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AB 460--The Need

Counterfeit cigarette producers have incentive...\$1.14 of \$3.56 (which is typical retail cost of a pack of cigarettes) goes to federal (\$.39) or Nevada State (\$.35 tax plus \$.40 MSA) payments.

Nevada experienced a \$2.6 million drop in cigarette tax receipts from FY 01 to FY02 despite increased number of smokers in NV, higher cigarette taxes in most populous neighboring states (CA, OR, AZ), increase in cigarette tax in UT. One explanation for this is the sale of counterfeit cigarettes. P. 2.

Nevada experienced a loss of \$2.74 million in MSA 2002 payments due to the downward volume adjustment in payments by the original participating manufacturers caused by non-participating manufacturer sales. P. 3-5.

Nationally, states losing \$1 billion in uncollected cigarette taxes from internet sales. U.S. General Accounting Office, Director of Homeland Security & Justice Paul Jones. P. 6.

More than \$28 million in counterfeit cigarettes seized by U.S. Customs at Ports of Long Beach & Los Angeles in 2002. "Long Beach (CA) Press-Telegram," P. 7-8.

Terrorist groups may use smuggling cigarettes as source of funds; Feds Crackdown on smuggled cigarettes. "Washington Times," 2/10/03; "Washington Post," 5/18/03. P. 9-15.

Summary of AB 460 starts at P. 16.

Nevada Adult Population and Number of Adult Smokers

Year	Population 18 +	Adult Smoking Rate	Number of Adult Smokers
2000	1,486,703	29 %	431,143
2001	1,566,919	26.9 %	421,501
2002	1,617,077	26.9 % ¹	434,993

Nevada Cigarette Tax Stamps Sold and Revenue Realized 2000-2002

NV Fiscal Year	Nevada Cigarette Stamps sold	Nevada Cigarette Excise Tax Revenues	Cigarette Tax Per Pack—Neighboring States				
			CA	OR	ID	AZ	UT
2000	174,297,940	\$ 59,477,492	.87	.60	.28	.58	.18
2001	180,880,840	\$ 61,632,146.	.87	.60	.28	.58	.18
2002	173,235,750	\$ 59,029,783	.87	.60 ²	.28	.58 ³	.695 ⁴

[1] Projecting 2001 smoking rate into 2002.

[2] Increased to \$.28 effective 1/1/02.

[3] Increased to \$.18 effective 1/25/2002

[4] Effective 5/6/02.

Nevada experienced a loss of \$2.74 million in MSA 2002 payments

- **MSA payment may be reduced by volume adjustment, which is a comparison of current annual cigarettes sales to 1997 sales by original participating manufacturers.**
- **Reduction in volume may be caused by reduction in smoking and increase in sales by subsequent participating manufacturers (SPMs) and non-participating manufacturers (NPMs).**
- **NPMs are not required to obey the MSA prohibitions against marketing to children, including the ban on outside and transit advertising.**
- **Reduction in non-participating manufacturers sales and increase in MSA payments can be achieved by AB 460.**

Increase in Volume Adjustment Resulting From Actual Increase in NPM Sales

<u>Year</u>	<u>Actual NPM % US Sales</u> ¹	<u>Increase from Base Year</u>	<u>Payments Subject to Volume Adjustment</u> ²	<u>Dollars Lost to States in Volume Adjustment Due to NPM Growth in Sales</u>
1997	0.5 %			
1999	2.0 %	1.5 %	\$7,107,000,000	\$106,605,000
2000	2.5 %	2.0 %	\$7,870,000,000	\$157,400,000
2001	4.0 %	3.5 %	\$9,751,000,000	\$341,285,000
2002	5.0 %	4.5 %	\$10,000,000,000	\$450,000,000

^[1] Estimated actual sales by NPMs. For purposes of this data, sales by any company that was an SPM at any time during the calendar year are excluded. Thus, the SPMs who signed the MSA in February are not deemed to be NPMs for purposes of these data. Volumes are also adjusted for known underreporting by SPMs and errors in PWC calculation. Sales by Star and by House of Prince Riga are counted here as NPM sales.

^[2] IX(c) payments increased by inflation plus IX(b) payments.

Summary by State Dollars Lost Through Volume Adjustment Due to NPM Sales in 2002

(\$450,000,000 multiplied by the State's Allocable Share)

<u>State</u>	<u>Allocable Share</u>	<u>Dollars Lost Due to NPM Sales (Volume Adjustment Only)</u>	<u>State</u>	<u>Allocable Share</u>	<u>Dollars Lost Due to NPM Sales (Volume Adjustment Only)</u>
Alabama	1.62%	\$7,272,588.60	Nevada	0.61%	\$2,744,707.95
Alaska	0.34%	\$1,536,384.15	New Hampshire	0.67%	\$2,996,703.00
Arizona	1.47%	\$6,632,480.25	New Jersey	3.87%	\$17,401,483.35
Arkansas	0.83%	\$3,726,297.45	New Mexico	0.60%	\$2,683,753.65
California	12.76%	\$57,437,799.30	New York	12.76%	\$57,429,139.50
Colorado	1.37%	\$6,168,876.30	North Carolina	2.33%	\$10,495,282.50
Connecticut	1.86%	\$8,354,417.85	North Dakota	0.37%	\$1,647,062.10
Delaware	0.40%	\$1,779,612.75	Ohio	5.04%	\$22,668,794.10
D.C.	0.61%	\$2,732,032.35	Oklahoma	1.04%	\$4,662,616.50
Georgia	2.45%	\$11,045,058.75	Oregon	1.15%	\$5,164,461.90
Hawaii	0.60%	\$2,708,392.50	Pennsylvania	5.75%	\$25,860,864.60
Idaho	0.36%	\$1,634,684.40	Rhode Island	0.72%	\$3,235,074.30
Illinois	4.65%	\$20,944,112.40	South Carolina	1.18%	\$5,293,583.55
Indiana	2.04%	\$9,179,114.85	South Dakota	0.35%	\$1,570,256.10
Iowa	0.87%	\$3,913,501.50	Tennessee	2.44%	\$10,984,025.25
Kansas	0.83%	\$3,751,520.40	Utah	0.44%	\$2,001,991.05
Kentucky	1.76%	\$7,925,213.70	Vermont	0.41%	\$1,850,332.95
Louisiana	2.26%	\$10,149,088.95	Virginia	2.04%	\$9,201,352.95
Maine	0.77%	\$3,462,077.25	Washington	2.05%	\$9,239,661.90
Maryland	2.26%	\$10,172,056.50	West Virginia	0.89%	\$3,989,071.80
Massachusetts	4.04%	\$18,175,405.50	Wisconsin	2.07%	\$9,324,175.50
Michigan	4.35%	\$19,583,764.20	Wyoming	0.25%	\$1,117,552.05
Missouri	2.27%	\$10,235,704.95	American Samoa	0.02%	\$68,476.50
Montana	0.42%	\$1,911,415.95	N. Mariana Island	0.01%	\$37,969.20
Nebraska	0.59%	\$2,677,424.85	Guam	0.02%	\$98,716.95
			U.S. Virgin Island	0.02%	\$78,116.85
			Puerto Rico	1.12%	\$5,045,748.30

Capitol Hill

States may be losing more than 1 billion annually in uncollected taxes on Internet cigarette sales, General Accounting Office Dir.-Homeland Security & Justice Paul Jones told a Hill panel Thurs.

Speaking at a hearing of the House Judiciary Courts, Internet & Intellectual Property Subcommittee, Jones said one problem was that federal enforcement of the tax collection, mandated under the Jenkins Act, fell to the FBI, which is busy with antiterrorism. Jones recommended enforcement be shifted to the Bureau of Alcohol, Tobacco & Firearms, saying that "states are hampered in attempting to promote Jenkins Act compliance because they lack authority to enforce the act."

He cited a Forrester Research report estimating that Internet tobacco sales would exceed 5 billion in 2005 and that states would lose 1.4 billion in tax revenue from those sales. The GAO study found that "most Internet cigarette vendors do not comply with the Jenkins Act or notify their customers of their responsibilities under the act.

Vendors cited the Internet Tax Freedom Act, privacy laws and other reasons for noncompliance." The Internet Tax Freedom Act, also known as the moratorium on discriminatory Internet taxes, doesn't have a specific exemption for sales tax collection, despite some beliefs otherwise.

Subcommittee Chmn. Smith (R-Tex.) had a broader concern. Saying that tobacco use remained prevalent among minors, he said "underage smokers are especially sensitive to increases in cigarette prices. They are also among the most proficient users of the Internet. And, they have a great incentive to seek anonymity for their purchases. Regrettably, a new breed of remote sellers doing business by mail order, the telephone and the Internet now promise cigarette smokers both discounted prices and anonymity."

The hearing was on HR-1839 by Rep. Green (R-Wis.) that would authorize state attorneys gen. to bring civil actions under the Jenkins Act. -----

Philip Morris Says Fake Cigarettes Are Hurting Business

By Felix Sanchez

The world's largest maker of tobacco products, the Philip Morris Co., is rallying law enforcement officials in a bid to put a dent in the importing and distribution of counterfeit and illegally imported cigarettes.

At the Port of Long Beach and at the Port of Los Angeles last year, more than \$ 28 million in counterfeit cigarettes were seized by U.S. Customs investigators, with much of the fake product originating in the Far East, and China in particular.

Local customs officials say there are several ongoing investigations targeting those manufacturing, importing and distributing the illegal cigarettes, which Philip Morris said cuts into its profits and that the tobacco giant and law enforcers say robs state coffers of hundreds of millions of dollars in tax revenues.

Organized crime, groups linked with terror activities and foreign interests are among those being looked at in the investigations. Cigarette smuggling in the U.S. and worldwide has been linked by the Center for Public Integrity to the Italian and U.S. mafia, Russian and Asian gangs, the Colombian drug cartels and motorcycle gangs. Of the hundreds of millions of cigarettes seized off shipment containers at the ports of Long Beach and Los Angeles, the majority were fake cartons and packs of Marlboros, the largest selling cigarette in the United States and the world, and Marlboro Lights.

Illegal fake cigarettes are the top counterfeit product seized at the two ports, ahead of other popular contraband items including computer software and DVDs, music CDs and tapes, clothing, handbags, wallets and toys, said U.S. Customs Special Agent Kevin Kozak, who works with the agency's Los Angeles investigation field office.

Kozak and U.S. Customs spokesman Michael Fleming declined to elaborate on the ongoing investigations.

"We are the gateway for Asia. Because the vast majority of shipments that enter the ports of Long Beach and L.A. are from Asia and the Pacific Rim, it puts us in a position to interdict not only counterfeit cigarettes, but handbags and other what we call knockoff and counterfeit products," Fleming said.

Customs' effort to cut into these illegal imports and distributions is being done under its Intellectual Property Rights program. The agency has worked closely and received

E 7 of 22

intelligence from investigators with trademark- and copyright-holding companies such as Philip Morris about the contraband activities, Kozak said.

Counterfeit cigarettes have been on the rise in Southern California for the last two years, Kozak said.

"Counterfeiters typically with go with the ebb and flow of the market. If the vast majority of consumers smoke Marlboros, that's what they will make and sell," Kozak said.

According to Customs officials, \$ 5 billion in revenue was lost worldwide because of counterfeit cigarettes in the last two years.

In 2002, the Chinese Ministry of Public Security seized nearly 5 billion counterfeit cigarettes, destroyed nearly 2,500 production workshops and confiscated 1,300 machines.

Philip Morris U.S.A. has also filed federal lawsuits against retailers who sell counterfeit cigarettes, including stores in California, New York, Washington and Louisiana.

Jack Holleran, vice president of brand integrity for Philip Morris U.S.A., said the company does periodic audits of retail locations to make sure they are selling genuine Morris products. Besides using that information as fodder for its federal lawsuits, it also passes the information along to federal and state law enforcement agencies.

Morris has said counterfeit, illegally imported, untaxed, under-taxed and stolen cigarettes has hurt its U.S. business and late last year backed away from its earnings target for 2003, citing in part the contraband cigarette problem. Internet sales of cigarettes meant for export only is also being cracked down on, Holleran said.

"It's a problem we're taking very, very serious because of the impact it has," Holleran said. Holleran said he's met with Customs officials as well as authorities with the federal Bureau of Alcohol, Tobacco and Firearms office in Riverside.

Counterfeit cigarettes usually increase in states where high taxes have boosted the price of a pack of smokes. In 2001, 19 states hiked their cigarette excise taxes an average of 43 cents a pack to 65 cents a pack to help ease budget deficits. The federal excise tax on cigarettes increased from 24 cents in 2000 to 39 cents in 2002.

The current California excise tax is 87 cents per package of 20 cigarettes.

The cigarette industry also added 56 cents a pack to cigarettes to help pay for a settlement of state Medicaid reimbursement lawsuits that totaled \$ 246 billion.

E807 22

EDITORIAL**Cigarette taxes for terrorists**

The indictment of 11 persons last week on federal racketeering charges in connection with an alleged scheme to fund Hezbollah is a stark reminder that al Qaeda is hardly the lone terrorist group operating in the United States.

The indictment, unsealed last Tuesday, alleges that the conspirators — nine from the Detroit area and two from the New York-based Seneca Indian tribe — ran a cigarette smuggling ring to funnel assistance to Hezbollah, which has killed more Americans than any other terrorist group save al Qaeda.

The federal government charges that the smugglers purchased more than \$500,000 worth of cigarettes in North Carolina, where taxes are 50 cents a carton, and illegally transported them to Michigan, where cigarettes are taxed at \$12.50 per carton. The plot also involved smuggling cigarettes to Michigan from a New York Indian reservation, where cigarettes are untaxed.

One Dearborn, Mich., man named in the indictment is Hassan Makki, who told federal agents that he had "membership/official status" in Hezbollah. Another, Elias Mohamad Akhdar of Dearborn, had also taken part in military exercises with Hezbollah in Lebanon, prosecutors said. The government contends that the conspiracy is linked to Mohamed Hammoud, who was convicted in Charlotte, N.C., in June for helping to run a cigarette smuggling ring that funnelled profits to Hezbollah.

The Iranian- and Syrian-backed Hezbollah claims responsibility for such attacks as the 1983 bombing of the U.S. Embassy in Beirut (63 killed) and the October 1983 suicide bombing of U.S. Marine barracks in Lebanon, which killed 241. Hezbollah also committed such crimes as the 1985 hijacking of a TWA flight, during which U.S. Navy SEAL Robert Stethem was tortured and killed. William Buckley, the CIA's Beirut station chief, was kidnapped, tortured and murdered by Hezbollah. An offshoot called Saudi Hezbollah carried out the 1996 bombing of a military housing complex in Dhahran, Saudi Arabia, which killed 19 U.S. servicemen.

Hezbollah's leader, Sheikh Hassan Nasrallah, who only a few months ago urged Palestinians "to take suicide bombings worldwide," called on Arabs on Friday to take up arms in support of Saddam Hussein if war breaks out. Given Hezbollah's long history of killing Americans, its support for the Iraqi dictator should not be ignored. And the U.S. government must remain vigilant against any efforts by Hezbollah to raise funds on American soil.

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Feds Begin Crackdown on Cigarette Smuggling

Byline: Jerry Markon

Washington Post Staff Writer

It is a lucrative crime that has long been difficult to stop -- smugglers venturing into Virginia to buy truckloads of cigarettes, hauling them through Northern Virginia on Interstate 95 and selling them in other states without paying cigarette taxes.

Now, the government is cracking down on the growing problem of smugglers who take advantage of Virginia's lowest-in-the-nation cigarette taxes. As an example of the tough new approach, the U.S. Attorney's Office in Alexandria recently charged 10 people in a large smuggling operation cracked by an innovative sting usually associated with drugs and firearms cases.

The problem has gained attention since the Sept. 11, 2001, attacks because federal officials say terrorists use cigarette smuggling as one way to fund their activities. In fact, a man is in federal custody after his name came up as part of the smuggling investigation and he was found in Detroit with several hundred thousand dollars in wire transfer receipts showing payments to people and groups associated with the Hezbollah terrorist group based in Lebanon, law enforcement sources said.

Those payments, along with his possible ties to the 10 people charged, are under investigation by the FBI and other federal agencies.

The development bears similarities to a case in Charlotte last year in which 10 members of a Hezbollah cell involved in cigarette smuggling were found to have conspired to aid the organization. Eight people pleaded guilty, and a jury convicted two others. One of the men was caught on wiretaps speaking on the phone with Hezbollah's military commander in Lebanon.

Paul J. McNulty, the U.S. attorney in Alexandria, would not comment on the man sources say was arrested in Detroit. But he said the Charlotte case made "all of us in law enforcement more attentive to this source of financial support for terrorism activity. There are other sources, but this is one that has gotten the attention of law enforcement."

McNulty, whose office has prosecuted most major terrorism cases since Sept. 11, said he was especially interested in pursuing the current case because "we have an approach of being very proactive in areas that could have the potential to be associated with terrorist activity."

The current investigation began with a phone call last year to the federal **Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF)** from investigators with the New York State Department of Taxation and Finance. New York officials were concerned that a rise in that state's cigarette taxes would trigger a surge in smuggling.

State and local taxes on cigarettes sold in New York City are \$ 3 per pack. The New York City portion of that tax shot up from 8 cents to \$ 1.50 last July because of budget problems. In contrast, Virginia's cigarette tax is 2.5 cents per pack.

Smugglers have long taken advantage of the discrepancy by buying truckloads of cigarettes in Virginia, paying the nominal tax and then reselling them in New York and other states at a discount, costing those states revenue.

Federal officials have intermittently cracked down on the smuggling for two decades. But New York investigators suggested a new approach, which McNulty put into action last fall.

New York authorities placed ads in New York newspapers and magazines offering Virginia cigarettes for sale. The ads, for a company called A&A Tobacco Wholesale, listed a Virginia telephone number to place orders.

Investigators set up an undercover storefront in King George County, where they posed as employees and filled orders.

When prospective buyers called, they were told that the cigarettes would bear counterfeit tax stamps from New York state and New York City. According to court documents, the defendants allegedly bought 71,467 cartons for nearly \$ 2.2 million. New York stood to lose \$ 2.4 million in tax revenue from that amount of cigarettes.

The defendants were arrested and charged last month in U.S. District Court in Richmond with possession and distribution of contraband cigarettes, wire fraud and money laundering. If convicted, they could face maximum sentences of 20 years' imprisonment and fines of as much as \$ 1 million.

Jeff Roehm, special agent in charge of ATF's Washington Field Division, said the investigative technique was needed to combat a smuggling problem that involves "much larger groups and larger quantities" of cigarettes.

He said smuggling is attractive to criminals because "the amount of money that's involved in this is almost staggering." Stopping it can be tricky, in part because cigarettes are a legal product. It becomes a federal crime only when more than 60,000 cigarettes, or 300 cartons, are purchased to avoid payment of state tax.

"On the surface, nothing strikes you as illegal," Roehm said. "You open the back of a truck and you see a methamphetamine lab, you know something is wrong. You see a bunch of cigarettes, that doesn't make you pause as much. You can hide your illegal activity in plain sight."

While the federal-state task force was put together for this specific case, officials said they will continue to use new methods to crack down on the problem.

"There will be future cases," McNulty said. "We don't like the idea that Virginia would play a role in the violation of laws in other places. We want to make it an inhospitable place for criminals, period."



ATF NEWS

Bureau of Alcohol, Tobacco, Firearms and Explosives

FY-03-08

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For Immediate Release

www.atf.gov

April 9, 2003

ATF DISMANTLES ILLEGAL CIGARETTE TRAFFICKING ORGANIZATIONS ON BOTH COASTS

Arrests Culminate 2-1/2-year Undercover Investigation

LOS ANGELES - U.S. Attorneys for the Western District of Virginia and the Central District of California and the Washington and Los Angeles Field Divisions of the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) announced today the unsealing of indictments against 15 members of two transcontinental cigarette smuggling organizations that trafficked about \$20 million in contraband cigarettes.

ATF agents arrested at least 13 people in California today and were seeking more as part of the 2½-year-long undercover investigation that involved hundreds of law enforcement officers from numerous Federal, State, and local jurisdictions across the United States.

During the course of the investigation, the indictments allege, the smuggling organizations moved about \$20 million worth of cigarettes illegally from Virginia to California, Nevada and New York and defrauded the State of California of about \$5 million in tax revenue. As part of the investigation, law enforcement officers followed and conducted surveillance on numerous tractor-trailer trucks loaded with contraband cigarettes as they moved across the country.

The Federal government is seeking forfeiture of approximately \$18.5 million in addition to the following accomplishments that have already occurred:

- Seizure of 1,000 cases of domestic brand cigarettes; street value of \$2,100,000
- Recovery of approximately 700,000 counterfeit State tax stamps
- Recovery of 51 cases of counterfeit domestic cigarettes; street value of \$92,750
- Seizure of 2 tractor-trailer trucks (pending forfeiture) and other vehicles
- Seizure and forfeiture of more than \$350,000.00 in cash
- Seizure of approximately \$5.2 million in additional financial instruments

Western District of Virginia

Twelve individuals and two companies were named in a 32-count indictment returned in the Western District of Virginia. The indictment alleges that the defendants traveled to Virginia to purchase untaxed cigarettes, and then transported the cigarettes to California without paying the taxes owed in either State. During the course of the conspiracy, the indictment alleges the defendants purchased approximately 108,084,000 cigarettes (9007 cases) for approximately \$8,922,200.00, with a retail value of approximately \$18,574,035.00, and avoided approximately \$4,701,654.00 in California cigarette taxes. The named defendants, all residents of California,

E 13 of 22

include:

VICKEN I DJEREDJIAN, aka Vick Gregg, Vick Deere, Age 30
AKOP CHICHYAN, aka Jack Chichyan, Age 31
MNATSAKAN GRIGORIAN, aka Miatskan Zakevich Grigoryan, Mike Grigoryan, Age 37
MIRAKYAN MASIS, Age 55
RAFIK ASATRYAN, aka Rosik ASATRYAN, Age 45
RUBEN ISRAELYAN, aka Ruben Hovahnniysan, Age 47
ARMEN GRIGORYAN, Age 26
GEORGIY GRIGORYAN, aka Georgiy Vladimirovich Grigoryan, Age 25
SEROB BOYADZHYAN, aka Serb, Age 33
MANVEL ISKANDARYAN, aka Bear, Age 44
ALBERT ASATRYAN, Age 46
AZAT STEPHANYAN, Age 20
GRAND DISTRIBUTION COMPANY, USA, INC.
PRO-CAL TRANSPORTATION, INC., aka Grace Way

All defendants are charged with conspiracy to possess and transport contraband cigarettes. Each of the defendants is also charged in various counts of actual possession and transportation of contraband cigarettes. All charges carry a penalty of up to five years imprisonment and a fine of \$250,000 for the individuals and a fine of \$500,000 for the companies.

The indictment also seeks the forfeiture of a monetary amount of \$18,574,235, which is alleged to have been the gross proceeds obtained by the defendants as a result of their criminal conduct, and the forfeiture of four residences, 14 vehicles, \$190,906 in financial instruments, and seven financial accounts containing proceeds of the illegal enterprise that were traced directly by law enforcement officers. Property being sought for forfeiture to assist in the satisfying of the \$18 million monetary amount includes an additional four residences, three vehicles, and 18 additional financial accounts.

Central District of California

Three persons were named in a 15-count indictment returned in the Central District of California and charged with conspiracy to possess and transport contraband cigarettes and launder money, possession and transportation of contraband cigarettes, and money laundering. The indictment alleges that the defendants trafficked more than 45,000,000 contraband cigarettes (3,750 cases) and laundered approximately \$3.3 million. The money laundering charges carry a penalty of up to 20 years imprisonment and a fine of \$500,000.00. Charged in this indictment are:

RENE KHAJA, Age 30
SUREN AMBARCHYAN, Age 28
HENRI MINASSIAN, Age 28

In a related investigation, ATF agents executed a search warrant today at Country Home Tobacco, a retail store located in Monterey Park, Calif., following the filing of two criminal complaints alleging cigarette trafficking against the following persons:

JOHN KAMAR, Age 35
MIKHAEL KAMAR, Age 39

Arrested today were:

VICKEN I DJEREDJIAN, aka Vick Gregg, Vick Deere, Age 30
AKOP CHICHYAN, aka Jack Chichyan, Age 31
MNATSAKAN GRIGORIAN, aka Miatskan Zakevich Grigoryan, Mike Grigoryan, Age 37
MIRAKYAN MASIS, Age 55
ARMEN GRIGORYAN, Age 26
GEORGIY GRIGORYAN, aka Georgiy Vladimirovich Grigoryan, Age 25

E 14 of 22

MANVEL ISKANDARYAN, aka Bear, Age 44
ALBERT ASATRYAN, Age 46
RENE KHAJA, Age 30
SUREN AMBARCHYAN, Age 28
HENRI MINASSIAN, Age 28
JOHN KAMAR, Age 35
MIKHAEL KAMAR, Age 39

U.S. Attorneys in Virginia and California commended the work of the law enforcement agencies participating in this investigation: ATF, IRS, California Board of Equalization (BOE), Virginia Alcohol Beverage Control Board, Roanoke Police Department, Botetourt County Sheriff's Department, Virginia State Police, and New York State Tax Authority, INS, and United States Marshals Service.

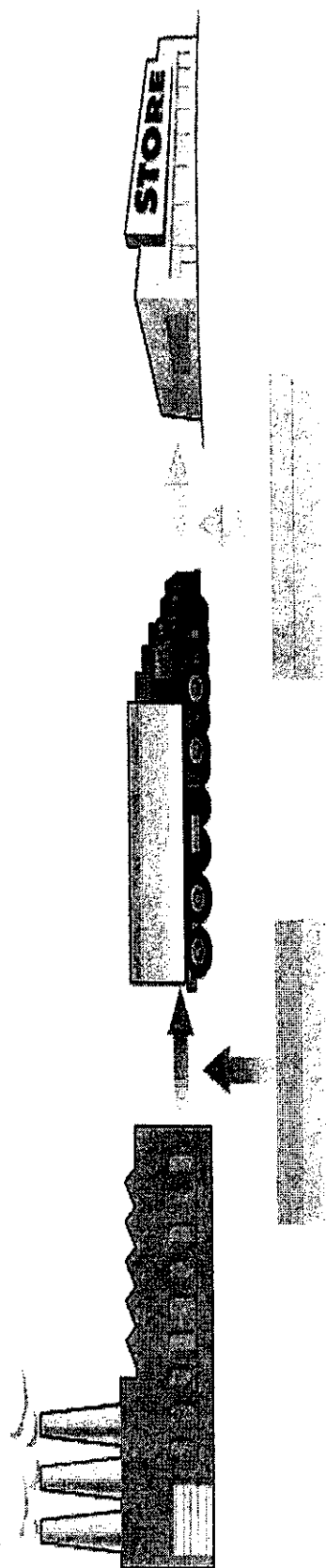
A Grand Jury indictment is only a charge and not evidence of guilt. The defendants are entitled to a fair trial with the burden on the government to prove guilt beyond a reasonable doubt.

ATF is the world's leading investigative agency on firearms, explosives and arson, providing that expertise to the Federal and state, local and foreign governments. The Bureau administers and enforces the Federal laws and regulations relating to firearms, explosives and arson, and the criminal laws concerning alcohol and tobacco smuggling and diversion. ATF's 4,700 men and women serve to protect the American public and reduce violent crime. More information about ATF and its programs is available on the Internet at www.atf.gov.

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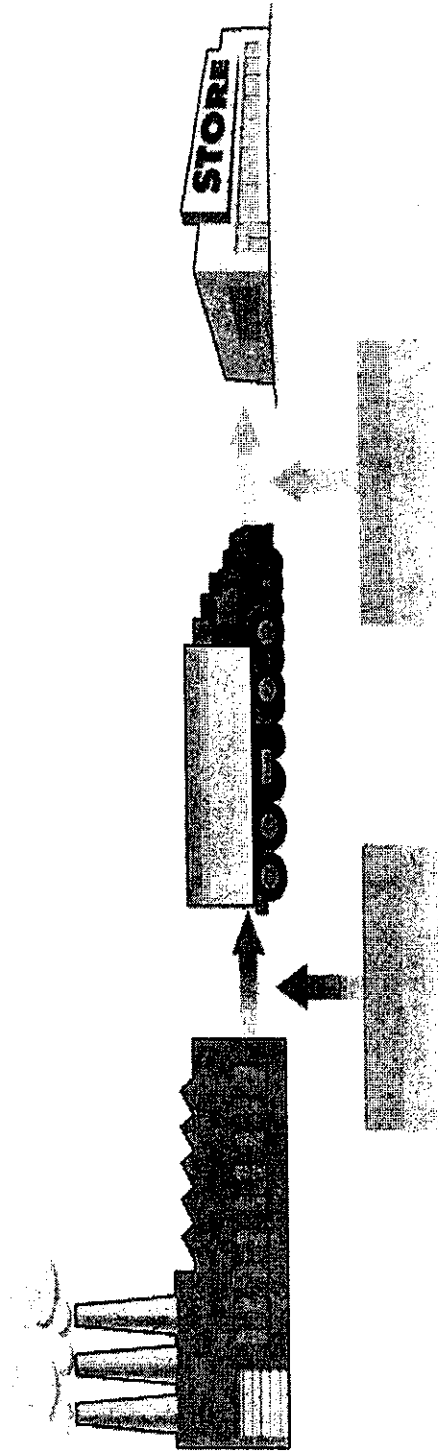
E15 of 22

Unlicensed Entities Sell Counterfeit Cigarettes to Wholesale Dealers or Retailers



Anti-Counterfeiting Provisions of AB 460

Sections 10-37 and 59-79



100+ Manufacturers report shipments to Wholesale Dealers report
to Wholesale Dealers to Taxation Dept. shipments to Retailers to
Sec. 27(1). Taxation Dept. Sec. 27(2)

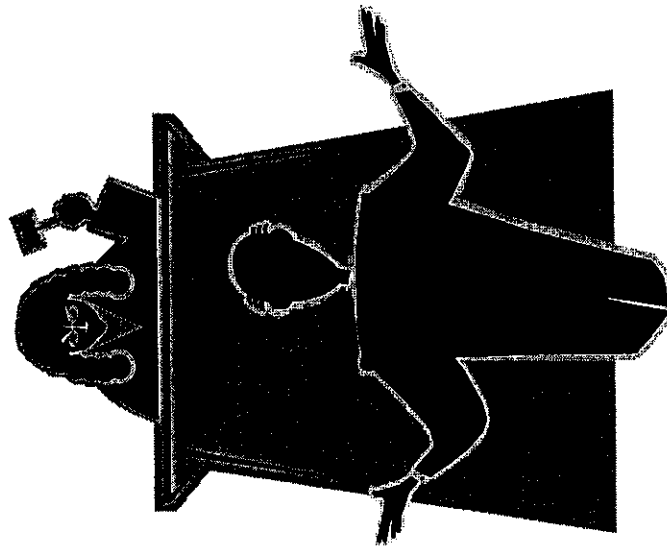
No Reporting by Retailers

Taxation Dept. Reports

- Observe change in trends of prior cigarette sales (e.g. retail store that previous received 30 cartons of Brand XYZ every month for 6 months now orders zero). Sec. 27.
- Report Change to Attorney General's office that would investigate inventory and retailer records required under Section 71.

Attorney General

- If investigation results in evidence of counterfeit cigarettes or other violations of law, Attorney General may bring criminal or civil action under Sections 34-37 or other violations of NRS Chapter 370. Sec. 58 and 79.



Sections 38-58, AB 460 affect Current NRS 370A

- NRS Chapter 370A required for NV to avoid reduced MSA payments
- Requires Tobacco Manufacturers not signing MSA to deposit 1.5 cents per cigarette in escrow account
- Escrow account may only be used to pay health care related judgment/settlement
- Payment due on 4/15 in year after sales occurred
- Law reduces economic advantage of not signing MSA

Sections 38-58 (Strengthens NRS 370A)

- NPM must certify all brands and that has established an escrow account for past sales. Sec. 51(2) & (3).
- NPM appoints registered agent for service of process in Nevada. Sec. 54.
- Taxation Dept. List of all certified brands on Internet. Sec. 53.
- Prohibits placing cigarette stamps on any non-certified brand. Sec. 57.
- May require quarterly escrow payment. Sec. 56(1).

E210y 22

Amendment to NRS 370A

- MSA prohibits Amending "Model Act" (NRS Chapter 370A)
- Exception: Signatories have agreed that Sec. 80 Amendment is permitted.
- Current law permits NPM to withdraw amount that exceeds payment amount to applicable state
- Sec. 80 would eliminate windfall to NPMs that concentrate sales in a few states.