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**PHILIP MORRIS U.S.A. TO MOUNT CHALLENGE
TO MORALES' ACTION IN FEDERAL COURT**

NEW YORK, June 13 -- Today's decision by a state judge in Austin not to decide whether Texas Attorney General Dan Morales has overstepped his statutory and constitutional authority now places those issues before a federal judge in Texarkana.

In his letter decision today, Joseph H. Hart of the 126th District Court said that although he had the authority to render a decision, he would decline to exercise his jurisdiction to rule whether Morales has violated state law in bringing suit against cigarette makers.

"The judge's decision is not a ruling on the merits of our case, and we still believe very strongly that Mr. Morales' lawsuit is not only without legal merit but that he has no power even to file it," said Gregory G. Little, senior assistant general counsel for Philip Morris.

The ruling came in a lawsuit filed in state court last year by Philip Morris U.S.A and the nation's other leading tobacco companies. The companies asked for a declaratory judgment against Morales holding that he lacked authority to file suit to recover Medicaid costs claimed to have been incurred by smoking-related illnesses. Earlier this year, Morales filed suit against the companies in federal court in Texarkana.

In his decision, Judge Hart declined to dismiss the companies' lawsuit; rather, he said he would retain the case in his court pending developments in the federal case.

In addition, Judge Hart denied the state's motion for sanctions against the tobacco companies, ruling that Morales had not supported his claim that the state case was filed for any improper purpose.

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