

**Comparative Economic Analysis  
Cigarettes vs. Nicorette Gum, NicoDerm CQ Patch  
Analysis Sheet 1**

**Marlboro Cigarettes**

**Nicorette Gum**

**NicoDerm CQ Patch**

	14-Jun-00	6-Jan-06	Change	Change %	14-Jun-00	6-Jan-06	Change	Change %	12-Jan-06
Total Retail Cost	\$ 41.80	\$ 57.65	\$ 15.85	37.9	\$ 52.12	\$ 55.48	\$ 3.36	6.4	\$ 55.48
Washington Sales Tax	\$ 3.31	\$ 4.66	\$ 1.35	40.8	\$ 4.13	\$ 4.49	\$ 0.36	8.7	\$ 4.49
Retail Price Before Sales Tax	\$ 38.49	\$ 52.99	\$ 14.50	37.7	\$ 47.99	\$ 50.99	\$ 3.00	6.3	\$ 50.99
Federal Excise Tax	\$ 2.40	\$ 3.90	\$ -	-	\$ -	\$ -	\$ -	-	\$ -
Retail Cost Before State Sales & Federal Excise Tax	\$ 36.09	\$ 49.09	\$ 14.50	40.2	\$ 47.99	\$ 50.99	\$ 3.00	6.3	\$ 50.99
Washington State Excise Tax	\$ 8.25	\$ 20.25	\$ 12.00	145.5	\$ -	\$ -	\$ -	-	\$ -
Master Settlement Agreement Charge	\$ 4.50	\$ 4.50	\$ -	-	\$ -	\$ -	\$ -	-	\$ -
Total State Nicotine Charges To Consumer	\$ 12.75	\$ 24.75	\$ 12.00	94.1	\$ -	\$ -	\$ -	-	\$ -
<b>Base Product Retail Cost Per Carton/Box</b>	<b>\$ 23.34</b>	<b>\$ 24.34</b>	<b>\$ 1.00</b>	<b>4.3</b>	<b>\$ 47.99</b>	<b>\$ 50.99</b>	<b>\$ 3.00</b>	<b>6.3</b>	<b>\$ 50.99</b>
Total Revenue To State & Federal Government	\$ 18.46	\$ 33.31	\$ 13.35	72.3	\$ 4.13	\$ 4.49	\$ 0.36	8.7	\$ 4.49
Government Revenue Percent Total Retail Cost	44.2	57.8	13.6	30.8	7.9	8.1	0.2	2.5	8.1
Total Units in Box/Carton	200	200	-	-	132	110	(22.00)	(16.7)	14
Total Retail Cost Per Unit (Cents)	20.90	28.83	7.93	37.9	39.48	50.44	10.960	27.8	396.29
Total Retail Cost Per Day	\$ 4.18	\$ 5.77	\$ 1.59	38.0	\$ 5.21	\$ 5.55	\$ 0.34	6.5	\$ 3.96
<b>Base Product Retail Cost Per Unit (Cents)</b>	<b>11.67</b>	<b>12.17</b>	<b>0.50</b>	<b>4.3</b>	<b>36.36</b>	<b>46.35</b>	<b>9.99</b>	<b>27.5</b>	<b>364.21</b>

**(8) Cigarette Tax and MSA Profit Advantage To "Smoke Free" Nicotine:**

Per Box of Nicorette, June 2000 vs. January 2006	\$ 15.15	\$ 28.65
Per Piece of Gum, June 2000 vs. January 2006 (Cents)	15.58	30.83
Per Patch, 2006 Only (Cents)	N/A	204.64
<b>Cigarette sales taxes charged on excise taxes and MSA cost:</b>		
Per Carton	\$ 1.30	\$ 2.52
Per Cigarette (Cents)	0.650	1.260

**Footnotes:**

- State sales tax on these products was 8.6 percent in 2000 and 8.8 percent 2006.
- Congressional Research Service reports that federal cigarette excise tax was 24 cents per pack 2000 and is 39 cents per pack 2006. Nicorette excise tax in 2000 and 2006 is zero.
- Tobacco Control I-773 added 60 cents per pack new state cigarette tax in 2001 and Washington legislature added another 60 cents per pack tax in 2005
- a.) See Prospectus for Washington October 2002 \$517 million Tobacco Settlement Authority revenue bond offering page 58 regarding 1998 cigarette cost increases:  
 "This was primarily due to a \$0.45 per pack increase in November 1998 intended to offset the costs of the MSA and the agreements with the Previously Settled States."  
 b.) See Prospectus for Washington October 2002 \$517 million Tobacco Settlement Authority revenue bond offering page 15 regarding who pays costs of MSA:  
 "The settlement represents the resolution of a large potential financial liability of the PMs for smoking related injuries, the costs of which have been borne and will likely continue to be borne by cigarette consumers."  
 c.) Total Revenue To State & Federal Government is the sum of federal excise tax, state excise tax, and Master Settlement Agreement costs.  
 d.) Nicorette purchased in 2000 had 132 pieces of gum, Nicorette purchased in 2006 had 110 pieces of gum. Cigarette carton was constant at 200 cigarettes, as is NicoDerm CQ at 14 patches.  
 e.) Please note reduction of gum in box from 132 to 110 pieces. If customer chews recommended 16 pieces per day per day, which creates higher per unit cost in addition to price increase.  
 f.) NicoDerm CQ is same retail price as Nicorette, but with 14 patches at one patch per day. Per day recommended use cost is less than 50 percent of Nicorette in 2006.  
 g.) Nicorette and NicoDerm CQ do not pay federal and state excise taxes or MSA costs that cigarette companies do. Consequently, those amounts flow directly to corporate bottom lines.  
 h.) Washington sales taxes are charged on federal excise taxes, state excise taxes, and MSA charges. This creates a hidden state "Tax on Tax" sales tax charge for cigarette consumers.

Cost Component	Marlboro			Nicorette		
	2000	2006	% Chg.	2000	2006	% Chg.
Base Prod.	\$ 23.34	\$ 24.34	4.3%	\$ 47.99	\$ 50.99	3.00
Sales Tax	\$ 3.31	\$ 4.66	40.8%	\$ 4.13	\$ 4.49	0.36
MSA Cost	\$ 4.50	\$ 4.50	0.0%	\$ -	\$ -	-
Fed Excise	\$ 2.40	\$ 3.90	62.5%	\$ -	\$ -	-
State Excise	\$ 8.25	\$ 20.25	145.5%	\$ -	\$ -	-
Total Retail	\$ 41.80	\$ 57.65	37.9%	\$ 52.12	\$ 55.48	3.36
Cost per Unit	\$ 0.2090	\$ 0.2863	37.9%	\$ 0.3948	\$ 0.5044	0.1096

The cost of Nicorette PER UNIT (piece of gum) increased by 10.96 cents from 2000 to 2006. At 110 units per box in 2006 the cost increase is 110 X 10.96 cents = \$12.06. A per unit cost analysis reveals that the 2006 cost of Nicorette increased from 2000 by nearly the precise amount of \$12 in new cigarette taxes added.

