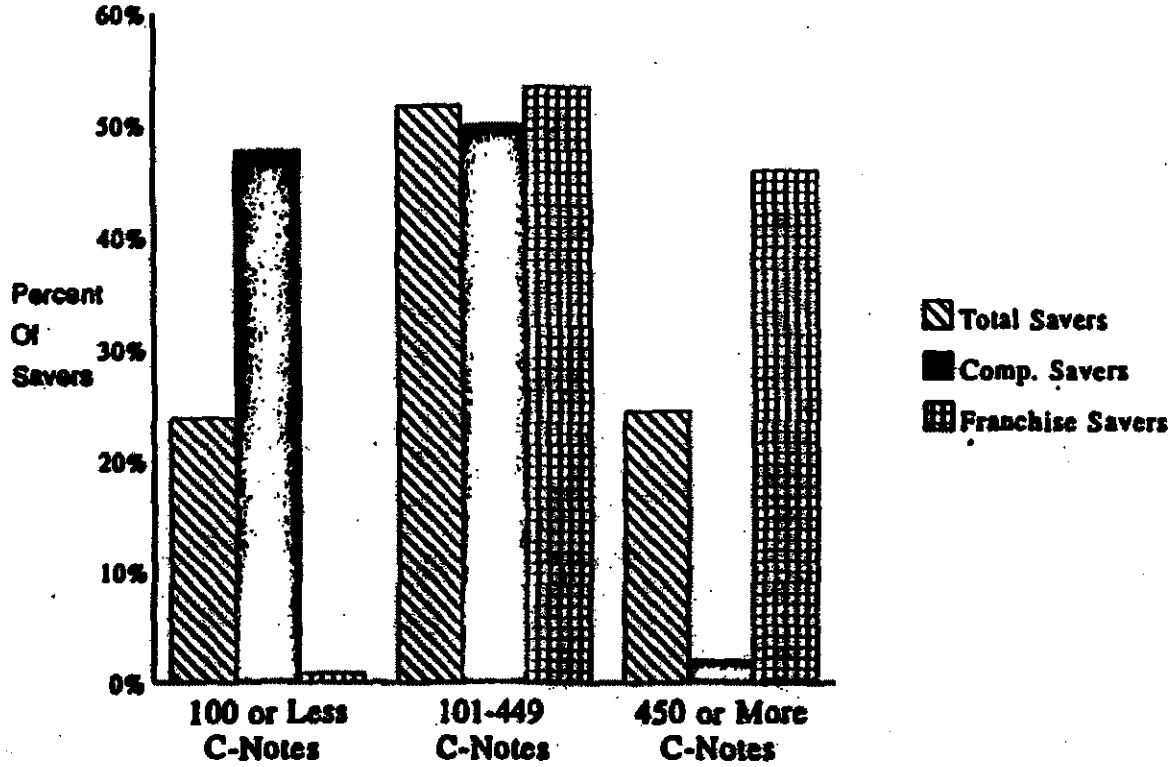
Exhibit C, p. 45

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B&W

5 00 1 2 03 03 AZ-NNMS

Distribution of Total C-Note Quantities For Camel Cash II / III



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AH 000925

MID (2) 02496

Exhibit C, p. 46

MUNN-24 C C 2 J C C

Average Number of C-Notes: Franchise & Competitive Savers

	Average Number of C-Notes		
	Total Savers	Camel UB Savers	Comp. UB Savers
Total C-Notes	312	473	144
• From Camel Purchases	152	266	33
• On Hand At End of Camel Cash I	84	116	50
• Obtained From Others	76	91	61

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RJ Reynolds

ND (2) 02457

Exhibit C, p. 47

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MUNN-2A | C C 2 J B 7

Budgeted vs. Projected Dollar Outlays

- Financial liability for Cash II and Cash III redemptions is higher than currently budgeted:
 - Both models project higher fulfillment liability than budget.

	# C-Notes <u>(MM)</u>	<u>@ \$.15 Avg.</u>	Projected vs. Budget Difference
Cash II			
Current Projection	182.649	\$27.4MM	+\$4.0MM
MACRO Projection	251.969	\$37.8MM	+\$14.4MM
Budget (Premium Fulfillment)		\$23.4MM	
Cash III			
Current Projection	250.675	\$37.6MM	+\$15.1MM
MACRO Projection	260.329	\$39.0MM	+\$16.5MM
Budget (Premium Fulfillment)		\$22.5MM	

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MB(2) 02489

Exhibit C, p. 49

JH 000928

3UNN-2A | C3 C2 C1 C0

Exposure/Potential Liability at Conclusion of Camel Cash II

- The outstanding dollar liability (in terms of as-yet unredeemed C-Notes) at the end of the Cash II program will be about \$37.5 million, assuming the following:
 - 64% of Cash I participants continue to save in Cash II
 - Total redemption, in terms of C-Notes, will be 252 million
 - 24% of non-redeemers simply throw their C-Notes away

Savers - Cash I		2.911	MM
% Saving (Cash II)		<u>x 64</u>	%
Savers - Cash II		1.863	MM
Average Number C-Notes/Saver		<u>x 312</u>	
Total C-Notes Saved		581.3	MM
Less Redeemed (Cash II)		<u>-252.0</u>	MM
Non-Redeemed C-Notes		329.3	MM
Less C-Notes Discarded		<u>-79.0</u>	MM
Net C-Notes Outstanding		250.3	MM
Liability of 15¢		.15	
Exposure		\$37.55	MM

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MB (E) 02490

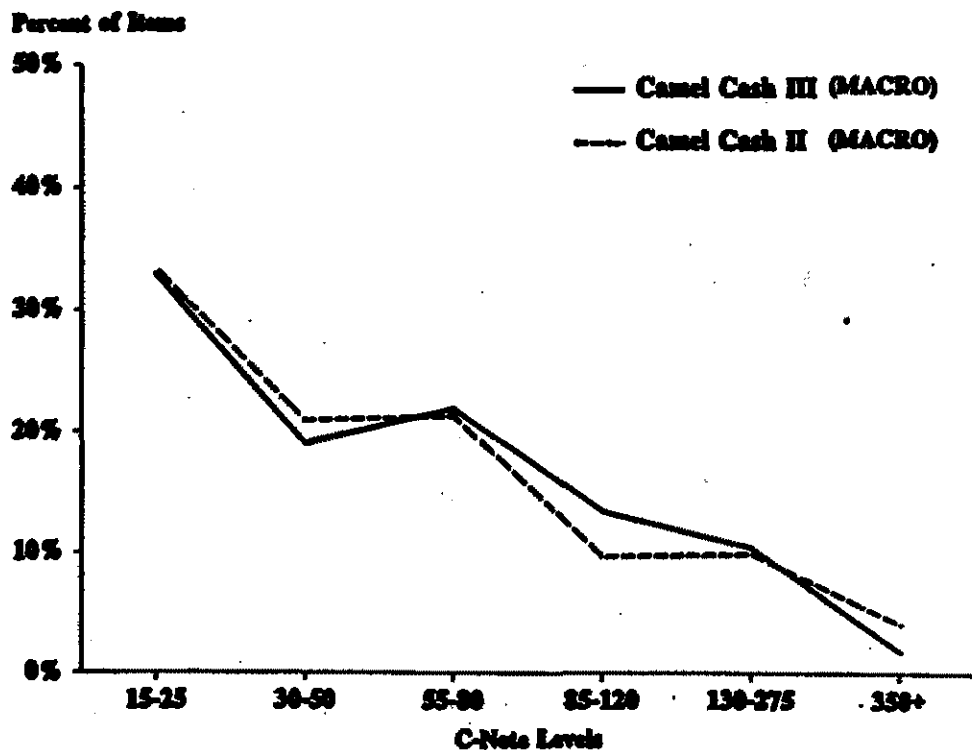
Exhibit C, p. 50

JH 000929

MUNN-24 CC 2 J 9 C

Camel Cash II and III -- Item Mix By C-Note Levels

- Camel Cash II and III should exhibit a similar pattern in item mix relative to the level of C-Notes required.
 - Camel Cash III with higher percentage in the 85-120 range
 - Camel Cash III with lower percentage in the 350+ range



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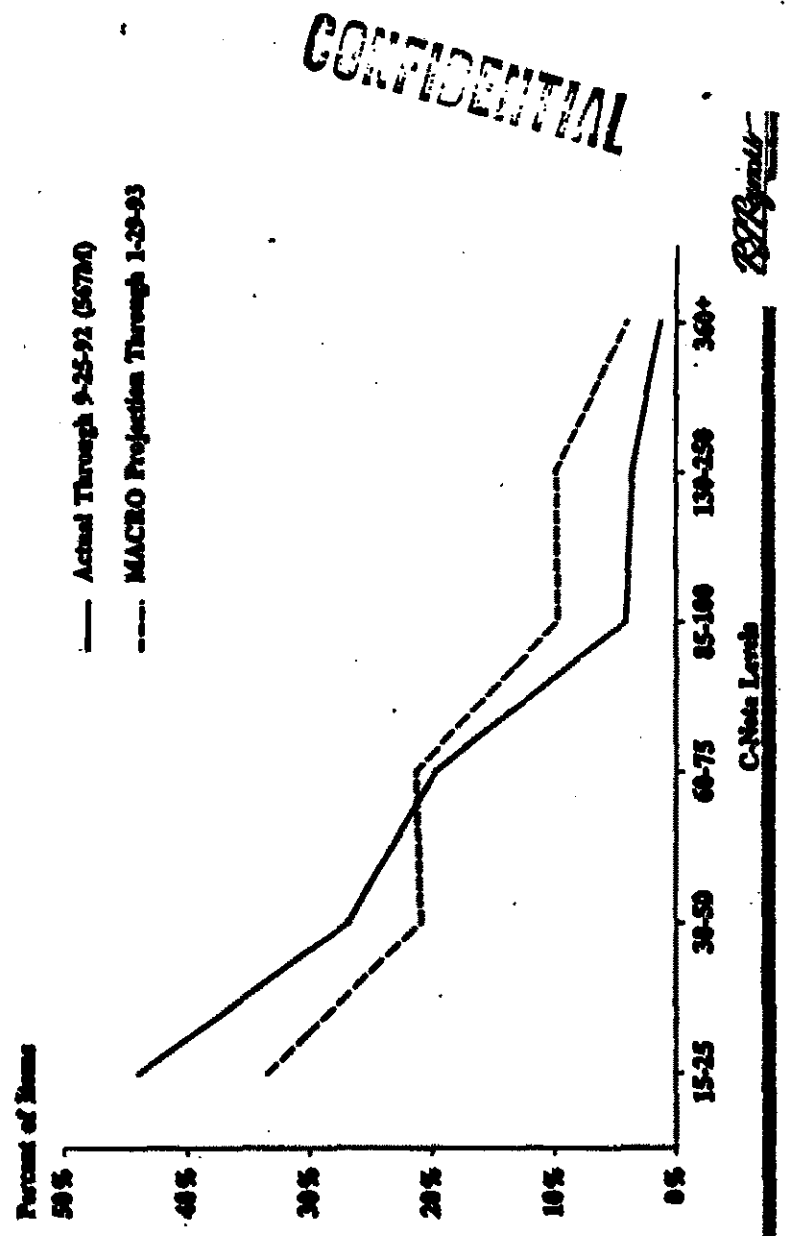
Exhibit C, p. 51

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MUNN-24 | C3 C2 C1 97

Camel Cash II -- Item Mix By C-Note Levels

- MACRO projections reflect a different mix of items ordered relative to the mix observed during the first two months of Camel Cash II.
- MACRO projections incorporate fewer low C-Note items and more high C-Note items.



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Calculation of Catalog Item Volume

Number of Smokers Saving C-Notes • CAMEL • Competitive	X	% Redeeming C-Notes for Catalog Items • Camel • Competitive	X	Average Number of Each Catalog Item Ordered and the Number of C-Notes Required • Camel • Competitive	=	Number of Items and C-Notes for Each Catalog Item
--	---	---	---	--	---	--

Note: Savers select items from the catalog based on C-Notes they will have available (from purchases of Camel, left over from previous Camel Cash program, and obtained from others)

BZ

UJ 40 -E N U C3 C3 AZ-NNM3

Camel Cash II: Items for 35 C-Notes or Less

<u>Catalog Item Number & Description</u>	<u>C-Note Cost</u>	<u>Fulfillment Projections</u>	
		<u>Number</u> (in M's)	<u>% of Total</u>
16 "Classic Camel" Collector's Tin	20	105	3.1
17 "Pool Player" Collector's Tin	20	87	2.6
18 "Deco Camel" Collector's Tin	20	63	1.9
36 "Desert Biker" Lighter	20	136	4.0
37 "Piano Player" Lighter	20	88	2.6
39 Joe's Mug	20	204	6.0
41 Smooth-1 License Plate	20	32	0.9
55 Classic Shot Postcards	20	3	0.1
6 Pack O-Lighters	25	106	3.1
20 "Golf Player" Stein	25	31	0.9
21 "Club Camel" Stein	25	58	1.7
22 "The Hardpack" Stein	25	29	0.9
23 "The Wides" Stein	25	24	0.7
35 Genuine Rebel Top Water Lure	25	191	5.6
7 Camel Stud Earrings	30	82	2.4
38 Team Camel Cap	30	150	4.4
15 Java Mug	35	52	1.5
44 Windshield Sun Shield	35	22	0.6

• 18 items under 35 C-Notes

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MB(2) 02494

Exhibit C, p. 54

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MUNN-2A C C C C C C C C C C

Camel Cash II: Items for Over 100 C-Notes

Catalogue Item Number & Description	C-Note Cost	Fulfillment Projections	
		Number (in M's)	% of Total
31 Classic Camel Sweatshirt (LG)	130	44	1.3
32 Classic Camel Sweatshirt (XLG)	130	54	1.6
50 "The HardPack" Camel Collector's Mirror	130	10	0.3
51 "Biker" Camel Collector's Mirror	130	14	0.4
52 "Piano Player" Camel Collector's Mirror	130	3	0.1
53 "Classic Camel" Camel Collector's Mirror	130	20	0.6
54 "The Widex" Camel Collector's Mirror	130	3	0.1
30 Lava Buns	150	23	0.7
1 Club Camel Robe (Men's)	200	61	1.8
2 Club Camel Robe (Women's)	200	27	0.8
14 Joe's Pub Dart Board	250	80	2.4
26 Great Outdoor Jacket (LG)	360	26	0.8
27 Great Outdoor Jacket (XLG)	360	17	0.5
42 Joe's Black Denim Jacket (LG)	450	54	1.6
43 Joe's Black Denim Jacket (XLG)	450	44	1.3
24 Illuminated Sign	575	4	0.1
49 Joe on Canvas	800	0	0.0
Grand Total		3396	

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MB(2) 02496

Exhibit C, p. 56

AK 000935

3396-24

Camel Cash III: Items for 35 C-Notes or Less

Catalogue Item Number & Description	C-Note Cost	Fulfillment Projections	
		Number (in M's)	% of Total
31 Party Hugger	15	65	1.9
32 Hammock Hugger	15	83	2.4
16 Floating Keychain / Lighter	20	178	5.1
18 "Bustah's" Shades	20	30	0.9
19 "Floyd's" Shades	20	12	0.3
20 "Max's" Shades	20	50	1.4
21 "Eddie's" Shades	20	7	0.2
39 Wides Tin	20	70	2.0
40 Pool Player Tin	20	77	2.2
41 Classic Cigs. Tin	20	102	2.9
47 Camel Road Cup and Cup Holder	20	27	0.8
48 "Wides Guys" Flip-Top Lighter	20	84	2.4
49 "Joe" Flip-Top Lighter	20	72	2.0
53 Camel "Light" Flashlight / Keychain	20	20	0.6
55 "Joe's Garage" Keychain	20	4	0.1
34 Camel - The Game	25	22	3.5
35 Smooth Deal Lighter Set	25	105	3.0
42 Camel Cash Clip	25	46	1.3
2 Wides Mug	30	16	0.5
10 Max & Ray Salt and Pepper Shakers	30	84	2.4
3 Hard Pack Diner T-Shirt	35	83	2.4

* 21 Items under 35 C-Notes, but 15 of these are below the 25 C-Note level (compared to just 8 in the Camel Cash II catalog)

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MIB(2) 02497

Exhibit C, p. 57

000936

3111-2A

Camel Cash III: Items for 40 - 100 C-Notes

Catalogue Item Number & Description	C-Note Cost	Fulfillment Projections	
		Number (in M's)	% of Total
1 Joe's Diner Mug	40	49	1.4
9 Hard Pack BBQ Apron	40	38	1.1
14 Classic Corduroy Cap	40	45	1.3
30 Ladies Beach Cap	40	46	1.3
46 Camel Crusin' Cap	40	45	1.3
50 "Joe's Garage" T-Shirt	40	80	2.3
8 Classic Camel Ashtray	45	109	3.1
33 "Joe's On The Beach" Mesh Tank Top	45	77	2.2
52 Headlight Ashtray	55	54	1.5
23 Party Lights	60	72	2.0
37 Smooth Dart Set	60	159	4.5
7 Classic Camel Cup and Saucer Set	70	46	1.3
15 Outdoor Zippo	70	130	3.7
6 Deco Chrome Lighter	75	117	3.3
43 Pyramid Ashtray	75	127	3.6
13 Classic Camel Polo Shirt	80	67	1.9
11 Classic Camel Collector's Watch	100	98	2.8
24 Wides Pack Towel	100	57	1.6
25 Max & Ray Towel	100	40	1.1
28 Tumblers and Ice Bucket	100	59	1.7
51 "Joe's Journey" Watch	100	35	1.0

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AA 000937

MB (2) 02498

Exhibit C, p. 58

30 5 2 0 0 | 2N-NA

Camel Cash III: Items for Over 100 C-Notes

Catalogue Item Number & Description	C-Note Cost	Fulfillment Projections	
		Number (in M's)	% of Total
38 Joe's Pilsner Glass Set	115	92	2.6
17 Camelflage Cooler Bench	120	83	2.4
27 Ladies Charm Bracelet	120	11	0.3
45 Classic Car Mats	135	57	1.6
12 Camelflage Thermos	150	43	1.2
29 "Cooler" Beach Bag	150	18	0.5
22 Camel Fishing Vest	160	103	2.9
26 Limited Edition Beach Chair	270	60	1.7
36 Camel Pool Cue and Case	275	89	2.5
5 Joe's Diner Jukebox	350	32	0.9
4 Neon Diner Clock	600	6	0.2
54 Open Road Jacket	650	22	0.6
44 Neon Sign	700	7	0.2
Grand Total		3515	

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MB(2) 02499

000938

SWNN-24 CC CC 2 J 5 5

Overall Comparison of Projections

- **MACRO projections reflect a lower number of items but higher number of C-Notes redeemed relative to BIAD projections.**

	MACRO Projections MM's	BIAD Internal Projections MM's
<u>Camel Cash II</u>		
• Total Items	3.396	3.726
• Total C-Notes	251.969	182.649
<u>Camel Cash III</u>		
• Total Items	3.515	3.800
• Total C-Notes	260.329	250.675

Note: The BIAD internal projections for Camel Cash III utilize consumer appeal measures obtained in the MACRO promotion evaluation. The original BIAD projections were for 4.202 MM items and 149.9 MM C-Notes.

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MD(2) 02500

Exhibit C, p. 60

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SUNN-24 C C S C C

EXHIBIT D

Incremental Business Potential

- Incremental SOM potential for Camel is projected to be comparable for the two Camel Cash Programs. The draw from competition is somewhat higher under Camel Cash III (possibly reflecting the appeal for a broader selection of items at lower C-Note levels).

	<u>Camel Cash II</u>	<u>Camel Cash III</u>
Total Incremental SOM	<u>0.15 %</u>	<u>0.17 %</u>
• Camel UB	0.04 %	0.02 %
• Comp. UB	0.11 %	0.15 %

Note: Projections assume that awareness of the program is maintained / not increased. If awareness of the program increases among competitive smokers, incremental business potential would also increase.

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MB (2) 02301

Exhibit D, p. 61

44 000326

32-NN-24 | 33 32 33 34 35 36

Camel Cash Program's Impact on Franchise's Preference for Camel

- While incremental SOM gains from franchise smokers are modest in an absolute sense, preference for Camel vs. next choice brand is solidified after exposure to the Cash II and Cash III catalogs.

	<u>% of Chips For Camel vs. Next Choice Brand</u>		
	Prior To Catalog Exposure	Post Catalog Exposure	Index
	%	%	
Total Camel UB	72	72	110
- Camel Cash II	70	77	111
- Camel Cash III	74	80	108

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RJR

MB (2) 02902

Exhibit D, p. 62

000321

33-NN-2A 33 33 33 33 33

Conclusions

- **Cash III will be at least as effective as Cash II, assuming both are equally supported. Cash III may be better if it is supported and Cash II is not.**
 - **Higher participation in Cash III among franchise.**
 - **Value perceptions for Cash III are better than Cash II overall.**
- **Compared to internal projections, MACRO projects fewer items to be ordered and more C-Notes to be redeemed in both Cash II and III.**
 - **Reflects more high-end and fewer low-end items to be ordered.**
 - **Reflects testing among 21+ only.**
- **The competitive savers who will leave the program after Cash I are "marginal" interactors with Camel. They buy Camel less often than other occasional users.**
 - **Hypotheses for them leaving include:**
 - **Cost to redeem went up.**
 - **Can't save enough C-Notes to justify the effort**
 - **Dissatisfaction with product.**

MD (2) 02503

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BJ Reynolds

W C S U C C | 2-N-N-S

Conclusions

- **Fulfillment budgets for Cash II and Cash III are underfunded.**
- **A large C-Note exposure/liability exists.**
 - **Exposure at the end of Cash II is projected at \$37.55MM (beyond the Cash II projected fulfillment cost of \$37.8MM).**
 - **Overall exposure (number of C-Notes) grows with each program unless redemption grows beyond projected levels.**
 - **Therefore, a significant budget liability remains unfunded from program to program. The level of financial exposure is impacted both by the number of C-Notes carried over and the average value of each C-Note.**

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BSR

MS (2) 02504

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Implications

- **Programs should be developed to retain former/attract new competitive smokers. However, average cost per C-Note should not be raised significantly due to financial implications.**
 - **Bonus incentives/lower cost of entry on a few items may re-attract Cash dropouts.**
 - **Increased awareness/support behind Cash III may bring in new competitive smokers.**
- **Camel Cash budget needs to be increased.**
 - **Potentially \$14.4MM underfunded for Cash II premium fulfillment.**
 - **Potentially \$16.5MM underfunded for Cash III.**
- **The remaining financial liability/exposure issue needs to be addressed:**
 - **Budget considerations.**
 - **Balance sheet considerations.**
 - **C-Note expiration date.**
- **Learning from Camel Cash strongly supports not using normal packs as proofs for any RJR continuity program.**
 - **No way to control exposure due to unlimited stockpiling.**

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MB (2) 02305

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Method of Acquiring C-Notes

- The vast majority of those who acquire C-Notes (beyond simply purchasing Camel) obtain them from friends or family members.

Method of Acquisition	Those Obtaining C-Notes		
	Total Savers*	Camel UB Savers	Comp. UB Savers
	%	(93) %	(106) %
From Friends	72	84	65
From Family Members	31	22	37
Actively Solicited	-	1	-
Other Sources	7	6	7

* "Savers" are Cash I participants

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BR Report

MB (2) 02336

Exhibit D, p. 66

3-NN-24 | 5 3 5 2 3 3

*Behavior of C-Note Savers Who Have Not Redeemed

- Of those consumers who have saved C-Notes but not yet redeemed them, the majority are stockpiling for a future purchase (particularly among Camel UB smokers).
- Unsurprisingly, competitive smokers are more likely to give their C-Notes away.

Actual Behavior	Savers / Non-Redeemers		
	Total (99) %	Camel UB (41) %	Comp. UB (58) %
Continued to Save / Future Use	57	82	43
Gave Them Away	24	7	34
Threw Them Away	5	3	6
Sold Them	-	-	-
Something Else	14	8	17

* Question was added to survey after the start date

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BTR Reynolds

MD(2) 02507

Exhibit D, p. 67

171 000532

3-NN-24 | 33 33 33 33 33 33

Behavior of Camel Purchasers (Past 12 Mo.) Who Do Not Save C-Notes

- Of those consumers who have purchased Camel in the past year but have opted not to collect C-Notes, most simply throw them away.
- However, about 30% of both Camel UB and Comp. UB smokers give their C-Notes to friends / family.

C-Note Behavior	Purchasers / Non-Savers		
	Total %	Camel UB (27) %	Comp. UB (64) %
Throw Them Away	64	71	64
Give Them Away	30	29	30
Sell Them to Others	1	-	1
Something Else	5	-	5

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RJR

MB(2) 02508

Exhibit D, p. 68

3UNN-2A | 00 03 5 2 03 03

17000500

Intent to Acquire C-Notes From Others Among New Catalog "Savers"

- Among those who indicate they would collect C-Notes, approximately 70% would attempt to acquire them from other people (for both Cash II and III).

<u>Would Acquire C-Notes From Others</u>	<u>Total %</u>	<u>"Savers"</u>	
		<u>Camel UB %</u>	<u>Comp. UB %</u>
- Cash III	69	67	70
- Cash II	71	69	73

* "Savers" defined as those who indicate they would collect C-Notes for Cash II or III.

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BSP

MR (2) 02509

Exhibit D, p. 69

000334

MUNN-NA | 9 9 9 9 9 9 9 9

EXHIBIT E

Background

Camel Cash is a promotional continuity program that began in October 1991. Since the introduction of Camel Cash I a Camel Cash "C-Note" has been included in every pack of Camel filtered cigarettes. C-Notes have also been distributed through other promotional support programs. Consumers save C-Notes and redeem them for premiums that are listed in a Camel Cash Catalog. Each Catalog has an expiration date; however, C-Notes do not have an expiration date. Camel Cash I expired on May 31, 1992 and Cash II will end on January 31, 1993. A portion of the Camel Cash III catalogs were distributed to consumers at retail during December, 1992. The Camel Cash III catalog will expire on July 31, 1993.

Camel Cash became an on-going program during 1992 due to the success of this promotion. Several research studies were conducted during 1992 that made RJRT aware that consumers were saving and holding C-Notes to use in future catalogs. The Company realized that a liability needed to be recognized for C-Notes that were being saved by consumers for redemption in future programs. Therefore, a reserve was established as of 12/31/92 to recognize this liability.

Accounting Methodology

The Company's current accounting practice is to recognize the estimated cost (premiums and fulfillment) of continuity programs based on the percentage of offers (or catalogs distributed) during the year. Program participation and cost are based on management approved forecasts. Premium items purchased in excess of estimated redemption by the consumer are set up as inventory until such time as they are utilized in future continuity or retail promotional programs.

Camel Cash Reserve

The reserve establishes a liability for C-Notes saved by consumers but redeemed during future Camel Cash catalog programs. These C-Notes are not accounted for in current program costs. Accounting for this reserve is based on matching current period expense with current period revenue.
Current Reserve -

The steps taken in evaluating the reserve are as follows:

- Calculate the total number of C-Notes available to consumers through Camel filter pack purchases and other promotional programs.
- An estimate of the total C-Notes redeemed by consumers is developed. This estimate takes into consideration actual redemption and future anticipated redemption.
- The total of all previous and current program redemption is determined based on approved forecasts.
- The difference between total C-Note redemption and current program redemption is the residual amount which is the basis of the reserve. This difference in C-Notes is multiplied by the future estimated C-Note value. This is the amount of the reserve.

51705 4950

ACCOUNTING POLICY
CAMEL CASH RESERVE
ACCOUNT NUMBER: 04-46-0200-0000-000

12/31/92

Future Accounting -

- **This reserve will be evaluated quarterly and adjusted as necessary by Financial Services Marketing to properly reflect this liability.**
- **The methodology used to evaluate this reserve in the future is the same as that used to establish this reserve. The number of C-Notes distributed, total estimated C-Note redemption and current forecast program redemption will be used to determine if this reserve needs to be increased or decreased on a quarterly basis.**

51705 4951

EXHIBIT F

Agenda for Camel Cash Brainstorming Meeting - Friday 10am - 12pm

Current Situation

- the plan for Camel Cash 10 - a Camel Retrospective
- brief on outcome of agency meeting

Brainstorm

- ideas to maximize the catalog

Timetable - Determine Logistics and Timing for Catalog

- item selection
- production schedule
- forecast
- payment; use of C-Notes and/or cash
- funding
- catalog distribution

51705 3737

**CAMEL CASH
- THE LAST CATALOG -**

loyalty
equity
C-SOR (4)

OBJECTIVES:

- 1) To give CAMEL CASH players one final chance to utilize their C-Notes and avoid volume loyalty loss due to piss-off
- 2) To get as many equity pieces in-market as possible
- 3) To defend against Marlboro's anticipated last catalog
- 4) To continue to drive competitive interaction with the Brand
- 5) To continue to evolve perceptions of the brand - both from an authentic and "graphic pleasure" standpoint
- 6) To offset anticipated program costs as much as possible

TARGET:

21-49 year old Franchise and Competitive smokers

TONE:

Cutting Edge of the Mainstream

STYLE:

Romance the authenticity, mystique and classic heritage of the Brand

EP 30
FDA?

TIMING:

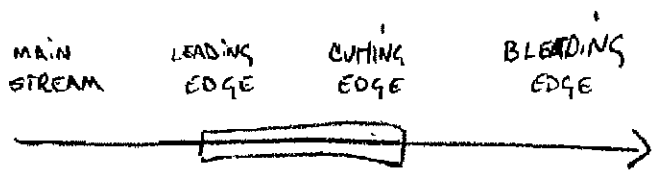
Feb. 1 - June 30, 1998

CONCEPTS TO CONSIDER:

- Utilize C-Notes only or combination of Cash and C-Notes ^{+ S F H}
- Advertise the catalog via media inserts, carton inserts, promotional offers, etc.
- Sell the items via retail →
- Organize the catalog into eras of CAMEL history - from 1913 to 1998 (85 years) with a historical blurb about each section
- Making the catalog itself exciting and collectible - higher quality items, paper, presentation, etc.

HERITAGE
EQUITY

Via
Bar Program



51705 3738

FACTS:

In the near future, logoed merchandise will not be permissible under new govt. restrictions.

Millions of unredeemed c-notes in the marketplace raise a potentially serious liability issue.

Canceling the Camel Cash program may generate ill will to franchise consumers who are not given an opportunity to redeem their excess c-notes

STRATEGIES:

short term: Create a new Camel Cash offering which acts as a low cost c-note redemption vehicle.

medium term: Create a final Camel Cash catalog which reinforces current Brand equity while also introducing new equities prior to the move into a regulated environment.

long term: *sp?* Segue Camel Cash program into a new program which is acceptable in a regulated environment.

MEDIUM TERM:

Tactic: Create a new Camel Cash catalog positioned as the last chance to get Camel premiums.
ie: The Last Cash Catalog Ever.

Offerings could include: One of a kind logoed merchandise that will never be available again.

Product in collector's packs, positioned as the first in a series.

Premiums with designs based on new graphic advertising.

Non logoed merchandise which starts building new equity not associated with a particular Brand style. ie: designer T-shirts

Premiums which act as new media to reinforce Brand equity within a regulated environment. ie: Camel posters, tin signs

T-shirts

can we sell non-camel
branded T-shirt in
a camel cash catalog
in the future?

Rationale: Collectable merchandise will have high appeal and could be sold at a higher c-note value.

Premiums with graphic designs will reinforce new advertising.

Non-logoed merchandise would begin building equity around premiums which would be acceptable in a regulated world.

LONG TERM:

Tactic: Create a new Camel magazine positioned as the ultimate information resource to explore global urban culture. Magazine would include the following:

- Editorial targeting 21 - 24 year old smokers.
- News on trends in nightlife, music, movies, and fashion.
- Articles featuring the bar program.
- Fashion articles featuring Reynolds brand designers.
- Camel Cash ads featuring collector's pack product offerings.
- Camel, Red Kamel and Bar program ads.

Distribute magazine in direct mail as well as alternative distribution outlets:

- Bar program venues
- Camel and Red Kamel retail establishments

Rationale: Magazine reinforces Camel brand positioning.

Magazine advertises Camel Cash product offering

Magazine acts as vehicle to promote Reynolds fashion designers

EXHIBIT G

Commit to 80M - save \$1.8

Reserve \$10M in 2000 Hay media -
plus where get another \$10M

Media for 93 = \$57

Does it all work?

- RU media only - 200M?

CAMEL CASH

I. CASH I

II. CASH II

III. CASH III

IV. POTENTIAL EXPOSURE

50882 3999

CAMEL CASH

CASH I

Status

- Customer satisfaction costs resulted in (\$1.1) overage.

1992	<i>Current Budget</i>	<i>Latest Estimate</i>	<i>Variance</i>
Premiums	\$29.9	\$29.3	\$.6
Fulfillment	<u>9.3</u>	<u>11.0</u>	<u>(1.7)</u>
Total	\$39.2	\$40.3	\$(1.1)

CAMEL CASH

CASH I

Program Learning

- 71% of redeemers rated CAMEL Cash program better than other "free" mail-in offers.
- 54% felt items were better quality than expected.
 - 97% equal or better quality
- Majority (66%) redeemers were fulfilled in expected time frame.
 - One-third fulfilled unsatisfactorily, which is below standards.

	<i>CAMEL Cash Compared To Other Mail-In Offers</i>	<i>Quality Of Premiums</i>	<i>Fulfillment Time</i>
Top Box	71	54	18 (66)
Worse Than Expected	2	2	33

Source: Redeemer

CAMEL CASH

CASH II

New Learning

- Effectiveness

- Cash II has sustained Cash I's overall effectiveness.

	<i>Cash I</i> (%)	<i>Cash II</i> (%)
Competitive Participation	35	30
Conversion	48	50
Improved Opinion (Competitive Only)	54	58
Competitive Smokers Citing CAMEL as 2nd Choice Brand	40	66

Source: Redeemer

50882 4002

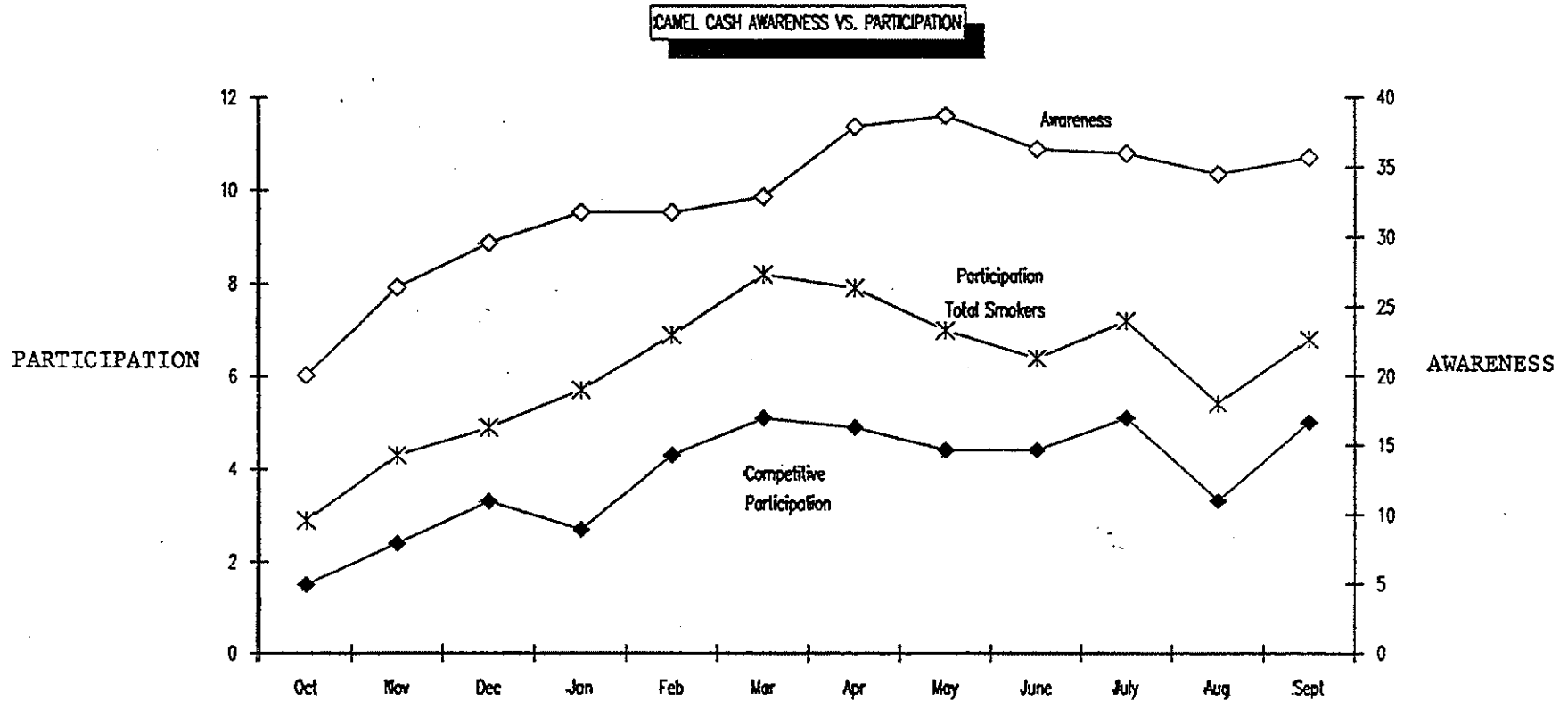
CAMEL CASH

CASH II

New Learning

- Awareness/Participation

- Awareness/participation continues at Cash I level.



Source: Tracker

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CAMEL CASH

CAMEL CASH II

New Learning

- Target Broadening
 - Competitive smokers as well as adopters skewing increasingly female
 - Female items effective

<i>Sex</i>	<i>Competitive</i>		<i>CAMEL Adopters</i>	
	<i>CC I</i>	<i>CC II</i>	<i>CC I</i>	<i>CC II</i>
Male	46%	35%	65%	55%
Female	54%	65%	35%	45%

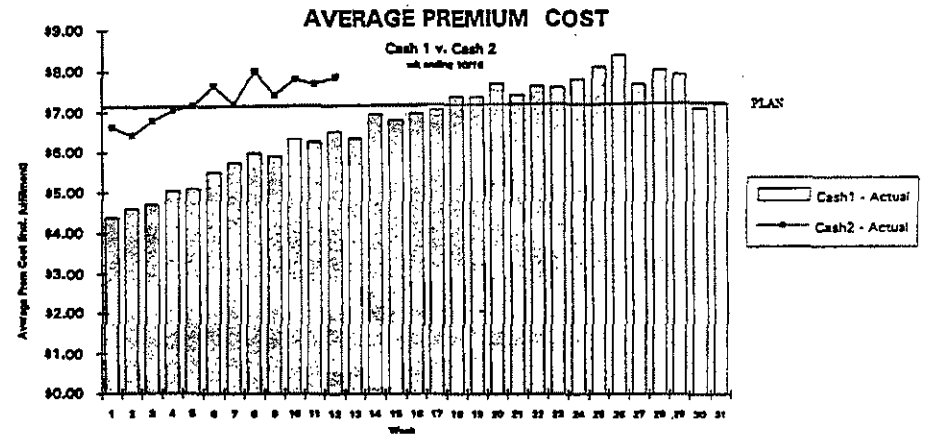
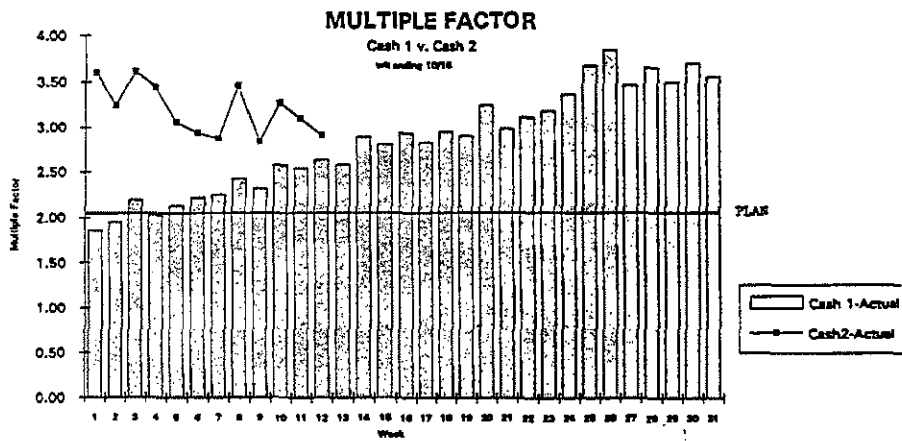
Source: Redeemer Study

CAMEL CASH

CASH II

Performance Versus Plan

- Doubling C-Note value did not decrease number items per order (multiple factor), as anticipated.
 - YTD 3.15 versus Plan 2.08
- Richer mix of items ordered.
 - YTD \$7.40 versus Plan \$7.13

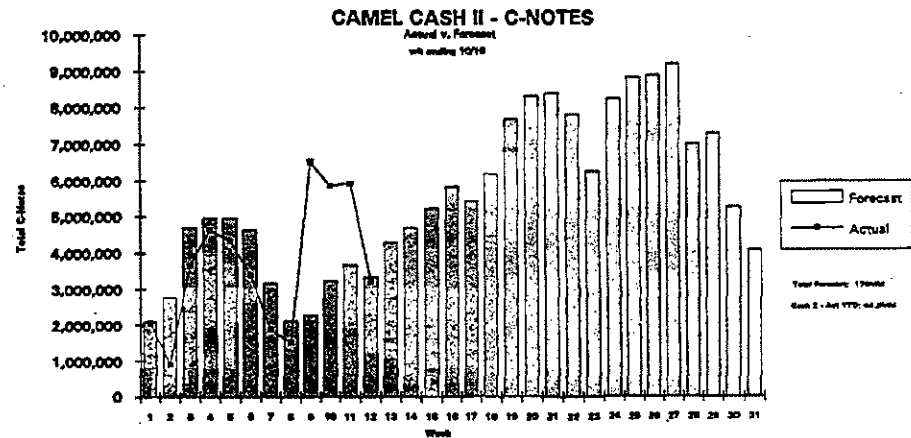
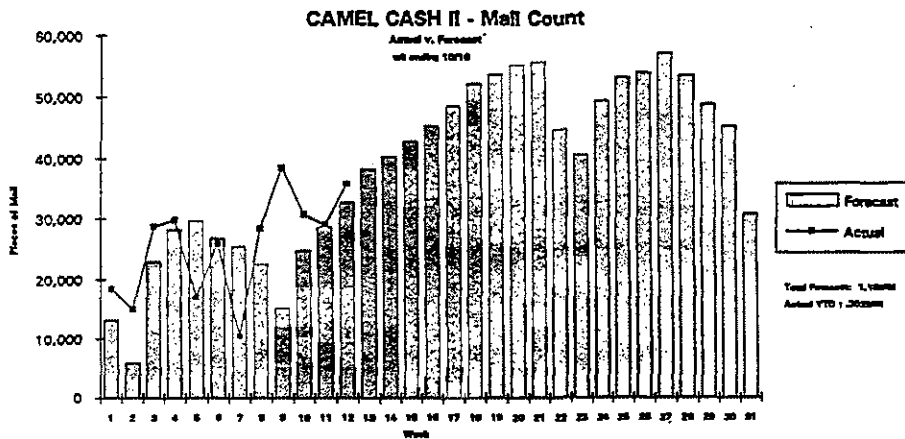


CAMEL CASH

CASH II

Performance Versus Plan

- Heighten catalog distribution driving mail count.
 - Continued gains expected to occur 4th Quarter.
- C-Notes expected to climb with mail count.



CAMEL CASH

CASH II

Budget Implications

- High level uncertainty surrounding forecasts.
- Various forecasting methodologies result in potential unfavorable budget variances.
- BIAD forecast judged most realistic.

	<i>BIAD</i>	<i>YA</i>	<i>MARC</i>
Items Fulfilled (MM)	3.8	4.2	3.4
Items Purchased (MM)	4.2	4.6	3.8
Average Premium Cost	\$8.66	\$8.66	\$11.11
Latest Forecast (\$MM)	\$32.9	\$39.8	\$42.2
Variance Versus Budget	(\$7.0)	(\$13.9)	(\$16.3)
1992 Potential Impact	(5.7)		

CAMEL CASH

CASH II

1992 Spending Options

<i>Programs</i>	<i>\$MM</i>
• Cancel November Direct Marketing (Competitive Non-Players)	\$1.0
• Pull Back 4th Quarter Multi-Brand Couponing	.6
• Defer December B3G3F until 1993 (Volume Impact: 384MM Units)	<u>7.8</u>
Total Spending Options	\$9.4

CAMEL CASH

CASH III

New Learning

- Value perceptions were significantly better among both competitive and franchise participants.
- Competitive and franchise participation expected to increase in Cash III.

	<i>Total %</i>	<i>CAMEL UB Savers</i>	<i>Competitive UB Savers</i>	<i>Competitive UB Non-Savers</i>
<u>Value</u>				
Cash III Better Value	36	35	31	42
Cash II Better Value	16	14	18	14
<u>Participation</u>				
Cash II	64	89	50	23
Cash III	69	95	54	23

Source: Cash III Quantitative Testing (MARC Report)

CAMEL CASH

CASH III

Pricing principles used to establish C-Note values.

- Leveraged advantages of perceived value versus actual cost
- Ensured adequate low end items to continue competitive participation
- High end items priced at more favorable C-Note values for efficient franchise redemption

CAMEL CASH

CASH III

C-Note Value Factors

- Perceived Value

- Higher perceived value allowed lucrative pricing.

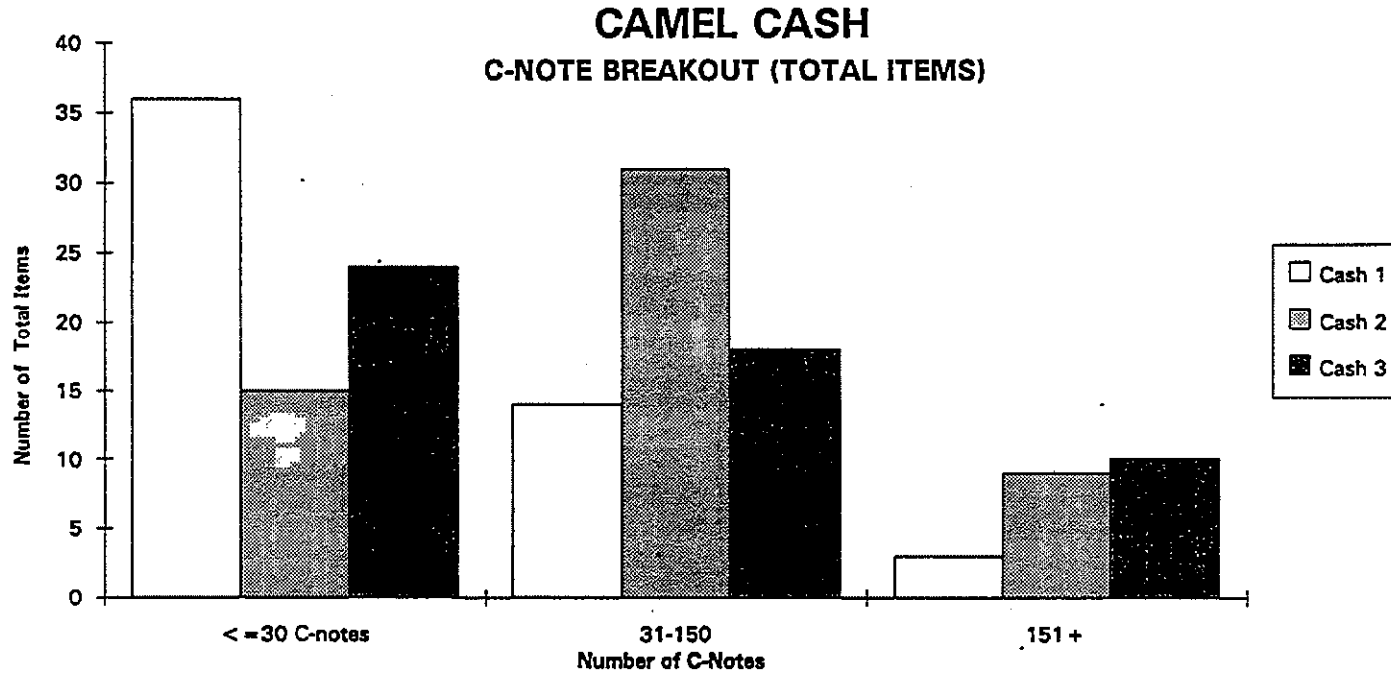
	<i>Actual Cost</i>	<i>Perceived Value</i>	<i>Cost/C-Note</i>
Deco Lighter	\$2.90	\$11.90	\$.06
Zippo	\$6.50	\$9.70	\$.09
Tins	\$1.00	\$5.50	\$.07

CAMEL CASH

CASH III

C-Note Value Factors (Continued)

- Ensure Competitive Participation
 - 45% items 30 C-Notes or less.
 - Eliminated 7 items with low competitive appeal.

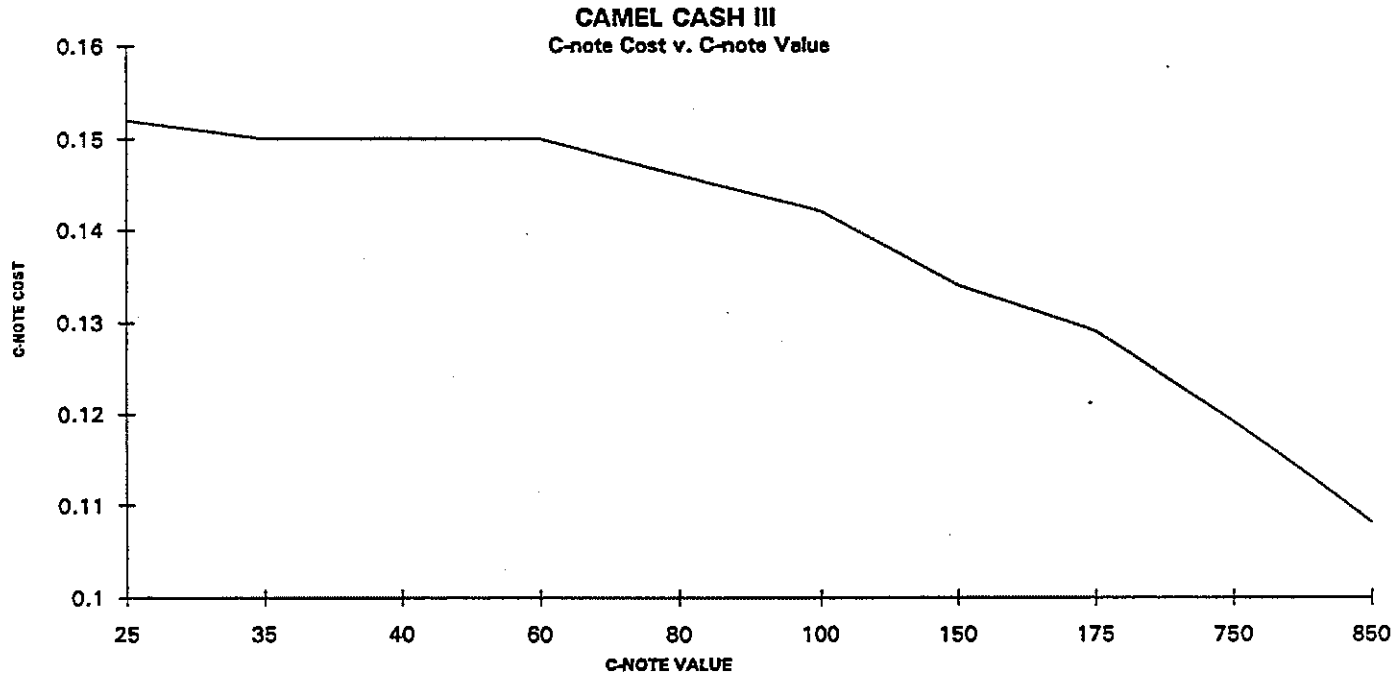


CAMEL CASH

CASH III

C-Note Factors (Continued)

- Balance between high and low C-Note requirements to ensure continual competitive participation and efficient franchise redemption.
- Factors allowed Brand to achieve \$.13 C-Note value versus \$.15 Plan and \$.15 Cash II.



CAMEL CASH

CASH III

Budget Implications

- Current forecast methodology predicts potential \$16MM downside.
- However, several uncertainties are not factored into these models:
 - Impact of Cash II and Cash III overlap
 - Marlboro program

<i>Key Assumptions</i>	<i>Plan</i>	<i>Current Forecast</i>	<i>Variance</i>
Items (MM)	3.2	3.6	(.4)
Average Premium Cost	\$7.03	\$9.65	(\$2.62)
C-Notes (MM)	150	250	(100)
Budget/Latest Forecast	\$22.5	\$38.6	(\$16.1)

CAMEL CASH

CASH III

1993 Spending Options

- Premature to adjust 1993 planned spending, given marketplace uncertainties.

	<i>\$MM</i>
<ul style="list-style-type: none">• Scale Back Cash IV<ul style="list-style-type: none">- Limit number items- Limit catalog distribution- Minimal marketing support• Reduce retail in 4th Quarter by 50%	<p>\$10 - \$15</p> <p>\$10</p>

CAMEL CASH

POTENTIAL C-NOTE EXPOSURE

- Estimated \$32MM liability at end of Cash II.

<i>Cash Programs</i>	<i>C-Note Redemption</i>	<i>C-Notes Available</i>	<i>Difference</i>	<i>C-Note Value</i>	<i>Total Potential Liability</i>	<i>Estimated 1/3 C-Notes Liability</i>
Cash I	128	529	401	\$.15	\$60	\$20
Cash II	205	547	743	\$.13	\$97	\$32
Cash III	248	382	877	\$.14	\$123	\$41
Cash IV	210	418	1,085	\$.14	\$152	\$51

CAMEL CASH

CONCLUSIONS/IMPLICATIONS

- Cash continues to be effective at attracting and converting competitive smokers.
- Cash III appears to exceed previous program effectiveness.
- C-Note value and program efficiencies increasing.
- However, key uncertainties surround Cash program:
 - Impact Marlboro program
 - C-Note "pool" exposure

CAMEL CASH

OPPORTUNITIES/EFFICIENCIES

- Explore Cash IV Efficiencies
 - Research to assess optimum catalog mix
 - Number items
 - Competitive appeal
 - Concerted effort to identify more efficient program
 - Items' perceived value greater than actual cost
 - High contribution margin items
 - Include excess inventory from other Cash programs

- Explore Siphon Opportunities
 - Offering product/coupons for C-Notes

(1). Don't make changes to programs that haven't gone DFS
yet unless making a change that will result
in cost of 50%!

(2)

50882 4019

EXHIBIT H

AGENDA

*Cies
Deck*

I. PRE CAMEL CASH OVERVIEW

II. CAMEL CASH I OVERVIEW & LEARNING

III. POST-CASH I

- Program Assessment
- Program Development
- Program Support
- Budget

CAMEL CASH

I. CAMEL CASH I

A. Situation

- Marketplace ground rules changing
 - Savings segment growing in SOM (37%) and convenience store presence (50%).
- Pressure on Full Price brands to add value/justify higher cost
 - Quarterly price increases
- CAMEL gaining among younger adults (21+), but needed to do more to accelerate growth

Focus:

- Increase distance between CAMEL and other brands (FP and Savings)
- Provide immediate incentive to purchase and ultimately switch.
- Provide "new news" into market

CAMEL CASH

I. CAMEL CASH I

B. Continuity Program

- Extremely successful for image enhancement, equity building and increasing brand loyalty, especially when reinforced through POS, direct marketing and advertising.
- Presents Brand with an excellent opportunity for solidifying the Brand's personality (Joe) by offering smokers items that reinforce the Brand's image and have a long-term impact on overall Brand perception.
- Benefit Brand through slippage as many "participants" save but never redeem.

CAMEL CASH

I. CAMEL CASH I

C. Objective

- Generate incremental volume through value-added purchase incentives.

Strategy

- Competitive Non-Users: Induce trial and brand switching
- Competitive Occasional Users: Increase percent requirement satisfied
- Franchise: Insulate from price pressure.

Program to be accomplished in an environment where CAMEL not primary RJR focus.

CAMEL CASH

I. CAMEL CASH I

D. Program

<ul style="list-style-type: none"> • Broad Participation • Broad Scope 	<ul style="list-style-type: none"> • 21-34 males target • Dual appeal • National program (24MM; 8-page catalogs) • Inserts on all filtered CAMEL styles <ul style="list-style-type: none"> - Uniquely CAMEL - Value-added versus discounting - Easy to save • Massive media plan <i>Awareness plan</i> <ul style="list-style-type: none"> - OOH - Print - Direct marketing - Retail • Broad retail distribution <ul style="list-style-type: none"> - Retail take-ones - Retail premiums - Magazine pop-ups - Field marketing - Direct mail - Bouncebacks
--	---

CAMEL CASH**I. CAMEL CASH I****D. Program**

- Program greatly exceeded expectations.

	Cash I (52 Items)	Estimated	Actual
• Original Plan	Shipments (Items)	2MM	5.6MM
	Spending	\$19MM	\$55MM
	C-Notes	80MM	128MM

CAMEL CASH

I. CAMEL CASH I

E. Overview

- SOM up for seven consecutive months
 - Marlboro share flat
- Growth in 18-24 Full-Price
 - Claimed conversion rate 29%
- Unique opportunity to further business momentum twice as efficiently
 - Acknowledgment of limited window
- Success of Cash I led Brand to adopt ongoing continuity effort

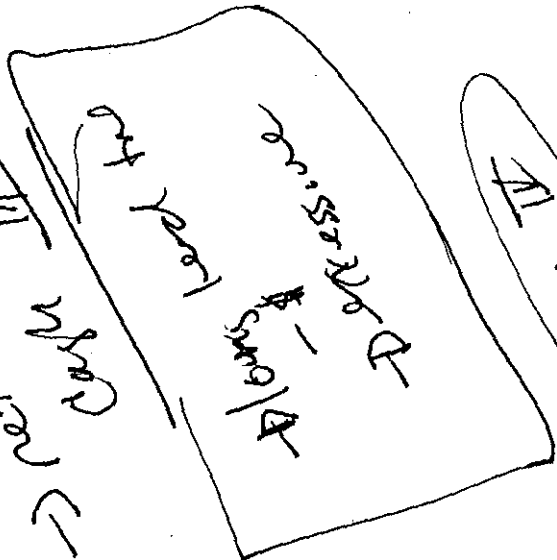
CAMEL CASHI. CAMEL CASH IF. Lessons*Level**I**P**S (**Cash!
& all
programs)*

Issues	Implications
<ul style="list-style-type: none"> • Difficult to accurately predict participation • Continuation of program with same proofs increase liability tremendously • Long lead times make inventory management more difficult • Lengthy fulfillment process creates consumer dissatisfaction • Continuity programs/catalogs tend to lose their excitement around month six 	<ul style="list-style-type: none"> • Must utilize better forecasting procedures • Need to better understand programs liability and associated implications • Minimize overseas-sourced items • Shorter fulfillment turn-time so that process becomes turnkey • Limit program duration to 6 months

cash II
time 14
cash 33
→ price 11
→

→ retail III
→ cash

POST CASH I



cash
108
cash

cash

CAMEL CASH**II. DEVELOPMENT OBJECTIVES**

- Maintain effectiveness at increased efficiencies
- Increase emphasis on low-end items
- Decrease average premium cost
- Sustain marketing support levels
- Better forecasting of item inventory
- Maintain balance of premiums
 - Female versus male
 - Smoking related
 - 21-35 versus 35+

CAMEL CASHIII. ^{IV}PROGRAM ASSESSMENT

B. Marketing Factors

- Marketing support never achieved Cash I level
- Support increased in Cash III to regain competitive participation
- Lotto added as Cash IV overlay

	CAMEL Cash				
	I	II	III	IV	V
<u>Media</u>					
• OOH (\$MM)	\$9.5	\$0.7	\$2.9	\$4.6	⊖
• Print (\$MM)	\$1.6	\$0.7	\$1.2	\$7.0	⊖
POS Support (\$MM)	\$1.5	\$1.2	\$2.3	\$4.1	⊖
Catalogs Distributed	34MM	31MM	45MM	60MM	⊖
- % seen catalog Month 1					
• Franchise	--	20%	41%	57%	--
• Competitive	--	21%	53%	53%	--
% Low End Items (<35)	78%	33%	47%	47%	35%
Average C-Note Requirement (Proof)	53	110	140	87	142

? DW

? JC

? JC

Exhibit H, p. 108

*This
on
separate
sheet*

AWH1R0G

CAMEL CASH

III. IV

PROGRAM ASSESSMENTD. C-Note Value Factors

- Increase Efficiencies: Decrease C-Note cost (RJRT)
- Maintain Effectiveness: Maintain C-Note value (consumer)
- Relationship between perceived value and cost (PV/C) ratio determines our ability to simultaneously accomplish both objectives.

	CAMEL Cash				
	I	II	III	IV	V
Average Perceived Value	\$14.75	\$13.62	\$16.46	\$11.97	\$16.91
Average Cost	\$7.89	\$8.47	\$7.13	\$5.90	\$5.51
PV/C Index	213	251	256	286	242
Average C-Note Value	\$.42	\$.21	\$.23	\$.24	\$.20
Average C-Note Cost	\$.33	\$.15	\$.14	\$.11	\$.08

①
 Lease
 AWH1.AX
 only

CAMEL CASH④ IVIII.PROGRAM ASSESSMENTE Summary

- Cash success due to previously established equity in CAMEL and Joe icon.

Joe's personality helped to form image for Brand

- Irreverent
 - Contemporary
 - Smooth, reliable
 - Confident
- Cash continuity program perpetuated brand equity
- Cutting edge
 - Unique items
 - First of its kind
 - Focus on Joe's World

CAMEL CASH PROGRAM DEVELOPMENT

CAMEL CASHA handwritten signature, possibly "Mait", is written in black ink. To its right is a large checkmark.8V PROGRAM DEVELOPMENTA B. Kickoff

- Meet offsite with all involved in CASH.

- Discuss objective and strategy
- Brainstorm
- Next steps and timing
- Discuss issues, problems, efficiencies, cost savings
 - Fulfillment
 - Consumer relations
 - Purchasing
 - Creative development
 - Production

- AGENCY PROCEEDS TO DEVELOP CATALOG THEME THAT MEETS OBJECTIVES AND STRATEGY.

CAMEL CASH

IV. PROGRAM DEVELOPMENT

C. Premium Item Development

- Agency/Brand agree on catalog theme
- Brand/Agency brainstorms on premium items
- Agency illustrates premiums for research

Supplier select ideas

CAMEL CASH

Quantitative (forecast)
- exact
- exact layout

IV PROGRAM DEVELOPMENTD. Research

1. Quantitative (items)

- Research group screens smokers
 - 100 → 40
- Items tested among 100 competitive non-menthol smokers who are neutral or positively disposed to CAMEL
 - Cash-savers
 - Non-savers
 - Male/female
 - 21-34 versus 35+
- Items tested to determine
 - Perceived value (Important: Used to determine C-Note requirements)
- Final results used to find best items for catalog

CAMEL CASH④V PROGRAM DEVELOPMENTD. Research

2. Qualitative

- Usually simultaneous with quantitative
 - Research group screens smokers
 - Items tested among same as for quantitative
 - Test for appeal of catalog cover and section illustrations
 - 2-3 options
 - Results used to determine most appealing catalog cover and illustrations

CAMEL CASH

IV. PROGRAM DEVELOPMENT

E. Item Selection

- Several criteria considered when selecting items
 - Overall appeal (male/female, older/younger adult)
 - Perceived value versus actual cost (PV/C ratio) .
 - Leadtime (goal to have leadtimes less than 13 weeks)

Camel Cash IV - Cost & C-note Analysis

Item #	Item	Prem Cost	Fulfill Cost	Total Cost	C-note Req'd	C-note Cost	C-note Value	Perc'd Value	PV/C Index
1	Special Flip Top Lighter	\$1.89	\$0.53	\$2.42	10	0.24	1.50	\$15.00	620
2	Joe Camel Key Chain	\$1.50	\$0.55	\$2.05	15	0.14	0.14	\$2.05	100
3	Colossal Foot of Matches	\$0.44	\$0.50	\$0.94	15	0.06	0.21	\$3.10	330
4	Matchbook Calculator	\$1.29	\$0.50	\$1.79	15	0.12	0.61	\$9.10	508
5	Permanent Match	\$1.00	\$0.50	\$1.50	25	0.06	0.23	\$5.80	387
6	Shotglass	\$2.98	\$0.50	\$3.48	25	0.14	0.16	\$4.00	115
7	Eddie Sunglasses	\$1.75	\$0.75	\$2.50	25	0.10	0.56	\$14.00	560
8	Pool Player "Elbow" Mug	\$0.80	\$0.75	\$1.55	35	0.04	0.16	\$5.70	368
9	Diamond Ashtray	\$5.13	\$3.67	\$8.80	45	0.20	0.13	\$5.90	67
10	Quantum Windproof Lighter	\$6.40	\$0.54	\$6.94	60	0.12	0.18	\$10.80	156
11	Sleep Set	\$13.00	\$0.60	\$13.60	80	0.17	0.31	\$25.00	184
12	Camel Necklace	\$4.75	\$1.25	\$6.00	100	0.06	0.18	\$18.00	300
13	Tire Cover	\$16.50	\$2.00	\$18.50	200	0.09	0.05	\$9.90	54
14	Silk Jacket	\$16.85	\$1.00	\$17.85	250	0.07	0.15	\$38.70	217
16	Men's Denim Jacket	\$27.00	\$2.75	\$29.75	350	0.09	0.16	\$55.50	187
AVERAGES		\$4.99	\$0.87	\$5.85	60	\$0.09	\$0.21	\$10.45	187

*

$$\# \frac{15.00}{10} = \$1.50$$

$$\frac{240}{10} = .24 - \text{c note}$$

CAMEL CASH

4V. PROGRAM DEVELOPMENT

F. Forecasting

- Correct information essential to developing accurate forecast
 - Catalog distribution quantities/timing
 - Program duration
 - Other programs in market during Cash program
 - Sift results
 - C-Note requirements
 - Perceived values
- Accurate forecasting imperative to program success
 - Consumer satisfaction
 - Excess inventory

CAMEL CASHIV. PROGRAM DEVELOPMENTG. Premium Sourcing *205 n/c*

- Agency ~~illustrates~~ premium for art mechanicals
- Purchasing/Brand develop art/mechanical schedule based on lead times
- Purchasing send color copies of premiums to suppliers
- Suppliers investigate production feasibility, issues, problems, printing, capacity limitations =
- Suppliers provide purchasing with ^{n/c} palette sheets including lead-times, prices with corresponding quantities
- Issues
 - ~~Overseas items (longer leadtimes)~~

Purchase Sheet

ITEM	QTY	PRICE	LEADTIME (WKS)	INITIAL ORDER DATE	OTHER COSTS	DESCRIPTION
<u>Chambray</u>	5M	\$12.96	16	8-Mar		One color embroidery. 100% cotton. 5 oz. blue. Long sleeves, button-down collar. Domestic . A/M 2/15
	25M	\$12.96	16			
	50M	\$12.96	16			
<u>Permanent Match</u>	25M	\$1.00	16	8-Mar		Striking area on back side of lighter. 35mm in length. Plastic & Metal
	50M	\$1.00	16			
	100M	\$1.00	17			
	250M	\$1.00	20			
<u>Elbow Mug</u>	10M	\$0.87	14	8-Mar	Mold \$5,400	Six flat colors (hand painted) 3 3/4" x 3 1/4" dia. Holds 14OZ.
	50M	\$0.84	16			

Price varies

CAMEL CASHVI PREMIUM FULFILLMENTA. Fulfillment House

- Selection Criteria/Considerations
 - Financial stability
 - Warehouse space and security
 - Receiving areas (size and staffing)
 - Shipping capacity
 - Postal regulations expertise
 - Computer systems/flexibility to determine shipping, labeling and tracking
 - Customer Service personnel and systems to handle non-receipts, complaints, etc.
 - Ability to track/communicate receivings, inventory, etc.

- Short term fund

CAMEL CASH

VII. PREMIUM FULFILLMENT

B. Premium Delivery

- Must have inventory on shelf by program DTS.
- Need at least 15 days prior to DTS for fulfillment house to unpack and stock items.
- Standard to allow 5 days to open and process orders, and 5 days to pack, label and ship.
- Require 90% service level (90% orders shipped within 10 days).

CAMEL CASH

50868 2035

CAMEL 80th Anniversary

- Program developed as a result from CAMEL non-filter smoker feedback.

Program Dynamics (Duration: March through October 1993)

- 13 items
- Fully self-liquidating (~~no proofs accepted~~)
- Delivered in cartons of non-filters only
 - 3MM in-carton offers
 - .250 available for call-in requests
- Outside supplier fully responsible for fulfillment of items

Results

- Ideal situation as Brand assumed no liability for premiums
- Orders received ^{42,000} versus 35,000 expected

CAMEL CASH

Marlboro Adventure Team

- Marlboro share flat during Cash I -- MAT launched as a defense mechanism

Objective:

- Stabilize and grow market share via franchise retention

Program Duration: January - August 1993 (Same as Cash III)

- Offered high-quality items
- Program difficult to understand: required consumers to convert proofs to 5 miles each
- Concurrent programs executed as tag-ons to first program

CAMEL CASH**VII. Premium Fulfillment**

- Service level improves with each program
- Must maintain balance between out-of-stocks and excess inventory

	CAMEL Cash				
	I	II	III	IV	V
• Service Level	40%	96%	96%	90%	90%
• Excess Inventory	\$.7	\$3.4	\$5.8	\$3.6	1.8
• % Excess	1%	8%	13%	8%	6%

CAMEL CASH

VI. PROGRAM SUPPORT

- POS: To generate excitement, increase competitive participation

- Banners
- Posters
- Laminated catalogs
- Change mat
- 24" PMC
- 19" transparency

- Bouncebacks: Improve relationship with Cash participants

- Catalog
- 5-Spot
- Order form

- Media

- OOH
- Print

CAMEL CASHIV. PROGRAM DEVELOPMENTH. Catalog/POS Development

- Art delivery via electronic tape
 - More time and cost effective than art mechanical
- Catalog and POS developed and shipped to various locations
 - Laminated catalogs
- Catalogs delivery critical to program performance
 - Retailer mailings
 - Bouncebacks
 - Sales force
 - Retail premiums

CAMEL CASH

IV. PROGRAM DEVELOPMENT

A. Timing

- Operating on 6-month timing cycle
 - Should expand to 10-12 months

- Kickoff meeting (4-5 weeks)
 - Includes persons from all functional areas
 - Discuss direction with Agency and all players
 - Determine target number of items and pages for catalog

- Research (8-12 weeks)
 - Qualitative: Catalog concept and section spreads
 - Quantitative: Item selection and optimization, forecasting

- Item selection (based on research findings)

- Catalog development
 - Catalog layout/item positioning (8-12 weeks)
 - Premium illustration (8-12 weeks)

- Production
 - Catalog (10-12 weeks)
 - Premiums (10-30 weeks)

CAMEL CASH

IV. PROGRAM DEVELOPMENT

A. Timing

- Catalog and premium delivery
- Catalog placement
- Premium fulfillment

CAMEL CASHIV
III.PROGRAM ASSESSMENTE. Summary

- Cash II did not maintain momentum initiated in Cash I

Factors:

- Overall program less inviting
- Slow catalog distribution ✓
- Lengthy Cash I fulfillment reputation
- Unprecedented Marlboro promotion

- Programs III & IV expected to resume momentum

Factors:

- Overall appeal (42% competitive non-savers judged as better value)
- More low-end items ✓
- Stronger marketing support
- Better catalog distribution

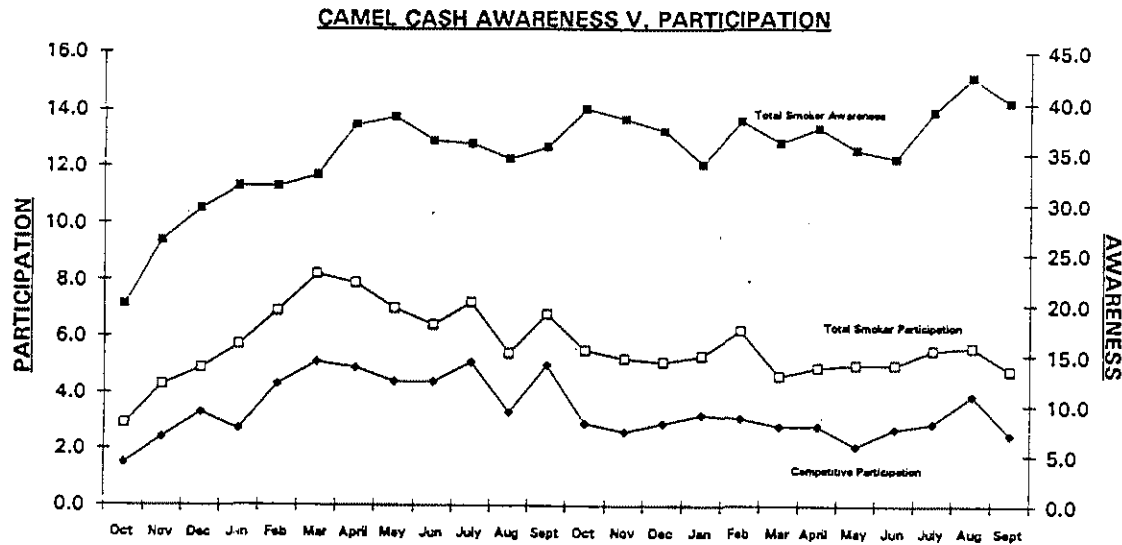
CAMEL CASH

III. IV

PROGRAM ASSESSMENT

A. Program Dynamics

- Awareness/participation
 - Awareness relatively stable
 - Participation peaked in Cash I



CAMEL CASH

50868 2044

III. Program Enhancements

- Service level improves with each program
 - Allowed consistent availability
 - Enabled field sales to focus on other efforts
- Began issuing various C-Note denominations

C-Note Denomination	Distribution Vehicle	Program
1-Spot	On-pack	--
2-Spot	Bouncebacks	CC 1
	Vending Program	CC 3
	Packs of Special Lights	CC 4
3-Spot	Cincinnati Test Market	CC 3
	Retail	CC 3
4-Spot	Retail	CC 3
5-Spot	Direct Mail	CC 3 - CC 4
	Bouncebacks	CC 3 - CC 4
10-Spot	Direct Mail	CC 3
	Retailer Incentive Program	CC 3

BUCAMEL CASHMarlboro Adventure Team

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Program Duration: January - August 1993 (Same as Cash III)

- Offered high-quality items
- Program difficult to understand: required consumers to convert proofs to 5 miles each
- Concurrent programs executed as tag-ons to first program

CAMEL CASH

VI. PROGRAM SUPPORT

OUT

- POS: To generate excitement, increase competitive participation

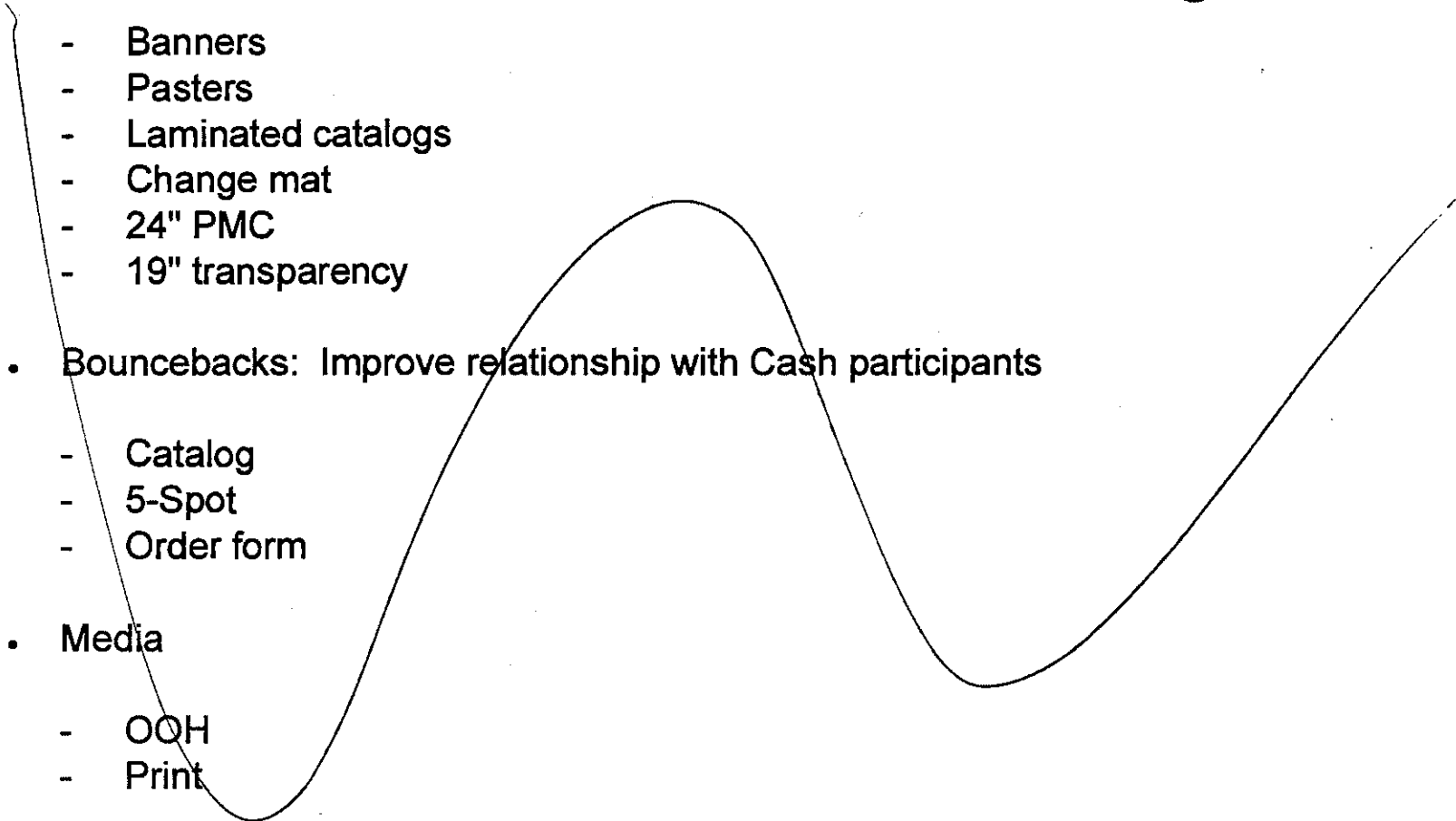
- Banners
- Pasters
- Laminated catalogs
- Change mat
- 24" PMC
- 19" transparency

- Bouncebacks: Improve relationship with Cash participants

- Catalog
- 5-Spot
- Order form

- Media

- OOH
- Print



CAMEL CASHIV. PROGRAM DEVELOPMENTH. Catalog/POS Development

- Art delivery via electronic tape
 - More time and cost effective than art mechanical
- Catalog and POS developed and shipped to various locations
 - Laminated catalogs
- Catalogs delivery critical to program performance
 - Retailer mailings
 - Bouncebacks
 - Sales force
 - Retail premiums

?

CAMEL CASH

IV. PROGRAM DEVELOPMENT

A. Timing

- Operating on 6-month timing cycle
 - Should expand to 10-12 months

- Kickoff meeting (4-5 weeks)
 - Includes persons from all functional areas
 - Discuss direction with Agency and all players
 - Determine target number of items and pages for catalog

- Research (8-12 weeks)
 - Qualitative: Catalog concept and section spreads
 - Quantitative: Item selection and optimization, forecasting

- Item selection (based on research findings)

- Catalog development
 - Catalog layout/item positioning (8-12 weeks)
 - Premium illustration (8-12 weeks)

- Production
 - Catalog (10-12 weeks)
 - Premiums (10-30 weeks)

CAMEL CASH

IV. PROGRAM DEVELOPMENT

- A. Timing
 - Catalog and premium delivery
 - Catalog placement
 - Premium fulfillment

EXHIBIT I

March 18, 1992

TO: D. N. Iauco
FROM: C. S. Nicholson
RE: CAMEL CASH II INSERT COPY

Dave, please find attached the recommended copy for the Cash II insert which will begin appearing at retail around July 1. Besides informing consumers of the mechanics of the program, the insert copy has the objective of limiting the liability of Cash II and providing flexibility to execute Cash III (no expiration date). The major changes include:

- Consumers are informed that both catalog and premium quantities are limited.
- For consumers ordering catalogs via the C-Note, there is a limit of five catalogs per address.
- A sentence has been added which informs consumers that there may not be additional CAMEL Cash catalogs issued beyond the current catalog.
- In an effort to avoid dating product, no expiration date will be printed on the C-Notes. Consumers are told to check the current catalog for expiration date.

I have included examples of the copy of the Cash I C-Note and the interim C-Note for reference.

Please contact me with questions or concerns.

C. S. Nicholson

GSN/djm/15

Attachments

cc: E. M. Blackmer
E. C. Leary

50764 4237

EXHIBIT J

Disc - Personal discussion

December 20, 1991

TO: E. M. Blackmer
FROM: E. C. Leary
RE: CAMEL CASH MISREDEMPTION

This provides background and next steps on our handling of misredemption of the CAMEL Cash Program.

Background

In the planning stages of the CAMEL Cash Program, we initiated an effort to minimize our financial liability due to the potential of suppliers or consumers obtaining C-Notes through means other than product purchase. In the first few weeks of the program, it was obvious this was warranted, as unusually high number of C-Notes (\$1, \$2 and \$10) were being submitted to the redemption house. In addition, reports from the Field as well as personal observations indicated that Cash placed in premiums and distributed in magazines were being removed by consumers and retailers. A task force including Consumer Relations, Public Relations, Legal, and the Brand was formed to draft letters to be sent to consumers suspected of abusing the program. Analysis of the suspect orders indicated there were two types: those that were less severe and those that clearly reflected theft and/or intent to defraud. The categories were established as follows:

Original Unqualified Standards

<u>Low Unqualified</u>	<u>Quantity</u>	<u>% Breaks Based On Sample</u>
• Green \$1 C-Notes, Magazines/Direct Marketing	15-49	8
• Yellow \$1 C-Notes	30+ w/o Glue	2
• Blue \$2 C-Notes, Pack Lighter/Tumbler	10-29	53
• Orange \$10 C-Notes, Deck-O-Lighter	5-9	11
		74%
<u>High Unqualified</u>		
• Green \$1 C-Notes, Magazine/Direct Marketing	50+	2
• Blue \$2 C-Notes, Pack Lighter/Tumbler	30+	9
• Orange \$10 C-Notes, Deck-O-Lighter	10+	15
		26%

50764 9213

Two letters were drafted reflecting the severity of the potential misredemption (Attachments I and II).

Seven thousand of the letters were mailed in November (11/1 - 11/21) from the fulfillment house. Through consumer contacts with Consumer Relations, it was discovered that the supplier's computer file name had inadvertently been typed "CAMEL Cash Fraud" in the right corner of the letter (Attachments III and IV). Upon notification, the supplier was instructed to immediately cease sending any letters. With input from all parties, it was decided to verbally and with written correspondence (Attachment V) apologize to all contacting RJR Consumer Relations (198) and to immediately fulfill orders of all consumers who either contacted the fulfillment house or RJR. Of the 7,000 letters mailed, an estimated 2,569 have contacted the fulfillment house and 198 have contacted RJR. All orders from these individuals have been fulfilled. In addition, Field Sales will be given the 1-800 number of the fulfillment house next week for distribution to any consumer who has issues with the program.

In light of the above, the entire misredemption procedure was reviewed with the following plan developed but not yet implemented:

- Establish one level of unqualified standards which is more lenient.

Unqualified Standards

	<u>Revised</u>	<u>Original</u>	
		<u>High</u>	<u>Low</u>
- Green \$1 C-Notes, Magazine/Direct Marketing	25+	50+	15+
- Blue \$2 C-Notes, Pack Lighter/Tumbler	30+	30+	10+
- Orange \$10 C-Notes, Deck-O-Lighter	25+	10+	5+
- Yellow \$1 C-Note	Deleted*	30+ w/o Glue	

*Unusually large quantities will be brought to Brand's attention for resolution.

- A more conciliatory note has been drafted (Attachment VI).

It is our recommendation that we send the revised note to the 18,849 outstanding orders currently unqualified (represents 9% of the 200,334 orders received to date). A requalification of all 18,849 is underway to accommodate the revised standards and a portion will automatically be qualified.

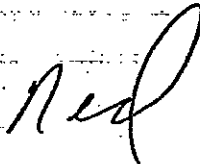
Fulfillment

Spool
As information, orders are being shipped within two weeks from order receipt, which should result in items received by consumers no later than four weeks from order placement. Weekly meetings are being held to ensure premium inventory is maintained with three reorders of premiums already initiated. Of the 53 items available, eight have experienced out-of-stocks with shipments expected within the next few weeks to remedy this situation. Consumer Relations reports that of the 7,400 contacts received to date on the program, less than 2% have been related to non-receipt of merchandise. All available measures (air shipping, etc.) are being taken daily to ensure continued expeditious fulfillment of all orders.

50764 9214

E. M. Blackmer
December 20, 1991
Page 3

In net, the supplier's error was inexcusable, and any cost incurred by RJR as a result will be borne by them. The entire program is being monitored daily and we will keep you apprised of progress.



E. C. Leary

ECL/djm/4

Attachments

cc: C. S. Nicholson
J. C. Henson

50764 9215

EXHIBIT K

CAMEL

50929 6529

MAT ASSESSMENT/IMPLICATIONS

A. Field Observations

- **Confusing - to both consumers and retailers**
- **Strong retail presence though all components rarely in place.**
- **Material force-out extremely wasteful**
 - **Retailer pilferage of 2 pack sleeves**
 - **Materials destroyed when PM rep unavailable**
 - **100% distribution of miles/UPCs not yet achieved**
- **When properly executed, double miles/60¢ off 2 pks effective**
- **Narrow focus on male outdoorsmen**

EC L 2 FEB

CAMEL CASH -- LONG TERM LIABILITY

- **OBJECTIVE:** Minimize/eliminate long term liability associated with C-Note pool.

- **STRATEGY:**

Expire old C-Notes ("Joe As George") at end of Cash IV

- Exploits slippage
- One time end to largest liability
- Can replicate every 2 or 3 years as necessary

- **BUDGET IMPLICATIONS:**

	MM C-NOTES	RETURNED/ SLIPPAGE	VALUE @ \$.10
Estimated Through IV	216	40% - 60%	\$8MM - \$12MM

CAMEL**MAT ASSESSMENT/IMPLICATIONS:**

- First month of support (January) shows awareness gains.

	% AWARENESS (UNAIDED)			
	CAMEL CASH		MARLBORO ADVENTURE TEAM	
	DEC	JAN	DEC	JAN
Total	22.3	24.1	7.9	15.3
CAMEL (Ex. Reg.)	87.3	86.1	17.5	29.8
Marlboro	32.9	34.6	13.1	32.5

CAMEL

50929 6532

MAT ASSESSMENT/IMPLICATIONS:

- Participation in CAMEL Cash increased in January.
- Small sample indicates one in ten CAMEL smokers claim to be saving MAT miles.

	% PARTICIPATION (UNAIDED)			
	CAMEL CASH		MARLBORO ADVENTURE TEAM	
	DEC	JAN	DEC	JAN
Total Smokers	3.7	4.2	1.8	5.1
CAMEL (Ex. Reg.)	54.0	64.4	1.6	9.9
Marlboro	2.9	3.4	5.3	15.7

CAMEL

MAT ASSESSMENT/IMPLICATIONS

B. CAMEL Cash III - Field Perspective/Implications

- **Retailer mailings *extremely effective***
 - **Better placement and longevity due to ownership**
 - **2 executed to date; 3rd in April being considered**

- **Additional POS requested**
 - **Banners, decals, change mats available in mid-March**

CAMEL

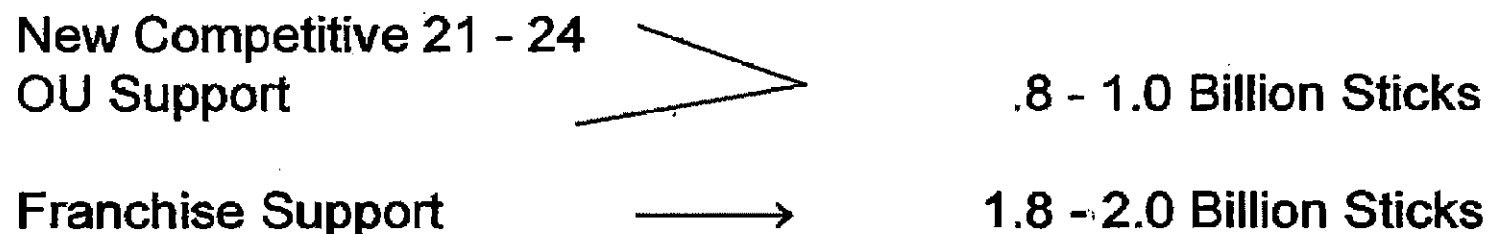
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	MARLBORO	CAMEL	WINSTON
Average Cost/Pk	\$.24	\$.14	\$.12
<u>Program Support</u>	<u>\$MM</u>	<u>\$MM</u>	<u>\$MM</u>
Advertising	16	4	6
POS Display	5	2	1
Premiums/Fulfillment	192	21	29
Other Marketing	<u>44</u>	<u>15</u>	<u>16</u>
Total Program Cost	\$257	\$42	\$52
Assumed Proof Redemption Rate	*20%	30%	28%

*Lower redemption rate due to program confusion, difficulty of saving proofs, limited items, exclusive male appeal.

EXHIBIT L

CAMEL CASH Volume Support



- 5% of all smokers save Camel Cash (2.2 MM smokers)
- 4% of Marlboro CUBs currently saving Camel Cash (.6 MM smokers)
- 39% Increase in Competitive saving rate for Camel Cash
- 60% franchise saving Camel Cash (11% saving miles)
- 47% Camel volume from Camel Cash savers
- 15% of Marlboro CUBs have played Camel Cash

CAMEL CASH OVERVIEW

1996 Strategies/Tactics:

3 Catalogs supporting advertising thematic (3/1/96 - 1/31/97)

Merchandise Strategy (30 - 40 Items)

- Brand Positioning
- Quality/Brand Name
- Utilitarian
- Relevance to 21 - 24

60MM catalogs distributed via:

Media
Direct Marketing
Retail Direct Store Delivery (DSD)
Retail Premium Insert

Budget \$43MM

Participants .9MM

C-Notes Redeemed 260MM

Orders - 1.0MM / Items - 2.8MM

CAMEL CASH

Competitive Ploy/Advantage

- **Competitive Program Cost \$500+ MM**
- **Retail spending rate for Camel = 2 x Marlboro**
- **Newport - Competitive Advantage**
Marlboro Menthol - Competitive Defense

CAMEL CASH

Vision

- Continue to create a positive point of difference from competitive programs (i.e. experiential items)
- Change participant profile from 30+ to 21 - 24
- Bring Camel Cash to life (i.e. accepted as currency at local level)
- Regional / local offers
- Tie Camel Cash to Bar Program

Back-up

**CAMEL CASH
Savers Volume**

	<u>SOR to CAMEL</u>	<u>% of C's 1995 Volume</u>
<u>Camel is CUB</u>	<u>91.2</u>	<u>80.5%</u>
Save CC	90.6	43.7
Not Save	91.9	36.8
<u>Camel is Occ.</u>	<u>24.2</u>	<u>19.5</u>
Save CC	18.4	3.7
Not Save	26.1	15.8
Savers	69.4	47.4%
(74% CUB/26% OU)	52.3	52.6
Non Savers		
(43.5% CUB/56.5 OU)		

CAMEL CASH OVERVIEW

Program Objectives:

Brand Driven (Offensive)

- Advertising Value
 - Brand Positioning
 - Product/style awareness
- Incremental Volume
 - New competitive (21 - 24)
 - OU Buyer Support
- Identification of Conversion Prospects

Marketplace Driven (Defensive)

- Franchise Volume Support
- Competitive Ploy
- Menthol Competitive Advantage
 - (Offensive to Newport)

Advertising Value

- 60MM Catalogs - National Distribution / Varied Channels
- Awareness for Camel Cash → Big Brand Presence

99% of Camel CUBs

73% of Marlboro CUBs

58% of Total Smokers vs. 74% Marlboro Continuity
(7% SOB) (33 SOB)

- Dimensionalize Brand Equity & Personality
- Halo Effect - Reflection of Quality to Product
- Brand Style Awareness
- Camel Branded Merchandise in Marketplace

CAMEL CASH

Conversion

- **400,000+ Incremental Players added to Database**
- **Higher brand interaction simplifies conversion**
- **Competitive response for Personal Selling**

CAMEL CASH Liability Management

- Liability Balance \$10.8 MM (100 MM C-notes)
- Expire C-notes
- Focus on reducing cost per incremental competitive smoker
 - Cost per C-note
 - Photography vs. illustration
 - Catalog production costs
 - Reduce excess inventory
 - Scanning technology
- Offer occasional high-end items

CAMEL CASH OVERVIEW

- **Inception to date**
 - **5.4+ Million Savers**
 - **3.2+ Million Redeemers**
 - **1.2 Billion C-notes Redeemed**
 - **23+ Million Items Shipped**

Back-up

CAMEL CASH Overview

Awareness

Total Smokers	58%
CUBs	99%
Marlboro	73%
Competitive	56%

New Saving

Total Smokers	.6%
CUBs	55% (55%)
Competitive	45% (21%)
Marlboro CUBs	24% (24%)

Currently Saving

Total Smokers	5%
CUBs	60%
Competitive	3%
Marlboro	4%

Ever Saved

Total Smokers	12%
CUBs	78%
Marlboro	15%
Competitive	9%

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PROOF OF SERVICE VIA U.S. MAIL

I, the undersigned, say:

I am a citizen of the United States and am employed in the office of a member of the Bar of this Court. I am over the age of 18 and not a party to the within action. My business address is 1801 Avenue of the Stars, Suite 311, Los Angeles, California 90067.

On August 11, 2010, I caused to be served the following document:

THIRD AMENDED CLASS ACTION COMPLAINT

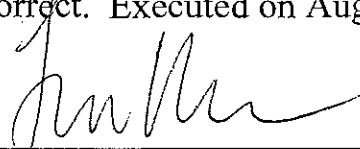
on the following parties:

Jeffrey H Squire
Patrick J O'Donnell
Bragar Wexler Egel & Squire PC
885 Third Avenue Suite 3040
New York, NY 10022

Corbett H Williams
John A Vogt , Jr
Marc K Callahan
Thomas R Malcolm
Jones Day
3161 Michelson Drive Suite 800
Irvine, CA 92612

By Mail: By placing true and correct copies thereof in individual sealed envelopes, with postage thereon fully prepaid, which I deposited with my employer for collection and mailing by the United States Postal Service. I am readily familiar with my employer's practice for the collection and processing of correspondence for mailing with the United States Postal Service. In the ordinary course of business, this correspondence would be deposited by my employer with the United States Postal Service that same day.

I certify under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed on August 11, 2010, at Los Angeles, California.



Tia Reiss