SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1998

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-6541

LOEWS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	13-2646102
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

667 MADISON AVENUE, NEW YORK, N.Y. 10021-8087
(Address of principal executive offices) (Zip Code)

(212) 521-2000
(Registrant's telephone number, including area code)

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Class	Outstanding at November 6, 1998
Common stock, $1 par value	113,690,800 shares

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Loews Corporation and Subsidiaries
Consolidated Condensed Balance Sheets

(Amounts in millions)	September 30, 1998	December 31, 1997
Assets:		
Investments:		
Fixed maturities, amortized cost of $28,734.7 and $30,201.6	$29,612.2	$30,723.2
Equity securities, cost of $1,716.8 and $1,102.6	2,239.8	1,163.3
Other investments	1,099.3	978.4
Short-term investments	9,204.2	8,754.2
Total investments	42,155.5	41,619.1
Cash	181.0	497.8
Receivables-net	14,960.3	13,616.9
Property, plant and equipment-net	2,669.8	2,590.2
Deferred income taxes	661.9	944.3
Goodwill and other intangible assets-net	720.2	751.4
Other assets	1,910.3	1,935.1
Deferred policy acquisition costs of insurance subsidiaries	2,358.9	2,141.7
Separate Account business	5,381.5	5,811.6
Total assets	$70,999.4	$69,908.1
Liabilities and Shareholders' Equity:		
Insurance reserves and claims	$40,482.5	$39,828.4
Payable to brokers	1,821.6	1,559.2
Securities sold under repurchase agreements	57.9	152.7
Long-term debt, less unamortized discount	5,701.3	5,752.6
Other liabilities	4,540.6	4,749.1
Separate Account business	5,381.5	5,811.6
Total liabilities	57,985.4	57,853.6
Minority interest	2,502.9	2,389.4
Shareholders' equity	10,511.1	9,665.1
Total liabilities and shareholders' equity	$70,999.4	$69,908.1

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries
Consolidated Condensed Statements of Income

(Amounts in millions, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
Revenues:				
Insurance premiums:				
Property and casualty	$ 2,513.8	$2,488.8	$ 7,706.7	$ 7,488.7
Life	784.1	846.3	2,424.2	2,538.8
Investment income, net of expenses	585.4	583.7	1,837.9	1,803.5
Investment gains (losses)	663.0	1.5	338.0	(265.1)
Manufactured products (including excise taxes of $134.8, $131.8, $371.5 and $366.2)	805.2	674.8	2,126.2	1,841.4
Other	600.4	516.3	1,718.8	1,392.3
Total	5,951.9	5,111.4	16,151.8	14,799.6
Expenses:				
Insurance claims and policyholders' benefits	2,773.4	2,854.5	8,560.6	8,607.0
Amortization of deferred policy acquisition costs	544.9	621.3	1,803.7	1,737.5
Cost of manufactured products sold	272.6	272.0	769.2	770.1
Selling, operating, advertising and administrative expenses	1,207.0	859.3	3,180.8	2,401.4
Interest	89.3	88.3	282.3	239.4
Total	4,887.2	4,695.4	14,596.6	13,755.4
	1,064.7	416.0	1,555.2	1,044.2
Income tax expense	384.9	134.3	532.0	330.4
Minority interest	62.7	84.1	242.6	213.1
Total	447.6	218.4	774.6	543.5
Net income	$ 617.1	$ 197.6	$ 780.6	$ 500.7
Net income per share	$ 5.38	$ 1.72	$ 6.79	$ 4.35
Cash dividends per share	$ .25	$ .25	$ .75	$ .75
Weighted average number of shares outstanding	114.7	115.0	114.9	115.0

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries
Consolidated Condensed Statements of Cash Flows

(Amounts in millions)	Nine Months Ended September 30,	
	1998	1997
Operating Activities:		
Net income	$ 780.6	$ 500.7
Adjustments to reconcile net income to net cash used by operating activities-net	182.6	784.2
Changes in assets and liabilities-net:		
Reinsurance receivable	(178.3)	127.6
Other receivables	(693.1)	(486.5)
Deferred policy acquisition costs	(217.3)	(369.3)
Insurance reserves and claims	665.5	993.2
Other liabilities	135.1	(1,029.3)

Trading securities	(673.4)	(598.6)
Other-net	(156.4)	(172.6)
	(154.7)	(250.6)
Investing Activities:		
Purchases of fixed maturities	(50,541.0)	(30,956.4)
Proceeds from sales of fixed maturities	49,698.1	30,131.3
Proceeds from maturities of fixed maturities	2,655.3	1,667.8
Change in securities sold under repurchase agreements	(94.8)	627.7
Purchases of equity securities	(793.0)	(854.2)
Proceeds from sales of equity securities	511.7	937.5
Change in short-term investments	(560.7)	(1,963.4)
Purchases of property, plant and equipment	(345.2)	(533.1)
Change in other investments	(246.2)	40.1
	284.2	(902.7)
Financing Activities:		
Dividends paid to shareholders	(86.2)	(86.3)
Dividends paid to minority interests	(30.7)	
Issuance of long-term debt	1,011.7	1,634.1
Principal payments on long-term debt	(1,065.9)	(206.4)
Purchase of treasury shares	(110.1)	
Purchase of treasury shares by subsidiaries	(153.6)	
Net change in revolving line of credit		(63.0)
Net change in short-term debt		(9.9)
Receipts credited to policyholders	18.8	6.7
Withdrawals of policyholder account balances	(30.3)	(18.4)
	(446.3)	1,256.8
Net change in cash	(316.8)	103.5
Cash, beginning of period	497.8	305.7
Cash, end of period	$ 181.0	$ 409.2

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries
Notes to Consolidated Condensed Financial Statements

(Dollars in millions, except per share data)

1. General:

Reference is made to Notes to Consolidated Financial Statements in the 1997 Annual Report to Shareholders which should be read in conjunction with these consolidated condensed financial statements.

Comprehensive income

Comprehensive income includes all changes to shareholders' equity, including net income, except those resulting from investments by, and distributions to, owners. For the three and nine months ended September 30, 1998 and 1997, comprehensive income totaled $846.9, $462.4, $1,042.3 and $656.5, respectively. Comprehensive income includes net income, unrealized appreciation (depreciation) and foreign currency translation gains or losses.

Net income per share

The Company adopted SFAS No. 128, "Earnings Per Share," which requires presentation of basic and diluted earnings per share for entities with complex capital structures. Basic earnings per share excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The Company does not have any dilutive instruments related to its common shares. Accordingly, basic and diluted earnings per share are the same.

Reclassifications

Certain amounts applicable to prior periods have been reclassified to conform to the classifications followed in 1998.

2. Reinsurance:

CNA assumes and cedes insurance with other insurers and reinsurers and members of various reinsurance pools and associations. CNA utilizes reinsurance arrangements to limit its maximum loss, to provide greater diversification of risk and to minimize exposures on larger risks. The reinsurance coverages are tailored to the specific risk characteristics of each product line with CNA's retained amount varying by type of coverage. Generally, reinsurance coverage for property risks is on an excess of loss, per risk basis. Liability coverages are generally reinsured on a quota share basis in excess of CNA's retained risk.

The ceding of insurance does not discharge the primary liability of the original insurer. CNA places reinsurance with other carriers only after careful review of the nature of the contract and a thorough assessment of the reinsurers' credit quality and claim settlement performance. Further, for carriers that are not authorized reinsurers in CNA's states of domicile, CNA receives collateral, primarily in the form of bank letters of credit, securing a large portion of the recoverables.

The effects of reinsurance on earned premiums are as follows:

	Direct	Assumed	Ceded	Net	% Assumed	Direct	Assumed	Ceded	Net	% Assumed
	Nine Months Ended September 30,									
	1998					1997				
Property and casualty ..	$6,261.0	$1,114.0	$481.0	$ 6,894.0	16.2%	$6,087.0	$1,078.0	$549.0	$ 6,616.0	16.3%
Accident and health	2,620.0	153.0	202.0	2,571.0	5.9	2,803.0	73.0	115.0	2,761.0	2.6
Life	742.0	112.0	188.0	666.0	16.8	649.0	92.0	90.0	651.0	14.1
Total	$9,623.0	$1,379.0	$871.0	$10,131.0	13.6%	$9,539.0	$1,243.0	$754.0	$10,028.0	12.4%

In the above table, life premium revenue is principally from long duration contracts and the property and casualty earned premium is from short duration contracts. Approximately three quarters of accident and health earned premiums are from short duration contracts.

Insurance claims and policyholders' benefits are net of reinsurance recoveries of $721.0 and $618.0 for the nine months ended September 30, 1998 and 1997, respectively.

3. The Company's receivables are comprised of the following:

	September 30, 1998	December 31, 1997
Reinsurance	$ 6,235.3	$ 6,057.0
Other insurance	6,956.1	6,293.9
Security sales	1,300.7	755.8
Accrued investment income	428.3	422.8
Other	363.2	405.4
Total	15,283.6	13,934.9
Less allowance for doubtful accounts and cash discounts	323.3	318.0
Receivables-net	$14,960.3	$13,616.9

4. Shareholders' equity:

	September 30, 1998	December 31, 1997
Preferred stock, $.10 par value: Authorized--100,000,000 shares		
Common stock, $1 par value: Authorized--400,000,000 shares		
Issued--115,000,000 shares	$ 115.0	$ 115.0
Additional paid-in capital	165.8	165.8
Earnings retained in the business	9,589.8	8,895.4
Accumulated other comprehensive income	750.6	488.9
Total	10,621.2	9,665.1
Less common stock (1,309,200 shares) held in treasury at cost	110.1	
Total	$10,511.1	$9,665.1

5. Restructuring and Other Related Charges-

In the third quarter of 1998, CNA finalized and approved a plan to restructure its operations. In connection with this plan, CNA recorded pre-tax restructuring and other related charges totaling approximately $220.0. The restructuring plan focused primarily on a net reduction in current workforce, the consolidation of certain processing centers, the closing of various facilities, and the exiting of certain businesses. CNA's plan calls for a reduction in the current workforce of approximately 4,500 employees resulting in a net reduction of approximately 2,400 employees upon completion of the plans activities. The charges recorded in the third quarter of 1998 relate to employee termination benefits ($72.0), the writedown of certain assets to their fair values ($74.0), lease abandonment costs ($42.0) and losses related to the exiting of businesses ($32.0).

6. Legal Proceedings and Contingent Liabilities-

INSURANCE RELATED

Fibreboard Litigation

CNA's primary property and casualty subsidiary, Continental Casualty Company ("Casualty"), has been party to litigation with Fibreboard Corporation ("Fibreboard") involving coverage for certain asbestos-related claims and defense costs (San Francisco Superior Court, Judicial Council Coordination Proceeding 1072). As described below, Casualty, Fibreboard, another insurer (Pacific Indemnity, a subsidiary of the Chubb Corporation), and a negotiating committee of asbestos claimant attorneys (collectively referred to as "Settling Parties") have reached a Global Settlement (the "Global Settlement") to resolve all future asbestos-related bodily injury claims involving Fibreboard, which is subject to court approval.

Casualty, Fibreboard and Pacific Indemnity have also reached an agreement (the "Trilateral Agreement") on a settlement to resolve the coverage litigation in the event the Global Settlement does not obtain final court

approval.

On July 27, 1995, the United States District Court for the Eastern District of Texas entered judgment approving the Global Settlement Agreement and the Trilateral Agreement. As expected, appeals were filed as respects to both of these decisions. On July 25, 1996, a panel of the United States Fifth Circuit Court of Appeals in New Orleans affirmed the judgment approving the Global Settlement Agreement by a 2 to 1 vote and affirmed the judgment approving the Trilateral Agreement by a 3 to 0 vote. Petitions for rehearing by the panel and Suggestions for Rehearing by the entire Fifth Circuit Court of Appeals as respects to the decision on the Global Settlement Agreement were denied. Two petitions for certiorari were filed in the Supreme Court as respects the Global Settlement Agreement. On June 27, 1997, the Supreme Court granted these petitions, vacated the Fifth Circuit's judgment as respects to the Global Settlement Agreement, and remanded the matter to the Fifth Circuit for reconsideration in light of the Supreme Court's decision in Amchem Products Co. v. Windsor.

On January 27, 1998, a panel of the United States Fifth Circuit Court of Appeals again approved the Global Settlement Agreement by a 2 to 1 vote. Two sets of objectors filed petitions for certiorari which were docketed on April 16 and 17, 1998, by the United States Supreme Court. On June 22, 1998, the Supreme Court granted the petition for certiorari filed by one of the sets of objectors. The Supreme Court has set oral argument for December 8, 1998.

No further appeal was filed with respect to the Trilateral Agreement; therefore, court approval of the Trilateral Agreement has become final.

Settlement Agreements - On April 9, 1993, Casualty and Fibreboard entered into an agreement pursuant to which, among other things, the parties agreed to use their best efforts to negotiate and finalize a global class action settlement with asbestos-related bodily injury and death claimants.

On August 27, 1993, the Settling Parties reached an agreement in principle for an omnibus settlement to resolve all future asbestos-related bodily injury claims involving Fibreboard. The Global Settlement Agreement was executed on December 23, 1993. The agreement calls for contribution by Casualty and Pacific Indemnity of an aggregate of $1,525.0 to a trust fund for a class of all future asbestos claimants, defined generally as those persons whose claims against Fibreboard were neither filed nor settled before August 27, 1993. An additional $10.0 is to be contributed to the fund by Fibreboard. As indicated above, the Global Settlement Agreement has been approved by the Fifth Circuit a second time, but the Supreme Court has granted a petition for certiorari filed by one of the sets of objectors to the settlement.

On October 12, 1993, Casualty, Pacific Indemnity and Fibreboard entered into the Trilateral Agreement to settle the coverage litigation to operate in the event that the Global Settlement Agreement is disapproved. The Trilateral Agreement calls for payment by Casualty and Pacific Indemnity of an aggregate $2,000.0, of which Casualty's portion is approximately $1,460.0, to Fibreboard to resolve all claims by Fibreboard and all future and unsettled present asbestos claimants arising under the policy issued to Fibreboard by Casualty.

Under either the Global Settlement Agreement or the Trilateral Agreement, Casualty is also obligated to pay under prior settlements of present asbestos claims. As a result of the final approval of the Trilateral Agreement, such obligation has become final. Through September 30, 1998, Casualty, Fibreboard and plaintiff attorneys had reached settlements with

respect to approximately 135,200 present claims, for an estimated settlement amount of approximately $1,630.0 plus any applicable interest. Final court approval of the Trilateral Agreement obligates Casualty to pay under these settlements. Approximately $1,670.0 (including interest of $184.0) was paid through September 30, 1998. Such payments have been partially recovered from Pacific Indemnity. Casualty may negotiate other agreements for unsettled claims.

Final court approval of the Trilateral Agreement and its implementation resolved Casualty's exposure with respect to the Fibreboard asbestos claims. Casualty's management does not anticipate further material exposure with respect to the Fibreboard matter, and subsequent adverse reserve adjustments, if any, are not expected to materially affect the results of operations or equity of the Company.

Tobacco Litigation

Several of CNA's property/casualty subsidiaries have been named as defendants as part of a "direct action" lawsuit, Richard P. Ieyoub v. The American Tobacco Company, et al., filed by the Attorney General for the State of Louisiana, in state court, Calcasieu Parish, Louisiana. In that suit, filed against certain tobacco manufacturers and distributors (the "Tobacco Defendants") and over 100 insurance companies, the State of Louisiana seeks to recover medical expenses allegedly incurred by the State as a result of tobacco-related illnesses.

The original suit was filed on March 13, 1996, against the Tobacco Defendants only. The insurance companies were added to the suit in March 1997 under a "direct action" procedure in Louisiana. Under the direct action statute, the Louisiana Attorney General is pursuing liability claims against the Tobacco Defendants and their insurers in the same suit, even though none of the Tobacco Defendants has made a claim for insurance coverage.

In June of 1997, the United States District Court for the Western District

of Louisiana, Lake Charles Division, granted a petition to remove this litigation to the federal district court. The district court's decision is currently on appeal to the United States Fifth Circuit Court of Appeals. During the pending appeal, all proceedings in state court and in the federal district court are stayed. Because of the uncertainties inherent in assessing the risk of liability at this very early stage of the litigation, management is unable to make a meaningful estimate of the amount or range of any loss that could result from an unfavorable outcome of the pending litigation. However, management believes that the ultimate outcome of the pending litigation should not materially affect the results of operations or equity of CNA.

Environmental Pollution and Asbestos

The CNA property and casualty insurance companies have potential exposures related to environmental pollution and asbestos claims.

Environmental pollution clean-up is the subject of both federal and state regulation. By some estimates, there are thousands of potential waste sites subject to clean-up. The insurance industry is involved in extensive litigation regarding coverage issues. Judicial interpretations in many cases have expanded the scope of coverage and liability beyond the original intent of the policies.

The Comprehensive Environmental Response Compensation and Liability Act of

1980 ("Superfund") and comparable state statutes ("mini-Superfund") govern the clean-up and restoration of abandoned toxic waste sites and formalize the concept of legal liability for clean-up and restoration by potentially responsible parties ("PRP's"). Superfund and the mini-Superfunds (Environmental Clean-up Laws or "ECLs") establish mechanisms to pay for clean-up of waste sites if PRPs fail to do so, and to assign liability to PRPs. The extent of liability to be allocated to a PRP is dependent on a variety of factors. Further, the number of waste sites subject to clean-up is unknown. To date, approximately 1,300 clean-up sites have been identified by the Environmental Protection Agency on its National Priorities List ("NPL"). The addition of new clean-up sites to the NPL has slowed in recent years. Many clean-up sites have been designated by state authorities as well.

Many policyholders have made claims against various CNA insurance subsidiaries for defense costs and indemnification in connection with environmental pollution matters. CNA and the insurance industry are disputing coverage for many such claims. Key coverage issues include whether clean-up costs are considered damages under the policies, trigger of coverage, applicability of pollution exclusions and owned property exclusions, the potential for joint and several liability and definition of an occurrence. To date, courts have been inconsistent in their rulings on these issues.

A number of proposals to reform Superfund have been made by various parties. However, no reforms were enacted by Congress in 1998 and it is unclear as to what positions the Congress or the Clinton Administration will take and what legislation, if any, will result. If there is legislation, and in some circumstances even if there is no legislation, the federal role in environmental clean-up may be significantly reduced in favor of state action. Substantial changes in the federal statute or the activity of the EPA may cause states to reconsider their environmental clean-up statutes and regulations. There can be no meaningful prediction of the pattern of regulation that would result.

Due to the inherent uncertainties described above, including the inconsistency of court decisions, the number of waste sites subject to clean-up, and the standards for clean-up and liability, CNA's ultimate liability for environmental pollution claims may vary substantially from the amount currently recorded.

As of September 30, 1998 and December 31, 1997, CNA carried $646.0 and $773.0, respectively, of claim and claim expense reserves, net of reinsurance recoverables, for reported and unreported environmental pollution claims. The reserves relate to claims for accident years 1988 and prior, after which CNA adopted the Simplified Commercial General Liability coverage form which includes an absolute pollution exclusion. Unfavorable environmental pollution reserve development for the nine months ended September 30, 1998 was $58.0. There was no environmental pollution reserve development for the nine months ended September 30, 1997.

CNA's property and casualty insurance subsidiaries have exposure to asbestos

claims, including those attributable to CNA's litigation with Fibreboard Corporation (see above). Estimation of asbestos claim reserves involves many of the same limitations discussed above for environmental pollution claims such as inconsistency of court decisions, specific policy provisions, allocation of liability among insurers, missing policies and proof of coverage. As of September 30, 1998 and December 31, 1997, CNA carried $1,455.0 and $1,400.0, respectively, of claim and claim expense reserves, net of reinsurance recoverables, for reported and unreported asbestos-related claims. Unfavorable asbestos claim reserve development for

the nine months ended September 30, 1998 and 1997 totaled $205.0 and $40.0, respectively.

The unfavorable reserve development on environmental and asbestos reserves in 1998 was more than offset by favorable reserve development in other lines, primarily commercial and specialty coverages. Excluding environmental and asbestos reserves, favorable loss and allocated loss adjustment expense reserve development approximated $380.0 and $340.0 for the nine months ended September 30, 1998 and 1997, respectively. Premium development for these same periods approximated $30.0 favorable and $165.0 unfavorable, respectively. The large unfavorable premium development in 1997 is primarily attributable to reductions in residual market premiums.

The following table provides additional data related to CNA's environmental pollution and asbestos-related claims activity.

	September 30, 1998		December 31, 1997	
	Environmental Pollution	Asbestos	Environmental Pollution	Asbestos
Reported Claims:				
Gross reserves	$279.0	$1,308.0	$279.0	$1,198.0
Less reinsurance recoverable	(52.0)	(101.0)	(36.0)	(117.0)
Net reported claims	227.0	1,207.0	243.0	1,081.0
Net unreported claims	419.0	248.0	530.0	319.0
Net reserves	$646.0	$1,455.0	$773.0	$1,400.0

The results of operations in future years may continue to be adversely affected by environmental pollution and asbestos claims and claim expenses. Management will continue to monitor these liabilities and make further adjustments as warranted.

NON-INSURANCE

Tobacco Litigation -- Lawsuits continue to be filed with increasing frequency against Lorillard and other manufacturers of tobacco products seeking damages for cancer and other health effects claimed to have resulted from an individual's use of cigarettes, addiction to smoking, or exposure to environmental tobacco smoke. Tobacco litigation includes claims brought by individual plaintiffs ("Conventional Product Liability Cases"); claims brought as class actions on behalf of a large number of individuals for damages allegedly caused by smoking ("Class Actions"); claims brought on behalf of governmental entities and others, including private citizens suing on behalf of taxpayers, labor unions, Indian Tribes and private companies, seeking, among other alleged damages, reimbursement of health care costs allegedly incurred as a result of smoking ("Reimbursement Cases"); and claims for contribution and/or indemnity of asbestos claims by asbestos manufacturers ("Claims for Contribution"). In addition, claims have been brought against Lorillard seeking damages resulting from exposure to asbestos fibers which had been incorporated, for a limited period of time, ending more than forty years ago, into filter material used in one brand of cigarettes manufactured by Lorillard ("Filter Cases").

In these actions, plaintiffs claim substantial compensatory, statutory and punitive damages in amounts ranging into the billions of dollars. These

claims are based on a number of legal theories including, among other things, theories of negligence, fraud, misrepresentation, strict liability,

breach of warranty, enterprise liability, civil conspiracy, intentional infliction of harm, violation of anti-trust laws and state consumer protection statutes, and failure to warn of the allegedly harmful and/or addictive nature of tobacco products.

On June 20, 1997, together with other companies in the United States tobacco industry, Lorillard entered into a Memorandum of Understanding to support the adoption of federal legislation and any necessary ancillary undertakings incorporating the features described in the proposed resolution attached to the Memorandum of Understanding (together, the "Proposed Resolution"). The Proposed Resolution can be implemented only by federal legislation. If enacted into law, the legislation implementing the Proposed Resolution would resolve many of the regulatory and litigation issues affecting the United States tobacco industry thereby reducing uncertainties facing the industry. Certain legislation had been introduced in Congress that would significantly modify the Proposed Resolution including provisions more stringent than those included in the Proposed Resolution. On April 18, 1998, Lorillard and other companies announced a withdrawal from the legislative process to enact a comprehensive tobacco settlement. (See Item 1 - Lorillard, Inc. - "Proposed Resolution of Certain Regulatory and Litigation Issues" in the Company's annual report on Form 10-K for the year ended December 31, 1997.)

CONVENTIONAL PRODUCT LIABILITY CASES - There are approximately 660 cases filed by individual plaintiffs against manufacturers of tobacco products pending in the United States federal and state courts in which individuals allege they or their decedents have been injured due to smoking cigarettes, due to exposure to environmental tobacco smoke, or due to nicotine dependence. Lorillard is a defendant in approximately 300 of these cases. The Company is a defendant in 73 of the cases, although two have not been served. Sixty-five of the 73 cases have been filed in West Virginia.

Plaintiffs in these cases seek unspecified amounts in compensatory and punitive damages in many cases, and in other cases damages are stated to amount to as much as $100.0 in compensatory damages and $600.0 in punitive damages.

On March 19, 1998, the jury in Dunn v. RJR Nabisco Holdings Corporation, et al. (Superior Court, Delaware County, Indiana, filed May 28, 1993) returned a unanimous verdict in favor of the defendant cigarette manufacturers and their parent entities, including the Company, in the trial of a suit brought by the family of a woman who died of cancer, allegedly caused by exposure to environmental tobacco smoke. The court denied plaintiffs' motion for new trial. Plaintiffs did not notice an appeal.

On September 26, 1997, a jury in the case of Gordon v. R.J. Reynolds Tobacco Company, et al. (Superior Court, Middlesex County, Massachusetts), returned a special verdict favorable to the defendants, which included Lorillard. The court entered judgment in favor of the defendants. Trial was held on the limited issue of the cigarettes smoked by the decedent and the time period in which she smoked them. Plaintiff has filed a motion for new trial, which is pending.

During 1998, a jury in the Circuit Court of Duval County, Florida, returned a verdict in favor of plaintiffs in a smoking and health case in which Lorillard was not a party, Widdick v. Brown & Williamson Tobacco Corporation (verdict returned June 10, 1998). The jury awarded plaintiffs $1.0 in actual damages and punitive damages. The First District of the Florida Court of Appeal reversed the trial court's order denying Brown & Williamson Tobacco Corporation's motion to transfer venue. The Circuit Court of Duval County,

Florida, transferred the case to the Circuit Court of Palm Beach County, Florida. Brown & Williamson's motion for new trial is pending.

During 1997, juries returned verdicts in favor of the defendants in trials in two smoking and health cases in which Lorillard was not a party, Connor v. R.J. Reynolds Tobacco Company (verdict returned May 5, 1997) and Karbiwnyk v. R.J. Reynolds Tobacco Company (verdict returned October 31, 1997) (both cases were tried in the Circuit Court of Duval County, Florida). Appeals are not pending in either case.

The Florida Court of Appeals issued a ruling in the case of Carter v. Brown & Williamson Tobacco Corporation, filed in the Circuit Court of Duval County, Florida, that reversed a 1996 verdict entered in favor of plaintiffs in which they were awarded a total of seven hundred fifty thousand dollars in actual damages. The Court of Appeals directed that judgment be entered in favor of Brown & Williamson Tobacco Corporation by the trial court. Plaintiffs have asked the Court of Appeals to reconsider its decision. Lorillard was not a party to Carter v. Brown & Williamson Tobacco Corporation.

CLASS ACTIONS - There are approximately 70 purported class actions pending against cigarette manufacturers and other defendants, including the Company. Three cases have not been served. Most of the suits seek class certification on behalf of residents of the states in which the cases have been filed, although some suits seek class certification on behalf of residents of multiple states. All but one of the purported class actions seek class certification on behalf of individuals who smoked cigarettes or were exposed to environmental tobacco smoke. One of the cases seek class certification on behalf of individuals who have paid insurance premiums to Blue Cross and Blue Shield organizations. Plaintiffs in a number of Reimbursement cases also seek certification as class actions (see Reimbursement Cases, below).

Theories of liability asserted in the purported class actions include a broad range of product liability theories, including those based on consumer protection statutes and fraud and misrepresentation. Plaintiffs seek damages in each case that range from unspecified amounts to the billions of dollars. Most plaintiffs seek punitive damages and some seek treble damages. Plaintiffs in many of the cases seek medical monitoring. Plaintiffs in several of the purported class actions are represented by a well-funded and coordinated consortium of over 60 law firms from throughout the United States. Lorillard is a defendant in 59 of the approximately 70 cases seeking class certification. The Company is a defendant in 24 of the purported class actions, two of which have not been served. Many of the purported class actions are in the pre-trial, discovery stage.

Broin v. Philip Morris Companies, Inc., et al. (Circuit Court, Dade County, Florida, October 31, 1991). On October 10, 1997, the parties to this class action brought on behalf of flight attendants claiming injury as a result of exposure to environmental tobacco smoke executed a settlement agreement which was approved by the trial court on February 3, 1998. The settlement agreement requires Lorillard and three other cigarette manufacturers jointly to pay $300.0 in three annual installments to create and endow a research institute to study diseases associated with cigarette smoke. None of these payments are to be made until all appeals have been exhausted and judgment becomes final. The amount to be paid by Lorillard is based upon each of the four settling defendants' then share of the United States market for the sale of cigarettes. Lorillard had approximately 8.8% of the cigarette market in the United States. Based on this calculation, Lorillard is expected to pay approximately $26.0 of the proposed settlement amount. The plaintiff class members are permitted to file individual suits, but these individuals may not seek punitive damages for injuries that arose prior to January 15,

1997 which enabled them to be members of the class. The defendants that executed the settlement agreement will pay a total of $49.0 as fees and expenses of the attorneys who represented plaintiffs. Certain of the absent class members objected to the settlement agreement and have noticed an appeal from the February 3, 1998 order.

Castano, et al. v. The American Tobacco Company, Inc. et al. (U.S. District Court, Eastern District, Louisiana, March 29, 1994). This case was initiated as a class action on behalf of nicotine dependent smokers in the United States. During 1998, Lorillard Tobacco Company and certain other cigarette manufacturer defendants agreed with the plaintiffs to dismiss this action without prejudice and to toll the statute of limitations as to the named plaintiffs' claims. Lorillard Tobacco Company paid $1.0 to reimburse the costs and expenses of plaintiffs' counsel. This amount will be credited against any award of costs and expenses incurred in connection with this suit that plaintiffs' counsel may obtain in the future as a result of the federal legislation implementing the Proposed Resolution, or against any judgment or settlements that such counsel may obtain in the future in similar actions.

Granier v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, Louisiana, filed September 26, 1994).

Engle v. R.J. Reynolds Tobacco Co., et al. (Circuit Court, Dade County, Florida, filed May 5, 1994). Class certification has been granted as to Florida citizens who allege they, or their survivors, have, have had or have died from diseases and medical conditions caused by smoking cigarettes. The Florida Supreme Court has denied defendants' appeal. Trial is underway.

Norton v. RJR Nabisco Holdings Corporation, et al. (Superior Court, Madison County, Indiana, filed May 3, 1996). The Company is a defendant in the case.

Richardson v. Philip Morris Incorporated, et al. (Circuit Court, Baltimore City, Maryland, filed May 24, 1996). During January of 1998, the court granted plaintiffs' motion for class certification on behalf of Maryland residents who had, presently have, or died from diseases, medical conditions

or injuries caused by smoking cigarettes or using smokeless tobacco products; nicotine dependent persons in Maryland who have purchased and used cigarettes and smokeless tobacco products manufactured by the defendants; and Maryland residents who require medical monitoring. Defendants have filed a petition for writ of mandamus or prohibition from the class certification order with the Maryland Court of Special Appeals.

Scott v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, Louisiana, filed May 24, 1996). The Company is a defendant in the case. Class certification has been granted on behalf of Louisiana citizens who require medical monitoring. The class certification order was affirmed on appeal by the Louisiana Court of Appeals.

Small v. Lorillard Tobacco Company, Inc., et al., Hoskins v. R.J. Reynolds Tobacco Company, et al., Frosina v. Philip Morris Incorporated, et al., Hoberman v. Brown & Williamson Tobacco Corporation, et al., and Zito v. American Tobacco Company, et al. (Supreme Court, New York County, New York, filed June 19, 1996). Small is the only one of these cases to name Lorillard as a defendant. Small formerly was known as Mroczowski. Plaintiffs' motions for class certification on behalf of New York residents who are nicotine dependent was granted. On appeal, the Appellate Division of the New York Supreme Court reversed the trial court's class certification order and directed the trial court to enter judgment in favor of the defendants. The New York Court of Appeals has agreed to review the Appellate Division's ruling.

Reed v. Philip Morris Incorporated, et al. (Superior Court, District of Columbia, filed June 21, 1996). The court has denied plaintiff's motion for class certification.

Barnes v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, Pennsylvania, filed August 8, 1996). The District Court has vacated its prior order that granted class certification on behalf of Pennsylvania smokers who require medical monitoring. The court also granted defendants' motion for summary judgment. The Third Circuit Court of Appeals has affirmed the trial court's class certification ruling and the order granting the summary judgment motion.

Blaylock v. The American Tobacco Company, et al. (Circuit Court, Montgomery County, Alabama, filed August 8, 1996). The Company is a defendant in the case. This matter formerly was known as Holmes.

Lyons v. The American Tobacco Company, et al. (U.S. District Court, Southern District, Alabama, filed August 8, 1996).

Chamberlain v. The American Tobacco Company, et al. (U.S. District Court, Northern District, Ohio, filed August 14, 1996). The Company is a defendant in the case.

Thompson v. American Tobacco Company, Inc., et al. (U.S. District Court, Minnesota, filed September 4, 1996). The Company is a defendant in the case.

Perry v. The American Tobacco Company, et al. (Circuit Court, Coffee County, Tennessee, filed September 30, 1996). Plaintiffs seek class certification on behalf of individuals who have paid medical insurance premiums to a Blue Cross and Blue Shield organization.

Connor v. The American Tobacco Company, et al. (Second Judicial District Court, Bernalillo County, New Mexico, filed October 10, 1996).

Ruiz v. The American Tobacco Company, et al. (U.S. District Court, Puerto Rico, filed October 23, 1996). The court denied plaintiffs' motion for class certification.

Hansen v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, Arkansas, filed November 4, 1996). The Company is a defendant in the case.

McCune v. American Tobacco Company, et al. (Circuit Court, Kanawha County, West Virginia, filed January 31, 1997). The Company is a defendant in the case.

Muncy v. Philip Morris Incorporated, et al. (Circuit Court, McDowell County, West Virginia, filed February 4, 1997). This matter formerly was known as Woods.

Emig v. American Tobacco Company, et al. (U.S. District Court, Kansas, filed February 6, 1997). The Company is a defendant in the case. The court has heard argument on plaintiffs' motion for class certification.

Peterson v. American Tobacco Company, et al. (U.S. District Court, Hawaii, filed February 6, 1997). The Company is a defendant in the case.

Walls v. The American Tobacco Company, et al. (U.S. District Court, Northern District, Oklahoma, filed February 6, 1997). The court has heard argument on plaintiffs' motion for class certification. The court has indicated that it will certify certain question of Oklahoma law to the Oklahoma Supreme Court.

Selcer v. R.J. Reynolds Tobacco Company, et al. (U.S. District Court, Nevada, filed March 3, 1997). The Company is a defendant in the case.

Insolia v. Philip Morris Incorporated, et al. (U.S. District Court, Western District, Wisconsin, filed April 21, 1997). Briefing of plaintiffs' motion for class certification has been completed. The court has not scheduled the case for oral argument and has indicated that it may decide the motion based on the briefs that have been submitted.

Geiger v. The American Tobacco Company, et al. (Supreme Court, Queens County, New York, filed April 30, 1997). The trial court granted on an interim basis plaintiffs' motion for class certification on behalf of New York residents who allege lung cancer or throat cancer as a result of smoking cigarettes. The Appellate Division of the New York Supreme Court reversed the class certification order and directed the trial court to allow the parties to conduct additional proceedings on the class certification motion.

Cole v. The Tobacco Institute, Inc., et al. (U.S. District Court, Eastern District, Texas, Texarkana Division, filed May 5, 1997).

Clay v. The American Tobacco Company, Inc., et al. (U.S. District Court, Southern District, Illinois, Benton Division, filed May 22, 1997).

Anderson v. The American Tobacco Company, Inc., et al. (U.S. District Court, Eastern District, Tennessee, filed May 23, 1997). The Company is a defendant in the case.

Taylor v. The American Tobacco Company, Inc., et al. (Circuit Court, Wayne County, Michigan, filed May 23, 1997).

Lyons v. Brown & Williamson Tobacco Corporation, et al. (U.S. District Court, Northern District, Georgia, filed May 27, 1997). The Company is a defendant in the case.

Cosentino v. Philip Morris Incorporated, et al. (Superior Court, Middlesex County, New Jersey, filed May 28, 1997). The court has denied plaintiffs' motion for class certification.

Kirstein v. American Tobacco Company, Inc., et al. (Superior Court, Camden County, New Jersey, filed May 28, 1997). The court has denied plaintiffs' motion for class certification.

Tepper v. Philip Morris Incorporated, et al. (Superior Court, Bergen County, New Jersey, filed May 28, 1997). The court has denied plaintiffs' motion for class certification.

Brown v. The American Tobacco Company, Inc., et al. (Superior Court, San Diego County, California, filed June 10, 1997).

Lippincott v. American Tobacco Company, Inc., et al. (Superior Court, Camden County, New Jersey, filed June 13, 1997). The court has denied plaintiffs' motion for class certification.

Brammer v. R.J. Reynolds Tobacco Company, et al. (U.S. District Court, Southern District, Iowa, filed June 20, 1997). The Company is a defendant in the case.

Knowles v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, Louisiana, filed June 30, 1997). The Company is a defendant in the case.

Daley v. American Brands, Inc., et al. (U.S. District Court, Northern District, Illinois, filed July 7, 1997).

Piscitello v. Philip Morris, Incorporated, et al. (Superior Court, Middlesex County, New Jersey, filed July 28, 1997). The Company is a defendant in the case. The court has denied plaintiffs' motion for class certification.

Azorsky v. R.J. Reynolds Tobacco Company, et al. (U.S. District Court, Western District, Pennsylvania, filed August 15, 1997). The court granted defendants' motion to dismiss. Plaintiffs have attempted to notice appeals to the United States Court of Appeals for the Third Circuit.

Bush v. Philip Morris Incorporated, et al. (U.S. District Court, Eastern District, Texas, filed September 10, 1997).

Nwanze v. Philip Morris Companies Inc., et al. (U.S. District Court, Southern District, New York, filed September 29, 1997). The Company is a defendant in the case. The court denied plaintiffs' motion for class certification.

Badillo v. American Tobacco Company, et al. (U.S. District Court, Nevada, filed October 8, 1997). The Company is a defendant in the case.

Newborn v. Brown & Williamson Tobacco Corporation, et al. (U.S. District Court, Western District, Tennessee, filed October 9, 1997).

Young v. The American Tobacco Company, et al. (Civil District Court, Orleans Parish, Louisiana, filed November 12, 1997). The Company is a defendant in the case.

Aksamit v. Brown & Williamson Tobacco Corporation, et al. (U.S. District Court, South Carolina, filed November 20, 1997). The Company is a defendant in the case.

DiEnno v. Liggett Group, Inc., et al. (U.S. District Court, Nevada, filed December 22, 1997).

Jackson v. Philip Morris Incorporated, et al. (U.S. District Court, Central District, Utah, filed on or about February 13, 1998). The Company is a defendant in the case.

Parsons v. AC&S, et al. (Circuit Court, Kanawha County, West Virginia, filed February 27, 1998). The Company is a defendant in the case.

Basik v. Lorillard Tobacco Company, et al. (Circuit Court, Cook County, Illinois, filed March 17, 1998).

Daniels v. Philip Morris Companies, Inc., et al. (Superior Court, San Diego County, California, filed April 2, 1998). The Company is a defendant in the case.

Christensen v. Philip Morris Companies, Inc., et al. (U.S. District Court, Nevada, filed April 3, 1998). The Company is a defendant in the case. To date, none of the defendants have received service of process.

Avallone v. The American Tobacco Company, Inc., et al. (Superior Court, Middlesex County, New Jersey, filed April 23, 1998). The Company is a defendant in the case. The court has heard argument on plaintiffs' motion for class certification.

Collier v. Philip Morris Incorporated, et al. (U.S. District Court, Southern

District, Mississippi, filed May 27, 1998).

Cleary v. Philip Morris Incorporated, et al. (Circuit Court, Cook County, Illinois, filed June 5, 1998).

Vaughan v. Philip Morris Incorporated, et al. (U.S. District Court, Western District, Virginia, filed June 30, 1998). To date, none of the defendants have received service of process.

Creekmore v. Brown & Williamson Tobacco Corporation, et al. (Superior Court, Buncombe County, North Carolina, filed July 31, 1998). To date, none of the defendants have received service of process.

Jiminez v. Brown & Williamson Tobacco Corporation, et al. (Second Judicial District Court, Bernalillo County, New Mexico, filed August 20, 1998).

Smokers for Fairness v. British American Tobacco Company, et al. (Superior Court, Los Angeles County, California, filed September 25, 1998). To date, none of the defendants have received service of process.

Brown v. Philip Morris, Inc., et al. (U.S. District Court, Eastern District, Pennsylvania, filed October 16, 1998).

REIMBURSEMENT CASES - Approximately 140 actions are pending in which governmental entities, private citizens, or other organizations, including labor unions, insurers and Indian Tribes, seek recovery of funds expended by them to provide health care to individuals with injuries or other health effects allegedly caused by use of tobacco products or exposure to cigarette smoke. These cases are based on, among other things, equitable claims, including indemnity, restitution, unjust enrichment and public nuisance, and claims based on antitrust laws and state consumer protection acts. Plaintiffs in a number of these actions seek certification as class actions. Plaintiffs seek damages in each case that range from unspecified amounts to the billions of dollars. Most plaintiffs seek punitive damages and some seek treble damages. Plaintiffs in many of the cases seek medical monitoring. Lorillard is named as a defendant in all such actions except for one filed in a U.S. court by a nation in which Lorillard does not conduct business (The Republic of Guatemala). The Company is named as a defendant in 17 of them.

State or Local Governmental Reimbursement Cases - To date, suits filed by 42 states, the Commonwealth of Puerto Rico, and the Republic of The Marshall Islands are pending. In addition, cities, counties or other local governmental entities have filed eight such suits. The Company is a defendant in 13 cases filed by state or local governmental entities. Since January 1, 1997, cases brought by Florida, Minnesota, Mississippi, Texas and Blue Cross and Blue Shield of Minnesota have been settled (see "Settlements of Reimbursement Cases"). Many of the pending Reimbursement Cases are in the pre-trial, discovery stage.

Moore v. The American Tobacco Company, et al. (Chancery Court, Jackson County, Mississippi, filed May 23, 1994). On July 2, 1997, Lorillard and other defendants entered into a Memorandum of Understanding with the State of Mississippi which settled the State's claims for monetary damages. See "Settlements of Reimbursement Cases" below.

State of Minnesota, et al. v. Philip Morris Incorporated, et al., (District Court, Ramsey County, Minnesota, filed August 17, 1994). Blue Cross and Blue Shield of Minnesota ("Blue Cross") also is plaintiff in the case. On May 8, 1998, the parties reached an agreement to settle the matter. See "Settlements of Reimbursement Cases" below.

McGraw v. The American Tobacco Company, et al. (Circuit Court, Kanawha County, West Virginia, filed September 20, 1994 by the West Virginia Attorney General and state agencies). The Company is a defendant in the case.

The State of Florida, et al. v. The American Tobacco Company, et al. (Circuit Court, Palm Beach County, Florida, filed February 21, 1995). The trial court granted the Company's motion to dismiss. The Florida Court of Appeal affirmed the order dismissing the Company. On August 25, 1997, Lorillard Tobacco Company and other defendants entered into a Memorandum of Understanding with the State of Florida which settled the State's claims for monetary damages. See "Settlements of Reimbursement Cases" below. The remaining claims have now been dismissed.

Commonwealth of Massachusetts v. Philip Morris Inc., et al. (Superior Court, Middlesex County, Massachusetts, filed December 19, 1995). The court has scheduled trial in this matter to begin on February 1, 1999.

Ieyoub v. The American Tobacco Company, et al. (U.S. District Court, Western District, Louisiana, filed March 13, 1996 by the Louisiana Attorney General). The Company is a defendant in the case.

The State of Texas v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, Texas, filed March 28, 1996). On January 16, 1998, Lorillard Tobacco Company and other defendants entered into a Memorandum of Understanding with the State of Texas which settled the State's claims for monetary damages. See "Settlements of Reimbursement Cases" below.

State of Maryland v. Philip Morris Incorporated, et al. (Circuit Court, Baltimore City, Maryland, filed May 1, 1996).

State of Washington v. The American Tobacco Company, et al. (Superior Court, King County, Washington, filed June 5, 1996). Trial is underway.

City and County of San Francisco, et al. v. Philip Morris Incorporated, et al. (U.S. District Court, Northern District, California, filed June 6, 1996 by various California cities and counties).

State of Connecticut v. Philip Morris Incorporated, et al. (Superior Court, Litchfield District, Connecticut, filed July 18, 1996).

County of Los Angeles v. R.J. Reynolds Tobacco Company, et al. (Superior Court, San Diego County, filed August 5, 1996). The court has scheduled a bench trial to begin on February 5, 1999 in this matter and in two other cases that assert allegations that defendants violated certain provisions of the California Business and Professions Code. Immediately after the completion of the bench trial, the court will convene a jury as to the remainder of the plaintiff's claims in County of Los Angeles.

State of Arizona v. The American Tobacco Company, et al. (Superior Court, Maricopa County, Arizona, filed August 20, 1996). The court has scheduled the case for trial on April 14, 1999.

State of Kansas v. R.J. Reynolds Tobacco Company, et al. (District Court, Shawnee County, Kansas, filed August 20, 1996).

Kelley v. Philip Morris Incorporated, et al. (Circuit Court, Ingham County, Michigan, filed August 21, 1996 by the Attorney General of Michigan).

State of Oklahoma, et al. v. R.J. Reynolds Tobacco Company, et al. (District Court, Cleveland County, Oklahoma, filed August 22, 1996). The Company is a

defendant in the case. The court has scheduled the case for trial on January 25, 1999.

People of the State of California v. Philip Morris Incorporated, et al. (Superior Court, San Francisco County, California, filed September 5, 1996 by various California counties and cities and local chapters of various medical societies and associations). The court has scheduled the case for trial on March 1, 1999.

State of New Jersey v. R.J. Reynolds Tobacco Company, et al. (Superior Court, Middlesex County, New Jersey, filed September 10, 1996).

State of Utah v. R.J. Reynolds Tobacco Company, et al. (U.S. District Court, Central Division, Utah, filed September 30, 1996). The Company is a defendant in the case.

City of New York, et al. v. The Tobacco Institute, et al. (Supreme Court, New York County, filed October 17, 1996).

People of the State of Illinois v. Philip Morris, Inc., et al. (Circuit Court, Cook County, Illinois, filed November 12, 1996).

State of Iowa v. R.J. Reynolds Tobacco Company, et al. (District Court, Fifth Judicial District, Polk County, Iowa, filed November 27, 1996). The Company is a defendant in the case. The Supreme Court of Iowa has affirmed the trial court's order dismissing plaintiff's claims of deception, voluntary assumption of a special duty and indemnity. Plaintiff did not attempt to appeal the dismissal of its claim of unjust enrichment/restitution.

County of Erie v. The Tobacco Institute, Inc., et al. (Supreme Court, Erie County, New York, filed January 14, 1997).

State of New York v. The American Tobacco Company, et al. (Supreme Court, New York County, New York, filed January 21, 1997). The Company is a defendant in the case.

State of Hawaii v. Brown & Williamson Tobacco Corporation, et al. (Circuit Court, First Circuit, Hawaii, filed January 31, 1997).

State of Wisconsin v. Philip Morris Incorporated, et al. (Circuit Court, Dane County, Wisconsin, filed February 5, 1997).

State of Indiana v. Philip Morris Incorporated, et al. (Superior Court, Marion County, Indiana, filed February 19, 1997). The court has granted defendants' motion to dismiss all counts of the complaint. Plaintiff has noticed an appeal to the Indiana Court of Appeals.

State of Alaska v. Philip Morris, Incorporated, et al. (Superior Court, First Judicial District, Alaska, filed April 14, 1997).

County of Cook v. Philip Morris, Incorporated, et al. (Circuit Court, Cook County, Illinois, filed April 18, 1997).

Commonwealth of Pennsylvania v. Philip Morris, Inc., et al. (Court of Common Pleas, Philadelphia County, Pennsylvania, filed April 23, 1997).

State of Arkansas v. The American Tobacco Company, et al. (Sixth Division, Chancery Court, Pulaski County, Arkansas, filed May 5, 1997).

State of Montana v. Philip Morris, Incorporated, et al. (First Judicial

Court, Lewis and Clark County, Montana, filed May 5, 1997).

State of Ohio v. Philip Morris, Incorporated, et al. (Court of Common Pleas, Franklin County, Ohio, filed on May 8, 1997).

State of Missouri v. American Tobacco Company, Inc., et al. (Circuit Court, City of St. Louis, Missouri, filed May 12, 1997). The Company is a defendant in the case. Several hospitals or owners of hospitals have filed a motion to intervene in the suit.

State of South Carolina v. Brown & Williamson Tobacco Corporation, et al. (Court of Common Pleas, Richland County, South Carolina, filed May 12, 1997). The Company is a defendant in the case.

State of Nevada v. Philip Morris, Incorporated, et al. (Second Judicial District, Washoe County, Nevada, filed May 21, 1997).

University of South Alabama v. The American Tobacco Company, et al. (U.S. District Court, Southern District, Alabama, filed May 23, 1997). The Company is a defendant in the case. Plaintiff noticed an appeal to the U.S. Court of Appeals for the Fifth Circuit from the trial court's order that dismissed the action.

State of New Mexico v. The American Tobacco Company, et al. (First Judicial District Court, Santa Fe County, New Mexico, filed May 27, 1997).

City of Birmingham, Alabama, and The Greene County Racing Commission v. The American Tobacco Company, et al. (U.S. District Court, Northern District, Alabama, filed May 28, 1997). The Company is a defendant in the case. The court granted defendants' motion to strike the complaint. Plaintiffs have noticed an appeal to the United States Court of Appeals for the Eleventh Circuit.

State of Vermont v. Philip Morris, Incorporated, et al. (Superior Court, Chittenden County, Vermont, filed May 29, 1997).

State of New Hampshire v. R.J. Reynolds Tobacco Company, et al. (Superior Court, Merrimack County, New Hampshire, filed June 4, 1997).

State of Colorado v. R.J. Reynolds Tobacco Co., et al. (District Court, City and County of Denver, Colorado, filed June 5, 1997).

State of Idaho v. Philip Morris, Inc., et al. (District Court, Fourth Judicial District, Ada County, Idaho, filed June 9, 1997). The court has granted defendants' motion to dismiss and has entered final judgment in their favor. Plaintiff has noticed an appeal to the Idaho Court of Appeals.

State of Oregon v. The American Tobacco Company, et al. (Circuit Court, Multnomah County, Oregon, filed June 9, 1997).

People of the State of California v. Philip Morris, Inc., et al. (Superior Court, Sacramento County, California, filed June 12, 1997).

State of Maine v. Philip Morris, Incorporated, et al. (Superior Court, Kennebec County, Maine, filed June 17, 1997).

Rossello, et al. v. Brown & Williamson Tobacco Corporation, et al. (U.S. District Court, Puerto Rico, filed June 17, 1997). The Company is a defendant in the case.

State of Rhode Island v. American Tobacco Company, Inc., et al. (Superior

Court, Providence, Rhode Island, filed June 17, 1997). The Company is a defendant in the case.

State of Georgia v. Philip Morris, Inc., et al. (Superior Court, Fulton County, Georgia, filed August 29, 1997).

Republic of the Marshall Islands v. The American Tobacco Company, et al. (High Court, Republic of the Marshall Islands, filed October 20, 1997). The court granted motions to dismiss filed by Lorillard Tobacco Company, Lorillard, Inc., and Loews Corporation.

State of South Dakota and South Dakota Department of Social Services v. Philip Morris, Inc., et al. (Circuit Court, Sixth Judicial Circuit, Hughes County, South Dakota filed February 23, 1998).

The Republic of Guatemala v. The Tobacco Institute, Inc., et al. (U.S. District Court, District of Columbia, filed May 11, 1998). Neither Lorillard nor the Company are named as defendants in the matter.

State of Vermont v. Philip Morris, Incorporated, et al. (Superior Court, Chittenden County, Vermont, filed July 7, 1998). Plaintiff asserts different claims in this suit than in the one filed on May 29, 1997, that is listed above.

State of Nebraska v. R.J. Reynolds Tobacco Company, et al. (District Court, Lancaster County, Nebraska, filed August 21, 1998).

Republic of Panama v. The American Tobacco Company, et al. (District Court, Orleans Parish, Louisiana, filed October 16, 1998). The Company is a defendant in the case.

Private Citizens' Reimbursement Cases - There are five suits pending in which plaintiffs are private citizens. Four of the suits have been filed by private citizens on behalf of taxpayers of their respective states, although governmental entities have filed a reimbursement suit in one of the four states. The Company is a defendant in two of the five pending private citizen Reimbursement Cases. Lorillard is a defendant in each of the cases. Each of these cases is in the pre-trial discovery stage.

Coyne v. The American Tobacco Company, et al. (U.S. District Court, Northern District, Ohio, filed September 17, 1996). The Company is a defendant in the case. The suit is on behalf of taxpayers of Ohio. The court has granted defendants' motion to dismiss. The plaintiffs have noticed an appeal from the court's order granting a motion to dismiss.

Beckom v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, Tennessee, filed May 8, 1997). The Company is a defendant in the case. The suit is on behalf of taxpayers of Tennessee. The court has granted defendants' motion to dismiss. The time for plaintiffs to notice an appeal from the ruling has not expired.

Mason v. The American Tobacco Company, et al. (U.S. District Court, Northern District, Texas, filed December 23, 1997). The suit is on behalf of taxpayers of the U.S. as to funds expended by the Medicaid program.

The State of North Carolina, et al. v. The American Tobacco Company, et al. (U.S. District Court, Middle District, North Carolina, filed February 13, 1998).

Wynn v. Philip Morris, Inc., et al. (U.S. District Court, Northern District, Alabama, filed May 27, 1998). The suit is on behalf of taxpayers of Alabama.

Reimbursement Cases By Indian Tribes - Indian Tribes have filed eight reimbursement suits in their tribal courts, two of which have been dismissed. Lorillard is a defendant in each of the cases. The Company is not named as a defendant in any of the seven tribal suits filed to date. Each of the pending cases is in the pre-trial, discovery stage.

The Lower Brule Sioux Tribe v. The American Tobacco Company, et al. (Tribal Court, Lower Brule Sioux Tribe, filed on an unknown date, first amended complaint filed May 28, 1997).

Muscogee Creek Nation v. The American Tobacco Company, et al. (District Court, Muscogee Creek Nation, Okmulgee District, filed June 20, 1997).

Crow Creek Sioux Tribe v. The American Tobacco Company, et al. (Tribal Court, Crow Creek Sioux Tribe, filed September 14, 1997).

The Standing Rock Sioux Tribe v. The American Tobacco Company, et al. (Tribal Court, Standing Rock Sioux Tribe, filed May 8, 1998).

The Sisseton-Wahpeton Sioux Tribe v. The American Tobacco Company, et al. (Tribal Court, Sisseton-Wahpeton Sioux Tribe, filed May 12, 1998).

Pechanga Band of Luiseno Mission Indians, et al. v. Philip Morris, Inc., et al. (Superior Court, San Diego County, California, filed October 30, 1998).

Reimbursement Cases By Labor Unions - Labor unions have filed approximately 70 reimbursement suits in various states in federal or state courts. In 23

of these cases, plaintiffs seek class certification. Lorillard is named as a defendant in each of the suits filed to date by unions. The Company is a defendant in two of the pending suits. Each of these cases is in the pre-trial, discovery stage.

Stationary Engineers Local 39 Health and Welfare Trust Fund v. Philip Morris, Inc., et al. (U.S. District Court, Northern District, California, filed April 25, 1997).

Iron Workers Local Union No. 17 Insurance Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, Northern District, Ohio, Eastern Division, filed May 20, 1997). The court has granted plaintiffs' motion for class certification on behalf of funds in Ohio established under the Taft-Hartley Act. The court has scheduled trial in this matter to begin on February 22, 1999.

Northwest Laborers-Employers Health and Security Trust Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, Western District, Washington, filed May 21, 1997). The court has granted plaintiffs' motion for class certification on behalf of "all existing jointly-administered and collectively bargained-for health and welfare trusts in [the State of] Washington, and/or the trustees of such entities, that have provided or paid for health care and/or addiction treatment costs or services for employees or other beneficiaries." The United States Court of Appeals for the Ninth Circuit has declined to review the ruling at this time.

Massachusetts Laborers Health and Welfare Fund v. Philip Morris Inc., et al. (U.S. District Court, Massachusetts, filed June 2, 1997).

Central Laborers Welfare Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, Southern District, Illinois, filed on or about June 9, 1997).

Hawaii Health and Welfare Trust Fund for Operating Engineers v. Philip

Morris, Inc., et al. (U.S. District Court, Hawaii, filed June 13, 1997).

Laborers Local 17 Health and Benefit Fund and The Transport Workers Union New York City Private Bus Lines Health Benefit Trust v. Philip Morris, Inc., et al. (U.S. District Court, Southern District, New York, filed June 19, 1997).

Ark-La-Miss Laborers Welfare Fund v. Philip Morris, Inc., et al. (U.S. District Court, Eastern District, Louisiana, filed June 20, 1997).

Kentucky Laborers District Council Health and Welfare Trust Fund v. Hill & Knowlton, Inc., et al. (U.S. District Court, Western District, Kentucky, Louisville Division, filed June 20, 1997).

Oregon Laborers -- Employers Health and Welfare Trust Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, Oregon, filed June 20, 1997). The court granted defendants' motion for judgment on the pleadings, which dismissed the case. Plaintiffs have noticed an appeal to the United States Court of Appeals for the Ninth Circuit.

United Federation of Teachers Welfare Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, Southern District, New York, filed June 25, 1997).

Laborers and Operating Engineers Utility Agreement Health and Welfare Trust Fund for Arizona v. Philip Morris Incorporated, et al. (U.S. District Court, Arizona, filed July 7, 1997).

West Virginia Laborers Pension Fund v. Philip Morris, Inc., et al. (U.S. District Court, Southern District, West Virginia, Huntington Division, filed July 11, 1997).

Rhode Island Laborers Health and Welfare Fund v. Philip Morris Incorporated, et al. (U.S. District Court, Rhode Island, filed July 20, 1997).

Eastern States Health and Welfare Fund, et al. v. Philip Morris, Inc., et al. (Supreme Court, New York County, New York, filed July 28, 1997).

Asbestos Workers Local 53 Health and Welfare Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, Eastern District, Louisiana, filed August 15, 1997). This action has been consolidated with the case of Ark-La-Miss Laborers Welfare Fund.

Steamfitters Local Union No. 420 Welfare Fund, et al. v. Philip Morris,

Inc., et al. (U.S. District Court, Eastern District, Pennsylvania, filed August 21, 1997). The court granted defendants' motion to dismiss the case. Plaintiffs have noticed an appeal to the United States Court of Appeals for the Third Circuit.

Construction Laborers of Greater St. Louis Welfare Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, Eastern District, Missouri, filed September 2, 1997).

Arkansas Carpenters Health & Welfare Fund v. Philip Morris, Inc., et al. (U.S. District Court, Eastern District, Arkansas, filed September 4, 1997).

West Virginia--Ohio Valley Area International Brotherhood of Electrical Workers Welfare Fund v. The American Tobacco Company, et al. (U.S. District Court, West Virginia, filed September 11, 1997).

Teamsters Union No. 142, Health and Welfare Trust Fund and Sheet Metal

Workers Local Union No. 20 Welfare and Benefit Fund v. Philip Morris Incorporated, et al. (Circuit Court, St. Joseph County, Indiana, filed September 12, 1997).

Operating Engineers Local 12 Health and Welfare Trust v. American Tobacco Company, et al. (Superior Court, Los Angeles County, California, filed September 16, 1997).

Puerto Rican ILGWU Health & Welfare Fund v. Philip Morris Inc., et al. (Supreme Court, New York County, New York, filed September 17, 1997).

New Jersey Carpenters Health Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, New Jersey, filed September 25, 1997).

New Mexico and West Texas Multi-Craft Health and Welfare Trust Fund, et al. v. Philip Morris, Inc., et al. (Second Judicial District Court, Bernalillo County, New Mexico, filed October 10, 1997).

Central States Joint Board v. Philip Morris, Inc., et al. (U.S. District Court, Northern District, Illinois, filed October 20, 1997).

International Brotherhood of Teamsters Local 734 v. Philip Morris, Inc., et al. (U.S. District Court, Northern District, Illinois, filed October 20, 1997).

Texas Carpenters Health Benefit Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, Eastern District, Texas, Beaumont Division, filed October 31, 1997). The court granted defendants' motion to dismiss. Plaintiff has noticed an appeal to the United States Court of Appeals for the Fifth Circuit.

United Food and Commercial Workers Unions and Employers Health and Welfare Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, Northern District, Alabama, filed November 13, 1997).

B.A.C. Local 32 Insurance Trust Fund, et al. v. Philip Morris, Incorporated, et al. (U.S. District Court, Eastern District, Michigan, filed November 14, 1997). Plaintiffs have filed a motion to voluntarily dismiss the case without prejudice. Defendants have filed a motion to strike plaintiffs' voluntary dismissal and have asked the court to enter a dismissal with prejudice. The court has not ruled on the motion to date.

Screen Actors Guild-Producers Health Plan, et al. v. Philip Morris, Inc., et al. (Superior Court, Los Angeles County, California, filed November 20, 1997).

IBEW Local 25 Health and Benefit Fund v. Philip Morris, Inc. et al. (Supreme Court, New York County, New York, filed November 25, 1997).

IBEW Local 363 Welfare Fund v. Philip Morris, Inc., et al. (Supreme Court, New York County, New York, filed November 25, 1997).

Local 138, 138A and 138B International Union of Operating Engineers Welfare Fund v. Philip Morris, Inc., et al. (Supreme Court, New York County, New York, filed November 25, 1997).

Local 840, International Brotherhood of Teamsters Health and Insurance Fund v. Philip Morris, Inc., et al. (Supreme Court, New York County, New York, filed November 25, 1997).

Long Island Council of Regional Carpenters Welfare Fund v. Philip Morris,

Inc., et al. (Supreme Court, New York County, New York, filed November 25, 1997).

Day Care Council - Local 205 D.C. 1707 Welfare Fund v. Philip Morris, Inc., et al. (Supreme Court, New York County, New York, filed December 8, 1997).

Local 1199 Home Care Industry Benefit Fund v. Philip Morris, Inc., et al. (Supreme Court, New York County, New York, filed December 8, 1997).

Local 1199 National Benefit Fund for Health and Human Services Employees v. Philip Morris, Inc., et al. (Supreme Court, New York County, New York, filed December 8, 1997).

Operating Engineers Local 324 Health Care Fund, et al. v. Philip Morris, Inc., et al. (Circuit Court, Wayne County, Michigan, filed December 30, 1997).

Carpenters & Joiners Welfare Fund, et al. v. Philip Morris Incorporated, et al. (U.S. District Court, Minnesota, filed December 31, 1997).

Steamfitters Local Union No. 614 Health & Welfare Fund, et al. v. Philip Morris, Inc., et al. (Circuit Court, Thirteenth Judicial District, Tennessee, filed January 7, 1998).

National Asbestos Workers, et al. v. Philip Morris Incorporated, et al. (U.S. District Court, Eastern District, New York, filed February 27, 1998). The Company is a defendant in the case.

Milwaukee Carpenters, et al. v. Philip Morris, Incorporated, et al. (Circuit Court, Milwaukee County, Wisconsin, filed March 4, 1998). To date, none of the defendants have received service of process.

Service Employees International Union Health & Welfare Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, District of Columbia, filed March 19, 1998).

Milwaukee Carpenters, et al. v. Philip Morris, Incorporated, et al. (Circuit Court, Milwaukee County, Wisconsin, filed March 30, 1998).

United Association of Plumbing and Pipefitters Industry Local 467, et al. v. Philip Morris Incorporated, et al. (Superior Court, San Mateo County, California, filed March 31, 1998).

Newspaper Periodical Drivers Local 921 San Francisco Newspaper Agency Health & Welfare Fund v. Philip Morris, Inc., et al. (Superior Court, San Mateo County, California, filed April 15, 1998).

Teamsters Benefit Trust v. Philip Morris, Inc., et al. (Superior Court, Alameda County, California, filed April 15, 1998).

United Association Local 159 Health and Welfare Trust Fund v. Philip Morris, Inc., et al. (Superior Court, Alameda County, California, filed April 15, 1998).

Bay Area Automotive Group Welfare Fund v. Philip Morris, Inc., et al. (Superior Court, San Francisco County, California, filed April 16, 1998).

Bay Area Delivery Drivers Security Fund v. Philip Morris, Inc., et al. (Superior Court, Alameda County, California, filed April 16, 1998).

Pipe Trades District Council No. 36 Health & Welfare Trust Fund v. Philip

Morris, Inc., et al. (Superior Court, Alameda County, California, filed April 16, 1998).

Sign, Pictorial and Display Industry Welfare Fund v. Philip Morris, Inc., et al. (Superior Court, San Francisco County, California, filed April 16, 1998).

United Association Local No. 343 Health and Welfare Trust Fund v. Philip Morris, Inc., et al. (Superior Court, Alameda County, California, filed April 16, 1998).

San Francisco Newspaper Publishers and Northern California Newspaper Guild Health & Welfare Trust v. Philip Morris, Inc., et al. (Superior Court, San Francisco County, California, filed April 17, 1998).

North Coast Trust Fund v. Philip Morris, Inc., et al. (Superior Court, San Francisco County, California, filed April 24, 1998).

Northern California Bakery Drivers Security Fund v. Philip Morris, Inc., et al. (Superior Court, Alameda County, California, filed April 24, 1998).

Northern California Plasterers Health & Welfare Trust Fund v. Philip Morris, Inc., et al. (Superior Court, San Francisco County, California, filed May 21, 1998).

U.A. Local No. 393 Health and Welfare Trust Fund v. Philip Morris, Inc., et al. (Superior Court, Alameda County, California, filed May 21, 1998).

Northern California General Teamsters Security Fund v. Philip Morris, Inc., et al. (Superior Court, Alameda County, California, filed May 22, 1998).

Utah Laborers Health & Welfare Trust Fund, et al. v. Philip Morris Incorporated, et al. (U.S. District Court, Utah, Central Division, filed June 4, 1998). The Company is a defendant in the case.

Joint Benefit Trust v. Philip Morris, Inc., et al. (Superior Court, Alameda County, California, filed June 15, 1998).

Northern California Pipe Trades Health and Welfare Trust v. Philip Morris, Inc., et al. (Superior Court, Alameda County, California, filed June 18, 1998).

S.E.I.U. v. Philip Morris, Inc., et al. (U.S. District Court, District of Columbia, filed June 22, 1998). To date, none of the defendants have received service of process.

Plastering Industry Welfare Trust Fund v. Philip Morris, Inc. et al. (Superior Court, San Francisco County, California, filed July 1, 1998).

Central Valley Painting & Decorating Health & Welfare Trust Fund v. Philip Morris, Inc., et al. (Superior Court, San Francisco County, California, filed July 6, 1998).

Holland, et al., Trustees of United Mine Workers v. Philip Morris Incorporated, et al. (U.S. District Court, District of Columbia, filed July 9, 1998).

Northern California Tile Industry Health & Welfare Trust Fund v. Philip Morris, Inc., et al. (Superior Court, San Francisco County, California, filed July 29, 1998).

San Francisco Culinary, Bartenders and Service Employees Welfare Fund v. Philip Morris, Inc., et al. (Superior Court, San Francisco County, California, filed July 30, 1998).

IBEW Local 595 Health and Welfare Trust Fund v. Philip Morris, Inc., et al. (Superior Court, Alameda County, California, filed July 30, 1998).

Shop Ironworkers Local 790 Welfare Plan v. Philip Morris, Inc., et al. (Superior Court, Alameda County, California, filed July 31, 1998).

Contractors, Laborers, Teamsters & Engineers Health & Welfare Plan v. Philip Morris, Inc., et al. (U.S. District Court, Nebraska, filed August 11, 1998).

Reimbursement Cases By Private Companies - Private companies have filed six Reimbursement Cases to date. Lorillard is named as a defendant in each of the cases filed by private companies. The Company is not a defendant in the cases filed by private companies.

Group Health Plan, Inc., et al. v. Philip Morris Incorporated, et al. (U.S. District Court, Minnesota, filed March 11, 1998).

Williams and Drake Company v. The American Tobacco Company, et al. (U.S. District Court, Western District, Pennsylvania, filed March 23, 1998).

Conwed Corporation, et al. v. R.J. Reynolds Tobacco Company, et al. (U.S. District Court, Minnesota, filed April 10, 1998).

Arkansas Blue Cross and Blue Shield, et al. v. Philip Morris, Incorporated, et al. (U.S. District Court, Northern District, Illinois, filed April 29, 1998).

Blue Cross and Blue Shield of New Jersey, Inc., et al. v. Philip Morris,

Incorporated, et al. (U.S. District Court, Eastern District, New York, filed April 29, 1998).

Regence Blueshield, et al. v. Philip Morris, Incorporated, et al. (U.S. District Court, Western District, Washington, filed April 29, 1998).

CONTRIBUTION CLAIMS - In addition to the foregoing cases, nine cases are pending in which private companies seek recovery of funds expended by them to individuals whose asbestos disease or illness was alleged to have been caused in whole or in part by smoking-related illnesses. One of the cases has not been served. Lorillard is named as a defendant in each action. The Company is named as a defendant in four of the cases but has not received service of process in one of them. Each of these cases is in the pre-trial, discovery stage.

Raymark Industries v. R.J. Reynolds Tobacco Company, et al. (Circuit Court, Duval County, Florida, filed September 15, 1997). The Company is a defendant in the case but has not received service of process to date.

Raymark Industries v. Brown & Williamson Tobacco Corporation, et al. (U.S. District Court, Northern District, Georgia, filed September 15, 1997). The Company is a defendant in the case.

Fibreboard Corporation and Owens-Corning v. The American Tobacco Company, et al. (Superior Court, Alameda County, California, filed December 11, 1997).

Keene Creditors Trust v. Brown & Williamson Tobacco Corporation, et al. (Supreme Court, New York County, New York, filed December 19, 1997). The Company is a defendant in the case.

Falise, et al., as Trustees of the Manville Personal Injury Settlement Trust v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, New York, filed December 31, 1997).

H.K. Porter Company v. B.A.T. Industries, PLC, et al. (U.S. District Court, Southern District, New York, filed December 31, 1997).

Raymark Industries v. R.J. Reynolds Tobacco Co., et al. (Circuit Court, Duval County, Florida, filed December 31, 1997). To date, none of the defendants have received service of process.

Raymark Industries v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, New York, filed January 30, 1998).

Thomas v. R.J. Reynolds Tobacco Company, et al., (Circuit Court of Jefferson County, Mississippi, filed August 21, 1998). The complaint asserts contribution claims on behalf of Owens Corning as well as conventional product liability claims on behalf of an individual. The Company is a defendant in the case.

FILTER CASES - A number of cases have been filed against Lorillard seeking damages for cancer and other health effects claimed to have resulted from exposure to asbestos fibers which were incorporated, for a limited period of time, ending more than forty years ago, into the filter material used in one of the brands of cigarettes manufactured by Lorillard. Nineteen such cases, including one that also includes allegations that plaintiff also was injured as a result of smoking cigarettes, are pending in federal and state courts. Allegations of liability include negligence, strict liability, fraud, misrepresentation and breach of warranty. Plaintiffs seek unspecified amounts in compensatory and punitive damages in many cases, and in other cases damages are stated to amount to as much as $15.0 in compensatory damages and $100.0 in punitive damages. No such cases have been tried during 1998. In the one case of this type that has been tried during 1997, the jury returned a verdict in favor of Lorillard. Trials were held in three cases of this type during 1996. In two of the cases, the juries returned verdicts in favor of Lorillard. In the third case, the jury returned a verdict in favor of plaintiffs. The verdict required Lorillard to pay the amount of one hundred forty thousand dollars, although the award subsequently was reduced to seventy thousand dollars. Lorillard's appeals from the verdict have been rejected.

Trials were held in three cases of this type during 1995. In two of the cases, the juries returned verdicts in favor of Lorillard. In the third case, the jury returned a verdict in favor of plaintiffs, which was upheld on appeal. The Company has paid the compensatory judgment award, trial costs and interest thereon in the amount of $1.6 on December 30, 1997. The United States Supreme Court denied the Company's petition for writ of certiorari as to the punitive damages award. The Company has paid the punitive damages award.

In addition to the foregoing litigation, one pending case, Cordova v. Liggett Group, Inc., et al. (Superior Court, San Diego County, California, filed May 12, 1992), alleges that Lorillard and other named defendants, including other manufacturers of tobacco products, engaged in unfair and fraudulent business practices in connection with activities relating to the Council for Tobacco Research-USA, Inc., of which Lorillard is a sponsor, in violation of a California state consumer protection law by misrepresenting to or concealing from the public information concerning the health aspects of smoking. The court has scheduled trial to begin no earlier than February 5, 1999 in this matter and in four other cases that assert allegations that defendants violated certain provisions of the California Business and

Professions Code.

In addition, two California cities, Los Angeles and San Jose, suing on behalf of The People of the State of California, have filed suits alleging cigarette manufacturers, including Lorillard, have violated a California statute, commonly known as "Proposition 65," that requires California residents to be informed if they are exposed to substances that are alleged to cause cancer or birth defects. Plaintiffs in both suits allege that non-smokers have not been warned by cigarette manufacturers that exposure to environmental tobacco smoke may cause illness. Plaintiffs in both suits further allege defendants violated certain provisions of the California Business and Professions Code (The People of the State of California, and American Environmental Safety Institute v. Philip Morris Incorporated, et al. (Superior Court, Los Angeles County, California, filed July 14, 1998) and The People of the State of California, the City of San Jose and Paul Dowhall v. Brown & Williamson Tobacco Corporation, et al. (Superior Court, San Francisco County, California, filed July 28, 1998)).

DOCUMENT DISCOVERY ISSUES - Plaintiffs in a number of the cases pending against the tobacco industry, including cases against Lorillard and the Company, have challenged the claims made by Lorillard and other companies in the tobacco industry that certain documents sought by plaintiffs are protected from disclosure by the attorney-client privilege, joint defense privilege and work product doctrine. These challenges include, among other things, allegations that such documents do not contain legal advice or were not prepared for litigation purposes and, thus, are not privileged or protected as attorney work product. Certain plaintiffs in these cases have also alleged that defendants' privileged documents should be discoverable pursuant to the so-called crime/fraud exception which negates the privilege as to documents found to have been related to and prepared in furtherance of an alleged crime or fraud. In addition, several plaintiffs have argued, and certain courts have found, that defendants have "waived" their privilege as to a number of documents. Such arguments by plaintiffs generally pertain to certain industry documents which were subpoenaed by the House Commerce Committee (see discussion below).

Various courts have addressed these issues and have arrived at differing conclusions as to whether the privilege for some of defendants' documents should be maintained. Some of these rulings are final and, as a result, certain documents as to which defendants have claimed a privilege have been released to plaintiffs.

On December 5, 1997, certain documents as to which defendants had claimed privilege were provided to the Chairman of the House Commerce Committee in response to a subpoena. These documents were subsequently made available on the Internet.

On February 19, 1998, the Committee subpoenaed approximately 37,000 additional documents which Lorillard and other companies in the tobacco industry have asserted to be privileged. These documents were the subject of a March 7, 1998 ruling in the Reimbursement Case brought by the State of Minnesota, in which the judge ordered that the documents should be released on the basis of the crime/fraud exception. Defendants exhausted their remedies through the state's judicial system as well as the U.S. Supreme Court. On April 6, 1998, the U.S. Supreme Court denied defendants' application for a Stay and, in accordance with the March 7, 1998 ruling of the district court, such documents were released to plaintiffs in Minnesota. Also on April 6, 1998 and pursuant to the February 19, 1998 subpoena, documents were submitted to the Committee. The Committee subsequently made available on the Internet the vast majority of those documents.

Under the Proposed Resolution, Lorillard and the other companies in the tobacco industry agreed to establish an industry-funded document depository to allow public viewing of certain industry documents. In recent

Congressional testimony, representatives of the tobacco companies offered to make tens of millions of pages of documents public prior to the enactment of any comprehensive legislation to demonstrate their commitment to the principles set forth in the Proposed Resolution. On February 27, 1998, Lorillard and other companies in the tobacco industry posted on the Internet the first installment of these documents for public access. In addition, the court in the Reimbursement Case brought by the State of Minnesota has granted defendants' request to allow public access to the document depository established in that case. The publicly available materials will not include documents containing trade secret information, certain personnel and third party information, or documents for which attorney-client privilege or work product doctrine claims have been asserted.

Tobacco industry documents have generated extensive media coverage recently and have become a focal point in the litigation. The Company cannot predict the effect disclosure of these documents may have on pending litigation or Congressional consideration of the Proposed Resolution.

SETTLEMENTS OF REIMBURSEMENT CASES - During 1997 and 1998, Lorillard and other companies in the United States tobacco industry (the "settling defendants") settled health care cost recovery actions brought by the States of Mississippi, Florida, Texas and Minnesota. Claims of Blue Cross and Blue Shield of Minnesota asserted against the settling defendants together with Minnesota's claims were separately settled as well. These settlements are described in Note 5 of the Notes to Consolidated Condensed Financial Statements of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998. Recently, as detailed below, the Mississippi, Texas and Florida settlement agreements have been amended pursuant to their "most favored nation" clauses to reflect terms of the Minnesota settlement. The Florida, Texas and Minnesota health care cost recovery settlements and certain ancillary agreements are filed as Exhibits to various reports of the Company filed with the Securities and Exchange Commission, and the amendments to the Mississippi and Texas settlements and certain ancillary agreements are filed as Exhibits to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998. The amendments to the Florida settlement and certain ancillary agreements are filed as Exhibits to this Form 10-Q. The discussion herein is qualified by reference thereto.

Following the settlement with Minnesota, Lorillard was contacted by counsel for the States of Texas, Florida and Mississippi seeking to discuss the issue of what effect, if any, the settlement of the Minnesota action has upon the terms of the prior settlements with those states pursuant to the "most favored nation" ("MFN") provision of those prior state settlements. That provision provides that, in the event the settling defendants enter into a subsequent pre-verdict settlement with a non-federal governmental entity on terms more favorable to such entity than the terms of the prior state settlements (after due consideration of relevant differences in population or other appropriate factors), the terms of the prior state settlements will be revised to provide treatment at least as relatively favorable. As discussed below, the Mississippi, Texas and Florida settlement agreements were recently amended pursuant to this provision.

On July 6, July 24 and September 11, 1998 respectively, Lorillard and the other settling defendants reached agreements with the States of Mississippi, Texas and Florida to amend those States' settlements pursuant to the MFN provision. The MFN amendments call for the settling defendants to make additional settlement payments to Mississippi, Texas and Florida aggregating $550.0, $2,275.0 and $1,750.0, respectively. These amounts are payable in

January of the year indicated:

	1999	2000	2001	2002	2003	Total
Mississippi	$ 41.7	$ 145.2	$ 145.2	$ 145.2	$ 72.7	$ 550.0
Texas	156.5	605.1	605.1	605.1	303.2	2,275.0
Florida	123.5	464.6	464.6	464.6	232.7	1,750.0
	$321.7	$1,214.9	$1,214.9	$1,214.9	$608.6	$4,575.0

These payments, which in the case of payments after 1999 will be adjusted for inflation, changes in domestic sales volume, and, under specified circumstances, increases in net operating profits from domestic sales, will be allocated among the settling defendants in accordance with their relative

unit volume of domestic cigarette sales.

In the event a settling defendant defaults on its obligation to make timely payment of the above amounts, the remaining settling defendants may, in their absolute discretion, pay the missing payment. If they elect not to make up the missing payment, each settling defendant can be required by the state to pay its share of the remaining payments scheduled above within 30 days of the default, subject to inflation and volume adjustments. The obligations of the settling defendants under the amended settlement agreements are several and not joint; the amended settlement agreements do not obligate any settling defendant to pay the share of another settling defendant.

The nominal amounts of the ongoing annual payments, (the "Ongoing Annual Payments") contemplated by the original Mississippi, Texas and Florida settlement agreements are unchanged by the MFN amendments.

The MFN amendments modify the provisions of the original settlement agreements that address the impact enactment of federal tobacco legislation before November 30, 2000 would have on such settlements. Under the MFN amendments, the settling defendants will be entitled to receive a dollar-for-dollar offset against their Ongoing Annual Payments for amounts that Mississippi, Texas and Florida, as the case may be, could elect to receive pursuant to such federal tobacco legislation ("Federal Settlement Funds"), except to the extent that: (i) such Federal Settlement Funds are required to be used for purposes other than health care or tobacco-related purposes; (ii) such federal tobacco legislation does not provide for the abrogation, settlement or relinquishment of state tobacco-related claims; or (iii) state receipt of such Federal Settlement Funds is conditioned upon (A) the relinquishment of rights or benefits under that respective state's settlement (excepting any Ongoing Annual Payment amounts subject to the offset); or (B) actions or expenditures by such state unrelated to health care or tobacco (including but not limited to tobacco education, cessation, control or enforcement).

The MFN amendments also supersede the MFN provisions contained in the original settlement agreements. Under the revised MFN provision if the settling defendants enter into any future pre-verdict settlement agreement of similar health care cost recovery litigation on terms more favorable to a non-federal governmental plaintiff, the Mississippi, Texas and Florida settlements will not otherwise be revised except to the extent such future

settlement provides for: (i) joint and several liability for monetary payments, (ii) a parent company guaranty or other credit assurance, (iii) the implementation of different non-economic tobacco-related public health measures, or (iv) monetary offsets in the event of federal tobacco legislation that are more favorable to such plaintiff than those described above.

The settling defendants agreed as part of the MFN amendments to disclose specified future payments for lobbying or related purposes in Mississippi, Texas and Florida, to support enumerated legislative and regulatory proposals and to not support legislation, rules or policies that would diminish Mississippi's, Texas' and Florida's rights under the amended settlement agreements.

The settling defendants also submitted to a Consent Judgment enjoining the settling defendants from (i) offering or selling non-tobacco services or merchandise (e.g., caps, jackets or bags) in Mississippi, Texas and Florida bearing the name or logo of a tobacco brand other than tobacco products or items with the sole function of advertising; (ii) making any material misrepresentation of fact regarding the health consequences of using tobacco products; (iii) entering into any contract, combination or conspiracy to limit health information or research into smoking and health or product development; and (iv) taking any action to target children in Mississippi, Texas and Florida in the advertising, promotion or marketing of cigarettes.

In connection with the MFN amendments, the parties executed new agreements governing settling defendants' payment of attorneys fees to counsel for Mississippi, Texas and Florida. (Copies of the Mississippi and Texas agreements are filed as Exhibits to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and copies of the Florida agreements are filed as Exhibits to this Form 10-Q, and the discussion herein is qualified by reference thereto.) The agreements provide that beginning in November 1998, a three-member arbitration panel will consider and determine the amount of attorneys' fees to be awarded. These awards will be allocated among the settling defendants in accordance with their relative unit volume of domestic cigarette shipments. Under the agreements, there is an annual cap of $500.0 on aggregate attorneys' fees to be paid pursuant to

arbitration awards, including those to be paid for counsel for Mississippi, Texas and Florida. A one-time $250.0 payment may be paid for cases that were settled in 1997. This aggregate annual cap includes; (i) all attorneys' fees paid pursuant to an award by the panel in connection with settlements of any smoking and health cases (other than individual cases), (ii) all attorneys' fees paid pursuant to an award by the panel for activities in connection with smoking and health cases resolved by operation of federal legislation provided such legislation imposes an obligation on the settling defendants to pay attorneys' fees, and (iii) all attorneys' and professional fees paid pursuant to an award by the panel for contributions made toward the enactment of federal tobacco legislation.

The settling defendants have made payments to counsel for Mississippi, Texas and Florida totaling $283.5 as advances against awards of attorneys' fees by the arbitration panel, such advances to be credited against the annual cap over several years commencing in 1999.

These settlements resulted in pre-tax charges to earnings of $79.0 and $84.4 in the third and fourth quarter of 1997, respectively, and $30.6 and $215.8 in the quarter and nine months ended September 30, 1998.

Together with other companies in the United States tobacco industry, Lorillard has discussed with a number of state attorneys general an agreement that could settle the asserted and unasserted health care cost

recovery claims of all of the states. Discussions have reached the stage where those attorneys general are reporting to the remaining states the terms of a proposed agreement. The proposed agreement is contingent upon a sufficient number of states accepting the agreement. No assurance can be given that the proposed agreement will be accepted by a number of states sufficient to cause the industry to conclude an agreement. The proposed agreement would effect significant changes in the advertising and marketing of tobacco products. It would also require the industry to pay more than $206,000 through 2025, including (i) more than $12,700 in initial payments over the first five years (including $2,400 immediately); (ii) annual payments commencing in 2000 in the original amount of $4,500 and increasing periodically to $9,000 in 2018 and thereafter in perpetuity, and (iii) $1,700 over ten years, the great preponderance of which is due during the first five years. Lorillard's share of the $2,400 payment due immediately would be 7.3% (based on relative market capitalization).All other payments would be allocated among the original participating manufacturers based on their relative unit volume of domestic cigarette shipments and would be subject to adjustment for inflation and volume changes and for participation by less than all the states and for other adjustments and offsets described in the proposed agreement. The Company anticipates that Lorillard's share of the $2,400 payment due immediately would be charged to expense in the fiscal quarter and year during which the agreement is concluded and would be paid from Lorillard's available cash. The Company further anticipates that Lorillard's share of future annual industry payments related to cigarette sales would be charged to expense as the related sales occur and may be funded through price increases. The Company believes that any such agreement would materially adversely affect its consolidated results of operations and financial position. The degree of the adverse impact would depend, among other things, on the rates of decline in United States cigarette sales in the premium and discount segments, Lorillard's share of the domestic premium and discount segments, and the effect of any resulting cost advantage of manufacturers not subject to the agreement. The proposed agreement is filed as an Exhibit to this Form 10-Q and the foregoing discussion is qualified by reference thereto.

LIGGETT SETTLEMENT - Liggett Group, Inc. and its parent company, Brooke Group, Ltd., Inc. ("Liggett"), and the Attorneys General for a total of 40 states, have announced that they have reached agreements (the "Liggett Settlements") to settle the reimbursement claims made by those states. The proposed settlements reportedly will require Liggett: to make one-time payments to each of the settling states in an amount of as much as $1.0; to pay to the settling states an aggregate percentage of as much as 30% of its pre-tax profits annually for the next 25 years; to acknowledge that cigarette smoking is addictive (Liggett has supplemented the warning notices it places on its cigarette packages to reflect that acknowledgment); to acknowledge that cigarette smoking causes disease; to acknowledge that cigarette companies have targeted marketing programs towards minors; and to cooperate in suits against the other cigarette manufacturers by releasing Liggett documents to the Attorneys General and to allow its employees to testify in these matters. The Liggett Settlements also purport to be on behalf of "all persons who, prior to or during the term of [the Liggett Settlements], have smoked cigarettes or have used other tobacco products and have suffered or claim to have suffered injury as a consequence thereof."

Pursuant to the Liggett Settlements described above, Liggett has submitted numerous documents from its files to courts and defendants in several of the Reimbursement Cases and in other cases as well. Liggett has also served descriptive logs of such documents on counsel for plaintiffs and defendants in those cases. Defendants have reviewed the Liggett logs and the Liggett documents to determine which Liggett documents are subject to a joint-defense privilege claim by other defendants.

DEFENSES - One of the defenses raised by Lorillard in certain cases is preemption by the Federal Cigarette Labeling and Advertising Act (the "Labeling Act"). In the case of Cipollone v. Liggett Group, Inc., et al., the United States Supreme Court, in a plurality opinion issued on June 24, 1992, held that the Labeling Act as enacted in 1965 does not preempt common law damage claims but that the Labeling Act, as amended in 1969, does preempt claims against tobacco companies arising after July 1, 1969, which assert that the tobacco companies failed to adequately warn of the alleged health risks of cigarettes, sought to undermine or neutralize the Labeling Act's mandatory health warnings, or concealed material facts concerning the health effects of smoking in their advertising and promotion of cigarettes. The Supreme Court held that claims against tobacco companies based on fraudulent misrepresentation, breach of express warranty, or conspiracy to misrepresent material facts concerning the alleged health effects of smoking are not preempted by the Labeling Act. The Supreme Court in so holding did not consider whether such common law damage actions were valid under state law. The effect of the Supreme Court's decision on pending and future cases against Lorillard and other tobacco companies will likely be the subject of further legal proceedings. Additional litigation involving claims such as those held to be preempted by the Supreme Court in Cipollone could be encouraged if legislative proposals to eliminate the federal preemption defense, pending in Congress since 1991, are enacted. It is not possible to predict whether any such legislation will be enacted.

Lorillard believes that it has a number of defenses to pending cases, in addition to defenses based on preemption described above, and Lorillard will continue to maintain a vigorous defense in all such litigation. These defenses, where applicable, include, among others, statutes of limitations or repose, assumption of the risk, comparative fault, the lack of proximate causation, and the lack of any defect in the product alleged by a plaintiff. Lorillard believes that some or all of these defenses may, in many of the pending or anticipated cases, be found by a jury or court to bar recovery by a plaintiff. Application of various defenses, including those based on preemption, are likely to be the subject of further legal proceedings in the Class Action cases and in the Reimbursement Cases.

Other Legal Proceedings: In September 1997, a purported class action was commenced by private plaintiffs in Alabama state court alleging that the U.S. tobacco companies and others conspired to fix cigarette prices in Alabama, that agreements leading to price increases were reached during the negotiations leading to the Proposed Resolution, and that prices were increased pursuant to the alleged conspiracy in 1997 (Mosley, et al. v. Philip Morris Companies Inc., et al.). The parties have settled this action for a payment by defendants in an aggregate amount approximating sixty thousand dollars to cover costs incurred by plaintiff's counsel.

Department of Justice Investigations - Early in 1994, the Energy and Commerce Subcommittee on Health and the Environment of the U.S. House of Representatives (the "Subcommittee") launched an oversight investigation into tobacco products, including possible regulation of nicotine-containing cigarettes as drugs. During the course of such investigation, the Subcommittee held hearings at which executives of each of the major tobacco manufacturers testified. Following the November 1994 elections, the incoming Chairman of the Energy and Commerce Committee indicated that this investigation by the Subcommittee would not continue, and on December 20, 1994, the outgoing majority staff of the Subcommittee issued two final reports. One of these reports questioned the scientific practices of what it characterized as the tobacco industry's "long-running campaign" related to ETS, but reached no final conclusions. The second report asserted that documents obtained from American Tobacco Company, a competitor of Lorillard, "reflect an intense research and commercial interest in nicotine."

The U.S. Department of Justice is investigating allegations of perjury in connection with the testimony provided by tobacco industry executives, including Lorillard executives, to the Subcommittee in April 1994. Lorillard has not received any request for documents or testimony. It is impossible at this time to predict the outcome of this investigation.

In 1996 Lorillard responded to a grand jury subpoena for documents in

connection with a grand jury investigation commenced in 1992 by the United States Attorney's Office for the Eastern District of New York regarding possible fraud by Lorillard and other tobacco companies relating to smoking and health research undertaken or administered by the Council for Tobacco Research - USA, Inc. There have been no requests for any testimony by any Lorillard personnel. At the present time, Lorillard is unable to predict whether the United States Attorney's Office will ultimately determine to bring any proceeding against Lorillard. An adverse outcome of this investigation could result in criminal, administrative or other proceedings against Lorillard.

In March 1996, the Company and Lorillard each received a grand jury subpoena duces tecum from the United States Attorney's Office for the Southern District of New York seeking documents, advertisements or related materials distributed by the Company and Lorillard to members of the general public relating to, among other things, the health effects of cigarettes, nicotine or tobacco products, the addictiveness of such products, and Congressional hearings relating to cigarettes or the tobacco industry. The Company and Lorillard responded to the subpoena. The Company and Lorillard were informed in the latter part of 1996 that responsibility for this investigation has been transferred from the United States Attorney's Office for the Southern District of New York to the United States Department of Justice in Washington, D.C. It is impossible at this time to predict the ultimate outcome of this investigation.

On September 18, 1998, Lorillard was served with a grand jury subpoena for documents in connection with an investigation being conducted by the Middle Atlantic Office of the Antitrust Division of the United States Department of Justice. Similar subpoenas have been served on other tobacco companies and tobacco leaf purchasers. The investigation concerns possible violations of the antitrust laws in connection with the purchase of tobacco leaf in the United States. At the present time, Lorillard is unable to predict whether the Department of Justice will ultimately determine to bring any proceedings against Lorillard arising out of this investigation. An adverse outcome of this investigation could result in criminal, civil or other proceedings against Lorillard.

While Lorillard intends to defend vigorously all smoking and health related litigation which may be brought against it, it is not possible to predict the outcome of any of this litigation. Litigation is subject to many uncertainties, and it is possible that some of these actions could be decided unfavorably.

Many of the recent developments in relation to smoking and health discussed above have received wide-spread media attention including the release of documents by the industry. These developments may reflect adversely on the tobacco industry and could have adverse effects on the ability of Lorillard and other cigarette manufacturers to prevail in smoking and health litigation.

Except for the effect of the Proposed Resolution if implemented as described above, management is unable to make a meaningful estimate of the amount or range of loss that could result from an unfavorable outcome of pending litigation. It is possible that the Company's results of operations or cash

flows in a particular quarterly or annual period or its financial position could be materially affected by an unfavorable outcome of certain pending litigation.

Other Litigation -- The Company and its subsidiaries are also parties to other litigation arising in the ordinary course of business. The outcome of this other litigation will not, in the opinion of management, materially affect the Company's results of operations or equity.

7. In the opinion of Management, the accompanying consolidated condensed financial statements reflect all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of September 30, 1998 and December 31, 1997 and the results of operations for the three and nine months and changes in cash flows for the nine months ended September 30, 1998 and 1997, respectively.

Results of operations for the third quarter and the first nine months of each of the years is not necessarily indicative of results of operations for that entire year.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Liquidity and Capital Resources:

Insurance

CNA Financial Corporation and subsidiaries ("CNA"). CNA is an 85% owned subsidiary of the Company.

Statutory surplus of the property and casualty insurance subsidiaries was approximately $7.0 billion at September 30, 1998 and December 31, 1997. Statutory surplus increased by statutory net income of $291.0 million and a change in net unrealized investment gains of $25.0 million. These increases were more than offset by a $367.0 million reduction in surplus, primarily dividends. The statutory surplus of the life insurance subsidiaries was approximately $1.2 billion at September 30, 1998 and December 31, 1997.

The principal cash flow sources of CNA's property and casualty and life insurance subsidiaries are premiums, investment income, and sales and maturities of investments. The primary operating cash flow uses are payments for claims, policy benefits and operating expenses.

For the first nine months of 1998, CNA's operating cash flows were a negative $730.0 million, compared to a negative $359.2 million for the nine months ended September 30, 1997. Negative cash flows for 1998 are primarily the result of reduced income from operations while negative cash flows for 1997 are substantially the result of the settlement of asbestos and environmental claims, including those attributable to the Fibreboard litigation.

Net cash flows from operations are invested in marketable securities. Investment strategies employed by CNA's insurance subsidiaries consider the cash flow requirements of the insurance products sold and the tax attributes of the various types of marketable investments.

On January 8, 1998, CNA issued $150.0 million principal amount of 6.45% senior notes due January 15, 2008 and $150.0 million principal amount of 6.95% senior notes due January 15, 2018. The net proceeds were used to pay down bank loans drawn under a revolving credit facility. Concurrent with the reduction in bank debt, CNA terminated $300.0 million notional amount of interest rate swaps.

On April 15, 1998, CNA issued $500.0 million principal amount of 6.50% senior notes due April 15, 2005. The net proceeds were used to pay down existing bank debt, provide refinancing of certain senior notes and provide funds for acquisitions.

In the past five years, several rating agencies have lowered CNA's ratings with regard to its debt and claims paying ability. Some of the factors causing these downgrades include Casualty's obligations under the Fibreboard settlement and the merger with The Continental Corporation in 1995. More recently, rating agencies in their evaluations of Casualty have expressed concern with regard to the intensely competitive environment in the U.S. commercial insurance markets, among other factors.

CNA intends to take a number of steps to address the issue of lowered ratings and, among other things, intends to enhance its capital structure by

approximately $500.0 million. It is anticipated that this will be accomplished in the fourth quarter of 1998 and the first quarter of 1999 through several transactions, including the issuance of preferred equity and debt securities by CNA. The Company has advised CNA that it would be willing to purchase approximately half of such securities.

As of November 2, 1998 CNA purchased 2,734,800 shares of its outstanding Common Stock at an aggregate cost of approximately $102.4 million. Depending on market conditions, CNA from time to time may purchase additional shares in the open market or otherwise.

Cigarettes

Lorillard, Inc. and subsidiaries ("Lorillard"). Lorillard, Inc. is a wholly owned subsidiary of the Company.

Lorillard and other cigarette manufacturers continue to be confronted with an increasing level of litigation and regulatory issues.

The volume of lawsuits against Lorillard and other manufacturers of tobacco products seeking damages for cancer and other health effects claimed to have resulted from an individual's use of cigarettes, addiction to smoking, or exposure to environmental tobacco smoke has increased substantially through 1997 and in 1998. See Note 6 of the Notes to Consolidated Condensed Financial Statements. In a number of cases, the Company is named as a defendant. Tobacco litigation includes claims brought by individual plaintiffs and claims brought as class actions on behalf of a large number of individuals for damages allegedly caused by smoking; and claims brought on behalf of governmental entities, private citizens, or other organizations seeking reimbursement of health care costs allegedly incurred as a result of smoking. In addition, claims have been brought against Lorillard seeking damages resulting from exposure to asbestos fibers which had been incorporated, for a limited period of time, ending more than forty years ago, into filter material used in one brand of cigarettes manufactured by Lorillard. In the foregoing actions, plaintiffs claim substantial compensatory and punitive damages in amounts ranging into the billions of dollars.

It has also been reported that the Executive branch of the government has urged the U.S. Justice Department to commence an action against the tobacco industry seeking reimbursement of Medicare expenditures resulting from injuries or other health effects allegedly caused by use of tobacco products.

In 1997 and 1998, Lorillard, together with other companies in the United States tobacco industry, reached agreements to settle certain tobacco related litigation. See "Settlements of Reimbursement Cases" and "Broin v. Philip Morris Companies, Inc. et al." in Note 6 of the Notes to Consolidated Condensed Financial Statements.

Together with other companies in the United States tobacco industry, Lorillard has discussed with a number of state attorneys general an agreement that could settle the asserted and unasserted health care cost recovery claims of all of the states. Discussions have reached the stage where those attorneys general are reporting to the remaining states the terms of a proposed agreement. The proposed agreement is contingent upon a sufficient number of states accepting the agreement. No assurance can be given that the proposed agreement will be accepted by a number of states sufficient to cause the industry to conclude an agreement. The proposed agreement would effect significant changes in the advertising and marketing of tobacco products. It would also require the industry to pay more than $206 billion through 2025, including (i) more than $12.7 billion in initial payments over the first five

years (including $2.4 billion immediately); (ii) annual payments commencing in 2000 in the original amount of $4.5 billion and increasing periodically to $9 billion in 2018 and thereafter in perpetuity, and (iii) $1.7 billion over ten years, the great preponderance of which is due during the first five years. Lorillard's share of the $2.4 billion payment due immediately would be 7.3% (based on relative market capitalization). All other payments would be allocated among the original participating manufacturers based on their relative unit volume of domestic cigarette shipments and would be subject to adjustment for inflation and volume changes and for participation by less than all the states and for other adjustments and offsets described in the proposed agreement. The Company anticipates that Lorillard's share of the $2.4 billion payment due immediately would be charged to expense in the fiscal quarter and year during which the agreement is concluded and would be paid from Lorillard's available cash. The Company further anticipates that Lorillard's share of future annual industry payments related to cigarette sales would be charged to expense as the related sales occur and may be funded through price increases. The Company believes that any such agreement would materially adversely affect its consolidated results of operations and financial position. The degree of the adverse impact would depend, among other things, on the rates of decline in United States cigarette sales in the premium and discount segments, Lorillard's share of the domestic premium and discount segments, and the effect of any resulting cost advantage of manufacturers not subject to the agreement. The proposed agreement is filed as an Exhibit to this Form 10-Q and the foregoing discussion is qualified by reference thereto.

FDA Regulations

The Food and Drug Administration ("FDA") has published regulations (the "FDA Regulations") severely restricting cigarette advertising and promotion and limiting the manner in which tobacco products can be sold. The FDA premised its regulations on the need to reduce smoking by underage youth and young adults. The FDA Regulations include:

(i) Regulations making unlawful the sale by retail merchants of cigarettes to anyone under age 18. These regulations also require retail merchants to request proof of age for any person under age 27 who attempts to

purchase cigarettes.

(ii) Regulations limiting all cigarette advertising to a black and white, text only format in most publications and outdoor advertising such as billboards, prohibiting billboards advertising cigarettes within 1,000 feet of a school or playground, banning the use of cigarette brand names, logos and trademarks on premium items and prohibiting the furnishing of any premium item in consideration for the purchase of cigarettes or the redemption of proofs-of-purchase coupons.

(iii) Regulations prohibiting the use of cigarette brand names to sponsor sporting and cultural events.

Lorillard and other cigarette manufacturers have filed a lawsuit, Coyne Beahm, Inc., et al. v. United States Food & Drug Administration, et al., in the United States District Court for the Middle District of North Carolina challenging the FDA's assertion of jurisdiction over cigarettes. The Court granted, in part, and denied, in part, plaintiffs' motion for summary judgment. The Court held that if an adequate factual foundation is established, the FDA has the authority to regulate tobacco products as medical devices under the Federal Food, Drug & Cosmetic Act, may impose restrictions regarding access to tobacco products by persons under the age of 18, and may impose labeling requirements on tobacco products' packaging. The Court, however, also held that the FDA is not authorized to regulate the promotion or advertisement of tobacco products. The Court also stayed the effective date for the FDA Regulations

relating to advertising and promotion of tobacco products, but allowed the access restrictions to take effect as of February 27, 1997. Both the plaintiffs and the defendants filed an appeal of the District Court's ruling to the Fourth Circuit Court of Appeals and on August 14, 1998, that Court overturned the District Court's decision, invalidating the FDA's assertion of authority over cigarettes and the FDA Regulations promulgated pursuant to that asserted authority. The plaintiffs petitioned the Appeals Court for rehearing with suggestions for en banc reconsideration, and on November 10, 1998 the Appeals Court denied such petition.

Proposed Resolution of Certain Regulatory and Litigation Issues

On June 20, 1997, Lorillard, together with other companies in the United States tobacco industry, entered into a Memorandum of Understanding to support the adoption of federal legislation and any necessary ancillary undertakings, incorporating the features described in the proposed resolution attached to the Memorandum of Understanding (together, the "Proposed Resolution"). The Proposed Resolution would permit extensive regulation of the industry by the FDA and would impose large monetary obligations on the industry to be paid to the federal government and to the states. The Proposed Resolution would require the manufacturers to sign private contracts, or Protocols, which embody significant restrictions on the industry's commercial free speech advertising. In return, the Proposed Resolution would resolve much of the industry's litigation and establish a rational litigation system for future lawsuits. The Proposed Resolution, by the nature of its terms, could be implemented only by federal legislation. Incorporated by reference into this filing is the discussion of the Proposed Resolution in the Company's annual report on Form 10-K for the year ended December 31, 1997.

Since the Proposed Resolution was announced, it has been the subject of intense review and criticism by the White House, the public health community, and other interested parties. Certain members of Congress have offered, or indicated that they intend to offer, alternative legislation. No bill introduced would adopt the Proposed Resolution as agreed to. Over 50 bills have been introduced in Congress regarding the issues raised in the Proposed Resolution, including bills seeking more stringent regulation of tobacco products by the Food and Drug Administration and more punitive monetary payments by the companies. One particular bill initially introduced by Senator John McCain from Arizona, was approved by the Senate Commerce Committee. The McCain bill included, among other things, provisions more stringent than those in the Proposed Resolution regarding FDA regulation, licensing of tobacco manufacturers and retailers, surcharges against the industry for failure to achieve underage smoking reduction goals, advertising restrictions and labeling requirements, industry payments, smoking restrictions, civil liability limitations, a method for determining the amount and payment of attorneys' fees, and public disclosure of industry documents. On June 17, 1998, the United States Senate voted to return the McCain bill to the Senate Commerce Committee after several weeks of debate. No further action was taken on the McCain Bill, and no similar bill was acted upon by the 105th Congress before it adjourned in October.

On April 18, 1998, Lorillard, along with the other signatory companies to the Proposed Resolution, announced a withdrawal from the legislative process to

enact a comprehensive tobacco settlement. Lorillard remains committed to the Proposed Resolution, but does not believe that the current political process in Washington can produce legislation that is fair to the industry.

For information with respect to these matters, as well as with respect to discussions regarding an attempt to achieve a comprehensive legislative resolution to litigation and regulatory issues affecting the United States tobacco industry, see Note 6 of the Notes to Consolidated Condensed Financial

Statements.

Cigarette Excise Taxes

The United States federal excise tax on cigarettes is presently $12.00 per 1,000 cigarettes ($0.24 per pack of 20 cigarettes). In August 1997, the United States Congress approved, and the President signed into law, an increase in the federal excise tax on cigarettes of $7.50 per 1,000 cigarettes ($0.15 per pack of 20 cigarettes). This increase is phased in at a rate of $5.00 per 1,000 cigarettes in the year 2000 and an additional $2.50 per 1,000 cigarettes in the year 2002. Various states have proposed, and certain states have recently passed, increases in their state tobacco excise taxes. Such actions may adversely affect Lorillard's volume, operating revenues and operating income.

Hotels
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Loews Hotels Holding Corporation and subsidiaries ("Loews Hotels"). Loews Hotels Holding Corporation is a wholly owned subsidiary of the Company.

Funds from operations continue to exceed operating requirements. Loews Hotels has entered into an agreement with the owners of the Universal Florida resort to develop hotels at the resort. In addition, Loews Hotels is developing a convention center hotel in Philadelphia. Capital expenditures in relation to these hotel projects will be funded by a combination of equity and mortgages. Loews Hotels will obtain its equity contributions for the development of these hotels under arrangements with the Company.

Offshore Drilling
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Diamond Offshore Drilling, Inc. and subsidiaries ("Diamond Offshore"). Diamond Offshore Drilling, Inc. is a 52% owned subsidiary of the Company.

For the first nine months of 1998, Diamond Offshore's cash provided by operating activities amounted to $389.1 million, compared to $243.7 million in the 1997 period. This increase in operating cash flow was primarily attributable to a $101.8 million increase in net income for the first nine months of 1998, a $16.5 million increase in depreciation and amortization expense, and various changes in operating assets and liabilities.

Diamond Offshore continues to enhance its fleet to meet customer demand for diverse drilling capabilities, including those required for deep water and harsh environment operations. Diamond Offshore has a revised budget of $125.2 million for capital expenditures on rig upgrades during 1998. Diamond Offshore expended $66.5 million, including capitalized interest expenses, for significant rig upgrades during the nine months ended September 30, 1998. Such rig upgrade projects include the conversion of an accommodation vessel to a semisubmersible drilling unit capable of operating in harsh environments and ultra-deep water. Diamond Offshore has estimated the cost of conversion to be approximately $210.0 million. Upon completion of the conversion, the rig will begin a five year drilling program in the Gulf of Mexico, which is anticipated to commence in late 1999. Other upgrade projects include the installation of new engines and other equipment on the Ocean King which is expected to be completed in November 1998, the cantilever conversion project on the Ocean Warwick completed in March 1998, and leg strengthening and other modifications on the Ocean Tower completed in May 1998. Diamond Offshore has also budgeted $126.7 million for 1998 capital expenditures associated with its continuing rig enhancement program, spare equipment and other corporate requirements. These expenditures include purchases of anchor chain, drill pipe, riser, and other drilling equipment. During the first nine months of 1998, $66.1 million was

expended on this program.

Diamond Offshore believes it has the financial resources needed to meet its business requirements in the foreseeable future, including capital expenditures for major upgrades, continuing rig enhancements and working capital requirements.

During the nine months ended September 30, 1998, Diamond Offshore purchased 3,518,100 shares of its outstanding Common Stock at an aggregate cost of approximately $88.7 million. Depending on market conditions, Diamond Offshore from time to time may purchase additional shares in the open market or otherwise.

Watches and Clocks
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Bulova Corporation and subsidiaries ("Bulova"). Bulova Corporation is a 97% owned subsidiary of the Company.

Funds from operations continue to exceed operating requirements. Bulova's cash and cash equivalents, and investments amounted to $31.8 million at September 30, 1998, as compared to $29.1 million at December 31, 1997. Funds for other capital expenditures and working capital requirements are expected to be provided from operations.

Parent Company
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During the nine months ended September 30, 1998, the Company purchased 1,309,200 shares of its outstanding Common Stock at an aggregate cost of approximately $110.1 million. Depending on market conditions, the Company from time to time may purchase additional shares in the open market or otherwise.

Investments:
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Investment activities of non-insurance companies include investments in fixed income securities, equity securities including short sales, derivative instruments and short-term investments. Equity securities, which are considered part of the Company's trading portfolio, short sales and derivative instruments are marked to market and reported as investment gains or losses in the income statement. The remaining securities are carried at fair value with a net unrealized gain (loss) of $.1 and $(3.2) million at September 30, 1998 and December 31, 1997, respectively.

The Company enters into short sales and invests in certain derivative instruments for a number of purposes, including: (i) for its asset and liability management activities, (ii) for income enhancements for its portfolio management strategy, and (iii) to benefit from anticipated future movements in the underlying markets that Company management expects to occur. If such movements do not occur or if the market moves in the opposite direction from what management expects, significant losses may occur.

Monitoring procedures include senior management review of daily detailed reports of existing positions and valuation fluctuations to ensure that open positions are consistent with the Company's portfolio strategy.

The credit exposure associated with these instruments is generally limited to the positive market value of the instruments and will vary based on changes in market prices. The Company enters into these transactions with large financial institutions and considers the risk of nonperformance to be remote.

The Company does not believe that any of the derivative instruments utilized by it are unusually complex or volatile, nor do these instruments contain imbedded leverage features which would expose the Company to a higher degree of risk. See "Results of Operations" and "Quantitative and Qualitative Disclosures about Market Risk" for additional information with respect to derivative instruments, including recognized gains and losses on these instruments. See also Note 4 of the Notes to Consolidated Financial Statements in the 1997 Annual Report on Form 10-K.

Insurance
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A summary of CNA's general account fixed maturity securities portfolio and short-term investments, at carrying value, are as follows:

	September 30,	December 31,	Change in Unrealized Gains

	1998	1997	(Losses)
	(In millions)		
Fixed maturity securities:			
U.S. Treasury securities and obligations of government agencies	$10,075.0	$12,980.0	$ 236.0
Asset-backed securities	6,766.0	4,804.0	137.0
Tax exempt securities	6,144.0	4,724.0	98.0
Taxable	6,337.0	7,040.0	(124.0)
Total fixed maturity securities	29,322.0	29,548.0	347.0
Stocks	1,362.0	814.0	272.0
Short-term and other investments	5,613.0	5,829.0	(107.0)
Derivative security investments	8.0	12.0	
Total	$36,305.0	$36,203.0	$ 512.0
Short-term investments:			
Commercial paper	$ 1,981.0	$ 1,850.0	
Security repurchase collateral	58.0	154.0	
Escrow	1,049.0	1,065.0	
U.S. Treasuries	525.0	558.0	
Money markets	312.0	624.0	
Others	624.0	633.0	
Other investments	1,064.0	945.0	
Total short-term and other investments	$ 5,613.0	$ 5,829.0	

CNA's general account investment portfolio is managed to maximize after tax investment return, while minimizing credit risks with investments concentrated in high quality securities to support its insurance underwriting operations.

CNA has the capacity to hold its fixed maturity portfolio to maturity. However, securities may be sold as part of CNA's asset/liability strategies or to take advantage of investment opportunities generated by changing interest rates, tax and credit considerations, or other similar factors. Accordingly, fixed maturity securities are classified as available for sale.

CNA invests from time to time in certain derivative financial instruments primarily to reduce its exposure to market risk (principally interest rate, equity price and foreign currency risk). CNA also uses derivatives to mitigate the risk associated with its indexed group annuity contract by purchasing S&P 500 futures contracts in a notional amount equal to the original customer deposit.

CNA considers its derivatives as being held for purposes other than trading. Derivative securities, except for interest rate swaps associated with certain corporate borrowings, are recorded at fair value at the reporting date with changes in market value reflected in investment gains and losses. The interest rate swaps on corporate borrowings are accounted for on the accrual basis with the related income or expense recorded as an adjustment to interest expense; the changes in fair value are not recorded.

The general account portfolio consists primarily of high quality (BBB or higher) marketable fixed maturity securities, approximately 93.7% of which are rated as investment grade. At September 30, 1998, tax exempt securities and short-term investments excluding collateral for securities sold under repurchase agreements, comprised approximately 16.9% and 12.4%, respectively, of the general account's total investment portfolio compared to 13.1% and 13.1%, respectively, at December 31, 1997. Historically, CNA has maintained short-term assets at a level that provided for liquidity to meet its short-term obligations, as well as reasonable contingencies and anticipated claim payout patterns. Short-term investments at both September 30, 1998 and December 31, 1997 are substantially higher than historical levels in anticipation of Fibreboard-related claim payments. At September 30, 1998, the major components of the short-term investment portfolio consist primarily of high grade commercial paper and U.S. Treasury bills.

As of September 30, 1998, the market value of CNA's general account investments in fixed maturities was $29.3 billion and was greater than amortized cost by approximately $876.0 million. This compares to a market value of $29.5 billion and approximately $528.0 million of net unrealized investment gains at December 31, 1997. The gross unrealized investment gains and losses for the fixed maturity securities portfolio at September 30, 1998 were $1,138.0 and $262.0 million, respectively, compared to $644.0 and $116.0 million,

respectively, at December 31, 1997.

Net unrealized investment gains on general account fixed maturities at September 30, 1998 include net unrealized investment losses on high yield securities of $137.0 million, compared to net unrealized investment losses of $2.0 million at December 31, 1997. High yield securities are bonds rated as below investment grade by bond rating agencies, plus private placements and other unrated securities which, in the opinion of management, are below investment grade (below BBB). CNA's investment in high yield securities in the general account decreased $377.0 million to approximately $1.9 billion at September 30, 1998 when compared to December 31, 1997.

At September 30, 1998, total Separate Account cash and investments amounted to approximately $5.3 billion with taxable fixed maturity securities representing approximately 83.9% of the Separate Accounts' portfolios. Approximately 68.0% of Separate Account investments are used to fund guaranteed investments for which CNA's life insurance affiliate guarantees principal and a specified return to the contract holders. The duration of fixed maturity securities included in the guaranteed investment portfolio is generally matched with the corresponding payout pattern of the liabilities of the guaranteed investment contracts. The fair value of all fixed maturity securities in the guaranteed investment portfolio was $3.4 billion at September 30, 1998 compared to $3.8 billion at December 31, 1997. At September 30, 1998, fair value exceeded amortized cost by approximately $101.0 million, as compared to an unrealized gain of approximately $71.0 million at December 31, 1997. The gross unrealized investment gains and losses for the guaranteed investment fixed maturity securities portfolio at September 30, 1998 were $118.0 and $17.0 million, respectively, as compared to unrealized gains of $87.0 million and unrealized losses of $16.0 million at December 31, 1997.

Carrying values of high yield securities in the guaranteed investment

portfolio were $278.0 and $310.0 million at September 30, 1998 and December 31, 1997, respectively. Net unrealized investment losses on high yield securities held in such Separate Accounts were $19.0 million at September 30 1998, compared to $1.0 million at December 31, 1997.

High yield securities generally involve a greater degree of risk than that of investment grade securities. Expected returns should, however, compensate for the added risk. The risk is also considered in the interest rate assumptions in the underlying insurance products. At September 30, 1998, CNA's investment in high yield bonds, including Separate Accounts, was approximately 3.7% of its total assets as compared to 3.2% at December 31, 1997. In addition, CNA's investments in mortgage loans and real estate are substantially below the industry average, representing less than one quarter of one percent of its total assets.

Included in CNA's fixed maturity securities at September 30, 1998 (general and guaranteed investment portfolios) are $9.0 billion of asset-backed securities, consisting of approximately 54.5% in collateralized mortgage obligations ("CMO's"), 15.2% in corporate asset-backed obligations, 16.6% in corporate mortgage backed security pass-through obligations and 13.7% in U.S. government agency issued pass-through certificates. The majority of CMO's held are corporate mortgage-backed securities, which are actively traded in liquid markets and are priced monthly by broker-dealers. At September 30, 1998, the fair value of asset-backed securities exceeded the amortized cost by approximately $299.0 million compared to net unrealized investment gains of $114.0 million at December 31, 1997. CNA limits the risks associated with interest rate fluctuations and prepayment by concentrating its CMO investments in early planned amortization classes with relatively short principal repayment windows.

At September 30, 1998, 36.2% of the general account's fixed maturity securities portfolio was invested in U.S. government securities, 36.4% in other AAA rated securities and 15.1% in AA and A rated securities. CNA's guaranteed investment fixed maturity securities portfolio is comprised of 5.7% U.S. government securities, 61.9% in other AAA rated securities and 13.9% in AA and A rated securities. These ratings are primarily from Standard and Poor's.

Results of Operations:
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Revenues increased by $840.5 and $1,352.2 million, or 16.4% and 9.1%, respectively, and net income increased by $419.5 and $279.9 million, respectively, for the quarter and nine months ended September 30, 1998 as compared to the corresponding periods of the prior year. The following table sets forth the major sources of the Company's consolidated revenues and net income.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
	(In millions)			
Revenues (a):				
Property and casualty insurance	$3,196.4	$3,286.7	$ 9,950.4	$ 9,618.7
Life insurance	936.7	1,029.8	2,945.1	3,059.4
Cigarettes	788.8	648.9	2,074.1	1,769.7
Hotels	57.8	57.3	171.2	164.3
Offshore drilling	326.6	256.4	950.5	698.0
Watches and clocks	35.4	34.4	96.2	92.3
Investment income (loss)-net (non-insurance companies)	605.1	(198.4)	(38.1)	(592.6)
Other and eliminations-net	5.1	(3.7)	2.4	(10.2)
	$5,951.9	$5,111.4	$16,151.8	$14,799.6
Net income (a):				
Property and casualty insurance	$ 14.6	$ 199.9	$ 336.4	$ 484.3
Life insurance	(14.8)	45.8	64.2	122.9
Cigarettes	195.5	72.4	356.2	275.4
Hotels	6.5	6.6	18.0	15.7
Offshore drilling	54.0	36.4	144.0	93.8
Watches and clocks	3.2	3.0	7.3	5.7
Investment income (loss)-net (non-insurance companies)	391.9	(129.8)	(29.5)	(390.4)
Corporate interest expense	(20.7)	(17.2)	(64.7)	(49.6)
Unallocated corporate expense and other-net	(13.1)	(19.5)	(51.3)	(57.1)
	$ 617.1	$ 197.6	$ 780.6	$ 500.7

(a) Includes investment gains (losses) as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
Revenues:				
Property and casualty insurance	$ 88.4	$ 192.6	$ 414.3	$ 338.6
Life insurance	9.3	48.1	99.8	120.6
Investment income-net	565.3	(239.2)	(176.1)	(724.3)
	$ 663.0	$ 1.5	$ 338.0	$(265.1)
Net income:				
Property and casualty insurance	$ 46.3	$ 106.7	$ 221.7	$ 186.2
Life insurance	1.7	24.6	48.0	61.5
Investment income-net	367.5	(155.1)	(114.2)	(472.4)
	$ 415.5	$ (23.8)	$ 155.5	$(224.7)

Insurance

Property and casualty revenues, excluding investment gains, increased by $13.9 and $256.0 million, or .4% and 2.8%, for the quarter and nine months ended September 30, 1998, as compared to the same periods a year ago.

Property and casualty premium revenues increased by $25.0 and $218.0 million, or 1.0% and 2.9%, for the quarter and nine months ended September 30, 1998,

from the prior year's comparable periods. The increase is attributable to higher involuntary risk earned premium of approximately $207.0 million, an increase in personal lines premium of approximately $92.0 million, $80.0 million of premium from CNA Surety Corporation, which was formed in September 1997, and $48.0 million of premium from Omega Aseguradora de Reisgo de Trabajo, an Argentinean workers' compensation carrier that was acquired in June 1997. These increases were partially offset by a decrease in commercial lines premiums of approximately $150.0 million and group lines of approximately $92.0 million.

Involuntary premium for 1997 reflected reductions in estimates of premium for 1996 and prior periods, primarily in the workers' compensation line of business, and a greater willingness on the part of the voluntary market, including CNA, to write these types of risks. The 1998 estimated premiums reflect a return to historical levels. The increase in personal lines premium is attributable to increases in California Earthquake Authority premium of $34.0 million as well as an increase of $45.0 million across various lines. The decrease in commercial lines is primarily due to competitive pricing pressures throughout the industry. The decrease in group lines is mainly due to the decision to exit the Employer Health and Affinity Health lines of business. Net investment income decreased by $20.0 and $30.0 million, or 4.6% and 2.2%, for the quarter and nine months ended September 30, 1998, compared with the same period in the prior year, due to lower yielding investments. The bond segment of the investment portfolio yielded 6.1% in the first nine months of 1998 compared with 6.3% for the same period a year ago.

Life insurance revenues, excluding investment gains, decreased by $54.3 and $93.5 million, or 5.5% and 3.2%, for the quarter and nine months ended September 30, 1998 as compared to the same periods a year ago. Life premium revenues decreased by $62.2 and $114.6 million, or 7.3% and 4.5%, for the quarter and nine months ended September 30, 1998. The decrease is primarily due to lower premiums for the Federal Employees Health Benefit Plan ("FEHBP"). The decrease in FEHBP premiums is due to improved claim experience upon which premiums are based and continues the trend from the first half of this year. Life net investment income increased by $9.0 and $29.0 million, or 8.8% and 9.5%, for the quarter and nine months ended September 30, 1998, compared to the same periods a year ago. The bond segment of the life investment portfolio yielded approximately 6.4% in the first nine months of 1998, as compared to 6.3% for the comparable period in 1997.

On August 5, 1998, CNA announced a reassessment of its businesses which would involve reorganization of a number of its businesses and corporate support areas. In the third quarter of 1998, CNA finalized and approved a plan to restructure its operations. In connection with this plan, CNA recorded a pre-tax restructuring and other related charges amounting to approximately $220.0 million. The restructuring plan focused on a net reduction in the current workforce of approximately 4,500 employees resulting in net reduction of approximately 2,400 employees, the consolidation of certain processing centers, the closing of various facilities, and the exiting of certain businesses. The charges recorded in the third quarter of 1998 relate to employee termination benefits ($72.0 million), the writedown of certain assets to their fair values ($74.0 million), lease abandonment costs ($42.0 million)

and losses related to the exiting of businesses ($32.0 million). These activities and changes are more fully discussed below.

Within its risk management business, pre-tax restructuring and other related charges totaled approximately $79.0 million for the third quarter. The charges relate to costs associated with the consolidation of claim offices in approximately 36 market territories totaling approximately $8.0 million (lease abandonment costs), employee termination benefits related to the net reduction in workforce of approximately 200 employees at a cost of approximately $7.0 million and the writedown of fixed and intangible assets of approximately $64.0 million.

Within its commercial insurance business, pre-tax restructuring and other related charges for the third quarter totaled approximately $57.0 million. The charges relate primarily to the consolidation of four regional offices into two zone offices and a reduction of claim processing offices from 24 to 8 at a cost of approximately $21.0 million (lease abandonment costs). The charges also consist of approximately $31.0 million of employee termination benefits related to the net reduction in workforce of approximately 1,200 employees and an additional $5.0 million relating to fixed asset writedowns.

Within its group insurance business, pre-tax restructuring and other related charges for the third quarter totaled approximately $38.0 million. The charges relate primarily to the Employer Health and Affinity lines of business that CNA decided to exit and include the employee termination benefit costs related to the net reduction in its current workforce of approximately 400 employees.

For various other departments within CNA, pre-tax restructuring and other related charges totaled approximately $25.0 million and relate primarily to the closing of leased facilities and employee termination benefits related to the reductions in the current workforce. Additionally, CNA recorded approximately $21.0 million in incremental benefit plan expenses associated with the reductions in its workforce.

CNA expects to record an additional $125.0 to $175.0 million in charges over the next 12 to 15 months, primarily related to employee related expenses, computer systems, consulting fees and other related costs. While such costs relate to CNA's overall plans of reorganization, generally accepted accounting principles do not allow for accrual of these in the period the plan is adopted. Rather such costs will be recorded in the period which they are incurred.

While CNA has not yet completed its analysis of anticipated cost savings, it estimates that its reorganization, which includes the restructuring plan as well as revenue enhancements and operating efficiencies, will result in anticipated reductions of approximately 200 basis points in CNA's expense ratio and savings of approximately $300.0 to $350.0 million on an annualized basis. CNA expects a portion of the anticipated savings will be realized beginning in the latter part of 1998 and to achieve the full expense ratio reduction within 15 months.

Property and casualty underwriting losses for the quarter and nine months ended September 30, 1998 were $465.0 million and $1.1 billion, compared to $273.4 and $843.8 million for the same periods in 1997. The increase in underwriting losses is primarily due to restructuring and other related charges recorded during the third quarter (as discussed above), as well as an increase in pre-tax catastrophe losses for the first nine months of 1998. Pre-tax catastrophe losses were approximately $66.0 and $217.0 million for the quarter and nine months ended September 30, 1998 as compared to $2.5 and $78.5 million in 1997. The increase in catastrophe losses is mainly due to spring storms throughout the United States and hurricane damage sustained during the third quarter of 1998.

The components of CNA's investment gains are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
	(In millions)			
Bonds:				
U.S. Government	$ 69.0	$ 54.0	$165.0	$103.0
Tax exempt	26.0	24.0	58.0	26.0
Asset-backed	3.0	9.0	30.0	18.0
Taxable	14.0	18.0	83.0	102.0
Total bonds	112.0	105.0	336.0	249.0
Stocks	(1.0)	18.0	12.0	57.0
Derivative instruments	(6.0)	2.0	28.0	2.0
Separate Accounts and other (1)	(8.0)	112.0	136.0	167.0
Total investment gains	$ 97.0	$237.0	$512.0	$475.0

(1) Includes $88.8 for the three and nine months ended September 30, 1997 from issuance of subsidiary's stock.

CNA's primary property and casualty subsidiary, Continental Casualty Company, is party to litigation with Fibreboard Corporation involving coverage for certain asbestos-related claims and defense costs (see Note 6 of the Notes to Consolidated Condensed Financial Statements).

Cigarettes
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Revenues increased by $139.9 and $304.4 million, or 21.6% and 17.2%, respectively, and net income increased by $123.1 and $80.8 million, respectively, for the quarter and nine months ended September 30, 1998 as

compared to the corresponding periods of the prior year.

The increase in revenues is composed primarily of higher average unit prices amounting to approximately $113.3 and $248.6 million, or 17.7% and 14.2%, respectively, and an increase of approximately $16.1 and $32.7 million, or 2.5% and 1.9%, reflecting higher unit sales volume for the quarter and nine months ended September 30, 1998, as compared to the corresponding periods of the prior year. Revenues also benefited from increased investment income.

Net income for the quarter and nine months ended September 30, 1998 and 1997 includes a pre-tax charge of $30.8, $109.3, $218.3 and $109.3 million ($18.4, $65.3, $130.5 and $65.3 million after taxes), respectively, to reflect the settlement of tobacco litigation (see Note 6 of the Notes to Consolidated Condensed Financial Statements). Excluding these charges, net income would have increased by $76.2 and $146.0 million for the quarter and nine months ended September 30, 1998, respectively, as a result of the improved revenues, and for the three months ended September 30, 1998, lower legal expenses. These increases were partially offset by higher sales promotion expenses and, for the nine months ended September 30, 1998, increased legal expenses.

Lorillard's unit sales volume increased by 1.6% and 1.2%, while Newport's sales volume increased by 1.4% and 4.0% for the quarter and nine months ended September 30, 1998, as compared to the corresponding periods of the prior year.

Newport, a full price brand, accounted for 78.0% of Lorillard's unit sales. Discount brand sales have decreased from an average of 31.4% of industry sales during 1994 to an average of 27.0% during 1997. At September 30, 1998, they represented 26.4% of industry sales.

Hotels
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Revenues increased by $.5 and $6.9 million, or .9% and 4.2%, respectively, and net income decreased by $.1 million, or 1.5%, and increased by $2.3 million, or 14.6%, respectively, for the quarter and nine months ended September 30, 1998, as compared to the prior year, due primarily to higher overall average room rates, partially offset by lower occupancy rates.

Net income decreased for the quarter due primarily to higher costs. Net income improved for the nine month period, as compared to the prior year, due to higher average room rates, partially offset by lower overall occupancy rates and increased administrative expenses.

Offshore drilling
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Revenues increased by $70.2 and $252.5 million, or 27.4% and 36.2%, and net income increased by $17.6 and $50.2 million, or 48.4% and 53.5%, respectively, for the quarter and nine months ended September 30, 1998, as compared to the prior year.

Revenues from semisubmersible rigs increased by $62.6 and $206.6 million, or 24.4% and 29.6%, for the quarter and nine months ended September 30, 1998. The revenue increase is due to higher dayrates ($51.5 and $176.9 million), recognized by semisubmersible rigs located in the North Sea and the Gulf of Mexico. These increases were partially offset by revenues foregone ($5.3 and $37.4 million) during mandatory inspections. Revenues from jackup rigs increased by $5.9 and $38.8 million, or 2.3% and 5.6%, due to improvements in dayrates, primarily in the Gulf of Mexico ($10.8 and $48.3 million).

Depressed product prices in the oil and gas industry have resulted in declining dayrates and decreased utilization, primarily in the shallow waters of the Gulf of Mexico. As a result, Diamond Offshore has cold stacked and suspended marketing efforts on two of its low-end specification semisburmersible rigs located in the Gulf of Mexico. In addition, due to the excess supply in the current jack-up market, several of Diamond Offshore's jack-up rigs are idle in the Gulf of Mexico. To date, Diamond Offshore has been able to mitigate the effect of these conditions on its results of operations primarily with existing term contract commitments and the diversity of Diamond Offshore's fleet. However, the offshore contract drilling industry historically has been and is expected to continue to be highly competitive and cyclical. The current trends in market conditions could have a material adverse effect on Diamond Offshore's future results of operations, although the extent of such effect cannot be accurately predicted.

Diamond Offshore's results of operations have also been impacted by the loss of revenues and associated costs incurred during required regulatory inspections of its drilling rigs. As of September 30, 1998, eight of these inspections had been completed with four anticipated to occur in the fourth

quarter of 1998. Diamond Offshore intends to focus on returning these rigs to operations as soon as reasonably possible, in order to minimize the downtime and associated loss of revenues.

Net income for the quarter and nine months ended September 30, 1998 increased

due primarily to the higher revenues discussed above, partially offset by an overall increase in contract drilling costs, including labor and drilling supplies and increased depreciation and administrative expenses.

Watches and Clocks
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Revenues increased by $1.0 and $3.9 million, or 2.9% and 4.2%, respectively, and net income increased by $.2 and $1.6 million, or 6.7% and 28.1%, respectively, for the quarter and nine months ended September 30, 1998 as compared to the corresponding periods of the prior year.

Revenues increased for the quarter and nine months ended September 30, 1998 due primarily to increased watch unit sales volume and higher interest income, partially offset by lower clock unit sales.

Net income increased for the quarter and nine months ended September 30, 1998 due primarily to the increased revenue discussed above and lower cost of sales. In addition, net income benefited from a $.8 million pre-tax credit recorded in the third quarter of 1998 related to an actuarial adjustment to postretirement benefit costs.

Other
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Revenues increased by $812.3 and $567.1 million, respectively, and net income increased by $524.6 and $351.6 million, respectively, for the quarter and nine months ended September 30, 1998 as compared to the corresponding periods of the prior year.

The components of investment gains (losses) included in Investment income (loss)-net are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
	(In millions)			
Revenues:				
Derivative instruments (1)	$484.7	$(187.7)	$ (15.5)	$(568.4)
Equity securities, including short positions (1)	54.5	(46.1)	(174.8)	(195.4)
Fixed maturities	25.3	(.1)	13.3	14.8
Short-term investments, primarily U.S. government securities	(.9)	.8	(.3)	.4
Gain on issuance of subsidiary's stock				29.1
Other	1.7	(6.1)	1.2	(4.8)
	565.3	(239.2)	(176.1)	(724.3)
Income tax benefit	(198.0)	83.8	61.6	253.5
Minority interest	.2	.3	.3	(1.6)
Net income (loss)	$367.5	$(155.1)	$(114.2)	$(472.4)

(1) Includes gains (losses) on short sales, equity index futures and options aggregating $491.8, $(278.3), $(221.6) and $(800.4) for the quarter and nine months ended September 30, 1998 and 1997, respectively. The Company continues to maintain these positions but has reduced its exposure in these instruments.

Exclusive of securities transactions, revenues increased $7.8 and $18.9 million, or 21.0% and 15.6%, for the quarter and nine months ended September

30, 1998 due primarily to increased revenues from a shipping joint venture and, for the nine month period, higher investment income. Net income increased by $2.0 million, or 17.5%, and decreased by $6.6 million, or 26.7%, for the quarter and nine months ended September 30, 1998, respectively. Net income increased for the quarter due to the increased revenues discussed above, partially offset by higher corporate interest expenses. Net income decreased for nine months ended September 30, 1998 due to higher corporate interest expenses, partially offset by increased interest income.

Year 2000 Issue
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The widespread use of computer programs, both in the United States and internationally, that rely on two digit date fields to perform computations and decision making functions may cause computer systems to malfunction when processing information involving dates beginning in 1999. Such malfunctions could lead to business delays and disruptions. The Company is in the process of renovating or replacing many of its legacy systems to accommodate business for the Year 2000 and beyond. In addition, the Company is checking embedded systems in computer hardware and other infrastructure such as elevators, heating and ventilating systems, and security systems. To date, approximately 89% of all planned hours have been expended, and a similar percentage of milestones have been completed.

Approximately 81% of the Company's internal systems have been internally tested and are expected to be running in a production environment by December 1, 1998. This deadline allows a full year for re-validation of already tested and implemented Year 2000 remediated systems, as well as for shake-out of any previously unidentified problems and for interacting with business partners and vendors that are still working on making their programs Year 2000 ready.

Based upon its current assessment, the Company estimates that the total cost to replace and upgrade its systems to accommodate Year 2000 processing will be approximately $70.0 to $80.0 million. As of September 30, 1998, approximately $53.0 million has been spent. While some hardware charges are included in the budget figures, the Company's hardware costs are typically included as part of ongoing technology updates and not specifically as part of the Year 2000 project. All funds spent and to be spent will be financed from current operating funds.

The Company believes that it will be able to resolve the Year 2000 issue in a timely manner. However, due to the interdependent nature of computer systems, the Company may be adversely impacted depending upon whether it or other entities not affiliated with the Company (vendors and business partners) address this issue successfully. To mitigate this impact, the Company is communicating with its vendors and business partners to coordinate the Year 2000 conversion. CNA has already sent Year 2000 information packages to more than 12,000 independent agents to encourage them to become Year 2000 ready on a timely basis. CNA has also sent Year 2000 information to almost 300,000 business policyholders to increase their awareness of the Year 2000 issue. Similar information packages have been sent to health care providers, lawyers and others with whom CNA has business relationships. Because of the

interdependent nature of the issue, the Company cannot be sure that there will not be a disruption to its business.

The Company has also developed business resumption plans to ensure that the Company is able to continue critical processes through other means in the event that it becomes necessary to do so. Formal strategies have been developed within each business unit and support organization to include appropriate recovery processes and use of alternative vendors. More than 200 strategies have been developed to address recovery plans for approximately 400 processes. These plans are being updated quarterly.

In addition, property and casualty insurance subsidiaries may have an underwriting exposure related to the Year 2000 issue. Although CNA has not received any claims for coverage from its policyholders based on losses resulting from Year 2000 issues, there can be no assurances that policyholders will not suffer losses of this type and seek compensation under insurance policies underwritten by CNA. If any claims are made, coverage, if any, will depend on the facts and circumstances of the claim and the provisions of the policy. The range of potential insurance exposure created by the Year 2000 problem is sufficiently broad that it is impossible to estimate with any degree of accuracy the extent to which various types of policies issued by CNA may afford coverage for loss or claims. At this time, in the absence of any claims experience, CNA is unable to forecast the nature and range of the losses, the availability of coverage for the losses, or the likelihood of significant claims. As a result, CNA is unable to determine whether the adverse impact, if any, in connection with the foregoing circumstances would be material to it.

Accounting Standards
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In December 1997, the AICPA's Accounting Standards Executive Committee issued SOP 97-3, "Accounting by Insurance and Other Enterprises for Insurance-Related Assessments," which provides guidance on accounting for insurance-related assessments. It requires that entities recognize liabilities for insurance-related assessments when all of the following criteria have been met: an assessment has been imposed or it is probable that an assessment will be imposed; the event obligating an entity to pay an imposed or probable assessment has occurred on or before the date of the financial statements; and the amount of the assessment can be reasonably estimated. This SOP is effective for fiscal years beginning after December 15, 1998. The Company is currently evaluating the effects of this SOP on its accounting for insurance-related assessments. Certain insurance industry information required for compliance is not currently available and therefore the Company is studying alternatives for estimating the accrual. While it is possible that the cumulative effect of adoption could be material, the ongoing impact of this standard is not expected to be material to the results of operations, liquidity or financial position of the Company.

In February 1998, the FASB issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." This Statement standardizes disclosure requirements for pension and other postretirement benefits to the extent practicable, and requires additional information on changes in benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates certain disclosures that are no longer useful to users of financial statements. It also suggests combined formats for presentation of pension and other postretirement benefit disclosures. The Statement supersedes the disclosure requirements of a number of earlier opinions of the FASB and does not address measurement or recognition. It is effective for fiscal years beginning after December 15, 1997. The Company is currently evaluating the effects of this Statement on its benefit plan disclosures.

In March 1998, the AICPA's Accounting Standards Executive Committee issued SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which provides guidance on accounting for costs of computer software developed or obtained for internal use and for determining whether computer software is for internal use. For purposes of this SOP, internal-use software is software acquired, internally developed or modified solely to meet the entity's internal needs for which no substantive plan exists or is being developed to market the software externally during the software's development or modification. Accounting treatment for costs associated with software developed or obtained for internal use, as defined by this SOP, is based upon a number of factors, including the point in time during the project that costs are incurred as well as the types of costs incurred. This SOP is effective for financial statements for fiscal years beginning after December 15, 1998. The Company is currently evaluating the effects of this SOP.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes standards for the accounting and reporting for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. This Statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The Company is currently evaluating the effects of this Statement on its accounting and reporting for derivatives and hedges.

Forward-Looking Statements
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When included in this Report, the words "believes," "expects," "intends," "anticipates," "estimates," and analogous expressions are intended to identify forward-looking statements. Such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic and business conditions, competition, changes in financial markets (interest rate, currency, commodities and stocks), changes in foreign, political, social and economic conditions, regulatory initiatives and

compliance with governmental regulations, judicial decisions and rulings in smoking and health litigation, the impact of bills introduced in Congress in relation to tobacco operations, implementation of the Proposed Resolution, changes in foreign and domestic oil and gas exploration and production activity, customer preferences and various other matters, many of which are beyond the Company's control. These forward-looking statements speak only as of the date of this Report. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The Company is a large diversified financial services company. As such, it has significant amounts of financial instruments that involve market risk. The

Company's measure of market risk exposure represents an estimate of the change in fair value of its financial instruments. Changes in the trading portfolio would be recognized as investment gains (losses) in the income statement. Market risk exposure is presented for each class of financial instrument held by the Company at September 30, 1998, assuming immediate adverse market movements of the magnitude described below. The Company believes that the various rates of adverse market movements represent a measure of exposure to loss under hypothetically assumed adverse conditions. The estimated market risk exposure represents the hypothetical loss to future earnings and does not represent the maximum possible loss nor any expected actual loss, even under adverse conditions, because actual adverse fluctuations would likely differ. In addition, since the Company's investment portfolio is subject to change based on its portfolio management strategy as well as in response to changes in the market, these estimates are not necessarily indicative of the actual results which may occur.

The following tables present the Company's market risk by category (equity markets, interest rates, foreign currency exchange rates and commodity prices) on the basis of those entered into for trading purposes and other than trading purposes.

Trading portfolio:

September 30, 1998

Category of risk exposure:	Fair Value Asset (Liability)	Market Risk
(In millions)		
Equity markets (1):		
Equity securities	$ 228.7	$ 57.2
Options purchased	649.1	(584.9)
Options written	(56.6)	47.1
Futures		86.5
Short sales	(643.9)	(161.0)
Commodities:		
Oil (2):		
Swaps	.2	(1.6)
Energy purchase obligations	(14.2)	(5.9)
Gold (3):		
Options purchased	18.7	(18.7)
Options written	(3.9)	3.9

Note: The calculation of estimated market risk exposure is based on assumed adverse changes in the underlying reference price or index of (1) an increase in equity prices of 25%, (2) a decline in oil prices of 20% and (3) an increase in gold prices of 20%. Adverse changes on options which differ from those presented above would not necessarily result in a proportionate change to the estimated market risk exposure.

The most significant areas of market risk in the Company's trading portfolio result from positions held in S&P futures contracts, short sales of certain equity securities and put options purchased on the S&P 500 index. The Company enters into these positions primarily to benefit from anticipated future

movements in the underlying markets that Company management expects to occur. If such movements do not occur or if the market moves in the opposite direction from what management expects, significant losses may occur. The Company continues to maintain these positions but has reduced its exposure in these instruments.

Exposure to market risk is managed and monitored by senior management. Senior management approves the overall investment strategy employed by the Company and has responsibility to ensure that the investment positions are consistent with that strategy and the level of risk acceptable to it. The Company may manage risk by buying or selling instruments or entering into offsetting positions.

Other than trading portfolio:

September 30, 1998

Category of risk exposure:	Fair Value Asset (Liability)	Market Risk
(In millions)		
Equity market (1):		
Equity securities:		
CNA Financial general accounts (a)	$ 1,362.0	$ (341.0)
CNA Financial separate accounts	186.0	(46.0)
Equity index futures, separate accounts (b)		(205.0)
Interest rate (2):		
Fixed maturities (a)	29,612.2	(1,456.2)
Short-term investments (a)	9,204.2	(6.0)
Interest rate swaps	(15.0)	11.0
Separate Accounts:		
Fixed maturities (a)	4,405.0	(157.0)
Short-term investments (a)	457.0	(1.0)
Long-term debt	(5,739.7)	

Note: The calculation of estimated market risk exposure is based on assumed adverse changes in the underlying reference price or index of (1) a decrease in equity prices of 25% and (2) an increase in interest rates of 100 basis points.

(a) Certain securities are denominated in foreign currencies. Assuming a 20% decline in the underlying exchange rates would result in an aggregate foreign currency exchange rate risk of $(391.0).

(b) This market risk would be offset by decreases in liabilities to customers under variable insurance contracts.

Equity Price Risk - The Company has exposure to equity price risk as a result of its investment in equity securities and equity derivatives. Equity price risk results from changes in the level or volatility of equity prices that affect the value of equity securities or instruments which derive their value from such securities or indexes. Equity price risk was measured assuming an instantaneous 25% change in the underlying reference price or index from its level at September 30, 1998, with all other variables held constant.

Interest Rate Risk - The Company has exposure to interest rate risk arising

from changes in the level or volatility of interest rates. The Company attempts to mitigate its exposure to interest rate risk by utilizing instruments such as interest rate swaps, interest rate caps, commitments to purchase securities, options, futures and forwards. The Company monitors its sensitivity to interest rate risk by evaluating the change in its financial assets and liabilities relative to fluctuations in interest rates. The evaluation is made using an instantaneous parallel change in interest rates by varying magnitudes on a static balance sheet to determine the effect such a change in rates would have on the Company's market value at risk and the resulting effect on shareholders' equity. The analysis presents the sensitivity of the market value of the Company's financial instruments to selected changes in market rates and prices which the Company believes are reasonably possible over a one-year period.

The analysis assumes that the composition of the Company's interest sensitive

assets and liabilities existing at the beginning of the period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the time to maturity. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Accordingly the analysis may not be indicative of, is not intended to provide, and does not provide a precise forecast of the effect of changes of market interest rates on the Company's earnings or shareholders' equity. Further, the computations do not contemplate any actions the Company would undertake in response to changes in interest rates.

The Company's long-term debt, including interest rate swap agreements, as of September 30, 1998 is denominated in U.S. Dollars. The Company's debt has been primarily issued at fixed rates, and as such, interest expense would not be impacted by interest rate shifts.

The sensitivity analysis assumes an instantaneous shift in market interest rates increasing 100 basis points from their levels at September 30, 1998, with all other variables held constant.

Foreign Exchange Risk - Foreign exchange rate risk arises from the possibility that changes in foreign currency exchange rates will impact the value of financial instruments. The Company has foreign exchange exposure when it buys or sells foreign currencies or financial instruments denominated in a foreign currency. This exposure is mitigated by the Company's asset/liability matching strategy and through the use of futures for those instruments which are not matched. The Company's foreign transactions are primarily denominated in Canadian Dollars, British Pounds, German Deutschmarks and Japanese Yen. The sensitivity analysis also assumes an instantaneous 20% change in the foreign currency exchange rates versus the U.S. Dollar from their levels at September 30, 1998, with all other variables held constant.

Commodity Price Risk - The Company has exposure to commodity price risk as a result of its investments in energy purchase obligations, gold options and other investments. Commodity price risk results from changes in the level or volatility of commodity prices that impact instruments which derive their value from such commodities. Commodity price risk was measured assuming an instantaneous change of 20% in the value of the underlying commodities.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

1. CNA is involved in various lawsuits involving environmental pollution claims and litigation with Fibreboard Corporation. Information involving such

lawsuits is incorporated by reference to Note 6 of the Notes to Consolidated Condensed Financial Statements in Part I.

2. Lorillard is involved in various lawsuits involving tobacco products seeking damages for cancer and other health effects claimed to have resulted from the use of cigarettes or from exposure to tobacco smoke. Information involving such lawsuits is incorporated by reference to Note 6 of the Notes to Consolidated Condensed Financial Statements in Part I.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits--

(3.1) By-Laws.
(10.1) Stipulation of Amendment to Settlement Agreement and for Entry of Consent Decree, dated September 11, 1998, regarding the settlement of the Florida health care cost recovery action.
(10.2) Florida Fee Payment Agreement dated September 11, 1998, regarding the payment of attorney's fees.
(27.1) Financial Data Schedule for the nine months ended September 30, 1998.
(99.1) Proposed Master Settlement Agreement relating to state health care cost recovery claims.

(b) Current reports on Form 8-K--There were no reports on Form 8-K filed for three months ended September 30, 1998.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LOEWS CORPORATION

(Registrant)

Dated: November 16, 1998

By /s/ Peter W. Keegan

PETER W. KEEGAN
Senior Vice President and
Chief Financial Officer
(Duly authorized officer
and principal financial
officer)

Exhibit 3.01

AS AMENDED THROUGH
November 3, 1998

LOEWS CORPORATION

By-Laws

BY-LAWS

OF

LOEWS CORPORATION
(A Delaware Corporation)

ARTICLE 1

Definitions

As used in these By-laws, unless the context otherwise requires, the term:

1.1 "Assistant Secretary" means an Assistant Secretary of the Corporation.

1.2 "Assistant Treasurer" means an Assistant Treasurer of the Corporation.

1.3 "Board" means the Board of Directors of the Corporation.

1.4 "By-laws" means the initial by-laws of the Corporation, as amended from time to time.

1.5 "Certificate of Incorporation" means the initial certificate of incorporation of the Corporation, as amended, supplemented or restated from time to time.

1.6 "Corporation" means Loews Corporation.

1.7 "Directors" means directors of the Corporation.

1.8 "General Corporation Law" means the General Corporation Law of the State of Delaware, as amended from time to time.

1.9 "Office of the Corporation" means the executive office of the Corporation, anything in Section 131 of the General Corporation Law to the contrary notwithstanding.

1.10 "Chairman of the Board" means the Chairman of the Board of Directors of the Corporation.

1.11 "President" means the President of the Corporation.

1.12 "Secretary" means the Secretary of the Corporation.

1.13 "Stockholders" means stockholders of the Corporation.

1.14 "Treasurer" means the Treasurer of the Corporation.

1.15 "Vice President" means a Vice President of the Corporation.

ARTICLE 2

STOCKHOLDERS

2.1 Place of Meetings. Every meeting of the stockholders shall be held at the office of the Corporation or at such other place within or without the State of Delaware as shall be specified or fixed in the notice of such meeting or in the waiver of notice thereof.

2.2 Annual Meeting. A meeting of stockholders shall be held annually for the election of directors and the transaction of other business at such hour as may be designated in the notice of meeting, on the second Tuesday in May in each year (or, if such date falls on a legal holiday, on the first business day thereafter which is not a Saturday, Sunday or legal holiday), or on such other date not later than six months after the end of the fiscal year of the Corporation, as may be fixed by the Board.

2.3 Special Meetings. A special meeting of stockholders, unless otherwise prescribed by statute, may be called at any time by the Board or by the Chairman of the Board and Chief Executive Officer, the President or by the Secretary and shall be called by the Chairman of the Board and Chief Executive Officer, the President or by the Secretary on the written request of holders of a majority or more of the shares of capital stock of the Corporation entitled to vote in an election of directors, which written request shall state the purpose or purposes of such meeting. At any special meeting of stockholders only such business may be transacted which is related to the purpose or purposes of such meeting set forth in the notice thereof given pursuant to Section 2.5 of the By-laws or in any waiver of notice thereof given pursuant to Section 2.4 of the By-laws.

2.4 Fixing Record Date. For the purpose of determining the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or for the purpose of determining stockholders entitled to receive payment of any dividend or the allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful

action, the Board may fix, in advance, a date as the record date for any such determination of stockholders. Such date shall not be more than sixty nor less

than ten days before the date of such meeting, nor more than sixty days prior to any other action. If no such record date is fixed:

2.4.1 The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held;

2.4.2 The record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board is necessary, shall be the day on which the first written consent is expressed;

2.4.3 The record date for determining stockholders for any purpose other than specified in Sections 2.4.1 and 2.4.2 shall be at the close of business on the day on which the Board adopts the resolution relating thereto.

When a determination of stockholders entitled to notice of or to vote at any meeting of stockholders has been made as provided in this Section 2.4 such determination shall apply to any adjournment thereof, unless the Board fixes a new record date for the adjourned meeting.

2.5 Notice of Meetings of Stockholders. Except as otherwise provided in Sections 2.3 and 2.4 of the By-laws, whenever under the General Corporation Law or the Certificate of Incorporation or the By-laws, stockholders are required or permitted to take any action at a meeting, written notice shall be given stating the place, date and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called. A copy of the notice of any meeting shall be given, personally or by mail not less than ten nor more than fifty days before the date of the meeting, to each stockholder entitled to notice of or to vote at such meeting. If mailed, such notice shall be deemed to be given when deposited in the United States mail, with postage prepaid, directed to the stockholder at his address as it appears on the records of the Corporation. An affidavit of the Secretary or an Assistant Secretary or of the transfer agent of the Corporation that the notice required by this section has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken, and at the adjourned meeting any business may be transacted that might have been transacted at the meeting as originally called. If, however, the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

2.6 List of Stockholders. The Secretary shall prepare and make, or cause to be prepared and made, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

2.7 Quorum of Stockholders; Adjournment. The holders of a majority of the shares of stock entitled to vote at any meeting of stockholders, present in person or represented by proxy, shall constitute a quorum for the transaction of any business at such meeting. When a quorum is once present to organize a meeting of stockholders, it is not broken by the subsequent withdrawal of any stockholders. The holders of a majority of the shares of stock present in person or represented by proxy at any meeting of stockholders, including an adjourned meeting, whether or not a quorum is present, may adjourn such meeting to another time and place.

2.8 Voting; Proxies. Unless otherwise provided in the Certificate of Incorporation every stockholder of record shall be entitled at every meeting of stockholders to one vote for each share of capital stock standing in his name on the record of stockholders determined in accordance with Section 2.4 of the By-laws. If the Certificate of Incorporation provides for more or less than one vote for any share, on any matter, every, reference in the By-laws or the

General Corporation Law to a majority or other proportion of stock shall refer to such majority or other proportion of the votes of such stock. The provisions of Sections 212 and 217 of the General Corporation Law shall apply in determining whether any shares of capital stock may be voted and the persons, if any, entitled to vote such shares; but the Corporation shall be protected in treating the persons in whose names shares of capital stock stand on the record of stockholders as owners thereof for all purposes. At any meeting of stockholders, a quorum being present, all matters, except as otherwise provided by law or by the Certificate of Incorporation or by the By-laws, shall be decided by a majority of the votes cast at such meeting by the holders of shares present in person or represented by proxy and entitled to vote thereon. All elections of directors shall be by written ballot unless otherwise provided in the Certificate of Incorporation. In voting on any other question on which a vote by ballot is required by law or is demanded by any stockholder entitled to vote, the voting shall be by ballot. Each ballot shall be signed by the stockholder voting or by his proxy, and shall state the number of shares voted. On all other questions, the voting may be viva voce. Every stockholder entitled to vote at a meeting of stockholders or to express consent or dissent without a meeting may authorize another person or persons to act for him by proxy. The validity and enforceability of any proxy shall be determined in accordance with Section 212 of the General Corporation Law.

2.9 Selection and Duties of Inspectors at Meetings of Stockholders. The Board, in advance of any meeting of stockholders, may appoint one or more inspectors to act at the meeting or any adjournment thereof. If inspectors are not so appointed, the person presiding at such meeting may, and on the request of any stockholder entitled to vote thereat shall, appoint one or more inspectors. In case any person appointed fails to appear or act, the vacancy may be filled by appointment made by the Board in advance of the meeting or at the meeting by the person presiding thereat. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his ability. The inspector or inspectors shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all stockholders. On request of the person presiding at the meeting or any stockholder entitled to vote thereat, the inspector or inspectors shall make a report in writing of any challenge, question or matter determined by him or them and execute a certificate of any fact found by him or them. Any report or certificate made by the inspector or inspectors shall be prima facie evidence of the facts stated and of the vote as certified by him or them.

2.10 Organization. At every meeting of stockholders, the Chairman of the Board and Chief Executive Officer, or in his absence the President, or in the absence of both of them the Senior Vice President, or in the absence of all of them the Executive Vice President or in the absence of all of them the most senior Vice President (based on term of service as Vice President) present, shall act as chairman of the meeting. The Secretary, or in his absence one of the Assistant Secretaries, shall act as secretary of the meeting. In case none of the officers above designated to act as chairman or secretary of the meeting, respectively, shall be present a chairman or a secretary of the meeting, as the case may be, shall be chosen by a majority of the votes cast at such meeting by the holders of shares of capital stock present in person or represented by proxy and entitled to vote at the meeting.

2.11 Order of Business. The order of business at all meetings of stockholders shall be as determined by the chairman of the meeting, but the order of business to be followed at any meeting at which a quorum is present may be changed by a majority of the votes cast at such meeting by the holders of shares of capital stock present in person or represented by proxy and entitled to vote at the meeting.

ARTICLE 3

Directors

3.1 General Powers. Except as otherwise provided in the Certificate of Incorporation, the business and affairs of the Corporation shall be managed by the Board. The Board may adopt such rules and regulations, not inconsistent with

the Certificate of Incorporation or the By-laws or applicable laws, as it may deem proper for the conduct of its meetings and the management of the Corporation. In addition to the powers expressly conferred by the By-laws, the Board may exercise all powers and perform all acts which are not required, by the By-laws or the Certificate of Incorporation or by law, to be exercised and performed by the stockholders.

3.2 Number; Qualification; Term of Office. The Board shall consist of one or more members. The number of directors shall be fixed initially by the Board and may thereafter be changed from time to time by action of the stockholders or of the Board. Directors need not be stockholders. Each director shall hold office until his successor is elected and qualified or until his earlier death, resignation or removal.

3.3 Election. Directors shall except as otherwise required by law or by the Certificate of Incorporation, be elected by a plurality of the votes cast at a meeting of stockholders by the holders of shares entitled to vote in the election.

3.4 Newly Created Directorships and Vacancies. Unless otherwise provided in the Certificate of Incorporation, newly created directorships resulting from an increase in the number of directors and vacancies occurring in the Board for any reason, including the removal of directors without cause, may be filled by vote of a majority of the directors then in office, although less than a quorum, at any meeting of the Board or may be elected by a plurality of the votes cast by the holders of shares of capital stock entitled to vote in the election at a special meeting of stockholders called for that purpose. A director elected to fill a vacancy shall be elected to hold office until his successor is elected and qualified, or until his earlier death, resignation or removal.

3.5 Resignations. Any director may resign at any time by written notice to the Corporation. Such resignation shall take effect at the time therein specified, and, unless otherwise specified, the acceptance of such resignation shall not be necessary to make it effective.

3.6 Removal of Directors. Any or all of the directors may be removed (i) for cause, by vote of the stockholders or by action of the Board, and (ii) without cause, by vote of the stockholders.

3.7 Remuneration. Unless otherwise expressly provided by resolution adopted by the Board, none of the directors or of the members of any committee of the Corporation contemplated by these By-laws or otherwise provided for by resolution of the Board shall as such receive any stated remuneration for his services; but the Board may at any time or from time to time by resolution provide that remuneration shall be paid to, or on behalf of, any director of the Corporation or to any member of any such committee who shall not be in the employ of the Corporation or of any of its subsidiary companies, either as his annual remuneration as such director or member or as remuneration for his attendance at each meeting of the Board or of such committee. The Board may also likewise provide that the Corporation shall reimburse each such director or member of such committee for any expenses paid by him on account of his attendance at any such meeting. Nothing in this Section contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving remuneration therefor.

3.8 Place and Time of Meetings of the Board. Meetings of the Board, regular or special, may be held at any place within or without the State of Delaware. The times and places for holding meetings of the Board may be fixed from time to time by resolution of the Board or (unless contrary to resolution of the Board) in the notice of the meeting.

3.9 Annual Meetings. On the day when and at the place where the annual meeting of stockholders for the election of directors is held, and as soon as practicable thereafter, the Board may hold its annual meeting, without notice of such meeting, for the purposes of organization the election of officers and the transaction of other business. The annual meeting of the Board may be held at any other time and place specified in a notice given as provided in Section 3.11 of the By-laws for special meetings of the Board or in a waiver of notice thereof.

3.10 Regular Meetings. Regular meetings of the Board may be held at such

times and places as may be fixed from time to time by the Board. Unless otherwise required by the Board, regular meetings of the Board may be held without notice. If any day fixed for a regular meeting of the Board shall be a Saturday or Sunday or a legal holiday at the place where such meeting is to be held, then such meeting shall be held at the same hour at the same place on the first business day thereafter which is not a Saturday, Sunday or legal holiday.

3.11 Special Meetings. Special meetings of the Board shall be held whenever called by the Chairman of the Board, the President, or the Secretary or by any two or more directors. Notice of each special meeting of the Board shall, if mailed, be addressed to each director at the address designated by him for that purpose or, if none is designated, at his last known address at least two days before the date on which the meeting is to be held; or such notice shall be sent to each director at such address by telegraph, cable or wireless, or be delivered to him personally, not later than the day before the date on which such meeting is to be held. Every such notice shall state the time and place of the meeting but need not state the purposes of the meeting, except to the extent required by law.

If mailed, each notice shall be deemed given when deposited, with postage thereon prepaid, in a post office or official depository under the exclusive care and custody of the United States Post Office Department. Such mailing shall be by first-class mail.

3.12 Adjourned Meetings. A majority of the directors present at any meeting of the Board, including an adjourned meeting, whether or not a quorum is present may adjourn such meeting to another time and place. Notice of any adjourned meeting of the Board need not be given to any director whether or not present at the time of the adjournment. Any business may be transacted at any adjourned meeting that might have been transacted at the meeting as originally called.

3.13 Waiver of Notice. Whenever notice is required to be given to any director or member of a committee of directors under any provision of the General Corporation Law or of the Certificate of Incorporation or By-laws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the directors, or members of a committee of directors, need be specified in any written waiver of notice.

3.14 Organization. At each meeting of the Board, the Chairman of the Board, or in the absence of the Chairman of the Board, the President of the Corporation, or in the absence of all of them a chairman chosen by the majority of the directors present, shall preside. The Secretary shall act as secretary at each meeting of the Board. In case the Secretary shall be absent from any meeting of the Board, an Assistant Secretary shall perform the duties of secretary at such meeting; and in the absence from any such meeting of the Secretary and Assistant Secretaries, the person presiding at the meeting may appoint any person to act as secretary of the meeting.

3.15 Quorum of Directors. A majority of the directors then in office shall constitute a quorum for the transaction of business or of any specified item of business at any meeting of the Board.

3.16 Action by the Board. All corporate action taken by the Board or any committee thereof shall be taken at a meeting of the Board, or of such committee, as the case may be, except that any action required or permitted to be taken at any meeting of the Board, or of any committee thereof, may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee. Members of the Board, or any committee designated by the Board, may participate in a meeting of the Board, or of such committee, as the case may be, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each others and participation in a meeting pursuant to this

Section 3.16 shall constitute presence in person at such meeting. Except as otherwise provided by the Certificate of Incorporation or by law, the vote of a majority of the directors present (including those who participate by means of conference telephone or similar communications equipment) at the time of the vote, if a quorum is present at such time, shall be the act of the Board.

ARTICLE 4

COMMITTEES OF THE BOARD

4.1 Executive Committee; Number, Appointment, Term of Office, etc. (a) The Board, by resolution adopted by a majority of the whole Board, may designate an Executive Committee consisting of the Chairman of the Board and Chief Executive Officer and such other directors as it may designate. Each member of the Executive Committee shall continue to be a member thereof only so long as he remains a director and at the pleasure of a majority of the whole Board. Any vacancies on the Executive Committee may be filled by the majority of the whole Board.

(b) The Executive Committee, between meetings of the Board, shall have and may exercise the powers of the Board in the management of the property, business and affairs of the Corporation and may authorize the seal of the Corporation to be affixed to all papers which may require it. Without limiting the foregoing, the Executive Committee shall have the express power and authority to declare a dividend, to authorize the issuance of stock, and to adopt a certificate of ownership and merger pursuant to Section 253 of the General Corporation Law of the State of Delaware.

The Secretary, or if he shall be absent from such meeting, the person (who shall be an Assistant Secretary, if an Assistant Secretary shall be present thereat) whom the chairman of such meeting shall appoint, shall act as secretary of such meeting and keep the minutes thereof.

(c) Regular meetings of the Executive Committee, of which no notice shall be necessary, shall be held on such days and at such places, within or without the State of Delaware, as shall be fixed by resolution adopted by a majority of the Executive Committee. Special meetings of the Executive Committee shall be held whenever called by the Chairman of the Board, if Chief Executive Officer, the President, the Chairman of the Executive Committee and shall be called by the Secretary of the Corporation on the request of a majority of the Executive Committee. Notice of each special meeting of the Executive Committee shall be given to each member thereof by depositing such notice in the United States mail, in a postage prepaid envelope, directed to him at his residence or usual place of business at least two days before the day on which such meeting is to be held or shall be sent addressed to him at such place by telegraph, cable, wireless or other form of recorded communication or be delivered personally or by telephone a reasonable time in advance of the time at which such meeting is to be held. Notice of any such meeting need not, however, be given to any member of the Executive Committee if he shall be present at such meeting. Any

meeting of the Executive Committee shall be a legal meeting without any Notice thereof having been given if all the members of the Executive Committee shall be present thereat. Such notice shall specify the time and place of the meeting, but except as otherwise expressly provided by law, the purposes thereof need not be stated in such notice. Subject to the provisions of these By-laws, the Executive Committee may fix its own rules of procedure, and it shall keep a record of its proceedings and report them to the Board at the next regular or special meeting thereof after such proceedings shall have been taken. All such proceedings shall be subject to revision or alteration by the Board; provided, however, that third parties shall not be prejudiced by any such revision or alteration.

(d) Except as otherwise provided by law, a majority of the Executive Committee then in office shall constitute a quorum for the transaction of business, and the act of a majority of those present at a meeting thereof shall be the act of the Executive Committee. In the absence of a quorum, a majority of the members of the Executive Committee present thereat may adjourn such meeting from time to time until a quorum shall be present thereat. Notice of any adjourned meeting need not be given. The Executive Committee shall act only as a committee, and the individual members shall have no power as such.

(e) Any member of the Executive Committee may resign therefrom at any time by giving written notice of his resignation to the Chairman of the Board, the President or the Secretary. Any such resignation shall take effect at the time specified therein or, if the time when it shall become effective shall not be specified therein, it shall take effect immediately upon its receipt; and, except as specified therein, the acceptance of such resignation shall not be

necessary to make it effective.

(f) In addition to the foregoing, in the absence or disqualification of a member of the Executive Committee, the members present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

4.2 Other Committees of the Board. The Board, by resolution adopted by a majority of the whole Board, may designate one or more other committees, which shall in each case consist of such number of directors, but not less than two, and shall have and may exercise such powers for such periods, as the Board may determine in the resolution designating such committee. A majority of the members of any such committee may fix its rules of procedure, determine its action, fix the time and place, whether within or without the State of Delaware, of its meetings and specify what notice thereof, if any, shall be given, unless the Board shall by resolution adopted by a majority of the whole Board otherwise provide. Each member of any such committee shall continue to be a member thereof only so long as he remains a director and at the pleasure of a majority of the whole Board. Any vacancies on any such committee may be filled by a majority of the whole Board.

4.3 Other Committees. Nothing hereinbefore contained in this Article 4 shall be deemed to preclude the designation by the Chairman of the Board, if Chief Executive Officer, or the President, of committees, other than committees of the Board, which may include officers and employees who are not directors.

ARTICLE 5

OFFICERS

5.1 Officers. The Board shall elect a Chairman of the Board, a President and Chief Executive Officer, a Chairman of the Executive Committee, a Secretary and a Treasurer, and as many Assistant Secretaries and Assistant Treasurers as the Board may deem necessary, and may elect or appoint one or more Vice Presidents and such other officers as it may determine. The Board may designate one or more Vice Presidents as Senior Vice President or Executive Vice President, and may use descriptive words or phrases to designate the standing, seniority or area of special competence of the Vice Presidents elected or appointed by it. Each officer shall hold his office until his successor is elected and qualified or until his earlier death, resignation or removal in the manner provided in Section 5.2 of the By-laws. Any two or more offices may be held by the same person. The Board may require any officer to give a bond or other security for the faithful performance of his duties, in such amount and with such sureties as the Board may determine. All officers as between themselves and the Corporation shall have such authority and perform such duties in the management of the Corporation as may be provided in the By-laws or as the Board may from time to time determine.

5.2 Removal of Officers. Any officer elected or appointed by the Board may be removed by the Board with or without cause. The removal of an officer without cause shall be without prejudice to his contract rights, if any. The election or appointment of an officer shall not of itself create contract rights.

5.3 Resignations. Any officer may resign at any time in writing by notifying the Board, the Chairman of the Board, the President or the Secretary. Such resignation shall take effect at the date of receipt of such notice or at such later time as is therein specified, and, unless otherwise specified, the acceptance of such resignation shall not be necessary to make it effective. The resignation of an officer shall be without prejudice to the contract rights of the Corporation, if any.

5.4 Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled for the unexpired portion of the term in the manner prescribed in the By-laws for the regular election or appointment to such office.

5.5 Compensation. Salaries or other compensation of the officers may be fixed from time to time by the Board. No officer shall be prevented from

receiving a salary or other compensation by reason of the fact that he is also a director.

5.6 Chairman of the Board. The Chairman of the Board of the Corporation shall have general supervision over the business of the Corporation, subject, however, to the control of the Board and of any duly authorized committee of directors. The Chairman of the Board shall, if present, preside at all meetings of the stockholders and at all meetings of the Board. He may, with the Secretary or the Treasurer or an Assistant Secretary or an Assistant Treasurer, sign certificates for shares of capital stock of the Corporation. He may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts and other instruments, except in cases where the signing and execution thereof shall be expressly delegated by the Board or by the By-laws to some other officer or agent of the Corporation, or shall be required by law otherwise to be signed or executed and, in general, he shall perform all duties incident to the office of Chairman of the Board and such other duties as from time to time may be assigned to him by the Board. The Board may designate two persons to serve as Co-Chairman of the Board of the Corporation in which case each reference in these By-Laws to the "Chairman of the Board" shall mean the "Co-Chairman of the Board". Where both individuals holding such office are present, the individual with greater seniority shall exercise the powers of the office, unless otherwise directed by the Board.

5.7 President and Chief Executive Officer. The President shall be the Chief Executive officer, of the Corporation and as such shall have the general powers and duties of supervision and management usually vested in the office of President and Chief Executive Officer. The President may also, with the Secretary or the Treasurer or an Assistant Secretary or an Assistant Treasurer, sign certificates for shares of capital stock of the Corporation; may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts or other instruments authorized by the Board, except in cases where the signing and execution thereof shall be expressly delegated by the Board or by the By-laws to some other officer or agent of the Corporation, or shall be required by law otherwise to be signed or executed; and shall perform such other duties as from time to time may be assigned to him by the Board.

5.8 Chairman of the Executive Committee. The Chairman of the Executive Committee shall have the powers and duties incident to that office and shall have other powers and duties as may be prescribed from time to time by the Board of Directors. He shall be a member of the Executive Committee and shall preside at all meetings of the Executive Committee. In the event of the absence or disability of the President, he shall perform the duties of the President, unless the Board of Directors shall have designated another person to perform such duties.

5.9 Vice Presidents. Each Vice President shall have such powers and shall perform such duties as shall be assigned to such person by the President or the Board of Directors. Any Vice President may also, with the Secretary or the Treasurer or an Assistant Secretary or an Assistant Treasurer, sign certificates for shares of capital stock of the Corporation; may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts or other instruments authorized by the Board, except in cases where the signing and execution thereof than be expressly delegated by the Board or by the By-laws to some other officer or agent of the Corporation, or shall be required by law otherwise to be signed or executed.

5.10 Secretary. The Secretary, if present, shall act as secretary of all meetings of the stockholders and of the Board, and shall keep the minutes thereof in the proper book or books to be provided for that purpose; he shall see that all notices required to be given by the Corporation are duly given and served; he may, with the Chairman of the Board, the President or a Vice President, sign certificates for shares of capital stock of the Corporation; he shall be custodian of the seal of the Corporation and may seal with the seal of the Corporation, or a facsimile thereof, all certificates for shares of capital stock, of the Corporation and all documents the execution of which on behalf of the Corporation under its corporate seal is authorized in accordance with the provisions of the By-laws; he shall have charge of the stock ledger and also of the other books, records and papers of the Corporation relating to its organization and management as a Corporation, and shall see that the reports, statements and other documents required by law are properly kept and filed; and shall, in general, perform all the duties incident to the office of Secretary and such other duties as from time to time may be assigned to him by the Board or by the President.

5.11 Treasurer. The Treasurer shall have charge and custody of, and be responsible for, all funds, securities and notes of the Corporation; receive and give receipts for moneys due and payable to the Corporation from any sources whatsoever; deposit all such monies in the name of the Corporation in such banks, trust companies or other depositories as shall be selected in accordance with these By-laws; against proper vouchers, cause such funds to be disbursed by checks or drafts on the authorized depositaries of the Corporation signed in such manner as shall be determined in accordance with any provisions of the By-laws, and be responsible for the accuracy of the amounts of all monies so disbursed; regularly enter or cause to be entered in books to be kept by him or under his direction full and adequate amount of all monies received or paid by him for the amount of the Corporation; have the right to require, from time to time reports or statements giving such information as he may desire with respect to any and all financial transactions of the Corporation from the officers or agents transacting the same; render to the President or the Board, whenever the President or the Board, respectively, require him so to do, an account of the financial condition of the Corporation and of all his transactions as Treasurer; exhibit at all reasonable times his books of account and other records to any of the directors upon application at the office of the Corporation where such books and records are kept; and in general, perform all the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the Board, or by the President; and he may sign, with the Chairman of the Board, the President or a Vice President, certificates for shares of capital stock of the Corporation.

5.12 Assistant Secretaries and Assistant Treasurers. Assistant Secretaries and Assistant Treasurers shall perform such duties as shall be assigned to them by the Secretary or by the Treasurer, respectively, or by the Board, or the President. Assistant Secretaries and Assistant Treasurers may, with the Chairman of the Board, the President or a Vice President, sign certificates for shares of capital stock of the Corporation.

ARTICLE 6

CONTRACTS, CHECKS, DRAFTS, BANK ACCOUNTS, ETC.

6.1 Execution of Contracts. The Board may authorize any officer, employee or agent, in the name and on behalf of the Corporation, to enter into any contracts or execute and satisfy any instrument, and any such authority may be general or confined to specific instances, or otherwise limited.

6.2 Loans. The Chairman of the Board and Chief Executive Officer, the President or any other officer, employee or agent authorized by the By-laws or by the Board may effect loans and advances at any time for the Corporation from any bank, trust company or other institutions or from any firm, corporation or individual and for such loan and advances may make, execute and deliver promissory notes, bonds or other certificates or evidences of indebtedness of the Corporation, and when authorized so to do may pledge and hypothecate or transfer any securities or other property of the Corporation as security for any such loans or advances. Such authority conferred by the Board may be general or confined to specific instances or otherwise limited.

6.3 Checks, Drafts, Etc. All checks, drafts and other orders for the payment of money out of the funds of the Corporation and all notes or other evidences of indebtedness of the Corporation shall be signed on behalf of the Corporation in such manner as shall from time to time be determined by resolution of the Board.

6.4 Deposits. The funds of the Corporation not otherwise employed shall be deposited from time to time to the order of the Corporation in such banks, trust companies or other depositories as the Board may select or as may be selected by an officer, employee or agent of the Corporation to whom such power may from time to time be delegated by the Board.

ARTICLE 7

STOCKS AND DIVIDENDS

7.1 Certificates Representing Shares. The shares of capital stock of the

Corporation shall be represented by certificates in such form (consistent with the provisions of Section 158 of the General Corporation Law) as shall be approved by the Board. Such certificates shall be signed by the Chairman of the Board and Chief Executive Officer, the President or a Vice President and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer, and may be sealed with the seal of the Corporation or a facsimile thereof. The signatures of the officers upon a certificate may be facsimiles, if the certificate is countersigned by a transfer agent or registrar other than the Corporation itself or its employee. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon any certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, such certificate may, unless otherwise ordered by the Board, be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

7.2 Transfer of Shares. Transfers of shares of capital stock of the Corporation shall be made only on the books of the Corporation by the holder thereof or by his duly authorized attorney appointed by a power of attorney duly executed and filed with the Secretary or a transfer agent of the Corporation, and on surrender of the certificate or certificates representing such shares of capital

stock properly endorsed for transfer and upon payment of all necessary transfer taxes. Every certificate exchanged, returned or surrendered to the Corporation shall be marked "Canceled," with the date of cancellation, by the Secretary or an Assistant Secretary or the transfer agent of the Corporation. A person in whose name shares of capital stock shall stand on the books of the Corporation shall be deemed the owner thereof to receive dividends, to vote as such owner and for all other purposes as respects the Corporation. No transfer of shares of capital stock shall be valid as against the Corporation, its stockholders and creditors for any purpose, except to render the transferee liable for the debts of the Corporation to the extent provided by law, until such transfer shall have been entered on the books of the Corporation by an entry showing from and to whom transferred.

7.3 Transfer and Registry Agents. The Corporation may from time to time maintain one or more transfer offices or agents and registry offices or agents at such place or places as may be determined from time to time by the Board.

7.4 Lost, Destroyed, Stolen and Mutilated Certificates. The holder of any shares of capital stock of the Corporation shall immediately notify the Corporation of any loss, destruction, theft or mutilation of the certificate representing such shares, and the Corporation may issue a new certificate to replace the certificate alleged to have been lost, destroyed, stolen or mutilated. The Board may, in its discretion, as, a condition to the issue of any such new certificate, require the owner of the lost, destroyed, stolen or mutilated certificate, or his legal representatives, to make proof satisfactory to the Board of such loss, destruction, theft or mutilation and to advertise such fact in such manner as the Board may require, and to give the Corporation and its transfer agents and registrars, or such of them as the Board may require, a bond in such form, in such sum and with such surety or sureties as the Board may direct, to indemnify the Corporation and its transfer agents and registrars against any claim that may be made against any of them on account of the continued existence of any such certificate so alleged to have been lost, destroyed, stolen or mutilated and against any expense in connection with such claim.

7.5 Regulations. The Board may make such rules and regulations as it may deem expedient, not inconsistent with the By-laws or with the Certificate of Incorporation, concerning the issue, transfer and registration of certificates representing shares of its capital stock.

7.6 Restriction on Transfer of Stock. A written restriction on the transfer or registration of transfer of capital stock of the Corporation, if permitted by Section 202 of the General Corporation Law and noted conspicuously on the certificate representing such capital stock, may be enforced against the holder of the restricted capital stock or any successor or transferee of the holder including an executor, administrator, trustee, guardian or other fiduciary entrusted with like responsibility for the person or estate of the holder. Unless noted conspicuously on the certificate representing such capital stock, a restriction, even though permitted by Section 202 of the General Corporation Law, shall be ineffective except against a person with actual knowledge of the restriction. A restriction

on the transfer or registration of transfer of capital stock of the Corporation may be imposed either by the Certificate of Incorporation or by an agreement among any number of stockholders or among such stockholders and the Corporation. No restriction so imposed shall be binding with respect to capital stock issued prior to the adoption of the restriction unless the holders of such capital stock are parties to an agreement or voted in favor of the restriction.

7.7 Dividends, Surplus, Etc. Subject to the provisions of the Certificate of Incorporation and of law, the Board:

7.7.1 May declare and pay dividends or make other distributions on the outstanding shares of capital stock in such amounts and at such time or times as, in its discretion, the condition of the affairs of the Corporation shall render advisable;

7.7.2 May use and apply, in its discretion, any of the surplus of the Corporation in purchasing or acquiring any shares of capital stock of the Corporation, or purchase warrants therefor, in accordance with law, or any of its bonds, debentures, notes, scrip or other securities or evidences of indebtedness;

7.7.3 May set aside from time to time out of such surplus or net profits such sum or sums as, in its discretion, it may think proper, as a reserve fund to meet contingencies, or for equalizing dividends or for the purpose of maintaining or increasing the property or business of the Corporation, or for any purpose it may think conducive to the best interest of the Corporation.

ARTICLE 8

INDEMNIFICATION

8.1 Indemnification of Officers and Directors. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director or an officer of the Corporation against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding to the fullest extent and in the manner set forth in and permitted by the General Corporation Law, and any other applicable law, as from time to time in effect. Such right of indemnification shall not be deemed exclusive of any other rights to which such director or officer may be entitled apart from the foregoing provisions. The foregoing provisions of this Section 8.1 shall be deemed to be a contract between the Corporation and each director and officer who serves in such capacity at any time while this Article 8 and the relevant provisions, of the General Corporation law and other applicable law, if any, are in effect, and any

repeal or modification thereof shall not affect any rights or obligations then existing, with respect to any state of facts then or theretofore existing, or any action, suit or proceeding theretofore, or thereafter brought or threatened based in whole or in part upon any such state of facts.

8.2 Indemnification of Other Persons. The Corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that he is or was an employee or agent of the Corporation, or is or was, serving at the request of the Corporation, as a director, officer, employee or agent of another Corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding to the extent and in the manner set forth in and permitted by the General Corporation Law, and any other applicable law, as from time to time in effect. Such right of indemnification shall not be deemed exclusive of any other rights to which any such person may be entitled apart from the foregoing provisions.

ARTICLE 9

BOOKS AND RECORDS

9.1 Books and Records. The Corporation shall keep correct and complete books and records of account and shall keep minutes of the proceedings of the stockholders, the Board and any committee of the Board. The Corporation shall keep at the office designated in the Certificate of Incorporation or at the office of the transfer agent or registrar of the Corporation in Delaware, a record containing the names and addresses of all stockholders, the number and class of shares held by each and the dates when they respectively became the owners of record thereof.

9.2 Form of Records. Any records maintained by the Corporation in the regular course of its business, including its stock ledger, books of account, and minute books, may be kept on, or be in the form of, punch cards, magnetic tape, photographs, microphotographs or any other information storage device provided that the records so kept can be converted into clearly legible written form within a reasonable time. The Corporation shall so convert any records so kept upon the request of any person entitled to inspect the same.

9.3 Inspection of Books and Records. Except as otherwise provided by law, the Board shall determine from time to time whether, and, if allowed, when and under what conditions and regulations, the accounts, books, minutes and other records of the Corporation, or any of them, shall be open to the inspection of the stockholders.

ARTICLE 10

SEAL

The Board may adopt a corporate seal which shall be in the form of a circle and shall bear the full name of the Corporation, the year of its incorporation and the word "Delaware".

ARTICLE 11

FISCAL YEAR

The fiscal year of the Corporation shall begin on the 1st day of January and shall terminate on the 31st day of December in each year, or such other period as may be fixed by resolution of the Board.

ARTICLE 12

VOTING OF SHARES HELD

Unless otherwise provided by resolution of the Board, the Chairman of the Board and Chief Executive Officer, or the President, or any Vice President, may, from time to time, appoint one or more attorneys or agents of the Corporation, in the name and on behalf of the Corporation, to cast the votes which the Corporation may be entitled to cast as a stockholder or otherwise in any other corporation, any of whose shares or securities may be held by the Corporation, at meetings of the holders of stock or other securities of such other corporation, or to consent, in writing to any action by any such other corporation, and may instruct the person or persons so appointed as to the manner of casting such votes or giving such consent, and may execute or cause to be executed on behalf of the Corporation and under its corporate or seal, or otherwise, such written proxies, consents, waivers or other instruments as he may deem necessary or proper in the premises; or the Chairman of the Board and Chief Executive Officer, or the President, or any Vice President may himself attend any meeting of the holders of the stock or other securities of any such other corporation and thereat vote or exercise any or all other powers of the Corporation as the holder of such stock or other securities of such other corporation.

ARTICLE 13

BUSINESS COMBINATIONS WITH INTERESTED STOCKHOLDERS

Pursuant to the provisions of Section 203 (a) (2) of the General Corporation Law, the Corporation, by action of the Board, expressly elects not to be governed by Section 203 of the General Corporation Law, dealing with business combinations with interested stockholders. Notwithstanding anything to the contrary in these By-laws, the provisions of this Article 13 may not be further amended by the Board, except as may be specifically authorized by the General Corporation Law.

ARTICLE 14

AMENDMENTS

The By-laws may be altered, amended, supplemented or repealed, or new By-laws may be adopted, by vote of the holders of the shares entitled to vote in the election of directors. The By-laws may be altered, amended, supplemented or repealed, or new By-laws may be adopted, by the Board, provided that the vote of a majority of the entire Board shall be required to change the number of authorized directors. Any By-laws adopted, altered, amended, or supplemented by the Board may be altered, amended, supplemented or repealed by the stockholders entitled to vote thereon.

ARTICLE 15

OFFICES

The Corporation may have an office or offices at such place or places, within or without the State of Delaware, as the Board of Directors may from time to time designate or the business of the Corporation require.

IN THE CIRCUIT COURT OF THE FIFTEENTH JUDICIAL CIRCUIT
PALM BEACH COUNTY, FLORIDA

STATE OF FLORIDA, et al.,

Plaintiffs,

v. Civil Action No. 95-1466 AH

AMERICAN TOBACCO
COMPANY, et al.,

Defendants.
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STIPULATION OF AMENDMENT TO SETTLEMENT AGREEMENT
AND FOR ENTRY OF CONSENT DECREE

THIS STIPULATION OF AMENDMENT TO SETTLEMENT AGREEMENT AND FOR ENTRY OF CONSENT DECREE (the "Stipulation of Amendment") is made as of the date hereof, by and among the parties hereto, as indicated by their signatures below, to amend the Settlement Agreement entered into by the parties hereto with respect to this Action on August 25, 1997 (the "Settlement Agreement").

WHEREAS, on August 25, 1997, the State of Florida and Settling Defendants entered into the Settlement Agreement to settle and resolve with finality all present and future civil claims against all parties to this litigation

relating to the subject matter of this litigation which have been or could have been asserted by any of the parties hereto;

WHEREAS, the Settlement Agreement was approved and adopted as an enforceable order of the Court pursuant to Court Order dated August 25, 1997;

WHEREAS, the Settlement Agreement contains a "Most Favored Nation" clause which provides that, in the event that Settling Defendants enter into a future pre-verdict settlement agreement of other litigation brought by a non-federal governmental plaintiff on terms more favorable to such governmental plaintiff than the terms of the Settlement Agreement (after due consideration of relevant differences in population or other appropriate factors), the terms of the Settlement Agreement shall be revised so that the State of Florida will obtain treatment at least as relatively favorable as any such non-federal governmental entity;

WHEREAS, on May 8, 1998, Settling Defendants Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation and Lorillard Tobacco Company (the "MFN Settling Defendants") entered into a pre-verdict settlement agreement with the State of Minnesota (the "Minnesota Settlement") to resolve the lawsuit State of Minnesota v. Philip Morris Inc., No. C1-94-8565 (Dist. Ct. Ramsey County, filed Aug. 17, 1994);

WHEREAS, the State of Florida and Settling Defendants agree that, pursuant to the Most Favored Nation clause of the Settlement Agreement, the Settlement Agreement is to be revised in light of the Minnesota Settlement;

WHEREAS, the State of Florida and Settling Defendants have agreed on the terms of revisions to the Settlement Agreement, including revisions in light of the Minnesota Settlement, as set forth in this Stipulation of Amendment and the attached Consent Decree; and

WHEREAS, the State of Florida and MFN Settling Defendants have further agreed jointly to petition the Court for approval of the Consent Decree:

NOW, THEREFORE, BE IT KNOWN THAT, pursuant to the Most Favored Nation clause of the Settlement Agreement and in consideration of their mutual agreement to the terms of this Stipulation of Amendment (including, inter alia, waiver of any further claim to revise the Settlement Agreement pursuant to the

Most Favored Nation clause, except as expressly provided herein), and such other consideration as described herein, the sufficiency of which is hereby acknowledged, the parties hereto, acting by and through their authorized agents, memorialize and agree as follows:

1. Amendment of Settlement Agreement. The provisions of this Stipulation of Amendment supplement the terms of the Settlement Agreement,

which shall remain in full force and effect except insofar as they are expressly revised by the provisions of this Stipulation of Amendment.

2. Voluntary Agreement of the Parties. This Stipulation of Amendment is entered into voluntarily by the parties hereto. The State and Settling Defendants understand that Congress may enact legislation dealing with some of the issues addressed in the Settlement Agreement, this Stipulation of Amendment or the Consent Decree. The MFN Settling Defendants and their assigns, affiliates, agents and successors hereby voluntarily waive any right to challenge the Settlement Agreement, this Stipulation of Amendment or the Consent Decree, directly or through third parties, on the ground that any term thereof or hereof is unconstitutional, outside the power or jurisdiction of the Court or preempted by or in conflict with any current or future federal legislation (except insofar as the non-economic terms of the Settlement Agreement (as revised hereby) or the Consent Decree are irreconcilable with any such future federal legislation). The Court may, upon the State's application, enter a Consent Decree in the form attached hereto as Exhibit 1.

3. Definitions. For the purposes of the Settlement Agreement, this Stipulation of Amendment and the Consent Decree, the following terms shall have the meanings set forth below:

(a) "Consumer Price Index" means the Consumer Price Index for All Urban Consumers for the most recent twelve-month period for which such percentage information is available, as published by the Bureau of Labor Statistics of the U.S. Department of Labor;

(b) "Market Share" means a Settling Defendant's respective share of sales of Cigarettes, by number of individual Cigarettes shipped in the United States for domestic consumption, as measured by such Settling Defendant's audited reports of shipments of Tobacco Products provided to the U.S. Securities and Exchange Commission ("SEC") (or, in the case of any Settling Defendant that does not provide such reports to the SEC, audited reports of shipments containing the same shipment information as contained in the reports provided to the SEC) ("Shipment Reports"), during (i) with respect to payments made pursuant to paragraph 7 of this Stipulation of Amendment, the calendar year ending on the date on which the payment at issue is due (or, in the case of the payment due on September 15, 1998, the calendar year ending December 31, 1998), regardless of when such payment is made, and (ii) with respect to all other payments made pursuant to this Stipulation of Amendment and the Settlement Agreement, the calendar year immediately preceding the year in

which the payment at issue is due, regardless of when such payment is made;

(c) "Cigarettes" means any product which contains nicotine, is intended to be burned or heated under ordinary conditions of use, and consists of or contains (i) any roll of tobacco wrapped in paper or in any substance not containing tobacco; or (ii) tobacco, in any form, that is functional in the product, which, because of its appearance, the type of tobacco used in the filler, or its packaging and labeling, is likely to be offered to, or purchased by, consumers as a cigarette; or (iii) any roll of tobacco wrapped in any substance containing tobacco which, because of its appearance, the type of tobacco used in the filler, or its packaging and labeling, is likely to be offered to, or purchased by, consumers as a cigarette described in subparagraph (i) of this paragraph;

(d) "Smokeless Tobacco" means any product that consists of cut, ground, powdered or leaf tobacco that contains nicotine and that is intended to be placed in the oral cavity;

(e) "Tobacco Products" means Cigarettes and Smokeless Tobacco; and

(f) "Children" means persons under the age of 18;

The above definitions supplement the definitions provided in the Settlement Agreement and, insofar as they differ, supersede them.

4. Settlement Receipts. The payments to be made by Settling Defendants under the Settlement Agreement and this Stipulation of Amendment are in settlement of all of the State of Florida's claims for damages incurred by the State in the year of payment or earlier years related to the subject matter of this Action, and no part of any payment under the Settlement Agreement or this Stipulation of Amendment is made in settlement of an actual or potential liability for a fine, civil penalty, criminal penalty or enhanced damages or as the cost of a tangible or intangible asset or other future benefit. This paragraph 4 supplements and clarifies section II.B(4) of the Settlement Agreement and does not and is not intended to change the characterization of settlement payments described in section II.B(4) of the Settlement Agreement.

5. Supplemental Initial Payment. Each MFN Settling Defendant severally shall cause to be paid, pro rata in proportion to its Market Share and in accordance with and subject to paragraphs 17 and 18 of this Stipulation of Amendment, to an account designated in writing by the State of Florida, its share of $123,470,000, to be paid on or before January 4, 1999; its share of $464,590,000, to be paid on or before January 3, 2000; its share of $464,590,000, to be paid on or before January 2, 2001; its share of $464,590,000, to be paid on or

before January 2, 2002; and its share of $232,760,000, to be paid on or before January 2, 2003. The payments made by MFN Settling Defendants pursuant to this paragraph shall be adjusted upward by the greater of 3% or the actual total percent change in the Consumer Price Index applied each year on the previous year, beginning with the payment due to be made on or before January 3, 2000. The payments due to be made by MFN Settling Defendants pursuant to this paragraph on or before January 3, 2000, on or before January 2, 2001, on or before January 2, 2002, and on or before January 2, 2003, will also be decreased or increased, as the case may be, in accordance with the formula for adjustment of payments set forth in Appendix A hereto. The payment due to be made by MFN Settling Defendants pursuant to this paragraph 5 on or before January 4, 1999, shall not be subject to adjustment for inflation or in accordance with the formula for adjustment of payments set forth in Appendix A hereto.

6. Acceleration of Supplemental Initial Payment. In the event that any MFN Settling Defendant fails to make any payment required of it pursuant to paragraph 5 of this Stipulation of Amendment (a "Defaulting Defendant") by the applicable date set forth in such paragraph 5 (a "Missed Payment"), the State of Florida shall provide notice to each of the MFN Settling Defendants of such non-payment. The Defaulting Defendant shall have 15 days after receipt of such notice to pay the Missed Payment, together with interest accrued from the original

applicable due date at the prime rate as published in the Wall Street Journal on the latest publication date on or before the date of default plus 3%. If the Defaulting Defendant does not make such payment within such 15-day period, the State of Florida shall have the option of providing notice to each of the MFN Settling Defendants of such continued non-payment. In the event that the State of Florida elects to provide such notice, any or all of the MFN Settling Defendants (other than the Defaulting Defendant) shall have 15 days after receipt of such notice to elect (in such MFN Settling Defendant's or such MFN Settling Defendants' sole and absolute discretion) to pay the Missed Payment, together with interest accrued from the original applicable due date at the prime rate as published in the Wall Street Journal on the latest publication date on or before the date of default plus 3%. In the event that the State of Florida does not receive the Missed Payment, together with such accrued interest, within such additional 15-day period, all future payments required to be made by each of the respective MFN Settling Defendants pursuant to paragraph 5 of this Stipulation of Amendment shall at the end of such additional 15-day period be accelerated and immediately become due and owing to the State of Florida from each MFN Settling Defendant, pro rata in proportion to its Market

Share and in accordance with and subject to paragraph 18 of this Stipulation of Amendment; provided, however, that such accelerated payments (a) shall all be adjusted upward by the greater of (i) the rate of 3% per annum or

(ii) the actual total percent change in the Consumer Price Index, in either instance for the period between January 1 of the year in which the acceleration of payments pursuant to this paragraph occurs and the date on which such accelerated payments are made pursuant to this paragraph 6, and (b) shall all immediately be adjusted in accordance with the formula for adjustment of payments set forth in Appendix A hereto.

Nothing in this paragraph 6 shall be deemed under any circumstance to create any obligation on the part of any MFN Settling Defendant to pay any amount owed or payable to the State of Florida by any other MFN Settling Defendant. All obligations of the MFN Settling Defendants pursuant to this paragraph 6 are intended to be and shall remain several, and not joint.

7. Annual Payments. Each of the Settling Defendants agrees that on or before September 15, 1998 it shall severally cause to be paid to an account designated in writing by the State of Florida, pro rata in proportion to its respective Market Share and in accordance with and subject to paragraph 18 of this Stipulation of Amendment, its share of $220 million (subject to adjustment for appropriate allocation among Settling Defendants by January 30, 1999).

Each of the Settling Defendants further agrees that, on or before December 31, 1999 and annually thereafter on or before December 31st of each year after 1999 (subject to final adjustment within 30 days), it shall severally cause to be paid

into an account designated by the State of Florida, pro rata in proportion to its respective Market Share and in accordance with and subject to paragraph 18 of this Stipulation of Amendment, its share of 5.5% of the following amounts (in billions):

Year	1999	2000	2001	2002	2003	thereafter
Amount	$4.5B	$5B	$6.5B	$6.5B	$8B	$8B

The payments made by Settling Defendants pursuant to this paragraph 7 shall be adjusted upward by the greater of 3% or the actual total percent change in the Consumer Price Index applied each year on the previous year, beginning with the annual payment due on December 31, 1999. Such payments will also be decreased or increased, as the case may be, beginning with the annual payment due on December 31, 1999, in accordance with the formula for adjustment of payments set forth in Appendix A hereto. Settling Defendants shall pay the payment due on September 15, 1998 without adjustment for inflation or in accordance with the formula for adjustments of payments set forth in Appendix A hereto. This paragraph 7 supersedes section II.B(3) of the Settlement Agreement, which is hereby rendered null, void and of no further effect.

8. Determination of Market Share. In the event of a disagreement between or among any Settling Defendants as to their respective shares of any payment due to be paid on a Market Share basis pursuant to the Settlement

Agreement and this Stipulation of Amendment, each Settling Defendant shall pay its undisputed share of such payment promptly on or before the date on which such payment is due, and shall, within 21 days of such date, submit copies of its Shipment Reports for the year in question to a third party to be selected by agreement of Settling Defendants (the "Third Party"), who shall determine the Market Share of each Settling Defendant within three business days of receipt of such Shipment Reports. The decision of the Third Party shall be final and non-appealable, and shall be communicated by facsimile to each person designated to receive notice hereunder. Each Settling Defendant shall, within two business days of receipt of the Third Party's decision, pay the State or such other Settling Defendant, as appropriate, the difference, if any, between (1) the amount that such Settling Defendant has already paid with respect to the payment

in question and (2) the amount of the payment in question that corresponds to such Settling Defendant's Market Share as determined by the Third Party, together with interest accrued from the original date on which the payment in question was due, at the prime rate as published in the Wall Street Journal on the latest publication date on or before the original date on which the payment in question was due plus 3%. In the event of any disagreement by or among Settling Defendants as to their respective shares of the payment due on September 15, 1998 pursuant to this Stipulation of Amendment, the procedures for resolving such disagreement shall be

as described in this paragraph, except that each Settling Defendant shall not be required to provide its Shipment Reports to the Third Party until January 21, 1999.

9. Adjustments in Event of Federal Legislation. In the event that federal tobacco legislation is enacted before November 30, 2000 that provides for payments by tobacco companies (whether in the form of settlement payment, tax or otherwise) ("Tobacco Legislation"):

(a) MFN Settling Defendants shall be entitled to receive a dollar for dollar offset against the annual payments required under paragraph 7 of this Stipulation of Amendment of any amounts that the State of Florida could elect to receive pursuant to such Tobacco Legislation ("Federal Settlement Funds"), up to the full amount of such annual payments, except to the extent that:

(i) such Federal Settlement Funds are required to be used for purposes other than health care or tobacco-related purposes;

(ii) such Tobacco Legislation provides the opportunity for other states to elect to receive Federal Settlement Funds but does not provide for the abrogation, settlement or relinquishment of tobacco-related claims of such states that have not previously been resolved; or

(iii) state receipt of such Federal Settlement Funds is conditioned upon (A) the relinquishment of rights or benefits under the Settlement

Agreement (including this Stipulation of Amendment and the Consent Decree) (excepting any annual payment amounts subject to the offset); or (B) actions or expenditures by the state unrelated to health care or tobacco (including but not limited to tobacco education, cessation, control or enforcement).

(b) Nothing in this paragraph 9 shall reduce (i) the payments made to the State of Florida pursuant to sections II.B(1) and (2) of the Settlement Agreement and paragraphs 5 and 6 of this Stipulation of Amendment (by offset, credit, recoupment, refund or otherwise); or (ii) the percentage figure (5.5%) used to determine the State of Florida's annual payments pursuant to paragraph 7 of this Stipulation of Amendment. Nothing in this paragraph 9 is intended to or shall reduce the total amounts payable by MFN Settling Defendants to the State of Florida under the Settlement Agreement (as revised hereby) by an amount greater than the amount of Federal Settlement Funds that the State of Florida could elect to receive. This paragraph 9 supersedes section II.B(5) of the Settlement Agreement, which is hereby rendered null, void and of no further effect.

10. Clarification of Scope of State's Release. The release of claims provided in section II.C(2) of the Settlement Agreement shall, with respect to the Claims therein released as to the future, apply only to monetary Claims. The

foregoing sentence does not supersede but rather supplements and clarifies the scope of the release provided in section II.C(2) of the Settlement Agreement. In addition, the State of Florida hereby agrees to dismiss with prejudice those claims dismissed pursuant to the Court's Order Approving and Adopting Certain Stipulations of the Parties as Enforceable Orders of this Court, dated April 24, 1998 (the "April 24th Order") and the Stipulation of Voluntary Dismissal Without Prejudice of Count III of the Plaintiffs' Third Amended Complaint, dated April

24, 1998 (the "April 24th Stipulation"). The State of Florida further agrees that, notwithstanding anything to the contrary in the Settlement Agreement, the April 24th Order or the April 24th Stipulation, the claims dismissed pursuant to the April 24th Order and the April 24th Stipulation shall be treated as Released Claims for purposes of section II.C(2) of the Settlement Agreement.

11. Limited Most-Favored Nation Provision. In partial consideration for the monetary payments to be made by MFN Settling Defendants pursuant to this Stipulation of Amendment, the State of Florida agrees that, if MFN Settling Defendants enter into any future pre-verdict settlement agreement of other similar litigation brought by a non-federal governmental plaintiff, or any amendment to any such existing settlement agreement, on terms more favorable to such non-federal governmental plaintiff than the terms of the Settlement Agreement (including this Stipulation of Amendment and the Consent Decree) (after due

consideration of relevant differences in population or other appropriate factors), the terms of the Settlement Agreement (including this Stipulation of Amendment and the Consent Decree) shall not be revised except as follows: to the extent, if any, such other pre-verdict settlement agreement includes terms that provide:

(a) for joint and several liability among MFN Settling Defendants with respect to monetary payments to be made pursuant to such agreement;

(b) a guarantee by the parent company of any of MFN Settling Defendants or other assurances of payment or creditors' remedies with respect to monetary payments to be made pursuant to such agreement;

(c) for the implementation of non-economic tobacco-related public health measures different from those contained in the Settlement Agreement (including this Stipulation of Amendment and the Consent Decree);

(d) for no offset of Federal Settlement Funds against annual settlement payments pursuant to such settlement agreement; or

(e) for an offset term more favorable to the plaintiff than the offset provisions of paragraph 9 of this Stipulation of Amendment, then the Settlement Agreement shall, at the option of the Office of the Attorney General of the State of Florida, be revised to include terms comparable to such terms.

This paragraph 11 supersedes section IV of the Settlement Agreement, which is hereby rendered null, void and of no further effect as to any MFN Settling

Defendant. The State of Florida hereby acknowledges that, pursuant to the terms of this paragraph 11, it has irrevocably waived any future claim against MFN Settling Defendants to revise the terms of the Settlement Agreement or this Stipulation of Amendment pursuant to section IV of the Settlement Agreement (except as provided in paragraph 27 of this Stipulation of Amendment), and it hereby further covenants and agrees that, in consideration for MFN Settling Defendants' agreement to the terms of this Stipulation of Amendment, it shall not hereafter seek to revise the Settlement Agreement or this Stipulation of Amendment as to MFN Settling Defendants, except as expressly provided in this paragraph 11 (or pursuant to mutually agreeable amendment by the parties hereto as provided in section VI.D of the Settlement Agreement and paragraph 20 hereof).

12. MFN Settling Defendants' Assurances. MFN Settling Defendants agree:

(a) to support the legislative initiatives to enact new laws and administrative initiatives to promulgate new rules described in section II.A(2) of the Settlement Agreement; and

(b) not to support in Congress or any other forum legislation, rules or policies which would preempt, override, abrogate or diminish the State's rights or recoveries under the Settlement Agreement (as amended hereby). Except as specifically provided in the foregoing sentence, nothing in the

Settlement Agreement (including this Stipulation of Amendment and the Consent Decree) shall be deemed to restrain the parties from advocating terms of any national settlement or taking any other positions on issues relating to tobacco.

13. Disclosure of Payments. Each MFN Settling Defendant shall disclose to the Office of the Attorney General and the Office of the Governor, at the times and in the manner provided below, information about the following payments:

(a) Any payment to a "lobbyist" or "principal" within the meaning of the Joint Rules of the Florida House and Senate, Section 1.1(2)(d) and (f), if the MFN Settling Defendant knows or has reason to know that the payment will be used, directly or indirectly, to influence legislative or administrative action or the official action of state or local government in Florida in any way relating to Tobacco Products or their use;

(b) Any payment to a third party, if the MFN Settling Defendant knows the payment is partly in consideration for the third party attending, offering testimony at, or participating before a state or local government hearing in Florida in any way relating to Tobacco Products or their use; and

(c) Any payment (other than a "political contribution" under 2 U.S.C. Section 431(8)(A)) to, or for the benefit of, a state or local official in Florida, whether made directly by the MFN Settling Defendant or indirectly through

an employee of the MFN Settling Defendant acting within the scope of his employment, or through an affiliate, lobbyist or other agent acting under the substantial control of the MFN Settling Defendant.

Disclosures required under this paragraph 13 shall be filed with the Office of the Attorney General and the Office of the Governor on the first day of February, May, August and November of each year (beginning November 1, 1998) for any and all payments made through the first day of the previous month, and shall be transmitted in electronic format or such format as the Attorney General may require, with the following information:

- The name, address, telephone number and e-mail address of the recipient;

- The amount of each payment described in this paragraph 13; and

- The aggregate amount of all payments described in this paragraph 13 to the recipient in the calendar year.

Information disclosed pursuant to this paragraph is a "public record" within the meaning of the Florida Public Records Act, Ch. 119, Florida Statutes.

14. Prohibition of Certain Payments for Product Placement. MFN Settling Defendants shall not make or cause to be made, in connection with any motion picture made in the United States, any payment, direct or indirect, to any person to use, display, make reference to or use as a prop any cigarette, cigarette package, advertisement for cigarettes, or any other item bearing the brand name, logo, symbol, motto, selling message, recognizable color or pattern of colors, or any

other indicia of product identification identical or similar to, or identifiable with, those used for any brand of domestic Tobacco Products.

15. Prohibition on Promotional Merchandise. On and after December 31, 1998, MFN Settling Defendants shall permanently cease marketing, licensing, distributing, selling or offering, directly or indirectly, including by catalogue or direct mail, in the State of Florida, any item (other than Tobacco Products or any item of which the sole function is to advertise Tobacco Products) which bears the brand name (alone or in conjunction with any other word), logo, symbol, motto, selling message, recognizable color or pattern of colors, or any other indicia of product identification identical or similar to, or identifiable with, those used for any brand of domestic Tobacco Products, except that nothing in this paragraph shall (i) require any MFN Settling Defendant to terminate, breach or violate any licensing agreement or contract in

existence as of July 1, 1998 for the remaining term of such contract; (ii) prohibit the distribution to any employee (18 years of age or older) of an MFN Settling Defendant of any item described above that is intended for the personal use of such employee by such MFN Settling Defendant; or (iii) prohibit items necessarily incidental to or ordinarily distributed in connection with any sponsorship described in section I.D(7) of the Settlement Agreement.

16. Document Production. MFN Settling Defendants shall, upon request, provide to the State of Florida a copy of any CD-ROMs of documents that MFN Settling Defendants have agreed to produce, pursuant to the Minnesota Settlement, to the document depository established in connection with the lawsuit State of Minnesota v. Philip Morris Inc., No. C1-94-8565 (Dist. Ct. Ramsey County, filed Aug. 17, 1994), with a copy of the accompanying transmittal letter provided to each person designated to receive notice hereunder.

17. Court Approval. The parties hereto agree to submit this Stipulation of Amendment to the Court for its review and approval, and further, to move that the Court enter the Consent Decree in the form attached hereto as Exhibit 1. If the Court refuses to approve this Stipulation of Amendment and the Consent Decree in any respect unacceptable to any of the parties hereto and such refusal is not reversed on appeal, or if such approval is modified in any respect unacceptable to any of the parties hereto or is set aside on appeal, then this Stipulation of Amendment shall be canceled and terminated and it and all orders issued pursuant hereto (including the Consent Decree) shall become null and void and of no further effect. Any such cancellation or termination of this Stipulation of Amendment shall not of itself result in the cancellation or termination of, or otherwise affect, the Settlement Agreement as approved by the Court on August 25, 1997. All payments described in paragraphs 5 and 6 of this Stipulation of Amendment shall

be paid into a special escrow account in a New York City bank, pursuant to the terms of a mutually acceptable escrow agreement in the form attached hereto as Exhibit 2 (the "MFN Escrow Agreement"), and if so paid shall remain in said escrow account, until such time as (1) the 30-day time period to seek review of the Court's order approving this Stipulation of Amendment has expired without the filing of any notice of appeal or petition for review; or (2) in the event of a timely appeal or petition, the appeal or the petition has been dismissed or the Court's order has been affirmed in all material respects by the court of last resort to which such appeal or petition has been taken and such dismissal or affirmance has become no longer subject to further appeal or review. Any payments made into escrow shall be disbursed from escrow only in strict accordance with the terms of the MFN Escrow Agreement, which shall not be modified without the express written consent of MFN Settling Defendants and the State of Florida.

18. Escrow Pending Resolution of Certain Claims. Certain of the State's private counsel (the "Lienors") have filed attorneys' charging liens against any payments to be made to the State of Florida pursuant to the settlement of the Action (the "Liens"), and the State of Florida has contested the validity and enforceability of the Liens. Until such time as the question of the validity and enforceability of the Liens (including any attorneys' charging liens that may be filed by the State's private counsel after the date hereof) has been conclusively

resolved by the court of last resort to which such question may be presented, each payment to be made by Settling Defendants pursuant to this Stipulation of Amendment shall be paid in accordance with such directions as may be issued by the Court as necessary to preserve the claim of the Lienors to the portion of the payment in question that is claimed to be subject to the Liens. Notwithstanding any other provision of this Stipulation of Amendment (i) any payment by Settling Defendants that is made in accordance with such directions shall fully satisfy Settling Defendants' obligations with respect to the payment in question, and (ii) upon the conclusive resolution of the question of the validity and enforceability of the Liens by the court of last resort to which such question may be presented, the portion of each payment to be made by Settling Defendants pursuant to this Stipulation of Amendment that is claimed to be subject to the Liens shall be paid to the State of Florida or to the Lienors (or any of them) in accordance with such conclusive determination.

19. Payment Responsibility. All obligations of the Settling Defendants pursuant to the Settlement Agreement and this Stipulation of Amendment are intended to be and shall remain several, and not joint. Due to the particular corporate structures of Settling Defendants R.J. Reynolds Tobacco Company ("Reynolds") and Brown & Williamson Tobacco Corporation ("Brown & Williamson") with respect to their non-domestic tobacco operations, Settling

Defendants Reynolds and Brown & Williamson shall each be severally liable for its respective share of each payment due pursuant to the Settlement Agreement and this Stipulation of Amendment up to (and its liability hereunder shall not exceed) the full extent of its assets used in, and earnings derived from, the manufacture and sale in the United States of Tobacco Products intended for domestic consumption, and no recourse shall be had against any of its other assets or earnings to satisfy such obligations.

20. Applicable Provisions of Settlement Agreement. The provisions of sections VI.A (Headings), VI.B (No Admission), VI.C (Non-Admissibility), VI.D (Amendment), VI.E (Cooperation), VI.F (Governing Law), VI.G (Construction), VI.H (Intended Beneficiaries) and VI.I (Counterparts) of the Settlement Agreement shall be equally applicable to this Stipulation of Amendment as though fully set forth herein, and all references to the Settlement Agreement in the sections thereof specifically listed in this paragraph 20 shall be construed to include this Stipulation of Amendment.

21. Pilot Program. The provisions of section II.B(2) of the Settlement Agreement that restrict the manner in which the pilot program funds provided for therein may be expended are hereby rendered null, void and of no further effect.

22. Release of Right to Additional Compensation. In consideration for the terms hereof, including, inter alia, the provisions of paragraph 5 hereof, the State

of Florida hereby irrevocably releases MFN Settling Defendants from any claim for additional compensation pursuant to section V of the Settlement Agreement, and the provisions of section V regarding the State's rights to costs and additional compensation are hereby rendered null, void and of no effect.

23. Notices. All notices or other communications to any party to the Settlement Agreement shall be in writing (and shall include telex, telecopy or similar writing) and shall be given to the respective parties hereto at the following addresses. Any party hereto may change the name and address of the person designated to receive notice on behalf of such party by notice given as provided in this paragraph.

State of Florida:

Hon. Robert A. Butterworth
Attorney General's Office
The Capitol
Suite PL01
Tallahassee, FL 32399-1050
Fax: (850) 413-0632

With a copy to:

Joseph F. Rice
Ness, Motley, Loadholt, Richardson & Poole
151 Meeting Street, Suite 600
Charleston, SC 29402
Fax: (803) 720-9290

Philip Morris Incorporated:

Martin J. Barrington
Philip Morris Incorporated
120 Park Avenue
New York, NY 10017-5592
Fax: (212) 907-5399

R.J. Reynolds Tobacco Company:

Charles A. Blixt
R.J. Reynolds Tobacco Company
401 North Main Street
Winston-Salem, NC 27102
Fax: (336) 741-2998

With a copy to: --- Meyer G. Koplow Wachtell, Lipton, Rosen & Katz 51 West 52nd Street New York, NY 10019 Fax: (212) 403-2000	With a copy to: --- Arthur F. Golden Davis Polk & Wardwell 450 Lexington Avenue New York, NY 10017 Fax: (212) 450-4800
Brown & Williamson Tobacco Corp.: --- F. Anthony Burke Brown & Williamson Tobacco Corp. 200 Brown & Williamson Tower 401 South Fourth Avenue Louisville, KY 40202 Fax: (502) 568-7297	Lorillard Tobacco Company: --- Arthur J. Stevens Lorillard Tobacco Company 714 Green Valley Road Greensboro, NC 27408 Fax: (336) 335-7707
With a copy to: --- Stephen R. Patton Kirkland & Ellis 200 East Randolph Dr. Chicago, IL 60601 Fax: (312) 861-2200	United States Tobacco Company: --- Richard H. Verheij UST Inc. 100 West Putnam Avenue Greenwich, CT 06830 Fax: (203) 863-7233

24. Representation of Parties. The parties hereto represent that the Settlement Agreement and this Stipulation of Amendment have been duly authorized and, upon execution, will (together with the Consent Decree) constitute

valid and binding contractual obligations, enforceable in accordance with their terms, of each of the parties hereto.

25. Severability. In the event that any non-material provision of the Settlement Agreement (as revised hereby) is modified or found to be invalid or unenforceable, the remainder thereof shall be fully enforceable.

26. Attorneys' Fees. Settling Defendants, the State of Florida and certain private counsel for the State of Florida have entered into a separate agreement on September 11, 1998 (the "Florida Fee Payment Agreement") that sets forth the entire obligation of Settling Defendants with respect to payment of attorneys' fees pursuant to section V of the Settlement Agreement. The parties hereto agree that MFN Settling Defendants shall not be required to perform any obligation pursuant to paragraphs 5 and 6 of this Stipulation of Amendment until such time as (1) the Court issues the Consent Decree in the form attached as Exhibit 1 hereto; (2) the 30-day period to seek review of the Court's order entering the Consent Decree has expired without the filing of any notice of appeal or petition for review; and (3) in the event of a timely appeal or petition, such appeal or petition has been dismissed or the Court's order entering the Consent Decree has been affirmed in all material respects by the court of last resort to which such appeal or petition has been taken and such dismissal or affirmance has become no longer subject to further appeal or review. Under no circumstances shall Settling Defendants' entry into this

Stipulation of Amendment or the Florida Fee Payment Agreement be construed as, or deemed to be, evidence of or an admission or concession that the Settlement Agreement can be revised pursuant to the Most Favored Nation clause without incorporation of all terms of any settlement agreement that provides the occasion for any such revision, including all terms thereof with respect to attorneys' fees.

27. Conditioned on Minnesota Settlement. In the event that a court order or other judicial determination is issued on or before January 2, 2003 that overturns, voids or invalidates the Minnesota Settlement or otherwise declares it to be unenforceable (such that MFN Settling Defendants are relieved from making payments required under the Minnesota Settlement) (the "Minnesota Order"), MFN Settling Defendants shall have the option to elect not to make any payment pursuant to paragraphs 5 and 6 of this Stipulation of Amendment that becomes due on or after the date of such Minnesota Order. In the event that MFN Settling Defendants make such an election:

(a) MFN Settling Defendants shall not be obligated to make any payment pursuant to paragraphs 5 and 6 of this Stipulation of Amendment that becomes due on or after the date of the Minnesota Order; provided, however,

that if the Minnesota Order is reversed on appeal or otherwise set aside, MFN Settling Defendants shall be obligated to make any payments pursuant to paragraphs 5 and 6 of this Stipulation of

Amendment that were not made when initially due as result of the Minnesota Order;

(b) the provisions of paragraph 11 of this Stipulation of Amendment shall not apply to preclude the application of section IV of the Settlement Agreement with respect to any pre-verdict settlement agreement described therein entered into after the date of the Minnesota Order; and

(c) MFN Settling Defendants shall be entitled to a credit, in the amount of any payments made pursuant to paragraphs 5 and 6 of this Stipulation of Amendment, against any payments due to the State of Florida as a result of application of section IV of the Settlement Agreement in connection with any pre-verdict settlement agreement entered into after the date of the Minnesota Order, pursuant to subparagraph (b) of this paragraph 27.

No other provision of the Settlement Agreement, this Stipulation of Amendment or the Consent Decree shall be affected by the Minnesota Order. MFN Settling Defendants will provide the State of Florida with notice of any filing seeking to obtain a Minnesota Order.

28. Entire Agreement of Parties. The Settlement Agreement (including this Stipulation of Amendment, Florida Fee Payment Agreement and the Consent Decree) contains an entire, complete and integrated statement of each and every

term and provision agreed to by and among the parties hereto relating in any way to the settlement of the tobacco litigation brought by the State of Florida, and is not subject to any condition not provided for herein.

IN WITNESS WHEREOF, the parties hereto, through their fully authorized representatives, have agreed to this Stipulation of Amendment as of this eleventh day of September, 1998.

STATE OF FLORIDA, acting by and through Lawton M. Chiles, Jr., its duly elected and authorized Governor, and Robert A. Butterworth, its duly elected and authorized Attorney General

By: /s/LAWTON M. CHILES, JR.

Lawton M. Chiles, Jr.
Governor

By: /s/ROBERT A. BUTTERWORTH

Robert A. Butterworth
Attorney General

PHILIP MORRIS INCORPORATED

By: /s/MEYER G. KOPLOW

Meyer G. Koplow
Counsel

By: /s/MARTIN J. BARRINGTON

Martin J. Barrington
General Counsel

R.J. REYNOLDS TOBACCO COMPANY

By: /s/ARTHUR F. GOLDEN
Arthur F. Golden
Counsel

By: /s/CHARLES A. BLIXT
Charles A. Blixt
Executive Vice President & General Counsel

BROWN & WILLIAMSON TOBACCO CORPORATION

By: /s/STEPHEN R. PATTON
Stephen R. Patton
Counsel

By: /s/F. ANTHONY BURKE
F. Anthony Burke
Vice President & General Counsel

LORILLARD TOBACCO COMPANY

By: /s/ARTHUR J. STEVENS
Arthur J. Stevens
Senior Vice President & General Counsel

UNITED STATES TOBACCO COMPANY

By: /s/RICHARD H. VERHEIJ
Richard H. Verheij
Executive Vice President & General Counsel

APPENDIX A

FORMULA FOR CALCULATING VOLUME ADJUSTMENTS

Any payment that by the terms of the Stipulation of Amendment is to be adjusted pursuant to this Appendix (the "Applicable Base Payment") shall be adjusted pursuant to this Appendix in the following manner:

(A) in the event the aggregate number of cigarettes shipped for domestic consumption by Settling Defendants in the Applicable Year (as defined hereinbelow) (the "Actual Volume") is greater than the aggregate number of cigarettes shipped for domestic consumption by Settling Defendants in 1997 (the "Base Volume"), the Applicable Base Payment shall be multiplied by the ratio of the Actual Volume to the Base Volume;

(B) in the event the Actual Volume is less than the Base Volume,

(i) the Applicable Base Payment shall be multiplied by the ratio of the Actual Volume to the Base Volume, and the resulting product shall

be divided by 0.98; and

(ii)if a reduction of the Applicable Base Payment results from the application of subparagraph (B)(i) of this Appendix, but the Settling Defendants' aggregate net operating profits from domestic sales of cigarettes for the Applicable Year (the "Actual Net Operating Profit") is greater than the Settling Defendants' aggregate net operating profits from domestic sales of cigarettes in 1997 (the "Base Net Operating Profit") (such Base Net Operating Profit being adjusted upward by the greater of the rate of 3% per annum or the actual total percent change in the Consumer Price Index, in either instance for the period between January 1, 1998 and the date on which the payment at issue is made), then the amount by which the Applicable Base Payment is reduced by the application of subparagraph (B)(i) shall be reduced (but not below zero) by 5.5% of 25% of such increase in such profits. For purposes of this Appendix, "net operating profits from domestic sales of cigarettes" shall mean net operating profits from domestic sales of cigarettes as reported to the United States Securities and Exchange Commission ("SEC") for the Applicable Year

or, in the case of a Settling Defendant that does not report profits to the SEC, as reported in financial statements prepared in accordance with generally accepted accounting principles and audited by a nationally recognized accounting firm. The determination of Settling Defendants' aggregate net operating profits from domestic sales of cigarettes shall be derived using the same methodology as was employed in deriving such Settling Defendants' aggregate net operating profits from domestic sales of cigarettes in 1997. Any increase in an Applicable Base Payment pursuant to this subparagraph B(ii) shall be payable within 120 days after the date that the payment at issue was required to be made.

(C) "Applicable Year" means (i) with respect to the payments made pursuant to paragraph 7 of the Stipulation of Amendment, the calendar year ending on the date on which the payment at issue is due, regardless of when such payment is made; and (ii) with respect to all other payments made pursuant to the Stipulation of Amendment, the calendar year immediately preceding the year in which the payment at issue is due, regardless of when such payment is made.

EXHIBIT 1

IN THE CIRCUIT COURT OF THE FIFTEENTH JUDICIAL CIRCUIT
PALM BEACH COUNTY, FLORIDA

STATE OF FLORIDA, et al.,

Plaintiffs,

v. Civil Action No. 95-1466 AH

AMERICAN TOBACCO
COMPANY, et al.,

Defendants.
- - ------------------------------/

CONSENT DECREE

WHEREAS, on August 25, 1997, the State of Florida and certain defendants entered into a Settlement Agreement (the "Settlement Agreement") to settle and resolve with finality all present and future claims against all parties to this litigation relating to the subject matter of this litigation which have been or could have been asserted by any of the parties hereto;

WHEREAS, the Settlement Agreement was approved and adopted as an enforceable order of the Court pursuant to Court Order dated August 25, 1997, in which the Court expressly retained continuing jurisdiction to enforce and implement the terms of the Settlement Agreement, including the Most Favored Nation clause of the Settlement Agreement;

WHEREAS, the Settlement Agreement contains a "Most Favored Nation" clause which provides that, in the event that Settling Defendants enter into a future pre-verdict settlement agreement of other litigation brought by a non-federal governmental plaintiff on terms more favorable to such governmental plaintiff than the terms of the Settlement Agreement (after due consideration of relevant differences in population or other appropriate factors), the terms of the Settlement Agreement shall be revised so that the State of Florida will obtain treatment at least as relatively favorable as any such non-federal governmental entity;

WHEREAS, on May 8, 1998, Settling Defendants Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation and Lorillard Tobacco Company (the "MFN Settling Defendants") entered into a pre-verdict settlement agreement with the State of Minnesota (the "Minnesota Settlement") to resolve the lawsuit State of Minnesota v. Philip Morris Inc., No. C1-94-8565 (Dist. Ct. Ramsey County, filed Aug. 17, 1994);

WHEREAS, the State of Florida and MFN Settling Defendants agree that, pursuant to the Most Favored Nation clause of the Settlement Agreement, the Settlement Agreement is to be revised in light of the Minnesota Settlement;

WHEREAS, the State of Florida and Settling Defendants have agreed on the terms of revisions to the Settlement Agreement as set forth in a Stipulation of

Amendment to Settlement Agreement and for Entry of Consent Decree executed on September 11, 1998 (the "Stipulation of Amendment");

WHEREAS, the Stipulation of Amendment provides for entry of this Consent Decree, which sets forth certain terms of injunctive relief, and further, provides that the MFN Settling Defendants have waived as specified therein their right to challenge the terms of this Consent Decree as being superseded or preempted by future congressional enactments; and

WHEREAS, the Attorney General believes the entry of this Consent Decree is appropriate and in the public interest;

NOW, THEREFORE, the State of Florida and MFN Settling Defendants having come before the Court on their joint motion for approval of a Stipulation of Amendment to the Settlement Agreement, and the Court having reviewed and considered the Stipulation of Amendment and otherwise being fully advised in the premises, it is hereby ORDERED, ADJUDGED and DECREED as follows:

1. Approval. The Court finds that the terms of the Stipulation of Amendment are just and in the best interests of the State of Florida and Settling Defendants, and the same is hereby approved and adopted as an enforceable order of the Court, which shall supersede any prior court order insofar as inconsistent therewith. The Court further finds that the Stipulation of Amendment and the Florida Fee Payment Agreement set forth the State and Settling Defendants'

agreement as to certain matters addressed in this Court's April 16, 1998 Order Implementing Most Favored Nation Provision of Florida Settlement Agreement and Exhibit 1 thereto (the "April 16th Order") and accordingly hereby amends the April 16th Order (and all other orders of the Court relating thereto) so as to conform it to the terms of the Florida Fee Payment Agreement. In addition, the Court finds that amounts payable by Settling Defendants pursuant to the Florida Fee Payment Agreement are not funds of the State of Florida and are not subject to appropriation by the State of Florida pursuant to 1998 Fla. Sess. Law Serv. Ch. 98-63 (C.S.S.B. 1270) (West) and that Settling Defendants are under no obligation to pay such amounts to the State of Florida. In addition, pursuant to paragraph 10 of the Stipulation of Amendment, the claims of the State of Florida dismissed pursuant to the Court's Order Approving and Adopting Certain Stipulations of the Parties as Enforceable Orders of this Court, dated April 24,

1998 (the "April 24th Order") and the Stipulation of Voluntary Dismissal Without Prejudice of Count III of the Plaintiffs' Third Amended Complaint, dated April 24, 1998 (the "April 24th Stipulation") are hereby dismissed with prejudice and, notwithstanding anything to the contrary in the Settlement Agreement, the April 24th Order or the April 24th Stipulation, the claims dismissed pursuant to the April 24th Order and the April 24th Stipulation shall be treated as Released Claims for purposes of section II.C(2) of the Settlement Agreement.

2. Jurisdiction and Venue. In keeping with the Settlement Agreement and this Court's August 25, 1997 Order, the Court expressly retains jurisdiction for the purpose of enforcement of the Settlement Agreement (as amended by the Stipulation of Amendment) and this Consent Decree, as well as other issues relating to the settlement of this Action that are currently pending before the Court. Any party to this Consent Decree may apply to this Court at any time for such further orders and directions as may be necessary or appropriate for the construction and enforcement of the Settlement Agreement, the Stipulation of Amendment and this Consent Decree.

3. Definitions. The definitions set forth in the Settlement Agreement (as supplemented or superseded by the Stipulation of Amendment) are incorporated by reference herein.

4. Applicability. This Consent Decree applies only to MFN Settling Defendants in their corporate capacity acting through their respective successors and assigns, directors, officers, employees, agents, subsidiaries, divisions or other internal organizational units of any kind or any other entities acting in concert or participating with them, and only with respect to activities in connection with the manufacture and sale in the United States of Tobacco Products intended for domestic consumption. The remedies and penalties for a violation of this Consent Decree shall apply only to MFN Settling Defendants, and shall not be imposed or

assessed against any employee, officer or director of MFN Settling Defendants or other person or entity as a consequence of such a violation, and there shall be no jurisdiction under this Consent Decree to impose or assess a penalty against any employee, officer or director of MFN Settling Defendants or other person or entity as a consequence of a violation of this Consent Decree.

5. Effect on Third Parties. This Consent Decree is not intended to and does not vest standing in any third party with respect to the terms hereof, or create for any person other than the parties hereto a right to enforce the terms hereof.

6. Injunctive Relief. MFN Settling Defendants are permanently enjoined from:

(a) On and after December 31, 1998, marketing, licensing for distribution or sale, distributing, selling or offering, directly or indirectly, including by catalogue or direct mail, in the State of Florida, any item (other than Tobacco Products or any item the sole function of which is to advertise Tobacco Products) which bears the brand name (alone or in conjunction with any other word), logo, symbol, motto, selling message, recognizable color or pattern of colors, or any other indicia or product identification identical or similar to, or identifiable with, those used for any domestic brand of Tobacco Products, except that nothing in this paragraph shall (i) require any MFN Settling Defendant to terminate,

breach or violate any licensing agreement or contract in existence as of July 1, 1998 for the remaining term of such contract; (ii) prohibit the distribution to any employee (18 years of age or older) of an MFN Settling

Defendant of any item described above that is intended for the personal use of such employee by such MFN Settling Defendant; or (iii) prohibit items necessarily incidental to or ordinarily distributed in connection with any sponsorship described in section I.D(7) of the Settlement Agreement.

(b) Making any material misrepresentation of fact regarding the health consequence of using any Tobacco Product, including any tobacco additives, filters, paper or other ingredients; provided, however, that nothing in this paragraph shall limit the exercise of any First Amendment right or any defense or position which persons bound by this Consent Decree may assert in any judicial, legislative or regulatory forum.

(c) Entering into any contract, combination or conspiracy between or among themselves which has the purpose or effect of: (1) limiting competition in the production or distribution of information about the health hazards or other consequences of the use of Tobacco Products; (2) limiting or suppressing research into smoking and health; or (3) limiting or suppressing research into, marketing, or development of new products.

(d) Taking any action, directly or indirectly, to target children in Florida in the advertising, promotion, or marketing of cigarettes, or taking any action the primary purpose of which is to initiate, maintain or increase the incidence of underage smoking in Florida.

7. No Determination or Admission. The Settlement Agreement having been executed prior to the taking of any testimony, no final determination of any violation of any provision of law has been made in this Action. This Consent Decree is not intended to be and shall not in any event be construed as, or deemed to be, an admission or concession or evidence of any liability or any wrongdoing whatsoever on the part of any person covered by the releases provided in sections II(C)(1) and (2) of the Settlement Agreement; nor shall this Consent Decree be construed as, or deemed to be, an admission or concession or evidence of personal jurisdiction with respect to any person not a party to this Consent Decree. Defendants specifically disclaim any liability or wrongdoing whatsoever with respect to the claims and allegations asserted against them in this Action and MFN Settling Defendants have entered into the Settlement Agreement and the Stipulation of Amendment, and have stipulated to entry of this Consent Decree, solely to avoid the further expense, inconvenience, burden and risk of litigation.

8. Modification. This Consent Decree shall not be modified unless the party seeking modification demonstrates, by clear and convincing evidence, that it

will suffer irreparable harm from new and unforeseen conditions; provided, however, that the provisions of paragraph 4 of this Consent Decree shall in no event be subject to modification. Changes in the economic conditions of the parties shall not be grounds for modification. It is intended that MFN Settling Defendants will comply with this Consent Decree as originally entered, even if MFN Settling Defendants' obligations hereunder are greater than those imposed under current or future law. Therefore, a change in law that results, directly or indirectly, in more favorable or beneficial treatment of any one or more of the MFN Settling Defendants shall not support modification of this Consent Decree. The provisions of this paragraph shall not be construed to limit or affect any future modification of the Settlement Agreement (as amended by the Stipulation of Amendment) in the manner provided in paragraphs 11 and 27 of the Stipulation of Amendment.

9. Enforcement and Attorneys' Fees. In any proceeding which results in a finding that a MFN Settling Defendant violated this Consent Decree, the responsible MFN Settling Defendant or MFN Settling Defendants shall pay the State's costs and attorneys' fees incurred in such proceeding.

10. Non-Exclusivity of Remedy. The remedies in this Consent Decree are cumulative and in addition to any other remedies the State may have at law or equity. Nothing herein shall be construed to prevent the State from bringing any

action simply because the conduct that is the basis for such action may also violate this Consent Decree.

DONE AND ORDERED at Palm Beach County, Florida, this the __th day of September, 1998.

CIRCUIT JUDGE

APPROVED:

- - ---
Robert A. Butterworth, Attorney General,
Florida Bar No. 114422
For the State of Florida

- - ---
Stephen J. Krigbaum, Esq.,
Florida Bar No. 0978019
For MFN Settling Defendants

EXHIBIT 2

MFN ESCROW AGREEMENT

This escrow agreement (the "MFN Escrow Agreement") is entered into as of _____, 1998 by and among Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation and Lorillard Tobacco Company (collectively and severally, "MFN Settling Defendants" and each individually a "MFN Settling Defendant"), the State of Florida and _____ _____ [Bank], as escrow agent (the "MFN Escrow Agent").

WITNESSETH:

WHEREAS, the State of Florida and Settling Defendants entered into a comprehensive settlement agreement and release as of August 27, 1997 (the "Settlement Agreement"), setting forth the terms and conditions of an agreement to settle and resolve with finality all present and future claims relating to the subject matter of the litigation entitled State of Florida v. American Tobacco Co., No. 95-1466 AH (Fifteenth Jud. Cir., Palm Beach County) (the "Action"), in the Circuit Court of Palm Beach County, Florida (the "Court");

WHEREAS, the State of Florida and Settling Defendants entered into a Stipulation of Amendment to Settlement Agreement and for Entry of Consent Decree (the "Stipulation of Amendment") on September 11, 1998, paragraph 17 of which provides for Court approval of the Stipulation of Amendment;

WHEREAS, paragraph 5 of the Stipulation of Amendment provides that, on the dates specified therein, each MFN Settling Defendant shall severally pay to the State of Florida, pro rata in proportion to its Market Share, its respective share of the amounts indicated for each date;

WHEREAS, paragraph 17 of the Stipulation of Amendment further provides that all payments described in paragraphs 5 and 6 of the Stipulation of Amendment shall be paid into a special escrow account in an appropriate New York City bank (and if so paid shall remain in said escrow account) until such time as (1) the 30 day period for appeal or to seek review of the Court's order approving the Stipulation of Amendment has expired without the filing of any notice of appeal or petition for review; or (2) in the event of any such appeal or petition, the appeal or the petition has been dismissed or the Court's order has been affirmed in all material respects by the court of last resort to which such

appeal or petition has been taken and such dismissal or affirmance has become no longer subject to further appeal or review (the "Availability Date"); and

WHEREAS, the parties hereto believe that at least one of the payments described in the preceding paragraphs may become due prior to the Availability Date:

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1. Appointment of MFN Escrow Agent.

MFN Settling Defendants and the State of Florida hereby appoint the MFN Escrow Agent to act as escrow agent on the terms and conditions set forth herein, and the MFN Escrow Agent hereby accepts such appointment on such terms and conditions.

SECTION 2. Deposit.

In the event that any payment pursuant to paragraph 5 or 6 of the Stipulation of Amendment becomes due on a date prior to the Availability Date, each MFN Settling Defendant shall severally deliver to the MFN Escrow Agent in immediately available funds such MFN Settling Defendant's respective share of the payment in question (the sum of such shares being the "Initial Deposit"). Upon receipt, the MFN Escrow Agent shall deposit the Initial Deposit into a separate escrow account established for such purpose and governed by the terms of this MFN Escrow Agreement (the "MFN Escrow Account"). Any subsequent payment pursuant to paragraph 5 or 6 of the Stipulation of Amendment that becomes due prior to the Availability Date shall be delivered to the MFN Escrow Agent and added to the Initial Deposit (the Initial Deposit and any subsequent payments deposited into the MFN Escrow Account, including any payments of interest or other income on investment of the MFN Escrow Amount or any portion thereof, being the "MFN Escrow Amount") and shall be governed by the terms of this MFN Escrow Agreement. All such deliveries of funds are subject to the right of MFN Settling Defendants to obtain, pursuant to section 4(a) of this MFN Escrow Agreement, prompt return of the entire MFN Escrow Amount (less appropriate deductions for administrative fees and expenses, including taxes and other related costs) in the event that the Stipulation of Amendment is cancelled or terminated pursuant to paragraph 17 of the Stipulation of Amendment. The MFN Escrow Amount shall be maintained, invested and disbursed by the MFN Escrow Agent strictly in accordance with this MFN Escrow Agreement.

SECTION 3. Investment of MFN Escrow Amount.

The MFN Escrow Agent shall invest and reinvest the MFN Escrow Amount in either (i) direct obligations of, or obligations the principal and interest on which are unconditionally guaranteed by, the United States of America (including government-sponsored agencies) or the State of Florida; (ii) repurchase agreements fully collateralized by securities of the kind specified in clause (i) above; (iii) money market accounts maturing within 30 days of the acquisition thereof and issued by a bank or trust company organized under the laws of the United States of America or a State thereof (a "United States Bank") and having a combined capital surplus in excess of $250,000,000; or (iv) demand deposits with any United States Bank or any federal savings and loan institution having a combined capital surplus in excess of $250,000,000. Any loss on any such investment, including, without limitation, any penalty for any liquidation required to fund a disbursement, shall be borne pro rata by the parties in proportion to their ultimate entitlement to the MFN Escrow Amount. The MFN Escrow Agent's fees and all expenses, including taxes and other related costs, shall, to the extent possible, be paid out of income earned. Whenever the MFN Escrow Agent shall pay all or any part of the MFN Escrow Amount to any party as provided herein, the MFN Escrow Agent shall also pay to such party all interest and profits earned to the date of payment on such amount, less deductions for fees and all expenses, including taxes and other related fees.

SECTION 4. Release of the MFN Escrow Amount.

After receipt, the MFN Escrow Agent shall deliver the MFN Escrow Amount as set forth below:

(a) Following receipt of written notice signed by counsel for the MFN Settling Defendants certifying that such notice has been

delivered by counsel for the MFN Settling Defendants to all parties hereto and stating that the Court has not approved the Stipulation of Amendment as provided in paragraph 17 thereof or that the Court's approval has been modified in any respect unacceptable to any of the parties thereto or set aside on appeal, the MFN Escrow Agent shall upon the expiration of ten (10) business days following the MFN Escrow Agent's receipt of such notice disburse the entire MFN Escrow Amount (including any interest thereon, as provided in Section 3) to the MFN Settling Defendants on the same pro rata basis as such funds were contributed to the MFN Escrow Account.

(b) Upon receipt of (i) written notice signed by counsel for the MFN Settling Defendants and counsel for the State of Florida stating that the Availability Date has occurred and (ii) an order of the Court pursuant to applicable Florida law so directing, the MFN Escrow Agent shall proceed to distribute the MFN Escrow Amount in accordance with such Court order.

(c) For its services, the MFN Escrow Agent shall receive fees in accordance with the MFN Escrow Agent's customary fees in similar matters. All such fees shall constitute a direct charge against the MFN Escrow Amount, but the MFN Escrow Agent shall not debit the MFN Escrow Amount for any such charge until it shall have presented its statement to and received approval by counsel for the MFN Settling Defendants and counsel for the State of Florida, which approval shall not be unreasonably withheld. Such approval shall be deemed given if the MFN Escrow Agent has not received written objections from either counsel for MFN Settling Defendants or counsel for the State of Florida within 30 days after presentment of its statement. Such fees and all expenses charged against the MFN Escrow Amount shall, to the extent possible, be paid out of interest earned. In the event that counsel for MFN Settling Defendants or counsel for the State of Florida objects in writing to such fees, the MFN Escrow Agent shall not debit the MFN Escrow Amount except upon a court order approving such fees.

SECTION 5. Substitute Form W-9; Qualified Settlement Fund.

Each of the signatories to this MFN Escrow Agreement shall provide the MFN Escrow Agent with a correct taxpayer identification number on a substitute Form W-9 within 90 days of the date hereof and indicate thereon that it is not subject to backup withholding. It is anticipated that the MFN Escrow Account established pursuant to this MFN Escrow Agreement shall be treated as a Qualified Settlement Fund for federal tax purposes pursuant to Treas. Reg. ss. 1.468B-1.

SECTION 6. Termination of MFN Escrow Account.

This MFN Escrow Agreement (other than the MFN Escrow Agent's right to indemnification set forth in Section 7) shall terminate when the MFN Escrow Agent shall have released from the MFN Escrow Account all amounts pursuant to Section 4 hereof.

SECTION 7. MFN Escrow Agent.

(a) The MFN Escrow Agent shall have no duty or obligation hereunder other than to take such specific actions as are required of it from time to time under the provisions hereof, and it shall incur no liability hereunder or in connection herewith for anything whatsoever other than as a result of its own negligence or willful misconduct. In the event the MFN Escrow Agent fails to receive the instructions contemplated by Section 4 hereof or receives conflicting instructions, the MFN Escrow Agent shall be fully protected in refraining from acting until such instructions are received or such conflict is resolved by written agreement or court order.

(b) MFN Settling Defendants, on the same pro rata basis as the funds constituting the MFN Escrow Amount were contributed to the MFN Escrow Account, agree to indemnify, hold harmless and defend the MFN

Escrow Agent from and against any and all losses, claims, liabilities and reasonable expenses, including the reasonable fees of its counsel, which it may suffer or incur hereunder or in connection herewith prior to the Availability Date, except such as shall result solely and directly from its own negligence or willful misconduct. The MFN Escrow Agent shall not be bound in any way by any agreement or contract between MFN Settling Defendants and the State of Florida (whether or not the MFN Escrow Agent has knowledge thereof) and the only duties and responsibilities of the MFN Escrow Agent shall be to hold and invest the MFN Escrow Amount received hereunder and to release such MFN Escrow Amount in accordance with the terms of this MFN Escrow Agreement.

(c) The MFN Escrow Agent may resign at any time by giving written notice thereof to the other parties hereto, but such resignation shall not become effective until a successor MFN Escrow Agent, selected by the MFN Settling Defendants and agreeable to the State of Florida, shall have been appointed and shall have accepted such appointment in writing. If an instrument of acceptance by a successor MFN Escrow Agent shall not have been delivered to the MFN Escrow Agent within 30 days after the giving of such notice of resignation, the resigning MFN Escrow Agent may, at the expense of MFN Settling Defendants and the State of Florida (to be shared equally between the State of Florida and the MFN Settling Defendants), petition the Court for the appointment of a successor MFN Escrow Agent.

(d) Upon the Availability Date having occurred, provided that MFN Settling Defendants have performed all of their obligations required to be performed prior to the Availability Date, all duties and obligations of MFN Settling Defendants hereunder shall cease, with the exception of any indemnification obligation of MFN Settling Defendants incurred prior to the Availability Date.

SECTION 8. Miscellaneous.

(a) Notices. All notices or other communications to any party or other person hereunder shall be in writing (which shall include telex, telecopy or similar writing) and shall be given to the respective parties or persons at the following addresses. Any party or person may change the name and address of the person designated to receive notice on behalf of such party or person by notice given as provided in this paragraph.

State of Florida:

Hon. Robert A. Butterworth
Attorney General's Office
The Capitol
Suite PL01
Tallahassee, FL 32399-1050
Fax: (850) 413-0632

With a copy to:

Joseph F. Rice, Esq.
Ness, Motley, Loadholt, Richardson & Poole
151 Meeting Street, Suite 600
Charleston, SC 29402
Fax: (843) 720-9290

MFN Settling Defendants:

For Philip Morris Incorporated:

Martin J. Barrington
Philip Morris Incorporated
120 Park Avenue
New York, NY 10017-5592

Fax: (212) 907-5399

With a copy to:

Meyer G. Koplow
Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, NY 10019
Fax: (212) 403-2000

For R.J. Reynolds Tobacco Company

Charles A. Blixt
R.J. Reynolds Tobacco Company
401 North Main Street
Winston-Salem, NC 27102
Fax: (336) 741-2998

With a copy to:

Arthur F. Golden
Davis Polk & Wardwell
450 Lexington Avenue
New York, NY 10017
Fax: (212) 450-4800

For Brown & Williamson Tobacco Corporation:

Michael Walter
Brown & Williamson Tobacco Corporation
200 Brown & Williamson Tower
401 South Fourth Avenue
Louisville, KY 40202
Fax: (502) 568-7187

With a copy to:

F. Anthony Burke
Brown & Williamson Tobacco Corporation
200 Brown & Williamson Tower
401 South Fourth Avenue
Louisville, KY 40202
Fax: (502) 568-7297

For Lorillard Tobacco Company:

Arthur J. Stevens
Lorillard Tobacco Company
714 Green Valley Road
Greensboro, NC 27408
Fax: (336) 335-7707

MFN Escrow Agent:

[Bank]
[Bank Address]

Phone:
Fax:

Wire Transfer Instructions:
ABA #:
Account #:
Account Name:

(b) Successors and Assigns. The provisions of this MFN Escrow Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

(c) Governing Law. This MFN Escrow Agreement shall be construed in accordance with and governed by the laws of the State of Florida, without regard to the conflicts of law rules of such state.

(d) Jurisdiction and Venue. The parties hereto irrevocably and unconditionally submit to the jurisdiction of the United States District Court for the Southern District of New York for purposes of any suit, action or proceeding seeking to enforce any provision of, or based on any right arising out of, this MFN Escrow Agreement, and the parties hereto agree not to commence any such suit, action or proceeding except in such court. The parties hereto hereby irrevocably and unconditionally waive any objection to the laying of venue of any such suit, action or proceeding in such court and hereby further irrevocably waive and agree not to plead or claim in such court that any such suit, action or proceeding has been brought in an inconvenient forum.

(e) Definitions. Terms used herein that are defined in the Settlement Agreement or the Stipulation of Amendment are, unless otherwise defined herein, used in this MFN Escrow Agreement as defined in the Settlement Agreement or the Stipulation of Amendment, as appropriate.

(f) Amendments. This MFN Escrow Agreement may be amended only by written instrument executed by all parties hereto. The waiver of any rights conferred hereunder shall be effective only if made by written instrument executed by the waiving party. The waiver by any party of any breach of this MFN Escrow Agreement shall not be deemed to be or construed as a waiver of any other breach, whether prior, subsequent or contemporaneous, of this MFN Escrow Agreement.

(g) Counterparts; Effectiveness. This MFN Escrow Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This MFN Escrow Agreement shall become effective when each party hereto shall have signed a counterpart hereof. Delivery by facsimile of a signed agreement shall be deemed delivery for purposes of acknowledging acceptance hereof; however, an original executed signature page must promptly thereafter be appended to this MFN Escrow Agreement, and an original executed agreement shall promptly thereafter be delivered to each party hereto.

(h) Captions. The captions herein are included for convenience of reference only and shall be ignored in the construction and interpretation hereof.

IN WITNESS WHEREOF, the parties have executed this MFN Escrow Agreement as of the day and year first hereinabove written.

STATE OF FLORIDA

By:

Robert A. Butterworth
Attorney General

PHILIP MORRIS INCORPORATED

By:

Meyer G. Koplow
Counsel

R.J. REYNOLDS TOBACCO COMPANY

By:

Arthur F. Golden
Counsel

EXHIBIT 2

BROWN & WILLIAMSON TOBACCO CORPORATION

By:

Stephen R. Patton
Counsel

LORILLARD TOBACCO COMPANY

By:

Arthur J. Stevens
Senior Vice President & General Counsel

_____ [BANK],
as MFN Escrow Agent

By:

Name:
Title:

Exhibit 10.2

FLORIDA FEE PAYMENT AGREEMENT

This Florida Fee Payment Agreement (the "Agreement") is entered into as of September 11, 1998, by and among Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation, Lorillard Tobacco Company and United States Tobacco Company (collectively and severally "Settling Defendants" and each individually a "Settling Defendant"), the State of Florida and those Florida Counsel (as identified by the Governor pursuant to section 24 hereof) that with the written consent of the State of Florida are, or at any time prior to December 15, 1998 become, signatories hereto ("Participating Florida Counsel").

WITNESSETH:

WHEREAS, on August 25, 1997, the State of Florida and Settling Defendants entered into a comprehensive settlement agreement to settle and resolve with finality all present and future civil claims relating to the subject matter of the lawsuit State of Florida v. American Tobacco Co., No. 95-1466 AH (15th Jud. Cir., Palm Beach County) (the "Action"), which settlement agreement (the "Settlement Agreement") was approved by the Circuit Court for Palm Beach County (the "Court") and adopted as an enforceable order of the Court pursuant to Court Order dated August 25, 1997;

WHEREAS, section V of the Settlement Agreement provides that Settling Defendants shall pay reasonable attorneys' fees to private counsel for the State of Florida, in an amount set by arbitration, subject to an appropriate annual cap on all such payments of attorneys' fees by Settling Defendants, as well as other conditions;

WHEREAS, section V of the Settlement Agreement did not and was not intended to reflect the entire agreement of Settling Defendants and the State of Florida as to the procedures and conditions that would govern Settling Defendants' payment of fees to private counsel retained by the State of Florida in connection with the Action ("Florida Counsel"), including an agreed specific annual aggregate national cap on all
payments of attorneys' fees and certain other professional fees by Settling Defendants, as well as other essential terms;

WHEREAS, section IV of the Settlement Agreement contains a "Most Favored Nation" clause which provides that, in the event that Settling Defendants

enter into a future pre-verdict settlement agreement of other litigation brought by a non-federal governmental plaintiff on terms more favorable to such governmental plaintiff than the terms of the Settlement Agreement (after due consideration of relevant differences in population or other appropriate factors), the terms of the Settlement Agreement shall be revised so that the State of Florida will obtain treatment at least as relatively favorable as any such non-federal governmental entity;

WHEREAS, on January 16, 1998, Settling Defendants entered into a pre-verdict settlement agreement with the State of Texas, which sets forth the terms of Settling Defendants' agreement to pay attorneys' fees to private counsel for the State of Texas and includes provisions for advances on such attorneys' fees by Settling Defendants and the State of Texas;

WHEREAS, on May 8, 1998, certain Settling Defendants entered into a pre-verdict settlement agreement with the State of Minnesota (the "Minnesota Settlement"), which includes provisions for payment of attorneys' fees to private counsel for the State of Minnesota;

WHEREAS, on September 11, 1998, Settling Defendants and the State of Florida entered into a Stipulation of Amendment to Settlement Agreement and for Entry of Consent Decree (the "Stipulation of Amendment") to resolve any disputes with respect to the Most Favored Nation clause of the Settlement Agreement, including any disputes regarding payment of attorneys' fees, in light of the Texas and Minnesota Settlements; and

WHEREAS, Settling Defendants, the State of Florida and Participating Florida Counsel, in order to resolve any disputes with respect to sections IV and V of the Settlement Agreement, and to describe more fully the procedures that will govern Settling Defendants' payment of fees to Florida Counsel, have agreed to the terms of this Agreement:

NOW, THEREFORE, BE IT KNOWN THAT, in consideration of their mutual agreement to the terms of this Agreement, the State of Florida's and Settling

Defendants' mutual agreement to the terms of the Stipulation of Amendment, and such other consideration described herein, including the release of certain claims against Settling Defendants, the sufficiency of which is hereby acknowledged, the parties hereto, acting by and through their authorized agents, memorialize and agree as follows:

SECTION 1. Agreement to Pay Fees.

Settling Defendants will pay reasonable attorneys' fees pursuant to this Agreement to those Florida Counsel (as identified by the Governor pursuant to section 24 hereof) that are Participating Florida Counsel for their representation of the State of Florida in connection with the Action. The amount of such fees will be set by a panel of three independent arbitrators (the "Panel") whose decisions as to the amount of fees to be paid in connection with this Agreement ("Fee Award(s)") shall be final and not appealable. The procedures governing Settling Defendants' obligation to pay any such Fee Awards, including the procedures for making, and the timing and amounts of payments in satisfaction of, such Fee Awards shall be as provided herein.

SECTION 2. Aggregate National Caps on Payment of Certain Fees.

Settling Defendants' payment of any Fee Award pursuant to this Agreement shall be subject to the payment schedule and the annual and quarterly aggregate national caps specified in sections 15, 16, 17, 18 and 19 hereof, which shall apply to:

(a) all payments of attorneys' fees pursuant to an award arbitrated by the Panel ("Fee Award") in connection with the settlement of any tobacco and health cases (other than non-class action personal injury cases brought directly by or on behalf of a single natural person or the survivor of such person or for wrongful death, or any non-class action consolidation of two or more such cases) ("Tobacco Cases") on terms that provide for payment by Settling Defendants or other defendants acting in agreement with Settling Defendants (collectively, "Participating Defendants") of fees with respect to private counsel retained by the plaintiff in connection with any such case ("Private Counsel"), subject to an annual cap on payment of all such fees;

(b) all payments of attorneys' fees (other than fees for attorneys of Participating Defendants) pursuant to a Fee Award for activities in connection with Tobacco Cases resolved by operation of federal legislation that either (i) implements the terms of the June 20, 1997 Proposed Resolution (or a substantially equivalent federal program) (the "Proposed Resolution") or (ii) imposes an enforceable obligation on Participating Defendants to pay attorneys' fees with respect to Private Counsel (any such legislation hereinafter referred to as "Federal Legislation"); and

(c) all payments of attorneys' fees and certain other professional fees (other than fees for attorneys or agents of Participating Defendants) pursuant to a Fee Award for contributions made toward enacted Federal Legislation. In the event that Federal Legislation is enacted, the terms "Private Counsel" and "Eligible Counsel" shall apply not only to persons otherwise falling within the definitions of such terms herein but also to all persons granted Fee Awards for such contributions (such persons being Eligible Counsel with respect to each month beginning with the month the Federal Legislation was enacted).

Nothing in this Agreement shall be construed to require any Settling Defendant to pay Fee Awards in connection with any litigation other than the Action.

SECTION 3. Exclusive Obligation of Settling Defendants; Releases; Effective Date.

(a) The provisions set forth herein constitute the entire obligation of Settling Defendants with respect to payment of attorneys' fees in connection with the Action and the exclusive means by which Florida Counsel may seek payment of fees by Settling Defendants in connection with the Action. The parties hereto acknowledge that the provisions for payment set forth herein are the entirety of Settling Defendants' obligations with respect to payment of attorneys' fees pursuant to section V of the Settlement Agreement. The State of Florida agrees that Settling Defendants have no obligation to pay attorneys' fees pursuant to section V of the Settlement Agreement with respect to any counsel other than Participating Florida Counsel and that Settling Defendants

have no other obligation to pay fees or otherwise compensate Florida Counsel, any other counsel or representative of the State of Florida or the State of Florida itself with respect to attorneys' fees in connection with the Action.

(b) Each Participating Florida Counsel hereby irrevocably releases Settling Defendants and their respective present and former parents, subsidiaries, divisions, affiliates, officers, directors, employees, representatives, insurers, agents and attorneys (as well as the predecessors, heirs, executors, administrators, successors and assigns of each of the foregoing) from any and all claims that such counsel ever had, now has or hereafter can, shall or may have in any way related to the Action (including but not limited to any negotiations related to the settlement of the Action). The foregoing shall not be construed as a release of any person or entity as to any of the obligations undertaken in this Agreement in connection with a breach thereof.

(c) Each Participating Florida Counsel hereby irrevocably releases all of the State of Florida's present and former salaried employees, officials and officers, elected representatives, in-house attorneys and agents, special assistant attorneys general and each other Participating Florida Counsel (as well as the predecessors, heirs, executors, administrators, successors and assigns of each of the foregoing) from any and all claims for personal liability that such counsel ever had, now has or hereafter can, shall or may have in any way related to the Action (including but not limited to any negotiations related to the settlement of the Action). The foregoing shall not be construed as a release of any person or entity as to any of the obligations undertaken in this Agreement in connection with a breach thereof.

(d) This Agreement shall become effective upon (i) its execution by (A) the authorized representatives of each Settling Defendant, (B) the Attorney General and the Governor on behalf of the State of Florida and (C) the authorized representatives of at least eight of those Florida Counsel identified as Contract Counsel by the Governor pursuant to section 24 hereof, or such lesser number of such counsel as Settling Defendants (in their sole discretion) deem sufficient and (ii) the expiration of three business days after its presentation for signature to each Contract Counsel (the first date upon which all such conditions shall have been satisfied being the "Effective Date").

SECTION 4. No Effect on Certain Florida Counsel's Contingent-Fee Contract.

The State of Florida has entered into a contingent-fee contract (the "Contract") with certain Florida Counsel ("Contract Counsel"). The rights and obligations, if any, of Contract Counsel that are parties hereto ("Participating Contract Counsel") and the State of Florida under the Contract shall not be affected by this Agreement, except that any payments received by Participating Contract Counsel pursuant to this Agreement shall be credited against any amounts that may be due to such Contract Counsel from the State of Florida under the Contract. The State of Florida's execution of this Agreement shall not be deemed a waiver of any defense to any claim under the Contract, including without limitation any defense that the Contract is void ab initio, that payments under the Contract are subject to prior legislative appropriation, that claims under the Contract are subject to sovereign immunity, that any proposed application of the Contract is invalid, that the Contract is subject to a subsequent novation or that Contract Counsel must act collectively under the Contract.

SECTION 5. Composition of the Panel.

(a) The first and the second members of the Panel shall both be permanent members of the Panel and, as such, will participate in the determination of all Fee Awards. The third Panel member shall not be a permanent Panel member, but instead shall be a state-specific member selected to determine Fee Awards on behalf of Private Counsel retained in connection with litigation within a single state. Accordingly, the third, state-specific member of the Panel for purposes of determining Fee Awards with respect to litigation in the State of Florida shall not participate in any determination as to any Fee Award with respect to litigation in any other state (unless selected to participate in such determinations by such persons as may be authorized to make such selections under other agreements).

(b) The members of the Panel shall be selected as follows:

(i) The first member shall be a natural person selected by

Participating Defendants, who shall advise Participating Florida Counsel of the name of the person selected by October 8, 1998.

(ii) The second member shall be a natural person selected by agreement of Participating Defendants and a majority of the members of a committee composed of the following members: Joseph F. Rice, Richard F. Scruggs, Steven W. Berman, Walter Umphrey, two representatives of the Castano Plaintiffs' Legal Committee and, at the option of Participating Defendants, one additional representative to serve on behalf of counsel for any one or more states that, subsequent to the date hereof, enter into settlement agreements with Participating Defendants that provide for payment of such states' Private Counsel pursuant to an arbitrated award of fees; such second member shall be selected by October 1, 1998.

(iii) The third, state-specific member for purposes of determining Fee Awards with respect to litigation in the State of Florida shall be a natural person selected by Participating Contract Counsel, who shall notify Settling Defendants of the name of the person selected by October 15, 1998.

SECTION 6. Commencement of Panel Proceedings.

No application for a Fee Award shall be presented to the Panel or any Panel member until November 3, 1998. The Panel shall consider and render

decisions on applications for Fee Awards in the order in which they are submitted or pursuant to notice by counsel having priority that they have ceded their place to others. In the event that more than one application for a Fee Award is submitted on the same date, the Panel shall consider and render decisions on such applications in the order in which their respective cases were settled. Counsel may seek permission from the Panel to make combined presentations of aspects of their respective applications. Settling Defendants shall not oppose any request to combine presentations of applications for Fee Awards in connection with the Action, the lawsuit In re Mike Moore, Attorney General, ex rel. State of Mississippi Tobacco Litig., No. 94-1429 (Miss. Ch. Ct., Jackson County), or the lawsuit State of Texas v. American Tobacco Co., No. 5-96CV-91 (E.D. Tex. filed Mar. 28, 1996).

SECTION 7. Costs of Arbitration.

All costs and expenses of the arbitration proceedings held by the Panel, including compensation of Panel members (but not including any costs, expenses or compensation of counsel making applications to the Panel), shall be borne by Settling Defendants in proportion to their respective Market Shares.

SECTION 8. Application on Behalf of Contract Counsel.

Participating Contract Counsel shall make a collective written application to the Panel for a single Fee Award on behalf of all Contract Counsel (the "Contract Counsel Award") on November 3, 1998. All interested persons, including persons not parties hereto, may submit to the Panel any information that they wish; but interested persons not parties hereto may submit only written materials. The Panel shall consider all such submissions by any party hereto and may consider any such materials submitted by other interested persons. All written submissions relating to applications for a Fee Award in connection with the Action shall be served on all parties hereto by November 13, 1998. Presentations to the Panel shall, to the extent possible, be based on affidavit or video presentation rather than live testimony. The Panel shall preserve the confidentiality of any attorney work-product materials or other similar confidential information that may be submitted. Settling Defendants will not take any position adverse to the amount of the Fee Award requested by Participating Contract Counsel, nor will they or their representatives express any opinion (even upon request) as to the appropriateness or inappropriateness of the amount of any proposed Contract Counsel Award. The undersigned outside counsel for Settling Defendants Philip Morris Incorporated and R.J. Reynolds Tobacco Company will appear, if requested, to provide information as to the nature and efficacy of the

work of Contract Counsel and to advise the Panel that they support a Contract Counsel Award of full reasonable compensation under the circumstances.

SECTION 9. Award of Fees to Contract Counsel.

The members of the Panel will consider all relevant information

submitted to them in reaching a decision as to a Fee Award that fairly provides for full reasonable compensation of Contract Counsel for their representation of the State of Florida in connection with the Action. The Panel shall determine and report the amount of the Contract Counsel Award for all Contract Counsel collectively no later than December 10, 1998. Given the significance and uniqueness of the Action, the Panel shall not be limited to an hourly-rate or lodestar analysis in determining the amount of the Contract Counsel Award, but shall take into account the totality of the circumstances. In considering the amount of the Contract Counsel Award, the Panel shall not consider Fee Awards that already have been or yet may be awarded in connection with any other Tobacco Cases. The Panel's decisions as to Fee Awards shall be in writing and shall report the amount of the fee awarded (with or without explanation or opinion, at the Panel's discretion).

SECTION 10. Application of Other Participating Florida Counsel, If Any.

Participating Florida Counsel other than Contract Counsel ("Other Participating Florida Counsel"), if any, may submit applications for Fee Awards separate from Participating Contract Counsel. The procedures, schedule and process with respect to any such application on behalf of any such Other Participating Florida Counsel shall be the same as the procedures, schedule and process set forth in sections 6, 7, 8 and 9 hereof with respect to the fee application on behalf of Contract Counsel, except that Settling Defendants shall be in no way constrained from contesting any Other Participating Florida Counsel's entitlement to receive a Fee Award or the amount of any Fee Award requested on behalf of any such counsel. Any Other Participating Florida Counsel that does not submit an application for a Fee Award on or before November 3, 1998 shall have thereby irrevocably waived any opportunity for payment of attorneys' fees pursuant to this Agreement.

SECTION 11. Allocations Among Participating Contract Counsel.

(a) All payments (including advances) made by Settling Defendants with respect to the Contract Counsel Award pursuant to this Agreement ("Contract Counsel Payments") shall be subject to reduction as provided in

section 12 hereof and shall be paid in the first instance to C. David Fonvielle, Esq. (or such other person designated in writing by Participating Contract Counsel), on behalf of Participating Contract Counsel. Any Contract Counsel that is a Participating Contract Counsel as of five business days prior to the date of any Contract Counsel Payment shall be entitled to receive a percentage share of such payment ("Payment Share") equal to the proportion of (i) the percentage of any fee recovery allocated to such Participating Contract Counsel under the terms of the fee-sharing agreement among Contract Counsel (or any written amendment thereto) (such percentage being such Contract Counsel's "Fee Percentage") to (ii) the sum of the Fee Percentages of all Participating Contract Counsel. Settling Defendants and the State of Florida shall have no obligation, responsibility or liability with respect to the allocation among Participating Contract Counsel, or with respect to any claim of misallocation, of any amounts of any Contract Counsel Payment. Any Contract Counsel not a party hereto as of five days prior to the date of any Contract Counsel Payment ("Non-Participating Contract Counsel") shall not be entitled to share in such payment.

(b) P. Tim Howard and Howard & Associates (collectively, "Howard") have claimed entitlement to attorneys' fees on a contingent-fee basis under the Contract, which claim has been contested by certain Contract Counsel and the State of Florida. In order to protect Howard's interest (if any) in any Contract Counsel Payment, the parties hereto agree as follows:

(i) Until such time as either (A) all of the conditions described in paragraph (ii) of this subsection have been satisfied or (B) any one or more of the conditions described in paragraph (iii) of this subsection have been satisfied, Howard shall be assigned a Payment Share of any Contract Counsel Payment(s), such share(s) to be held in escrow by C. David Fonvielle, Esq. (the "Howard Escrow Share"). The Fee Percentage used to determine any Payment Share(s) assigned to Howard for purposes of this paragraph shall be equal to 8.33%.

(ii) In the event that (A) Howard is conclusively determined to be entitled to attorneys' fees on a contingent-fee basis under the Contract by the court of last resort to which such question may be presented; and (B) prior to December 15, 1998, Howard has both consented to payment of attorneys' fees pursuant to the terms of this Agreement and granted releases identical to the releases granted by Participating Florida Counsel pursuant to section 3 hereof; and (C) prior to December 15, 1998, the State of Florida has consented in writing to payment of attorneys' fees to Howard

pursuant to the terms of this Agreement, then: (1) Howard shall

be treated as Participating Contract Counsel for purposes of this Agreement; and (2) on the date upon which all of the conditions described above in this paragraph shall have been satisfied, Howard shall be entitled to receive from the Howard Escrow Share an amount equal to the Payment Share of any Contract Counsel Payment(s) made prior to such date that Howard would be entitled to receive pursuant to subsection (a) of this section in light of Howard's actual Fee Percentage determined by such court ("Howard's Actual Payment Share"). If Howard's Actual Payment Share is less than the Howard Escrow Share, each Participating Contract Counsel (other than Howard) shall be entitled to receive a percentage of the difference between the amount of Howard's Escrow Share and Howard's Actual Payment Share equal to its respective Fee Percentage, with the remainder, if any, to be returned to Settling Defendants in proportion to their respective contributions toward such amount. If Howard's Actual Payment Share is greater than the Howard Escrow Share, Participating Contract Counsel (other than Howard) shall be obligated to pay to Howard an amount sufficient to ensure that Howard receives Howard's Actual Payment Share.

(iii) In the event that (A) Howard is conclusively determined not to be entitled to attorneys' fees on a contingent-fee basis under the Contract by the court of last resort to which such question may be presented; or (B) as of close of business on December 14, 1998, Howard has not both consented to payment of attorneys' fees pursuant to the terms of this Agreement and granted releases identical to the releases granted by Participating Florida Counsel pursuant to section 3 hereof; or (C) as of close of business on December 14, 1998, the State of Florida has not consented in writing to payment of attorneys' fees to Howard pursuant to the terms of this Agreement, then: (1) Howard shall not be treated as Participating Contract Counsel or Participating Florida Counsel for purposes of the payment provisions of this Agreement and shall not be entitled to receive any part of the Howard Escrow Share; and (2) on the date upon which any one or more of the conditions described above in this paragraph shall have been satisfied, each Participating Contract Counsel shall be entitled to receive a percentage of the amount of the Howard Escrow Share equal to its respective Fee Percentage, with the remainder, if any, to be returned to Settling Defendants in proportion to their respective contributions toward such amount.

(c) Each Participating Contract Counsel hereby irrevocably agrees to indemnify and hold harmless Settling Defendants and the State of Florida, up to

any amounts allocable to such Participating Contract Counsel pursuant to this Agreement, for any and all losses (including costs and attorneys' fees) they may at any time incur as a result of any claim (i) by Howard relating to attorneys' fees (other than a claim for payment of attorneys' fees by Settling Defendants pursuant to the terms of this Agreement); (ii) by any private counsel party to the Contract for alleged damages or other losses as a result of the allocation of any Contract Counsel Payment in accordance with the certification described in section 12(a) hereof; or (iii) by any party to any referral agreement or other compensation arrangement entered with such Participating Contract Counsel in connection with, or otherwise relating to, the Action.

SECTION 12. Participation by Fewer than All Contract Counsel.

In the event that fewer than all Contract Counsel are Participating Contract Counsel as of five business days prior to the date of any Contract Counsel Payment:

(a) The Fee Percentage of each Non-Participating Contract Counsel shall be certified to Settling Defendants in writing by Participating Contract Counsel, at least four business days prior to the date of the Contract Counsel Payment. Settling Defendants and the State of Florida shall have no obligation, responsibility or liability with respect to any such certification.

(b) The amount of the Contract Counsel Payment shall be reduced by a percentage equal to the sum of the Fee Percentages of Non-Participating Contract Counsel provided to Settling Defendants pursuant to subsection (a) of this section. Settling Defendants and the State of Florida shall have no obligation, responsibility or liability with respect to the amount of any such reduction. The amount of any reduction in the amount of any Contract Counsel Payment made pursuant to this subsection shall be retained by Settling Defendants.

(c) In the event that (i) the State of Florida pays attorneys' fees in connection with the Action to any Non-Participating Contract Counsel and (ii) Settling Defendants have been released by such Non-Participating Contract Counsel to the extent provided in section 3 hereof or the State's payment of attorneys' fees is pursuant to a non-consensual final judgment against the State (as to which all appeals have been exhausted) and such judgment has resolved and satisfied all asserted and potential claims of such Non-Participating Contract Counsel for compensation pursuant to the Contract or otherwise in connection with the Action (including any claims against Settling Defendants, without any liability on the part of Settling Defendants, or any of them), the State of Florida

shall be entitled to receive from Settling Defendants the amount of any reduction pursuant to subsection (b) of this section in the amount of any Contract Counsel Payment as a result of such counsel's being a Non-Participating Contract Counsel, up to the amount actually paid to such Non-Participating Contract Counsel by the State of Florida.

SECTION 13. Advance on Payment of Fees.

Within five business days of the Effective Date, each Settling Defendant shall severally pay to Contract Counsel, pro rata in proportion to its Market Share indicated on Schedule A hereto and subject to reduction pursuant to section 12 hereof, its respective share of $100 million, as an advance against later Contract Counsel Payments to be credited as provided in section 19 hereof. The Attorney General, on behalf of the State of Florida, hereby represents and warrants that the advance to be paid by Settling Defendants pursuant to this section and all other payments by Settling Defendants described in this Agreement are not funds of the State of Florida and are not subject to appropriation by the State of Florida pursuant to 1998 Fla. Sess. Law Serv. Ch. 98-63 (C.S.S.B. 1270) (West) and that Settling Defendants are under no obligation to pay such advance or payments to the State of Florida. Settling Defendants' obligations with respect to payment of such advance and all other payments described in this Agreement are expressly conditioned upon the continuing accuracy of the foregoing representation and warranty of the Attorney General.

SECTION 14. Waiver of Fee Payments.

Any Participating Contract Counsel that at any time waives, abandons or otherwise relinquishes its right to payment of attorneys' fees pursuant to this Agreement ("Waiving Counsel") shall not be entitled to payment of attorneys' fees pursuant to this Agreement under any circumstances. Each Waiving Counsel shall be treated for purposes of the payment provisions of this Agreement as Non-Participating Contract Counsel and not as Participating Contract Counsel (notwithstanding its being a signatory hereto).

SECTION 15. Annual Amount for 1997; Allocation.

(a) For 1997, Settling Defendants shall pay, subject to reduction pursuant to section 12 hereof and in the manner described in section 17 hereof, the unsatisfied amount of the Fee Award (without regard to the advance described in section 13 hereof) (the "Unpaid Fees") of Florida Counsel, and those Participating Defendants so obligated shall make payments with respect to the Unpaid Fees of

Private Counsel retained in connection with the lawsuits In re Mike Moore, Attorney General, ex rel. State of Mississippi Tobacco Litig., No. 94-1429 (Miss. Ch. Ct., Jackson County), and Mangini v. R.J. Reynolds Tobacco Co., No. 939359 (Cal. Super. Ct., San Francisco County), in an amount not to exceed $250 million for all payments described in this subsection.

(b) In the event that the sum of the Unpaid Fees of those Private Counsel identified in subsection (a) of this section exceeds $250 million, such amount shall be allocated among the payments to be made with respect to such Private Counsel in proportion to the amount of their respective Unpaid Fees (the amount so allocated with respect to the Unpaid Fees of each such Private Counsel being such counsel's "Allocable Share" for 1997).

SECTION 16. Annual Amount for 1998; Allocation.

(a) For 1998, Settling Defendants shall pay, subject to reduction pursuant to section 12 hereof and in the manner described in section 17 hereof,

the Unpaid Fees of Florida Counsel, and those Participating Defendants so obligated shall make payments with respect to the Unpaid Fees of all other Private Counsel, in an amount not to exceed $500 million for all such payments described in this subsection.

(b) The amount payable by Settling Defendants with respect to each Fee Award for 1998 shall be determined as follows: The $500 million annual cap for 1998 shall be allocated equally among each month of the year. Except as provided in section 17(b) hereof, each monthly amount shall be allocated to those Private Counsel retained in connection with Tobacco Cases settled by Participating Defendants or resolved by Federal Legislation before or during such month, up to the amounts of their respective Unpaid Fees (such counsel being "Eligible Counsel" with respect to such monthly amount). In the event that the monthly amount is less than the sum of Eligible Counsel's Unpaid Fees, the monthly amount shall be allocated to Eligible Counsel in proportion to the amounts of their respective Unpaid Fees (the amount so allocated to each Eligible Counsel for a given month being such counsel's Allocable Share for such month, and the sum of each Private Counsel's Allocable Shares for each month being such counsel's Allocable Share for 1998).

(c) Settling Defendants represent that, as of the date of this Agreement, the only Tobacco Cases (other than the Action) that have been settled by Participating Defendants on terms that allow for Private Counsel retained in connection with such cases to seek a Fee Award from the Panel are In re Mike

Moore, Attorney General, ex rel. State of Mississippi Tobacco Litig., No. 94-1429 (Miss. Ch. Ct., Jackson County), State of Texas v. American Tobacco Co., No. 5- 96CV-91 (E.D. Tex.), and Mangini v. R.J. Reynolds Tobacco Co., No. 939359 (Cal. Super. Ct., San Francisco County). In addition, Private Counsel retained in connection with Mangini v. Brown & Williamson Tobacco Corp., No. 993893 (Cal. Super. Ct., San Francisco County), may under the terms of the settlement in that action "apply to participate in any national, reasonable, 'public benefit' fee award or arbitration process created by a 'national settlement' or 'Congressional Resolution.'"

SECTION 17. Payments with Respect to Annual Amounts for 1997 and 1998.

(a) On or before December 21, 1998, each Settling Defendant shall severally pay, pro rata in proportion to its Market Share and subject to reduction pursuant to section 12 hereof, its share of an initial fee payment with respect to the Contract Counsel Award and the Fee Awards, if any, on behalf of Other Participating Florida Counsel (the "Initial Florida Fee Payment"), which shall include:

(i) Florida Counsel's Allocable Share for 1997 as provided in section 15 hereof or, in the event that the Panel has not rendered Fee Awards with respect to all Private Counsel described in section 15(a) hereof as of December 10, 1998, Settling Defendants' reasonable estimation of Florida Counsel's Allocable Share for 1997; and

(ii) Florida Counsel's Allocable Share for 1998 as provided in section 16 hereof for each month of 1998 except those with respect to which Florida Counsel's Allocable Share could not be determined as of December 10, 1998, as a result of there being other Eligible Counsel that, as of such date, had not yet been granted or denied a Fee Award by the Panel (either because such counsel's application for a Fee Award was still under consideration by the Panel or for any other reason).

(b) On January 15, 1999, each Settling Defendant shall severally pay, pro rata in proportion to its Market Share and subject to reduction pursuant to section 12 hereof, its share of Florida Counsel's Allocable Share for those months of 1998 not included in the Initial Florida Fee Payment. Florida Counsel's Allocable Share for any such month shall be based on an allocation of the monthly amount among Eligible Counsel having Fee Awards as of December 31, 1998, without regard to whether there may be other Eligible Counsel that have not been granted or denied a Fee Award by the Panel as of such date.

(c) In the event that Settling Defendants pay an estimation of Florida Counsel's Allocable Share for 1997, as provided in subsection (a)(i) of this section, subsequent payments pursuant to this Agreement shall be adjusted to ensure that Florida Counsel receive their actual Allocable Share for 1997.

(d) Notwithstanding any provision of this Agreement, individual

Florida Counsel Scruggs, Millette, Bozeman & Dent, P.A. ("Scruggs, Millette") and Ness, Motley, Loadholt, Richardson & Poole ("Ness, Motley") agree to defer payment of the amounts of their respective Payments Shares of the Contract Counsel Payment due from Settling Defendant R.J. Reynolds Tobacco Company ("Reynolds") on December 21, 1998 insofar as necessary for the sum of all deferred amounts of any payments by Reynolds in 1998 with respect to Fee Awards to equal $62 million. Under no circumstances shall this subsection require any increase in any payment to be made by any other Settling Defendant. On January 5, 1999, Reynolds shall pay to Scruggs, Millette and Ness, Motley the amount, if any, of their respective Payment Shares of the Initial Florida Fee Payment deferred pursuant to this subsection.

SECTION 18. Quarterly Amounts for 1999 and Subsequent Years; Allocation.

Within 10 business days after the end of each calendar quarter beginning with the first calendar quarter of 1999, Settling Defendants shall pay, in the manner provided in subsection (d) of this section, the Unpaid Fees of Florida Counsel, and those Participating Defendants so obligated shall make payments with respect to the Unpaid Fees of all other Private Counsel, in an amount not to exceed $125 million for all such payments, as follows:

(a) In the event that Federal Legislation has been enacted by the end of the calendar quarter with respect to which such quarterly payment is being made (the "Applicable Quarter"):

(i) the quarterly amount shall be allocated among Private Counsel, up to the amount of their respective Unpaid Fees. Each Private Counsel shall be allocated an amount of each quarterly payment for the calendar year up to (or, in the event that the sum of such Private Counsel's Unpaid Fees exceeds the quarterly amount, in proportion to) the amount of such Private Counsel's Unpaid Fees. Each quarterly payment shall be allocated among Private Counsel having Unpaid Fees, without regard to whether there are other Private Counsel that have not yet been granted or denied a Fee Award by the Panel as of the end of the Applicable Quarter.

Subsequent quarterly payments shall be adjusted, if necessary, to account for Private Counsel that are granted Fee Awards in a subsequent quarter of the calendar year, as provided in paragraph (ii)(B) of this subsection.

(ii) In the event that a quarterly payment for the calendar year is less than the sum of all Private Counsel's Unpaid Fees:

(A) in the case of the first such quarterly payment, the quarterly amount shall be allocated among Private Counsel in proportion to the amounts of their respective Unpaid Fees.

(B) in the case of a quarterly payment after the first quarterly payment that is less than the sum of all such Unpaid Fees, the quarterly amount shall be allocated only to those Private Counsel, if any, that were not paid a proportionate share of all prior quarterly payments for the calendar year (either because such Private Counsel's applications for Fee Awards were still under consideration as of the end of the calendar quarters with respect to which such quarterly payments were made or for any other reason), until each such Private Counsel has been allocated a proportionate share of all prior quarterly payments (each such share of each such Private Counsel being a "Payable Proportionate Share"). In the event that the sum of all Payable Proportionate Shares exceeds the amount of the quarterly payment, such payment shall be allocated among such Private Counsel in proportion to the amounts of their respective Unpaid Fees (without regard to whether there are other Private Counsel that have not yet been granted or denied a Fee Award by the Panel as of the end of the Applicable Quarter). In the event that the sum of all Payable Proportionate Shares is less than the amount of the quarterly payment, the amount by which the quarterly payment exceeds the sum of all such shares shall be allocated among Private Counsel up to (or, in the event that the sum of such Private Counsel's Unpaid Fees exceeds such amount, in proportion to) the amount of such Private Counsel's Unpaid Fees.

(b) In the event that Federal Legislation has not been enacted by the end of the Applicable Quarter:

(i) the quarterly amount shall be allocated equally among each of the three months of the calendar quarter. The amount for each such

month shall be allocated among those Private Counsel retained in connection with Tobacco Cases settled before or during such month (such Private Counsel being "Eligible Counsel" with respect to such monthly amount), each of whom shall be allocated a portion of each such monthly amount up to (or, in the event that the sum of Eligible Counsel's respective Unpaid Fees exceeds such monthly amount, in proportion to) the amount of such Eligible Counsel's Unpaid Fees. The monthly amount for each month of the calendar quarter shall be allocated among Eligible Counsel having Unpaid Fees, without regard to whether there may be Eligible Counsel that have not yet been granted or denied a Fee Award by the Panel as of the end of the Applicable Quarter. Subsequent quarterly payments shall be adjusted, as necessary, to account for Eligible Counsel that are granted Fee Awards in a subsequent quarter of the calendar year, as provided in paragraph (ii)(B) of this subsection.

(ii) In the event that the amount for a given month is less than the sum of all Eligible Counsel's Unpaid Fees:

(A) in the case of a first quarterly payment, such monthly amount shall be allocated among Eligible Counsel for such month in proportion to the amount of their respective Unpaid Fees.

(B) in the case of a quarterly payment after the first quarterly payment, the quarterly amount shall be allocated among only those Private Counsel, if any, that were Eligible Counsel with respect to any monthly amount paid in a prior quarter of the calendar year but were not allocated a proportionate share of such monthly amount (either because such counsel's applications for Fee Awards were still under consideration as of the end of the calendar quarter containing the month in question or for any other reason), until each such Eligible Counsel has been allocated a proportionate share of all such prior monthly payments for the calendar year (each such share of each such Private Counsel being a "Payable Proportionate Share"). In the event that the sum of all Payable Proportionate Shares exceeds the amount of the quarterly payment, the quarterly payment shall be allocated among Eligible Counsel in proportion to the amounts of their respective Unpaid Fees (without regard to whether there may be other Eligible Counsel with respect to such prior monthly amounts that have not yet been granted or denied a Fee Award by the Panel as of the end of the Applicable Quarter). In the event that the sum of all Payable

Proportionate Shares is less than the amount of the quarterly payment, the amount by which the quarterly payment exceeds the sum of all such shares shall be allocated among each of the three months of the calendar quarter, and the amount for each month shall be allocated among each Eligible Counsel with respect to such monthly amount up to (or, in the event that the sum of Eligible Counsel's Unpaid Fees exceeds such monthly amount, in proportion to) the amount of such Eligible Counsel's Unpaid Fees.

(c) Adjustments pursuant to paragraphs (a)(ii)(B) and (b)(ii)(B) of this section shall be made separately for each calendar year. No amounts paid in any calendar year shall be subject to refund, nor shall any payment in any given calendar year affect the allocation of payments to be made in any subsequent calendar year.

(d) Each Settling Defendant shall severally pay, pro rata in proportion to its respective Market Share and subject to reduction pursuant to section 12 hereof, its share of the amounts, if any, allocated to Florida Counsel pursuant to this section.

SECTION 19. Credits and Limitations.

Notwithstanding any other provision of this Agreement:

(a) The advance against future Contract Counsel Payments described in section 13 hereof shall be credited against and shall reduce subsequent Contract Counsel Payments, beginning with the first quarterly payment for 1999 pursuant to section 18 hereof, in an amount equal to 50% of the Contract Counsel Payment in question, until the advance paid by Settling Defendants is fully credited; provided, however, that the sum of all such credits applied in any calendar year with respect to the advance to Participating Contract Counsel described in section 13 hereof shall not exceed $50 million. The amount of any credit made

against any such Contract Counsel Payment shall be counted in computing the annual and quarterly aggregate national caps on all payments made with respect to Private Counsel, in the amount of the credit applied to any such Contract Counsel Payment in any quarterly or annual period. All credits against Contract Counsel Payments pursuant to this subsection shall be allocated among Settling Defendants in proportion to their respective contributions toward the amounts of the advance described in section 13 hereof.

(b) Under no circumstances shall Settling Defendants be required to make payments that would result in aggregate national payments and credits by Participating Defendants with respect to Fee Awards:

(i) for 1997, totaling more than $250 million;

(ii) during 1998, totaling more than $500 million, except insofar as payments under the separate $250 million cap for 1997 are made in 1998 pursuant to section 17 hereof, and except insofar as advances are made in 1998 against payments due in years after 1998;

(iii) during any year beginning with 1999, totaling more than $500 million, excluding payments with respect to any Private Counsel's Allocable Shares for 1998 that are paid in 1999; and

(iv) during any calendar quarter beginning with the first calendar quarter of 1999, totaling more than $125 million, excluding payments with respect to any Private Counsel's Allocable Shares for 1998 that are paid in 1999 and except to the extent that payments and credits with respect to any prior quarter of the calendar year did not total $125 million.

(c) Under no circumstances shall the sum of all Contract Counsel Payments (including the advance described in section 13 hereof) exceed the amount of the Contract Counsel Award.

(d) Under no circumstances shall Settling Defendants be required to make any Contract Counsel Payment until the fourth business day following the receipt by Settling Defendants of the certification described in section 12(a) hereof.

(e) Payments with respect to Fee Awards on behalf of Florida Counsel shall be made exclusively as provided by the terms of this Agreement, and notwithstanding any other provision of law, such Fee Awards shall not be entered as or reduced to a judgment against Settling Defendants or considered as a basis for requiring a bond or imposing a lien or any other encumbrance.

SECTION 20. Contribution to National Legislation.

If Federal Legislation is enacted that implements the Proposed Resolution, a three-member national panel including the two permanent members of the Panel shall consider any application for Fee Awards on behalf of Private Counsel for

contributions made toward the enactment of such Federal Legislation, along with all applications for Fee Awards for professional fees by any other persons who claim to have made similar contributions (other than attorneys or agents of Participating Defendants). No person shall make more than one application for a Fee Award in connection with any such contributions toward enactment of such Federal Legislation. All payments with respect to such Fee Awards, if any, shall be paid on the payment schedule and subject to, and counted in computing, the annual and quarterly national caps described in sections 16, 17, 18 and 19 hereof.

SECTION 21. Payments on Market Share Basis.

All payments due hereunder shall be paid by Settling Defendants pro rata in proportion to their respective Market Shares as provided herein, and each Settling Defendant shall be severally liable for its share of all such payments. Due to the particular corporate structures of Settling Defendants R.J. Reynolds Tobacco Company ("Reynolds") and Brown & Williamson Tobacco Corporation ("Brown & Williamson") with respect to their non-domestic tobacco operations, Settling Defendants Reynolds and Brown & Williamson shall be severally liable for their respective shares of each payment due pursuant to this Agreement up to (and their liability hereunder shall not exceed) the full extent of their assets used in, and earnings and revenues derived from, their manufacture and sale in the United States of Tobacco Products intended for domestic consumption, and no

recourse shall be had against any of their other assets or earnings to satisfy such obligations. Under no circumstances shall any such payment or portion thereof become the joint obligation of Settling Defendants or the obligation of any party other than the Settling Defendant from which such payment is originally due, nor shall any Settling Defendant be required to pay a portion of any such payment greater than its respective Market Share. With respect to payment of the advance described in section 13 hereof and the amount for 1997 described in section 15 hereof, the Market Share of each Settling Defendant shall be as provided in Schedule A hereto. With respect to the amount for 1998 described in section 16 hereof, the Market Share of each Settling Defendant shall be its respective share pursuant to Appendix A hereto for 1998. With respect to all other payments pursuant to this Agreement, each Settling Defendant's Market Share shall be its respective share pursuant to Appendix A hereto for the 12 month period ending on the last day of the calendar quarter immediately preceding the calendar quarter with respect to which such payment is made.

SECTION 22. Determination of Market Share.

In the event of a disagreement between or among any Settling Defendants as to their respective shares of any payment pursuant to this Agreement (except payments for which each Settling Defendant's Market Share is expressly provided herein), each Settling Defendant shall pay its undisputed share of such payment promptly, on or before the date on which such payment is due, and shall within 21 days submit copies of its audited reports of shipments of Tobacco Products provided to the U.S. Securities and Exchange Commission ("SEC") for the period in question (or, in the case of any Settling Defendant that does not provide such reports to the SEC, audited reports of shipments containing the same shipment information as contained in the reports provided to the SEC) ("Shipment Reports") to a third party to be selected by agreement of Settling Defendants (the "Third Party"), who shall within three business days determine the Market Share of each Settling Defendant. The decision of the Third Party shall be final and non-appealable, and shall be communicated by facsimile to each party hereto. Each Settling Defendant shall, within two business days of receipt of the Third Party's decision, pay Florida Counsel or such other Settling Defendant, as appropriate, the difference, if any, between (1) the amount that such Settling Defendant has already paid with respect to the payment in question and (2) the amount of the payment in question that corresponds to such Settling Defendant's Market Share as determined by the Third Party, together with interest accrued from the original date on which the payment in question was due, at the prime rate as published in the Wall Street Journal on the latest publication date on or before the original date on which the payment in question was due plus 3%. In the event of any disagreement by or among Settling Defendants as to their respective shares of the Initial Florida Fee Payment due on December 21, 1998 pursuant to section 17 hereof, the procedures for resolving such disagreement shall be as described in this section, except that each Settling Defendants shall not be required to provide its Shipment Reports to the Third Party until January 21, 1999.

SECTION 23. Limited Waiver as to Other Terms.

In consideration of Settling Defendants' agreement to the terms hereof, each Participating Florida Counsel hereby covenants and agrees that it will not argue in any forum (other than in proceedings before the Panel relating to their Fee Award application) that the arrangements made in connection with the Texas Settlement, the Mississippi Settlement or the Minnesota Settlement for payment of fees to private counsel for the States of Texas, Mississippi or Minnesota give rise to any claim or entitlement on the part of Florida Counsel (or any other person) in connection with this Action.

SECTION 24. State's Identification of Florida Counsel.

The Governor, on behalf of the State of Florida, hereby represents and warrants that Schedule B hereto identifies all Florida Counsel, including all Contract Counsel.

SECTION 25. Intended Beneficiaries.

No part of this Agreement creates any rights on the part of, or is enforceable by, any person or entity that is not a party hereto or a person covered by the releases described in section 3 hereof. Nor shall any part of this Agreement bind any non-party or determine, limit or prejudice the rights of any such person or entity.

SECTION 26. Definitions.

Terms used herein that are defined in the Settlement Agreement or the Stipulation of Amendment are, unless otherwise defined herein, used in this Agreement as defined in the Settlement Agreement or the Stipulation of Amendment, as applicable.

SECTION 27. Representations of Parties.

The parties hereto hereby represent that this Agreement has been duly authorized and, upon execution, will constitute a valid and binding contractual obligation, enforceable in accordance with its terms, of each of the parties hereto.

SECTION 28. No Admission.

This Agreement is not intended to be and shall not in any event be construed as, or deemed to be, an admission or concession or evidence of any liability or wrongdoing whatsoever on the part of any party hereto or any person released pursuant to subsection (b) or (c) of section 3 hereof. Settling Defendants specifically disclaim and deny any liability or wrongdoing whatsoever with respect to the claims released under section 3 hereof and enter into this Agreement for the sole purposes of memorializing Settling Defendants' rights and obligations with respect to payment of attorneys' fees pursuant to the Settlement Agreement and avoiding the further expense, inconvenience, burden and uncertainty of litigation.

SECTION 29. Non-admissibility.

This Agreement having been undertaken by the parties hereto in good faith and for settlement purposes only, neither this Agreement nor any evidence of negotiations relating hereto shall be offered or received in evidence in any action or proceeding other than the Action or an action or proceeding arising under this Agreement.

SECTION 30. Amendment and Waiver.

This Agreement may be amended only by a written instrument executed by the Attorney General on behalf of the State of Florida, Settling Defendants and a majority of Participating Florida Counsel. The waiver of any rights conferred hereunder shall be effective only if made by written instrument executed by the waiving party. The waiver by any party of any breach of this Agreement shall not be deemed to be or construed as a waiver of any other breach, whether prior, subsequent or contemporaneous, of this Agreement.

SECTION 31. Notices.

All notices or other communications to any party hereto shall be in writing (including but not limited to telex, telecopy or similar writing) and shall be given to the respective parties hereto listed on Schedule C hereto at the addresses therein indicated. Any party hereto may change the name and address of the person designated to receive notice on behalf of such party by notice given as provided in this section including an updated list conformed to Schedule C hereto.

SECTION 32. Governing Law.

This Agreement shall be governed by the laws of the State of Florida, without regard to the conflict of law rules of such State.

SECTION 33. Construction.

None of the parties hereto shall be considered to be the drafter of this Agreement or any provision hereof for the purpose of any statute, case law or rule of interpretation or construction that would or might cause any provision to be construed against the drafter hereof.

SECTION 34. Captions.

The captions of the sections of this Agreement are included for convenience of reference only and shall be ignored in the construction and interpretation hereof.

SECTION 35. Execution of Agreement.

This Agreement may be executed in counterparts. Facsimile or photocopied signatures shall be considered valid signatures for purposes of execution of this Agreement as of the date of their receipt by all parties hereto, although the original signature pages shall thereafter be appended to this Settlement Agreement. Subject to the written consent of the State of Florida, any Florida Counsel (as identified by the Governor pursuant to section 24 hereof) that is not a signatory hereto as of the date hereof may at any time prior to December 15, 1998 become a party hereto by serving upon all parties hereto a signed letter of agreement to the terms hereof. Any such person shall thereafter promptly execute this Agreement. Any Florida Counsel that is not a signatory hereto prior to December 15, 1998 shall have forfeited any opportunity to become a signatory hereto; provided, however, that notwithstanding any other provision of this Agreement, after December 15, 1998 any Florida Counsel may, subject to the written consent of Settling Defendants and the State of Florida, become a signatory hereto, and any such Florida Counsel so permitted to become a signatory hereto after December 15, 1998 shall be a Participating Florida Counsel for purposes of this Agreement.

SECTION 36. Court Orders.

(a) In the event that the Court does not enter an order amending the Court's April 16, 1998 Order Implementing Most Favored Nation Provision of Florida Settlement Agreement and Exhibit 1 thereto (including all other orders of the Court relating thereto) (the "April 16th Order") so as to conform it to the terms of this Agreement, or that any Court order so amending the April 16th Order is itself modified or set aside on appeal in a manner unacceptable to Settling Defendants, the parties hereto agree that the procedures, schedule and process described herein shall govern any arbitration proceedings pursuant to the April 16th Order (the "Alternative Arbitration"). Participating Florida Counsel hereby waive any claim they may have to any advances (or any portion thereof) to be paid by Settling Defendants or the State of Florida under the April 16th Order. In the event that any of the procedures or the schedule or the process described

herein is not followed in connection with the Alternative Arbitration, Settling Defendants may elect (in their sole discretion) either:

(i) to pay attorneys' fees to Participating Florida Counsel solely in accordance with this Agreement, in which case each Participating Florida Counsel shall be deemed to have waived any claim it may have to amounts payable under the Alternative Arbitration, shall take all actions reasonably likely to prevent the Alternative Arbitration in favor of the procedures, schedule and process described herein and shall be obligated to take all actions as may be necessary to ensure that Settling Defendants are not liable for any amounts that might be allocable to such Participating Florida Counsel under such Alternative Arbitration (including, without limitation, returning any such amounts to Settling Defendants) and are not subject to any judgment or lien that might be available under such Alternative Arbitration; or

(ii) to pay attorneys' fees solely in accordance with the Alternative Arbitration, in which case (A) Settling Defendants shall no longer be obligated to perform any of their obligations under this Agreement not performed as of the date of Settling Defendants' election and (B) any payments made by Settling Defendants pursuant to this Agreement (including the advance paid pursuant to paragraph 13 hereof) shall be credited against any payments due to be paid by Settling Defendants to Participating Florida Counsel pursuant to the Alternative Arbitration.

SECTION 37. Entire Agreement of Parties.

This Agreement contains an entire, complete and integrated statement of each and every term, provision and condition with respect to payment of attorneys' fees by Settling Defendants in connection with the Action agreed to (1) by and between Settling Defendants and the State of Florida and (2) by and among Settling Defendants, the State of Florida and Participating Florida Counsel.

IN WITNESS WHEREOF, the parties hereto, through their fully authorized representatives, have agreed to this Florida Fee Payment Agreement as of this

the eleventh day of September, 1998.

STATE OF FLORIDA, acting by and through
Lawton M. Chiles, Jr., its duly elected and
authorized Governor, and Robert A. Butterworth,
its duly elected and authorized Attorney General

By: /s/LAWTON M. CHILES, JR.

Lawton M. Chiles, Jr.
Governor

By: /s/ROBERT A. BUTTERWORTH

Robert A. Butterworth
Attorney General

PHILIP MORRIS INCORPORATED

By: /s/MEYER G. KOPLOW

Meyer G. Koplow
Counsel

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Martin J. Barrington
General Counsel

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By: /s/ARTHUR F. GOLDEN

Arthur F. Golden
Counsel

By: /s/CHARLES A. BLIXT

Charles A. Blixt
Executive Vice President
& General Counsel

BROWN & WILLIAMSON TOBACCO
CORPORATION

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Stephen R. Patton
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By: /s/F. ANTHONY BURKE

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Vice President & General Counsel

LORILLARD TOBACCO COMPANY

By: /s/ARTHUR J. STEVENS

Arthur J. Stevens
Senior Vice President & General Counsel

UNITED STATES TOBACCO COMPANY

By: /s/RICHARD H. VERHEIJ

Richard H. Verheij
Executive Vice President & General Counsel

PARTICIPATING CONTRACT COUNSEL

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for Fonvielle, Hinkle & Lewis, P.A.

By:/s/WILLIAM C. GENTRY

William C. Gentry
for Gentry, Phillips & odak, P.A.

By:/s/WAYNE HOGAN

Wayne Hogan
for Brown, Terrell, Hogan, Ellis, McClamma & Yegelwel, P.A.

By:

Robert G. Kerrigan
for Kerrigan, Estess, Rankin & McLeod

By:/s/MICHAEL MAHER

Michael Maher
for Maher, Gibson & Guiley, P.A.

By:

Robert Montgomery
for Montgomery & Larmoyeux

By:/s/JAMES H. NANCE

James H. Nance
for Nance, Cacciatore, Sisserson, Duryea & Hamilton, P.A.

By:/s/JOSEPH F. RICE

Joseph F. Rice
for Ness, Motley, Loadholt, Richardson & Poole

By:

Sheldon J. Schlesinger
for Sheldon J. Schlesinger, P.A.

/s/RICHARD F. SCRUGGS BY
By: W. STEVE BOZEMAN WITH PERMISSION

Richard F. Scruggs
for Scruggs, Millette, Bozeman & Dent, P.A.

By:/s/C. STEVEN YERRID

C. Steven Yerrid
for Yerrid, Knopik & Krieger, P.A.

APPENDIX A

MARKET SHARE CALCULATION

The Market Share of each Settling Defendant for purposes of any payment required hereunder shall be equal to the proportion of (1) such Settling Defendant's Aggregate Sales Volume for the period in question to (2) the sum of all Settling Defendants' Aggregate Sales Volumes for the period in question. For purposes of the foregoing:

(a) Each Settling Defendant's Aggregate Sales Volume shall be the sum of such Settling Defendant's Sales Volumes with respect to each type of Tobacco Product referenced in paragraph (c) of this Appendix.

(b) Each Settling Defendant's Sales Volume with respect to each type of Tobacco Product referenced in paragraph (c) of this Appendix shall be the number of Units of such type of Tobacco Product sold within the United States by such Settling Defendant during the period in question, as measured by such Settling Defendant's applicable Shipment Reports.

(c) A Unit of Tobacco Product means:

(1) one Cigarette;

(2) .12 ounces of Moist Snuff;

(3) .3 ounces of Loose Leaf, Plug, Twist, Roll or other form of chewing tobacco;

(4) .25 ounces of Dry Snuff; and

(5) .16 ounces of Loose Leaf tobacco suitable for user preparation of cigarettes.

SCHEDULE A

MARKET SHARE PERCENTAGES

Settling Defendant	Percentage
Philip Morris Incorporated	49.26
R.J. Reynolds Tobacco Company	24.49
Brown & Williamson Tobacco Corp	16.20
Lorillard Tobacco Company	8.77
United States Tobacco Company	1.28
TOTAL	100.00

SCHEDULE B

DESIGNATION of FLORIDA COUNSEL
by the Governor

1. Pursuant to section 24 of the Florida Fee Payment Agreement, on behalf of the State of Florida, I hereby identify as Florida Counsel those private counsel that are appropriate, legal and authorized parties to the contingent-fee agreement titled "Standard Contract -- State of Florida, Agency for Health Care Administration" and executed in February 1995 (the "Contract," attached as Exhibit A hereto), and I hereby identify as Contract Counsel those

same private counsel.

2. Laurence H. Tribe, G. Robert Blakey and persons working under their direction undertook activities on behalf of the State of Florida in connection with the Action but are not Contract Counsel or Florida Counsel for purposes of the Florida Fee Payment Agreement.

3. Fredric G. Levin of the firm Levin, Middlebrooks, Thomas, Mitchell, Green, Echsner, Proctor & Papantonio, P.A. (collectively, "Levin") undertook activities on behalf of the State of Florida in connection with the Action but is not Contract Counsel or Florida Counsel for purposes of the Florida Fee Payment Agreement, and it is the State's understanding that Levin will be compensated for his services by Contract Counsel from the fees paid to Contract Counsel pursuant to the Florida Fee Payment Agreement.

4. Richard A. Daynard has declared an intent to seek an award of attorneys' fees pursuant to the arbitration provisions described in the Court's April 16, 1998 Order Implementing Most Favored Nation Provision of Florida Settlement Agreement and Exhibit 1 thereto and the Court's Order of May 12, 1998 (collectively, the "Arbitration Orders"). It is the State's understanding that any activities of Mr. Daynard or others acting under his direction (collectively, "Daynard") in connection with the Action were undertaken on a strictly pro bono basis as to the State and without any obligation of compensation by the State, and Daynard is not Contract Counsel or Florida Counsel for purposes of the Florida Fee Payment Agreement. Notwithstanding the foregoing, in the event that Daynard is determined to be entitled, as a result of the Arbitration Orders, to participate in the fee arbitration process described in the Florida Fee Payment Agreement despite the provisions thereof and of the Stipulation of

Amendment, Daynard shall be treated as Florida Counsel (but not as Contract Counsel) for purposes of the Florida Fee Payment Agreement. In the event that Daynard is treated as Participating Florida Counsel for purposes of the Florida Fee Payment Agreement and makes an application to the Panel as provided therein, the State of Florida will not support or oppose Daynard's application for an award of attorneys' fees by the Panel.

5. Except as expressly provided in paragraph 4 hereof, no person other than the persons identified in paragraph 1 hereof is entitled as Contract Counsel or Florida Counsel to seek payment of attorneys' fees by Settling Defendants.

/s/LAWTON M. CHILES, JR.

Lawton M. Chiles, Jr.
Governor

Exhibit A

STATE OF FLORIDA
AGENCY FOR HEALTH CARE ADMINISTRATION
STANDARD CONTRACT

[Intentionally Omitted]

ATTACHMENT 1

[Intentionally Omitted]

STATE OF FLORIDA
AGENCY FOR HEALTH CARE ADMINISTRATION
CERTIFICATION

[Intentionally Omitted]

SCHEDULE C

NOTICES

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Exhibit 99.1

PROPOSED MASTER SETTLEMENT AGREEMENT

MASTER SETTLEMENT AGREEMENT

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MASTER SETTLEMENT AGREEMENT

This Master Settlement Agreement is made by the undersigned Settling State officials (on behalf of their respective Settling States) and the undersigned Participating Manufacturers to settle and resolve with finality all Released Claims against the Participating Manufacturers and related entities as set forth herein. This Agreement constitutes the documentation effecting this settlement with respect to each Settling State, and is intended to and shall be binding upon each Settling State and each Participating Manufacturer in accordance with the terms hereof.

I. RECITALS

WHEREAS, more than 40 States have commenced litigation asserting various claims for monetary, equitable and injunctive relief against certain tobacco product manufacturers and others as defendants, and the States that have not filed suit can potentially assert similar claims;

WHEREAS, the Settling States that have commenced litigation have sought to obtain equitable relief and damages under state laws, including consumer protection and/or antitrust laws, in order to further the Settling States' policies regarding public health, including policies adopted to achieve a significant reduction in smoking by Youth;

WHEREAS, defendants have denied each and every one of the Settling States' allegations of unlawful conduct or wrongdoing and have asserted a number of defenses to the Settling States' claims, which defenses have been contested by the Settling States;

WHEREAS, the Settling States and the Participating Manufacturers are committed to reducing underage tobacco use by discouraging such use and by preventing Youth access to Tobacco Products;

WHEREAS, the Participating Manufacturers recognize the concern of the tobacco grower community that it may be adversely affected by the potential reduction in tobacco consumption resulting from this settlement, reaffirm their commitment to work cooperatively to address concerns about the potential adverse economic impact on such community, and will, within 30 days after the MSA Execution Date, meet with the political leadership of States with grower communities to address these economic concerns;

WHEREAS, the undersigned Settling State officials believe that entry into this Agreement and uniform consent decrees with the tobacco industry is necessary in order to further the Settling States' policies designed to reduce Youth smoking, to promote the public health and to secure monetary payments to the Settling States; and

WHEREAS, the Settling States and the Participating Manufacturers wish to avoid the further expense, delay, inconvenience, burden and uncertainty of continued litigation (including appeals from any verdicts), and, therefore, have agreed to settle their respective lawsuits and potential claims pursuant to terms which will achieve for the Settling States and their citizens significant funding for the advancement of public health, the implementation of important tobacco-related public health measures, including the enforcement of the mandates and restrictions related to such measures, as well as funding for a national Foundation dedicated to significantly reducing the use of Tobacco Products by Youth;

NOW, THEREFORE, BE IT KNOWN THAT, in consideration of the implementation of tobacco-related health measures and the payments to be made by the Participating Manufacturers, the release and discharge of all claims by the Settling States, and such other consideration as described herein, the sufficiency of which is hereby acknowledged, the Settling States and the Participating Manufacturers, acting by and through their authorized agents, memorialize and agree as follows:

II. DEFINITIONS

(a) "Account" has the meaning given in the Escrow Agreement.

(b) "Adult" means any person or persons who are not Underage.

(c) "Adult-Only Facility" means a facility or restricted area (whether open-air or enclosed) where the operator ensures or has a reasonable basis to believe (such as by checking identification as required under state law, or by checking the identification of any person appearing to be under the age of 27) that no Underage person is present. A facility or restricted area need not be permanently restricted to Adults in order to constitute an Adult-Only Facility, provided that the operator ensures or has a reasonable basis to believe that no Underage person is present during the event or time period in question.

(d) "Affiliate" means a person who directly or indirectly owns or controls, is owned or controlled by, or is under common ownership or control with, another person. Solely for purposes of this definition, the terms "owns," "is owned" and "ownership" mean ownership of an equity interest, or the equivalent thereof, of 10 percent or more, and the term "person" means an individual, partnership, committee, association, corporation or any other organization or group of persons.

(e) "Agreement" means this Master Settlement Agreement, together with the exhibits hereto, as it may be amended pursuant to subsection XVIII(j).

(f) "Allocable Share" means the percentage set forth for the State in question as listed in Exhibit A hereto, without regard to any subsequent alteration or modification of such State's percentage share agreed to by or among any States; or, solely for the purpose of calculating payments under subsection IX(c)(2) (and corresponding payments under subsection IX(i)), the percentage disclosed for the State in question pursuant to subsection IX(c)(2)(A) prior to June 30, 1999, without regard to any subsequent alteration or modification of such State's percentage share agreed to by or among any States.

(g) "Allocated Payment" means a particular Settling State's Allocable Share of the sum of all of the payments to be made by the Original Participating Manufacturers in the year in question pursuant to subsections IX(c)(1) and IX(c)(2), as such payments have been adjusted, reduced and allocated pursuant to clause "First" through the first sentence of clause "Fifth" of subsection IX(j), but before application of the other offsets and adjustments described in clauses "Sixth" through "Thirteenth" of subsection IX(j).

(h) "Bankruptcy" means, with respect to any entity, the commencement of a case or other proceeding (whether voluntary or involuntary) seeking any of (1) liquidation, reorganization, rehabilitation, receivership, conservatorship, or other relief with respect to such entity or its debts under any bankruptcy, insolvency or similar law now or hereafter in effect; (2) the appointment of a trustee, receiver, liquidator, custodian or similar official of such entity or any substantial part of its business or property; (3) the consent of such entity to any of the relief described in (1) above or to the appointment of any official described in (2) above in any such case or other proceeding involuntarily commenced

against such entity; or (4) the entry of an order for relief as to such entity under the federal bankruptcy laws as now or hereafter in effect. Provided, however, that an involuntary case or proceeding otherwise within the foregoing definition shall not be a "Bankruptcy" if it is or was dismissed within 60 days of its commencement.

(i) "Brand Name" means a brand name (alone or in conjunction with any other word), trademark, logo, symbol, motto, selling message, recognizable pattern of colors, or any other indicia of product identification identical or similar to, or identifiable with, those used for any domestic brand of Tobacco Products. Provided, however, that the term "Brand Name" shall not include the corporate name of any Tobacco Product Manufacturer that does not after the MSA Execution Date sell a brand of Tobacco Products in the States that includes such corporate name.

(j) "Brand Name Sponsorship" means an athletic, musical, artistic, or other social or cultural event as to which payment is made (or other consideration is provided) in exchange for use of a Brand Name or Names (1) as part of the name of the event or (2) to identify, advertise, or promote such event or an entrant, participant or team in such event in any other way. Sponsorship of a single national or multi-state series or tour (for example, NASCAR (including any number of NASCAR races)), or of one or more events within a single national or multi-state series or tour, or of an entrant, participant, or team taking part in events sanctioned by a single approving organization (e.g., NASCAR or CART), constitutes one Brand Name Sponsorship. Sponsorship of an entrant, participant, or team by a Participating Manufacturer using a Brand Name or Names in an event that is part of a series or tour that is sponsored by such Participating Manufacturer or that is part of a series or tour in which any one or more events are sponsored by such Participating

Manufacturer does not constitute a separate Brand Name Sponsorship. Sponsorship of an entrant, participant, or team by a Participating Manufacturer using a Brand Name or Names in any event (or series of events) not sponsored by such Participating Manufacturer constitutes a Brand Name Sponsorship. The term "Brand Name Sponsorship" shall not include an event in an Adult-Only Facility.

(k) "Business Day" means a day which is not a Saturday or Sunday or legal holiday on which banks are authorized or required to close in New York, New York.

(l) "Cartoon" means any drawing or other depiction of an object, person, animal, creature or any similar caricature that satisfies any of the following criteria:

(1) the use of comically exaggerated features;

(2) the attribution of human characteristics to animals, plants or other objects, or the similar use of anthropomorphic technique; or

(3) the attribution of unnatural or extrahuman abilities, such as imperviousness to pain or injury, X-ray vision, tunneling at very high speeds or transformation.

The term "Cartoon" includes "Joe Camel," but does not include any drawing or other depiction that on July 1, 1998, was in use in any State in any Participating Manufacturer's corporate logo or in any Participating Manufacturer's Tobacco Product packaging.

(m) "Cigarette" means any product that contains nicotine, is intended to be burned or heated under ordinary conditions of use, and consists of or contains (1) any roll of tobacco wrapped in paper or in any substance not containing tobacco; or (2) tobacco, in any form, that is functional in the product, which, because of its appearance, the type of tobacco used in the filler, or its packaging and labeling, is likely to be offered to, or

purchased by, consumers as a cigarette; or (3) any roll of tobacco wrapped in any substance containing tobacco which, because of its appearance, the type of tobacco used in the filler, or its packaging and labeling, is likely to be offered to, or purchased by, consumers as a cigarette described in clause (1) of this definition. The term "Cigarette" includes "roll-your-own" (i.e., any tobacco which, because of its appearance, type, packaging, or labeling is suitable for use and likely to be offered to, or purchased by, consumers as tobacco for making cigarettes). Except as provided in subsections II(z) and II(mm), 0.0325 ounces of "roll-your-own" tobacco shall constitute one individual "Cigarette."

(n) "Claims" means any and all manner of civil (i.e., non-criminal): claims, demands, actions, suits, causes of action, damages (whenever incurred), liabilities of any nature including civil penalties and punitive damages, as well as costs, expenses and attorneys' fees (except as to the Original Participating Manufacturers' obligations under section XVII), known or unknown, suspected or unsuspected, accrued or unaccrued, whether legal, equitable, or statutory.

(o) "Consent Decree" means a state-specific consent decree as described in subsection XIII(b)(1)(B) of this Agreement.

(p) "Court" means the respective court in each Settling State to which this Agreement and the Consent Decree are presented for approval and/or entry as to that Settling State.

(q) "Escrow" has the meaning given in the Escrow Agreement.

(r) "Escrow Agent" means the escrow agent under the Escrow Agreement.

(s) "Escrow Agreement" means an escrow agreement substantially in the form of Exhibit B.

(t) "Federal Tobacco Legislation Offset" means the offset described in section X.

(u) "Final Approval" means the earlier of:

(1) the date by which State-Specific Finality in a sufficient number of Settling States has occurred; or

(2) June 30, 2000.

For the purposes of this subsection (u), "State-Specific Finality in a sufficient number of Settling States" means that State-Specific Finality has occurred in both:

(A) a number of Settling States equal to at least 80% of the total number of Settling States; and

(B) Settling States having aggregate Allocable Shares equal to at least 80% of the total aggregate Allocable Shares assigned to all Settling States.

Notwithstanding the foregoing, the Original Participating Manufacturers may, by unanimous written agreement, waive any requirement for Final Approval set forth in subsections (A) or (B) hereof.

(v) "Foundation" means the foundation described in section VI.

(w) "Independent Auditor" means the firm described in subsection XI(b).

(x) "Inflation Adjustment" means an adjustment in accordance with the formulas for inflation adjustments set forth in Exhibit C.

(y) "Litigating Releasing Parties Offset" means the offset described in subsection XII(b).

(z) "Market Share" means a Tobacco Product Manufacturer's respective share (expressed as a percentage) of the total number of individual Cigarettes sold in the fifty United States, the District of Columbia and Puerto Rico during the applicable calendar year, as measured by excise taxes collected by the federal government and, in the case of sales in Puerto Rico, arbitrios de cigarillos collected by the Puerto Rico taxing authority. For purposes of the definition and determination of "Market Share" with respect to calculations under subsection IX(i), 0.09 ounces of "roll your own" tobacco shall constitute one individual Cigarette; for purposes of the definition and determination of "Market Share" with respect to all other calculations, 0.0325 ounces of "roll your own" tobacco shall constitute one individual Cigarette.

(aa) "MSA Execution Date" means November 23, 1998.

(bb) "NAAG" means the National Association of Attorneys General, or its successor organization that is directed by the Attorneys General to perform certain functions under this Agreement.

(cc) "Non-Participating Manufacturer" means any Tobacco Product Manufacturer that is not a Participating Manufacturer.

(dd) "Non-Settling States Reduction" means a reduction determined by multiplying the amount to which such reduction applies by the aggregate Allocable Shares of those States that are not Settling States on the date 15 days before such payment is due.

(ee) "Notice Parties" means each Participating Manufacturer, each Settling State, the Escrow Agent, the Independent Auditor and NAAG.

(ff) "NPM Adjustment" means the adjustment specified in subsection IX(d).

(gg) "NPM Adjustment Percentage" means the percentage determined pursuant to subsection IX(d).

(hh) "Original Participating Manufacturers" means the following: Brown & Williamson Tobacco Corporation, Lorillard Tobacco Company, Philip Morris Incorporated and R.J. Reynolds Tobacco Company, and the respective successors of each of the foregoing. Except as expressly provided in this Agreement, once an entity becomes an Original Participating Manufacturer, such entity shall permanently retain the status of Original Participating Manufacturer.

(ii) "Outdoor Advertising" means (1) billboards, (2) signs and placards in arenas, stadiums, shopping malls and Video Game Arcades (whether any of the foregoing are open air or enclosed) (but not including any such sign or placard located in an Adult-Only Facility), and (3) any other advertisements placed (A) outdoors, or (B) on the inside surface of a window facing outward. Provided, however, that the term "Outdoor Advertising" does not mean (1) an advertisement on the outside of a Tobacco Product manufacturing facility; (2) an individual advertisement that does not occupy an area larger than 14 square feet (and that neither is placed in such proximity to any other such advertisement so as to create a single "mosaic"-type advertisement larger than 14 square feet, nor functions solely as a segment of a larger advertising unit or series), and that is placed (A) on the outside of any retail establishment that sells Tobacco Products (other than solely through a vending machine), (B) outside (but on the property of) any such establishment, or (C) on the inside surface of a window facing outward in any such establishment; (3) an advertisement inside a retail establishment that sells Tobacco

Products (other than solely through a vending machine) that is not placed on the inside surface of a window facing outward; or (4) an outdoor advertisement at the site of an event to be held at an Adult-Only Facility that is placed at such site during the period the facility or enclosed area constitutes an Adult-Only Facility, but in no event more than 14 days before the event, and that does not advertise any Tobacco Product (other than by using a Brand Name to identify the event).

(jj) "Participating Manufacturer" means a Tobacco Product Manufacturer that is or becomes a signatory to this Agreement, provided that (1) in the case of a Tobacco Product Manufacturer that is not an Original Participating Manufacturer, such Tobacco Product Manufacturer is bound by this Agreement and the Consent Decree (or, in any Settling State that does not permit amendment of the Consent Decree, a consent decree containing terms identical to those set forth in the Consent Decree) in all Settling States in which this Agreement and the Consent Decree binds Original Participating Manufacturers (provided, however, that such Tobacco Product Manufacturer need only become bound by the Consent Decree in those Settling States in which the Settling State has filed a Released Claim against it), and (2) in the case of a Tobacco Product Manufacturer that signs this Agreement after the MSA Execution Date, such Tobacco Product Manufacturer, within a reasonable period of time after signing this Agreement, makes any payments (including interest thereon at the Prime Rate) that it would have been obligated to make in the intervening period had it been a signatory as of the MSA Execution Date. "Participating Manufacturer" shall also include the successor of a Participating Manufacturer. Except as expressly provided in this Agreement, once an entity becomes a Participating Manufacturer such entity shall permanently retain the

status of Participating Manufacturer. Each Participating Manufacturer shall regularly report its shipments of Cigarettes in or to the fifty United States, the District of Columbia and Puerto Rico to Management Science Associates, Inc. (or a successor entity as set forth in subsection (mm)). Solely for purposes of calculations pursuant to subsection IX(d), a Tobacco Product Manufacturer that is not a signatory to this Agreement shall be deemed to be a "Participating Manufacturer" if the Original Participating Manufacturers unanimously consent in writing.

(kk) "Previously Settled States Reduction" means a reduction determined by multiplying the amount to which such reduction applies by 12.4500000%, in the case of payments due in or prior to 2007; 12.2373756%, in the case of payments due after 2007 but before 2018; and 11.0666667%, in the case of payments due in or after 2018.

(ll) "Prime Rate" shall mean the prime rate as published from time to time by the Wall Street Journal or, in the event the Wall Street Journal is no longer published or no longer publishes such rate, an equivalent successor reference rate determined by the Independent Auditor.

(mm) "Relative Market Share" means an Original Participating Manufacturer's respective share (expressed as a percentage) of the total number of individual Cigarettes shipped in or to the fifty United States, the District of Columbia and Puerto Rico by all the Original Participating Manufacturers during the calendar year immediately preceding the year in which the payment at issue is due (regardless of when such payment is made), as measured by the Original Participating Manufacturers' reports of shipments of Cigarettes to Management Science Associates, Inc. (or a successor entity acceptable to both the Original Participating Manufacturers and a majority of those Attorneys General

who are both the Attorney General of a Settling State and a member of the NAAG executive committee at the time in question). A Cigarette shipped by more than one Participating Manufacturer shall be deemed to have been shipped solely by the first Participating Manufacturer to do so. For purposes of the definition and determination of "Relative Market Share," 0.09 ounces of "roll your own" tobacco shall constitute one individual Cigarette.

(nn) "Released Claims" means:

(1) for past conduct, acts or omissions (including any damages incurred in the future arising from such past conduct, acts or omissions), those Claims directly or indirectly based on, arising out of or in any way related, in whole or in part, to (A) the use, sale, distribution, manufacture, development, advertising, marketing or health effects of, (B) the exposure to, or (C) research, statements, or warnings regarding, Tobacco Products (including, but not limited to, the Claims asserted in the actions identified in Exhibit D, or any comparable Claims that were, could be or could have been asserted now or in the future in those actions or in any comparable action in federal, state or local court brought by a Settling State or a Releasing Party (whether or not such Settling State or Releasing Party has brought such action)), except for claims not asserted in the actions identified in Exhibit D for outstanding liability under existing licensing (or similar) fee laws or existing tax laws (but not excepting claims for any tax liability of the Tobacco-Related Organizations or of any Released Party with respect to such Tobacco-Related Organizations, which claims are covered by the release and covenants set forth in this Agreement);

(2) for future conduct, acts or omissions, only those monetary Claims directly or indirectly based on, arising out of or in any way related to, in whole or in part, the use of or exposure to Tobacco Products manufactured in the ordinary course of business, including without limitation any future Claims for reimbursement of health care costs allegedly associated with the use of or exposure to Tobacco Products.

(oo) "Released Parties" means all Participating Manufacturers and their past, present and future Affiliates, divisions, officers, directors, employees, representatives, insurers, lenders, underwriters, Tobacco-Related Organizations, trade associations, suppliers, agents, auditors, advertising agencies, public relations entities, attorneys, retailers and distributors (and the predecessors, heirs, executors, administrators, successors and assigns of each of the foregoing). Provided, however, that "Released Parties" does not include any person or entity (including, but not limited to, an Affiliate) that is itself a Non-Participating Manufacturer at any time after the MSA Execution Date, unless such person or entity becomes a Participating Manufacturer.

(pp) "Releasing Parties" means each Settling State and any of its past, present and future agents, officials acting in their official capacities, legal representatives, agencies, departments, commissions and divisions; and also means, to the full extent of the power of the signatories hereto to release past, present and future claims, the following: (1) any Settling State's subdivisions (political or otherwise, including, but not limited to, municipalities, counties, parishes, villages, unincorporated districts and hospital districts), public entities, public instrumentalities and public educational institutions; and (2) persons or entities acting in a parens patriae, sovereign,

quasi-sovereign, private attorney general, qui tam, taxpayer, or any other capacity, whether or not any of them participate in this settlement, (A) to the extent that any such person or entity is seeking relief on behalf of or generally applicable to the general public in such Settling State or the people of the State, as opposed solely to private or individual relief for separate and distinct injuries, or (B) to the extent that any such entity (as opposed to an individual) is seeking recovery of health-care expenses (other than premium or capitation payments for the benefit of present or retired state employees) paid or reimbursed, directly or indirectly, by a Settling State.

(qq) "Settling State" means any State that signs this Agreement on or before the MSA Execution Date. Provided, however, that the term "Settling State" shall not include (1) the States of Mississippi, Florida, Texas and Minnesota; and (2) any State as to which this Agreement has been terminated.

(rr) "State" means any state of the United States, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the Virgin Islands, American Samoa, and the Northern Marianas.

(ss) "State-Specific Finality" means, with respect to the Settling State in question:

(1) this Agreement and the Consent Decree have been approved and entered by the Court as to all Original Participating Manufacturers, or, in the event of an appeal from or review of a decision of the Court to withhold its approval and entry of this Agreement and the Consent Decree, by the court hearing such appeal or conducting such review;

(2) entry by the Court has been made of an order dismissing with prejudice all claims against Released Parties in the action as provided herein; and

(3) the time for appeal or to seek review of or permission to appeal ("Appeal") from the approval and entry as described in subsection (1)(A) hereof and entry of such order described in subsection (1)(B) hereof has expired; or, in the event of an Appeal from such approval and entry, the Appeal has been dismissed, or the approval and entry described in (1)(A) hereof and the order described in subsection (1)(B) hereof have been affirmed in all material respects by the court of last resort to which such Appeal has been taken and such dismissal or affirmance has become no longer subject to further Appeal (including, without limitation, review by the United States Supreme Court).

(tt) "Subsequent Participating Manufacturer" means a Tobacco Product Manufacturer (other than an Original Participating Manufacturer) that: (1) is a Participating Manufacturer, and (2) is a signatory to this Agreement, regardless of when such Tobacco Product Manufacturer became a signatory to this Agreement. "Subsequent Participating Manufacturer" shall also include the successors of a Subsequent Participating Manufacturer. Except as expressly provided in this Agreement, once an entity becomes a Subsequent Participating Manufacturer such entity shall permanently retain the status of Subsequent Participating Manufacturer, unless it agrees to assume the obligations of an Original Participating Manufacturer as provided in subsection XVIII(c).

(uu) "Tobacco Product Manufacturer" means an entity that after the MSA Execution Date directly (and not exclusively through any Affiliate):

(1) manufactures Cigarettes anywhere that such manufacturer intends to be sold in the States, including Cigarettes intended to be sold in the States through an importer (except where such importer is an Original Participating Manufacturer that will be responsible for the payments under this Agreement with respect to such Cigarettes as a result of the provisions of subsections II(mm) and that pays the taxes specified in subsection II(z) on such Cigarettes, and provided that the manufacturer of such Cigarettes does not market or advertise such Cigarettes in the States);

(2) is the first purchaser anywhere for resale in the States of Cigarettes manufactured anywhere that the manufacturer does not intend to be sold in the States; or

(3) becomes a successor of an entity described in subsection (1) or (2) above.

The term "Tobacco Product Manufacturer" shall not include an Affiliate of a Tobacco Product Manufacturer unless such Affiliate itself falls within any of subsections (1) - (3) above.

(vv) "Tobacco Products" means Cigarettes and smokeless tobacco products.

(ww) "Tobacco-Related Organizations" means the Council for Tobacco Research-U.S.A., Inc., The Tobacco Institute, Inc. ("TI"), and the Center for Indoor Air Research, Inc. ("CIAR") and the successors, if any, of TI or CIAR.

(xx) "Transit Advertisements" means advertising on or within private or public vehicles and all advertisements placed at, on or within any bus stop, taxi stand, transportation waiting area, train station, airport or any similar location. Notwithstanding

the foregoing, the term "Transit Advertisements" does not include (1) any advertisement placed in, on or outside the premises of any retail establishment that sells Tobacco Products (other than solely through a vending machine) (except if such individual advertisement (A) occupies an area larger than 14 square feet; (B) is placed in such proximity to any other such advertisement so as to create a single "mosaic"-type advertisement larger than 14 square feet; or (C) functions solely as a segment of a larger advertising unit or series); or (2) advertising at the site of an event to be held at an Adult-Only Facility that is placed at such site during the period the facility or enclosed area constitutes an Adult-Only Facility, but in no event more than 14 days before the event, and that does not advertise any Tobacco Product (other than by using a Brand Name to identify the event).

(yy) "Underage" means younger than the minimum age at which it is legal to purchase or possess (whichever minimum age is older) Cigarettes in the applicable Settling State.

(zz) "Video Game Arcade" means an entertainment establishment primarily consisting of video games (other than video games intended primarily for use by persons 18 years of age or older) and/or pinball machines.

(aaa) "Volume Adjustment" means an upward or downward adjustment in accordance with the formula for volume adjustments set forth in Exhibit E.

(bbb) "Youth" means any person or persons under 18 years of age.

III. PERMANENT RELIEF

(a) PROHIBITION ON YOUTH TARGETING. No Participating Manufacturer may take any action, directly or indirectly, to target Youth within any Settling State in the advertising,

promotion or marketing of Tobacco Products, or take any action the primary purpose of which is to initiate, maintain or increase the incidence of Youth smoking within any Settling State.

(b) BAN ON USE OF CARTOONS. Beginning 180 days after the MSA Execution Date, no Participating Manufacturer may use or cause to be used any Cartoon in the advertising, promoting, packaging or labeling of Tobacco Products.

(c) LIMITATION OF TOBACCO BRAND NAME SPONSORSHIPS.

(1) PROHIBITED SPONSORSHIPS. After the MSA Execution Date, no Participating Manufacturer may engage in any Brand Name Sponsorship in any State consisting of:

(A) concerts; or

(B) events in which the intended audience is comprised of a significant percentage of Youth; or

(C) events in which any paid participants or contestants are Youth; or

(D) any athletic event between opposing teams in any football, basketball, baseball, soccer or hockey league.

(2) LIMITED SPONSORSHIPS.

(A) No Participating Manufacturer may engage in more than one Brand Name Sponsorship in the States in any twelve-month period (such period measured from the date of the initial sponsored event).

(B) Provided, however, that

(i) nothing contained in subsection (2)(A) above shall require a Participating Manufacturer to breach or terminate any sponsorship contract in existence as of August 1, 1998 (until the earlier of (x) the current term of any existing contract, without regard to any renewal or option that may be exercised by such Participating Manufacturer or (y) three years after the MSA Execution Date); and

(ii) notwithstanding subsection (1)(A) above, Brown & Williamson Tobacco Corporation may sponsor either the GPC country music festival or the Kool jazz festival as its one annual Brand Name Sponsorship permitted pursuant to subsection (2)(A) as well as one Brand Name Sponsorship permitted pursuant to subsection (2)(B)(i).

(3) RELATED SPONSORSHIP RESTRICTIONS. With respect to any Brand Name Sponsorship permitted under this subsection (c):

(A) advertising of the Brand Name Sponsorship event shall not advertise any Tobacco Product (other than by using the Brand Name to identify such Brand Name Sponsorship event);

(B) no Participating Manufacturer may refer to a Brand Name Sponsorship event or to a celebrity or other person in such an event in its advertising of a Tobacco Product;

(C) nothing contained in the provisions of subsection III(e) of this Agreement shall apply to actions taken by any Participating Manufacturer

in connection with a Brand Name Sponsorship permitted pursuant to the provisions of subsections (2)(A) and (2)(B)(i); the Brand Name Sponsorship permitted by subsection (2)(B)(ii) shall be subject to the restrictions of subsection III(e) except that such restrictions shall not prohibit use of the Brand Name to identify the Brand Name Sponsorship;

(D) nothing contained in the provisions of subsections III(f) and III(i) shall apply to apparel or other merchandise: (i) marketed, distributed, offered, sold, or licensed at the site of a Brand Name Sponsorship permitted pursuant to subsections (2)(A) or (2)(B)(i) by the person to which the relevant Participating Manufacturer has provided payment in exchange for the use of the relevant Brand Name in the Brand Name Sponsorship or a third-party that does not receive payment from the relevant Participating Manufacturer (or any Affiliate of such Participating Manufacturer) in connection with the marketing, distribution, offer, sale or license of such apparel or other merchandise; or (ii) used at the site of a Brand Name Sponsorship permitted pursuant to subsection (2)(A) or (2)(B)(i) (during such event) that are not distributed (by sale or otherwise) to any member of the general public; and

(E) nothing contained in the provisions of subsection III(d) shall: (i) apply to the use of a Brand Name on a vehicle used in a Brand Name Sponsorship; or (ii) apply to Outdoor Advertising advertising the Brand Name Sponsorship, to the extent that such Outdoor Advertising is placed at the site of a Brand Name Sponsorship no more than 90 days before the

start of the initial sponsored event, is removed within 10 days after the end of the last sponsored event, and is not prohibited by subsection (3)(A) above.

(4) CORPORATE NAME SPONSORSHIPS. Nothing in this subsection (c) shall prevent a Participating Manufacturer from sponsoring or causing to be sponsored any athletic, musical, artistic, or other social or cultural event, or any entrant, participant or team in such event (or series of events) in the name of the corporation which manufactures Tobacco Products, provided that the corporate name does not include any Brand Name of domestic Tobacco Products.

(5) NAMING RIGHTS PROHIBITION. No Participating Manufacturer may enter into any agreement for the naming rights of any stadium or arena located within a Settling State using a Brand Name, and shall not otherwise cause a stadium or arena located within a Settling State to be named with a Brand Name.

(6) PROHIBITION ON SPONSORING TEAMS AND LEAGUES. No Participating Manufacturer may enter into any agreement pursuant to which payment is made (or other consideration is provided) by such Participating Manufacturer to any football, basketball, baseball, soccer or hockey league (or any team involved in any such league) in exchange for use of a Brand Name.

(d) ELIMINATION OF OUTDOOR ADVERTISING AND TRANSIT ADVERTISEMENTS. Each Participating Manufacturer shall discontinue Outdoor Advertising and Transit Advertisements advertising Tobacco Products within the Settling States as set forth herein.

(1) REMOVAL. Except as otherwise provided in this section, each Participating Manufacturer shall remove from within the Settling States within 150 days after the MSA Execution Date all of its (A) billboards (to the extent that such billboards constitute Outdoor Advertising) advertising Tobacco Products; (B) signs and placards (to the extent that such signs and placards constitute Outdoor Advertising) advertising Tobacco Products in arenas, stadiums, shopping malls and Video Game Arcades; and (C) Transit Advertisements advertising Tobacco Products.

(2) PROHIBITION ON NEW OUTDOOR ADVERTISING AND TRANSIT ADVERTISEMENTS. No Participating Manufacturer may, after the MSA Execution Date, place or cause to be placed any new Outdoor Advertising advertising Tobacco Products or new Transit Advertisements advertising Tobacco Products within any Settling State.

(3) ALTERNATIVE ADVERTISING. With respect to those billboards required to be removed under subsection (1) that are leased (as opposed to owned) by any Participating Manufacturer, the Participating Manufacturer will allow the Attorney General of the Settling State within which such billboards are located to substitute, at the Settling State's option, alternative advertising intended to discourage the use of Tobacco Products by Youth and their exposure to second-hand smoke for the remaining term of the applicable contract (without regard to any renewal or option term that may be exercised by such Participating Manufacturer). The Participating Manufacturer will bear the cost of the lease through the end of such remaining term. Any other costs associated with such alternative advertising will be borne by the Settling State.

(4) BAN ON AGREEMENTS INHIBITING ANTI-TOBACCO ADVERTISING. Each Participating Manufacturer agrees that it will not enter into any agreement that prohibits a third party from selling, purchasing or displaying advertising discouraging the use of Tobacco Products or exposure to second-hand smoke. In the event and to the extent that any Participating Manufacturer has entered into an agreement containing any such prohibition, such Participating Manufacturer agrees to waive such prohibition in such agreement.

(5) DESIGNATION OF CONTACT PERSON. Each Participating Manufacturer that has Outdoor Advertising or Transit Advertisements advertising Tobacco Products within a Settling State shall, within 10 days after the MSA Execution Date, provide the Attorney General of such Settling State with the name of a contact person to whom the Settling State may direct inquiries during the time such Outdoor Advertising and Transit Advertisements are being eliminated, and from whom the Settling State may obtain periodic reports as to the progress of their elimination.

(6) ADULT-ONLY FACILITIES. To the extent that any advertisement advertising Tobacco Products located within an Adult-Only Facility constitutes Outdoor Advertising or a Transit Advertisement, this subsection (d) shall not apply to such advertisement, provided such advertisement is not visible to persons outside such Adult-Only Facility.

(e) PROHIBITION ON PAYMENTS RELATED TO TOBACCO PRODUCTS AND MEDIA. No Participating Manufacturer may, beginning 30 days after the MSA Execution Date, make, or cause to be made, any payment or other consideration to any other person or entity to

use, display, make reference to or use as a prop any Tobacco Product, Tobacco Product package, advertisement for a Tobacco Product, or any other item bearing a Brand Name in any motion picture, television show, theatrical production or other live performance, live or recorded performance of music, commercial film or video, or video game ("Media"); provided, however, that the foregoing prohibition shall not apply to (1) Media where the audience or viewers are within an Adult-Only Facility (provided such Media are not visible to persons outside such Adult-Only Facility); (2) Media not intended for distribution or display to the public; or (3) instructional Media concerning non-conventional cigarettes viewed only by or provided only to smokers who are Adults.

(f) BAN ON TOBACCO BRAND NAME MERCHANDISE. Beginning July 1, 1999, no Participating Manufacturer may, within any Settling State, market, distribute, offer, sell, license or cause to be marketed, distributed, offered, sold or licensed (including, without limitation, by catalogue or direct mail), any apparel or other merchandise (other than Tobacco Products, items the sole function of which is to advertise Tobacco Products, or written or electronic publications) which bears a Brand Name. Provided, however, that nothing in this subsection shall (1) require any Participating Manufacturer to breach or terminate any licensing agreement or other contract in existence as of June 20, 1997 (this exception shall not apply beyond the current term of any existing contract, without regard to any renewal or option term that may be exercised by such Participating Manufacturer); (2) prohibit the distribution to any Participating Manufacturer's employee who is not Underage of any item described above that is intended for the personal use of such an employee; (3) require any Participating Manufacturer to retrieve, collect or otherwise recover any item that prior to the MSA Execution Date was marketed, distributed,

offered, sold, licensed, or caused to be marketed, distributed, offered, sold or licensed by such Participating Manufacturer; (4) apply to coupons or other items used by Adults solely in connection with the purchase of Tobacco Products; or (5) apply to apparel or other merchandise used within an Adult-Only Facility that is not distributed (by sale or otherwise) to any member of the general public.

(g) BAN ON YOUTH ACCESS TO FREE SAMPLES. After the MSA Execution Date, no Participating Manufacturer may, within any Settling State, distribute or cause to be distributed any free samples of Tobacco Products except in an Adult-Only Facility. For purposes of this Agreement, a "free sample" does not include a Tobacco Product that is provided to an Adult in connection with (1) the purchase, exchange or redemption for proof of purchase of any Tobacco Products (including, but not limited to, a free offer in connection with the purchase of Tobacco Products, such as a "two-for-one" offer), or (2) the conducting of consumer testing or evaluation of Tobacco Products with persons who certify that they are Adults.

(h) BAN ON GIFTS TO UNDERAGE PERSONS BASED ON PROOFS OF PURCHASE. Beginning one year after the MSA Execution Date, no Participating Manufacturer may provide or cause to be provided to any person without sufficient proof that such person is an Adult any item in exchange for the purchase of Tobacco Products, or the furnishing of credits, proofs-of-purchase, or coupons with respect to such a purchase. For purposes of the preceding sentence only, (1) a driver's license or other government-issued identification (or legible photocopy thereof), the validity of which is certified by the person to whom the item is provided, shall by itself be deemed to be a sufficient form of proof of age; and (2) in the case of items provided (or to be redeemed) at retail establishments, a

Participating Manufacturer shall be entitled to rely on verification of proof of age by the retailer, where such retailer is required to obtain verification under applicable federal, state or local law.

(i) LIMITATION ON THIRD-PARTY USE OF BRAND NAMES. After the MSA Execution Date, no Participating Manufacturer may license or otherwise expressly authorize any third party to use or advertise within any Settling State any Brand Name in a manner prohibited by this Agreement if done by such Participating Manufacturer itself. Each Participating Manufacturer shall, within 10 days after the MSA Execution Date, designate a person (and provide written notice to NAAG of such designation) to whom the Attorney General of any Settling State may provide written notice of any such third-party activity that would be prohibited by this Agreement if done by such Participating Manufacturer itself. Following such written notice, the Participating Manufacturer will promptly take commercially reasonable steps against any such non-de minimis third-party activity. Provided, however, that nothing in this subsection shall require any Participating Manufacturer to (1) breach or terminate any licensing agreement or other contract in existence as of July 1, 1998 (this exception shall not apply beyond the current term of any existing contract, without regard to any renewal or option term that may be exercised by such Participating Manufacturer); or (2) retrieve, collect or otherwise recover any item that prior to the MSA Execution Date was marketed, distributed, offered, sold, licensed or caused to be marketed, distributed, offered, sold or licensed by such Participating Manufacturer.

(j) BAN ON NON-TOBACCO BRAND NAMES. No Participating Manufacturer may, pursuant to any agreement requiring the payment of money or other valuable

consideration, use or cause to be used as a brand name of any Tobacco Product any nationally recognized or nationally established brand name or trade name of any non-tobacco item or service or any nationally recognized or nationally established sports team, entertainment group or individual celebrity. Provided, however, that the preceding sentence shall not apply to any Tobacco Product brand name in existence as of July 1, 1998. For the purposes of this subsection, the term "other valuable consideration" shall not include an agreement between two entities who enter into such agreement for the sole purpose of avoiding infringement claims.

(k) MINIMUM PACK SIZE OF TWENTY CIGARETTES. No Participating Manufacturer may, beginning 60 days after the MSA Execution Date and through and including December 31, 2001, manufacture or cause to be manufactured for sale in any Settling State any pack or other container of Cigarettes containing fewer than 20 Cigarettes (or, in the case of roll-your-own tobacco, any package of roll-your-own tobacco containing less than 0.60 ounces of tobacco). No Participating Manufacturer may, beginning 150 days after the MSA Execution Date and through and including December 31, 2001, sell or distribute in any Settling State any pack or other container of Cigarettes containing fewer than 20 Cigarettes (or, in the case of roll-your-own tobacco, any package of roll-your-own tobacco containing less than 0.60 ounces of tobacco). Each Participating Manufacturer further agrees that following the MSA Execution Date it shall not oppose, or cause to be opposed (including through any third party or Affiliate), the passage by any Settling State of any legislative proposal or administrative rule applicable to all Tobacco Product Manufacturers and all retailers of Tobacco Products prohibiting the manufacture and sale of any pack or other container of Cigarettes containing fewer than 20 Cigarettes

(or, in the case of roll-your-own tobacco, any package of roll-your-own tobacco containing less than 0.60 ounces of tobacco).

(l) CORPORATE CULTURE COMMITMENTS RELATED TO YOUTH ACCESS AND CONSUMPTION. Beginning 180 days after the MSA Execution Date each Participating Manufacturer shall:

(1) promulgate or reaffirm corporate principles that express and explain its commitment to comply with the provisions of this Agreement and the reduction of use of Tobacco Products by Youth, and clearly and regularly communicate to its employees and customers its commitment to assist in the reduction of Youth use of Tobacco Products;

(2) designate an executive level manager (and provide written notice to NAAG of such designation) to identify methods to reduce Youth access to, and the incidence of Youth consumption of, Tobacco Products; and

(3) encourage its employees to identify additional methods to reduce Youth access to, and the incidence of Youth consumption of, Tobacco Products.

(m) LIMITATIONS ON LOBBYING. Following State-Specific Finality in a Settling State:

(1) No Participating Manufacturer may oppose, or cause to be opposed (including through any third party or Affiliate), the passage by such Settling State (or any political subdivision thereof) of those state or local legislative proposals or administrative rules described in Exhibit F hereto intended by their terms to reduce Youth access to, and the incidence of Youth consumption of, Tobacco Products. Provided, however, that the foregoing does not prohibit any Participating Manufacturer from (A) challenging enforcement of, or suing for

declaratory or injunctive relief with respect to, any such legislation or rule on any grounds; (B) continuing, after State-Specific Finality in such Settling State, to oppose or cause to be opposed, the passage during the legislative session in which State-Specific Finality in such Settling State occurs of any specific state or local legislative proposals or administrative rules introduced prior to the time of State-Specific Finality in such Settling State; (C) opposing, or causing to be opposed, any excise tax or income tax provision or user fee or other payments relating to Tobacco Products or Tobacco Product Manufacturers; or (D) opposing, or causing to be opposed, any state or local legislative proposal or administrative rule that also includes measures other than those described in Exhibit F.

(2) Each Participating Manufacturer shall require all of its officers and employees engaged in lobbying activities in such Settling State after State-Specific Finality, contract lobbyists engaged in lobbying activities in such Settling State after State-Specific Finality, and any other third parties who engage in lobbying activities in such Settling State after State-Specific Finality on behalf of such Participating Manufacturer ("lobbyist" and "lobbying activities" having the meaning such terms have under the law of the Settling State in question) to certify in writing to the Participating Manufacturer that they:

(A) will not support or oppose any state, local or federal legislation, or seek or oppose any governmental action, on behalf of the Participating Manufacturer without the Participating Manufacturer's express authorization (except where such advance express authorization is not reasonably practicable);

(B) are aware of and will fully comply with this Agreement and all laws and regulations applicable to their lobbying activities, including, without limitation, those related to disclosure of financial contributions. Provided, however, that if the Settling State in question has in existence no laws or regulations relating to disclosure of financial contributions regarding lobbying activities, then each Participating Manufacturer shall, upon request of the Attorney General of such Settling State, disclose to such Attorney General any payment to a lobbyist that the Participating Manufacturer knows or has reason to know will be used to influence legislative or administrative actions of the state or local government relating to Tobacco Products or their use. Disclosures made pursuant to the preceding sentence shall be filed in writing with the Office of the Attorney General on the first day of February and the first day of August of each year for any and all payments made during the six month period ending on the last day of the preceding December and June, respectively, with the following information: (1) the name, address, telephone number and e-mail address (if any) of the recipient; (2) the amount of each payment; and (3) the aggregate amount of all payments described in this subsection (2)(B) to the recipient in the calendar year; and

(C) have reviewed and will fully abide by the Participating Manufacturer's corporate principles promulgated pursuant to this Agreement when acting on behalf of the Participating Manufacturer.

(3) No Participating Manufacturer may support or cause to be supported (including through any third party or Affiliate) in Congress or any other forum legislation or rules that would preempt, override, abrogate or diminish such Settling State's rights or recoveries under this Agreement. Except as specifically provided in this Agreement, nothing herein shall be deemed to restrain any Settling State or Participating Manufacturer from advocating terms of any national settlement or taking any other positions on issues relating to tobacco.

(n) RESTRICTION ON ADVOCACY CONCERNING SETTLEMENT PROCEEDS. After the MSA Execution Date, no Participating Manufacturer may support or cause to be supported (including through any third party or Affiliate) the diversion of any proceeds of this settlement to any program or use that is neither tobacco-related nor health-related in connection with the approval of this Agreement or in any subsequent legislative appropriation of settlement proceeds.

(o) DISSOLUTION OF THE TOBACCO INSTITUTE, INC., THE COUNCIL FOR TOBACCO RESEARCH-U.S.A., INC. AND THE CENTER FOR INDOOR AIR RESEARCH, INC.

(1) The Council for Tobacco Research-U.S.A., Inc. ("CTR") (a not-for-profit corporation formed under the laws of the State of New York) shall, pursuant to the plan of dissolution previously negotiated and agreed to between the Attorney General of the State of New York and CTR, cease all operations and be dissolved in accordance with the laws of the State of New York (and with the preservation of all applicable privileges held by any member company of CTR).

(2) The Tobacco Institute, Inc. ("TI") (a not-for-profit corporation formed under the laws of the State of New York) shall, pursuant to a plan of dissolution to

be negotiated by the Attorney General of the State of New York and the Original Participating Manufacturers in accordance with Exhibit G hereto, cease all operations and be dissolved in accordance with the laws of the State of New York and under the authority of the Attorney General of the State of New York (and with the preservation of all applicable privileges held by any member company of TI).

(3) Within 45 days after Final Approval, the Center for Indoor Air Research, Inc. ("CIAR") shall cease all operations and be dissolved in a manner consistent with applicable law and with the preservation of all applicable privileges (including, without limitation, privileges held by any member company of CIAR).

(4) The Participating Manufacturers shall direct the Tobacco-Related Organizations to preserve all records that relate in any way to issues raised in smoking-related health litigation.

(5) The Participating Manufacturers may not reconstitute CTR or its function in any form.

(6) The Participating Manufacturers represent that they have the authority to and will effectuate subsections (1) through (5) hereof.

(p) REGULATION AND OVERSIGHT OF NEW TOBACCO-RELATED TRADE ASSOCIATIONS.

(1) A Participating Manufacturer may form or participate in new tobacco-related trade associations (subject to all applicable laws), provided such associations agree in writing not to act in any manner contrary to any provision of this Agreement. Each Participating Manufacturer agrees that if any new tobacco-

related trade association fails to so agree, such Participating Manufacturer will not participate in or support such association.

(2) Any tobacco-related trade association that is formed or controlled by one or more of the Participating Manufacturers after the MSA Execution Date shall adopt by-laws governing the association's procedures and the activities of its members, board, employees, agents and other representatives with respect to the tobacco-related trade association. Such by-laws shall include, among other things, provisions that:

(A) each officer of the association shall be appointed by the board of the association, shall be an employee of such association, and during such officer's term shall not be a director of or employed by any member of the association or by an Affiliate of any member of the association;

(B) legal counsel for the association shall be independent, and neither counsel nor any member or employee of counsel's law firm shall serve as legal counsel to any member of the association or to a manufacturer of Tobacco Products that is an Affiliate of any member of the association during the time that it is serving as legal counsel to the association; and

(C) minutes describing the substance of the meetings of the board of directors of the association shall be prepared and shall be maintained by the association for a period of at least five years following their preparation.

(3) Without limitation on whatever other rights to access they may be permitted by law, for a period of seven years from the date any new tobacco-related trade association is formed by any of the Participating Manufacturers after the MSA Execution Date the antitrust authorities of any Settling State may, for the purpose of enforcing this Agreement, upon reasonable cause to believe that a violation of this Agreement has occurred, and upon reasonable prior written notice (but in no event less than 10 Business Days):

(A) have access during regular office hours to inspect and copy all relevant non-privileged, non-work-product books, records, meeting agenda and minutes, and other documents (whether in hard copy form or stored electronically) of such association insofar as they pertain to such believed violation; and

(B) interview the association's directors, officers and employees (who shall be entitled to have counsel present) with respect to relevant, non-privileged, non-work-product matters pertaining to such believed violation.

Documents and information provided to Settling State antitrust authorities shall be kept confidential by and among such authorities, and shall be utilized only by the Settling States and only for the purpose of enforcing this Agreement or the criminal law. The inspection and discovery rights provided to the Settling States pursuant to this subsection shall be coordinated so as to avoid repetitive and excessive inspection and discovery.

(q) PROHIBITION ON AGREEMENTS TO SUPPRESS RESEARCH. No Participating Manufacturer may enter into any contract, combination or conspiracy with any other

Tobacco Product Manufacturer that has the purpose or effect of: (1) limiting competition in the production or distribution of information about health hazards or other consequences of the use of their products; (2) limiting or suppressing research into smoking and health; or (3) limiting or suppressing research into the marketing or development of new products. Provided, however, that nothing in this subsection shall be deemed to (1) require any Participating Manufacturer to produce, distribute or otherwise disclose any information that is subject to any privilege or protection; (2) preclude any Participating Manufacturer from entering into any joint defense or joint legal interest agreement or arrangement (whether or not in writing), or from asserting any privilege pursuant thereto; or (3) impose any affirmative obligation on any Participating Manufacturer to conduct any research.

(r) PROHIBITION ON MATERIAL MISREPRESENTATIONS. No Participating Manufacturer may make any material misrepresentation of fact regarding the health consequences of using any Tobacco Product, including any tobacco additives, filters, paper or other ingredients. Nothing in this subsection shall limit the exercise of any First Amendment right or the assertion of any defense or position in any judicial, legislative or regulatory forum.

IV. PUBLIC ACCESS TO DOCUMENTS

(a) After the MSA Execution Date, the Original Participating Manufacturers and the Tobacco-Related Organizations will support an application for the dissolution of any protective orders entered in each Settling State's lawsuit identified in Exhibit D with respect only to those documents, indices and privilege logs that have been produced as of the MSA Execution Date to such Settling State and (1) as to which defendants have made

no claim, or have withdrawn any claim, of attorney-client privilege, attorney work-product protection, common interest/joint defense privilege (collectively, "privilege"), trade-secret protection, or confidential or proprietary business information; and (2) that are not inappropriate for public disclosure because of personal privacy interests or contractual rights of third parties that may not be abrogated by the Original Participating Manufacturers or the Tobacco-Related Organizations.

(b) Notwithstanding State-Specific Finality, if any order, ruling or recommendation was issued prior to September 17, 1998 rejecting a claim of privilege or trade-secret protection with respect to any document or documents in a lawsuit identified in Exhibit D, the Settling State in which such order, ruling or recommendation was made may, no later than 45 days after the occurrence of State-Specific Finality in such Settling State, seek public disclosure of such document or documents by application to the court that issued such order, ruling or recommendation and the court shall retain jurisdiction for such purposes. The Original Participating Manufacturers and Tobacco-Related Organizations do not consent to, and may object to, appeal from or otherwise oppose any such application for disclosure. The Original Participating Manufacturers and Tobacco-Related Organizations will not assert that the settlement of such lawsuit has divested the court of jurisdiction or that such Settling State lacks standing to seek public disclosure on any applicable ground.

(c) The Original Participating Manufacturers will maintain at their expense their Internet document websites accessible through "TobaccoResolution.com" or a similar website until June 30, 2010. The Original Participating Manufacturers will maintain the

documents that currently appear on their respective websites and will add additional documents to their websites as provided in this section IV.

(d) Within 180 days after the MSA Execution Date, each Original Participating Manufacturer and Tobacco-Related Organization will place on its website copies of the following documents, except as provided in subsections IV(e) and IV(f) below:

(1) all documents produced by such Original Participating Manufacturer or Tobacco-Related Organization as of the MSA Execution Date in any action identified in Exhibit D or any action identified in section 2 of Exhibit H that was filed by an Attorney General. Among these documents, each Original Participating Manufacturer and Tobacco-Related Organization will give the highest priority to (A) the documents that were listed by the State of Washington as trial exhibits in the STATE OF WASHINGTON v. AMERICAN TOBACCO CO., ET AL., No. 96-2-15056-8 SEA (Wash. Super. Ct., County of King); and (B) the documents as to which such Original Participating Manufacturer or Tobacco-Related Organization withdrew any claim of privilege as a result of the re-examination of privilege claims pursuant to court order in STATE OF OKLAHOMA v. R.J. REYNOLDS TOBACCO COMPANY, ET AL., CJ-96-2499-L (Dist. Ct., Cleveland County);

(2) all documents that can be identified as having been produced by, and copies of transcripts of depositions given by, such Original Participating Manufacturer or Tobacco-Related Organization as of the MSA Execution Date in the litigation matters specified in section 1 of Exhibit H; and

(3) all documents produced by such Original Participating Manufacturer or Tobacco-Related Organization as of the MSA Execution Date and listed by the

plaintiffs as trial exhibits in the litigation matters specified in section 2 of Exhibit H.

(e) Unless copies of such documents are already on its website, each Original Participating Manufacturer and Tobacco-Related Organization will place on its website copies of documents produced in any production of documents that takes place on or after the date 30 days before the MSA Execution Date in any federal or state court civil action concerning smoking and health. Copies of any documents required to be placed on a website pursuant to this subsection will be placed on such website within the later of 45 days after the MSA Execution Date or within 45 days after the production of such documents in any federal or state court action concerning smoking and health. This obligation will continue until June 30, 2010. In placing such newly produced documents on its website, each Original Participating Manufacturer or Tobacco-Related Organization will identify, as part of its index to be created pursuant to subsection IV(h), the action in which it produced such documents and the date on which such documents were added to its website.

(f) Nothing in this section IV shall require any Original Participating Manufacturer or Tobacco-Related Organization to place on its website or otherwise disclose documents that: (1) it continues to claim to be privileged, a trade secret, confidential or proprietary business information, or that contain other information not appropriate for public disclosure because of personal privacy interests or contractual rights of third parties; or (2) continue to be subject to any protective order, sealing order or other order or ruling that prevents or limits a litigant from disclosing such documents.

(g) Oversized or multimedia records will not be required to be placed on the Website, but each Original Participating Manufacturers and Tobacco-Related Organizations will make any such records available to the public by placing copies of them in the document depository established in THE STATE OF MINNESOTA, ET AL. v. PHILIP MORRIS INCORPORATED, ET AL., C1-94-8565 (County of Ramsey, District Court, 2d Judicial Cir.).

(h) Each Original Participating Manufacturer will establish an index and other features to improve searchable access to the document images on its website, as set forth in Exhibit I.

(i) Within 90 days after the MSA Execution Date, the Original Participating Manufacturers will furnish NAAG with a project plan for completing the Original Participating Manufacturers' obligations under subsection IV(h) with respect to documents currently on their websites and documents being placed on their websites pursuant to subsection IV(d). NAAG may engage a computer consultant at the Original Participating Manufacturers' expense for a period not to exceed two years and at a cost not to exceed $100,000. NAAG's computer consultant may review such plan and make recommendations consistent with this Agreement. In addition, within 120 days after the completion of the Original Participating Manufacturers' obligations under subsection IV(d), NAAG's computer consultant may make final recommendations with respect to the websites consistent with this Agreement. In preparing these recommendations, NAAG's computer consultant may seek input from Settling State officials, public health organizations and other users of the websites.

(j) The expenses incurred pursuant to subsection IV(i), and the expenses related to documents of the Tobacco-Related Organizations, will be severally shared among the Original Participating Manufacturers (allocated among them according to their Relative Market Shares). All other expenses incurred under this section will be borne by the Original Participating Manufacturer that incurs such expense.

V. TOBACCO CONTROL AND UNDERAGE USE LAWS

Each Participating Manufacturer agrees that following State-Specific Finality in a Settling State it will not initiate, or cause to be initiated, a facial challenge against the enforceability or constitutionality of such Settling State's (or such Settling State's political subdivisions') statutes, ordinances and administrative rules relating to tobacco control enacted prior to June 1, 1998 (other than a statute, ordinance or rule challenged in any lawsuit listed in Exhibit M).

VI. ESTABLISHMENT OF A NATIONAL FOUNDATION

(a) FOUNDATION PURPOSES. The Settling States believe that a comprehensive, coordinated program of public education and study is important to further the remedial goals of this Agreement. Accordingly, as part of the settlement of claims described herein, the payments specified in subsections VI(b), VI(c), and IX(e) shall be made to a charitable foundation, trust or similar organization (the "Foundation") and/or to a program to be operated within the Foundation (the "National Public Education Fund"). The purposes of the Foundation will be to support (1) the study of and programs to reduce Youth Tobacco Product usage and Youth substance abuse in the States, and (2) the study of and educational programs to prevent diseases associated with the use of Tobacco Products in the States.

(b) BASE FOUNDATION PAYMENTS. On March 31, 1999, and on March 31 of each subsequent year for a period of nine years thereafter, each Original Participating Manufacturer shall severally pay its Relative Market Share of $25,000,000 to fund the Foundation. The payments to be made by each of the Original Participating Manufacturers pursuant to this subsection (b) shall be subject to no adjustments, reductions, or offsets, and shall be paid to the Escrow Agent (to be credited to the Subsection VI(b) Account), who shall disburse such payments to the Foundation only upon the occurrence of State-Specific Finality in at least one Settling State.

(c) NATIONAL PUBLIC EDUCATION FUND PAYMENTS.

(1) Each Original Participating Manufacturer shall severally pay its Relative Market Share of the following base amounts on the following dates to the Escrow Agent for the benefit of the Foundation's National Public Education Fund to be used for the purposes and as described in subsections VI(f)(1), VI(g) and VI(h) below: $250,000,000 on March 31, 1999; $300,000,000 on March 31, 2000; $300,000,000 on March 31, 2001; $300,000,000 on March 31, 2002; and $300,000,000 on March 31, 2003, as such amounts are modified in accordance with this subsection (c). The payment due on March 31, 1999 pursuant to this subsection (c)(1) is to be credited to the Subsection (c) Account (First). The payments due on or after March 31, 2000 pursuant to this subsection VI(c)(1) are to be credited to the Subsection VI(c) Account (Subsequent).

(2) The payments to be made by the Original Participating Manufacturers pursuant to this subsection (c), other than the payment due on March 31, 1999, shall

be subject to the Inflation Adjustment, the Volume Adjustment and the offset for miscalculated or disputed payments described in subsection XI(i).

(3) The payment made pursuant to this subsection (c) on March 31, 1999 shall be disbursed by the Escrow Agent to the Foundation only upon the occurrence of State-Specific Finality in at least one Settling State. Each remaining payment pursuant to this subsection (c) shall be disbursed by the Escrow Agent to the Foundation only when State-Specific Finality has occurred in Settling States having aggregate Allocable Shares equal to at least 80% of the total aggregate Allocable Shares assigned to all States that were Settling States as of the MSA Execution Date.

(4) In addition to the payments made pursuant to this subsection (c), the National Public Education Fund will be funded (A) in accordance with subsection IX(e), and (B) through monies contributed by other entities directly to the Foundation and designated for the National Public Education Fund ("National Public Education Fund Contributions").

(5) The payments made by the Original Participating Manufacturers pursuant to this subsection (c) and/or subsection IX(e) and monies received from all National Public Education Fund Contributions will be deposited and invested in accordance with the laws of the state of incorporation of the Foundation.

(d) CREATION AND ORGANIZATION OF THE FOUNDATION. NAAG, through its executive committee, will provide for the creation of the Foundation. The Foundation shall be organized exclusively for charitable, scientific, and educational purposes within the meaning of Internal Revenue Code section 501(c)(3). The organizational documents of

the Foundation shall specifically incorporate the provisions of this Agreement relating to the Foundation, and will provide for payment of the Foundation's administrative expenses from the funds paid pursuant to subsection VI(b) or VI(c). The Foundation shall be governed by a board of directors. The board of directors shall be comprised of eleven directors. NAAG, the National Governors' Association ("NGA"), and the National Conference of State Legislatures ("NCSL") shall each select from its membership two directors. These six directors shall select the five additional directors. One of these five additional directors shall have expertise in public health issues. Four of these five additional directors shall have expertise in medical, child psychology, or public health disciplines. The board of directors shall be nationally geographically diverse.

(e) FOUNDATION AFFILIATION. The Foundation shall be formally affiliated with an educational or medical institution selected by the board of directors.

(f) FOUNDATION FUNCTIONS. The functions of the Foundation shall be:

(1) carrying out a nationwide sustained advertising and education program to (A) counter the use by Youth of Tobacco Products, and (B) educate consumers about the cause and prevention of diseases associated with the use of Tobacco Products;

(2) developing and disseminating model advertising and education programs to counter the use by Youth of substances that are unlawful for use or purchase by Youth, with an emphasis on reducing Youth smoking; monitoring and testing the effectiveness of such model programs; and, based on the information received from such monitoring and testing, continuing to develop and disseminate revised versions of such model programs, as appropriate;

(3) developing and disseminating model classroom education programs and curriculum ideas about smoking and substance abuse in the K-12 school system, including specific target programs for special at-risk populations; monitoring and testing the effectiveness of such model programs and ideas; and, based on the information received from such monitoring and testing, continuing to develop and disseminate revised versions of such model programs or ideas, as appropriate;

(4) developing and disseminating criteria for effective cessation programs; monitoring and testing the effectiveness of such criteria; and continuing to develop and disseminate revised versions of such criteria, as appropriate;

(5) commissioning studies, funding research, and publishing reports on factors that influence Youth smoking and substance abuse and developing strategies to address the conclusions of such studies and research;

(6) developing other innovative Youth smoking and substance abuse prevention programs;

(7) providing targeted training and information for parents;

(8) maintaining a library open to the public of Foundation-funded studies, reports and other publications related to the cause and prevention of Youth smoking and substance abuse;

(9) tracking and monitoring Youth smoking and substance abuse, with a focus on the reasons for any increases or failures to decrease Youth smoking and

substance abuse and what actions can be taken to reduce Youth smoking and substance abuse;

(10) receiving, controlling, and managing contributions from other entities to further the purposes described in this Agreement; and

(11) receiving, controlling, and managing such funds paid by the Participating Manufacturers pursuant to subsections VI(b) and VI(c) above.

(g) FOUNDATION GRANT-MAKING. The Foundation is authorized to make grants from the National Public Education Fund to Settling States and their political subdivisions to carry out sustained advertising and education programs to (1) counter the use by Youth of Tobacco Products, and (2) educate consumers about the cause and prevention of diseases associated with the use of Tobacco Products. In making such grants, the Foundation shall consider whether the Settling State or political subdivision applying for such grant:

(1) demonstrates the extent of the problem regarding Youth smoking in such Settling State or political subdivision;

(2) either seeks the grant to implement a model program developed by the Foundation or provides the Foundation with a specific plan for such applicant's intended use of the grant monies, including demonstrating such applicant's ability to develop an effective advertising/education campaign and to assess the effectiveness of such advertising/education campaign;

(3) has other funds readily available to carry out a sustained advertising and education program to (A) counter the use by Youth of Tobacco Products, and (B) educate consumers about the cause and prevention of diseases associated with the use of Tobacco Products; and

(4) is a Settling State that has not severed this section VI from its settlement with the Participating Manufacturers pursuant to subsection VI(i) below, or is a political subdivision in such a Settling State.

(h) FOUNDATION ACTIVITIES. The Foundation shall not engage in, nor shall any of the Foundation's money be used to engage in, any political activities or lobbying, including, but not limited to, support of or opposition to candidates, ballot initiatives, referenda or other similar activities. The National Public Education Fund shall be used only for public education and advertising regarding the addictiveness, health effects, and social costs related to the use of tobacco products and shall not be used for any personal attack on, or vilification of, any person (whether by name or business affiliation), company, or governmental agency, whether individually or collectively. The Foundation shall work to ensure that its activities are carried out in a culturally and linguistically appropriate manner. The Foundation's activities (including the National Public Education Fund) shall be carried out solely within the States. The payments described in subsections VI(b) and VI(c) above are made at the direction and on behalf of Settling States. By making such payments in such manner, the Participating Manufacturers do not undertake and expressly disclaim any responsibility with respect to the creation, operation, liabilities, or tax status of the Foundation or the National Public Education Fund.

(i) SEVERANCE OF THIS SECTION. If the Attorney General of a Settling State determines that such Settling State may not lawfully enter into this section VI as a matter of applicable state law, such Attorney General may sever this section VI from its settlement with the Participating Manufacturers by giving written notice of such

severance to each Participating Manufacturer and NAAG pursuant to subsection XVIII(k) hereof. If any Settling State exercises its right to sever this section VI, this section VI shall not be considered a part of the specific settlement between such Settling State and the Participating Manufacturers, and this section VI shall not be enforceable by or in such Settling State. The payment obligation of subsections VI(b) and VI(c) hereof shall apply regardless of a determination by one or more Settling States to sever section VI hereof; provided, however, that if all Settling States sever section VI hereof, the payment obligations of subsections (b) and (c) hereof shall be null and void. If the Attorney General of a Settling State that severed this section VI subsequently determines that such Settling State may lawfully enter into this section VI as a matter of applicable state law, such Attorney General may rescind such Settling State's previous severance of this section VI by giving written notice of such rescission to each Participating Manufacturer and NAAG pursuant to subsection XVIII(k). If any Settling State rescinds such severance, this section VI shall be considered a part of the specific settlement between such Settling State and the Participating Manufacturers (including for purposes of subsection (g)(4)), and this section VI shall be enforceable by and in such Settling State.

VII. ENFORCEMENT

(a) JURISDICTION. Each Participating Manufacturer and each Settling State acknowledge that the Court: (1) has jurisdiction over the subject matter of the action identified in Exhibit D in such Settling State and over each Participating Manufacturer; (2) shall retain exclusive jurisdiction for the purposes of implementing and enforcing this Agreement and the Consent Decree as to such Settling State; and (3) except as provided in subsections IX(d), XI(c) and XVII(d) and Exhibit O, shall be the only court to which

disputes under this Agreement or the Consent Decree are presented as to such Settling State. Provided, however, that notwithstanding the foregoing, the Escrow Court (as defined in the Escrow Agreement) shall have exclusive jurisdiction, as provided in section 15 of the Escrow Agreement, over any suit, action or proceeding seeking to interpret or enforce any provision of, or based on any right arising out of, the Escrow Agreement.

(b) ENFORCEMENT OF CONSENT DECREE. Except as expressly provided in the Consent Decree, any Settling State or Released Party may apply to the Court to enforce the terms of the Consent Decree (or for a declaration construing any such term) with respect to alleged violations within such Settling State. A Settling State may not seek to enforce the Consent Decree of another Settling State; provided, however, that nothing contained herein shall affect the ability of any Settling State to (1) coordinate state enforcement actions or proceedings, or (2) file or join any amicus brief. In the event that the Court determines that any Participating Manufacturer or Settling State has violated the Consent Decree within such Settling State, the party that initiated the proceedings may request any and all relief available within such Settling State pursuant to the Consent Decree.

(c) ENFORCEMENT OF THIS AGREEMENT.

(1) Except as provided in subsections IX(d), XI(c), XVII(d) and Exhibit O, any Settling State or Participating Manufacturer may bring an action in the Court to enforce the terms of this Agreement (or for a declaration construing any such term ("Declaratory Order")) with respect to disputes, alleged violations or alleged breaches within such Settling State.

(2) Before initiating such proceedings, a party shall provide 30 days' written notice to the Attorney General of each Settling State, to NAAG, and to each Participating Manufacturer of its intent to initiate proceedings pursuant to this subsection. The 30-day notice period may be shortened in the event that the relevant Attorney General reasonably determines that a compelling time-sensitive public health and safety concern requires more immediate action.

(3) In the event that the Court determines that any Participating Manufacturer or Settling State has violated or breached this Agreement, the party that initiated the proceedings may request an order restraining such violation or breach, and/or ordering compliance within such Settling State (an "Enforcement Order").

(4) If an issue arises as to whether a Participating Manufacturer has failed to comply with an Enforcement Order, the Attorney General for the Settling State in question may seek an order for interpretation or for monetary, civil contempt or criminal sanctions to enforce compliance with such Enforcement Order.

(5) If the Court finds that a good-faith dispute exists as to the meaning of the terms of this Agreement or a Declaratory Order, the Court may in its discretion determine to enter a Declaratory Order rather than an Enforcement Order.

(6) Whenever possible, the parties shall seek to resolve an alleged violation of this Agreement by discussion pursuant to subsection XVIII(m) of this Agreement. In addition, in determining whether to seek an Enforcement Order, or in determining whether to seek an order for monetary, civil contempt or criminal

sanctions for any claimed violation of an Enforcement Order, the Attorney General shall give good-faith consideration to whether the Participating Manufacturer that is claimed to have violated this Agreement has taken appropriate and reasonable steps to cause the claimed violation to be cured, unless such party has been guilty of a pattern of violations of like nature.

(d) RIGHT OF REVIEW. All orders and other judicial determinations made by any court in connection with this Agreement or any Consent Decree shall be subject to all available appellate review, and nothing in this Agreement or any Consent Decree shall be deemed to constitute a waiver of any right to any such review.

(e) APPLICABILITY. This Agreement and the Consent Decree apply only to the Participating Manufacturers in their corporate capacity acting through their respective successors and assigns, directors, officers, employees, agents, subsidiaries, divisions, or other internal organizational units of any kind or any other entities acting in concert or participation with them. The remedies, penalties and sanctions that may be imposed or assessed in connection with a breach or violation of this Agreement or the Consent Decree (or any Declaratory Order or Enforcement Order issued in connection with this Agreement or the Consent Decree) shall only apply to the Participating Manufacturers, and shall not be imposed or assessed against any employee, officer or director of any Participating Manufacturer, or against any other person or entity as a consequence of such breach or violation, and the Court shall have no jurisdiction to do so.

(f) COORDINATION OF ENFORCEMENT. The Attorneys General of the Settling States (through NAAG) shall monitor potential conflicting interpretations by courts of different States of this Agreement and the Consent Decrees. The Settling States shall use their best

efforts, in cooperation with the Participating Manufacturers, to coordinate and resolve the effects of such conflicting interpretations as to matters that are not exclusively local in nature.

(g) INSPECTION AND DISCOVERY RIGHTS. Without limitation on whatever other rights to access they may be permitted by law, following State-Specific Finality in a Settling State and for seven years thereafter, representatives of the Attorney General of such Settling State may, for the purpose of enforcing this Agreement and the Consent Decree, upon reasonable cause to believe that a violation of this Agreement or the Consent Decree has occurred, and upon reasonable prior written notice (but in no event less than 10 Business Days): (1) have access during regular office hours to inspect and copy all relevant non-privileged, non-work-product books, records, meeting agenda and minutes, and other documents (whether in hard copy form or stored electronically) of each Participating Manufacturer insofar as they pertain to such believed violation; and (2) interview each Participating Manufacturer's directors, officers and employees (who shall be entitled to have counsel present) with respect to relevant, non-privileged, non-work-product matters pertaining to such believed violation. Documents and information provided to representatives of the Attorney General of such Settling State pursuant to this section VII shall be kept confidential by the Settling States, and shall be utilized only by the Settling States and only for purposes of enforcing this Agreement, the Consent Decree and the criminal law. The inspection and discovery rights provided to such Settling State pursuant to this subsection shall be coordinated through NAAG so as to avoid repetitive and excessive inspection and discovery.

VIII. CERTAIN ONGOING RESPONSIBILITIES OF THE SETTLING STATES

(a) Upon approval of the NAAG executive committee, NAAG will provide coordination and facilitation for the implementation and enforcement of this Agreement on behalf of the Attorneys General of the Settling States, including the following:

(1) NAAG will assist in coordinating the inspection and discovery activities referred to in subsections III(p)(3) and VII(g) regarding compliance with this Agreement by the Participating Manufacturers and any new tobacco-related trade associations.

(2) NAAG will convene at least two meetings per year and one major national conference every three years for the Attorneys General of the Settling States, the directors of the Foundation and three persons designated by each Participating Manufacturer. The purpose of the meetings and conference is to evaluate the success of this Agreement and coordinate efforts by the Attorneys General and the Participating Manufacturers to continue to reduce Youth smoking.

(3) NAAG will periodically inform NGA, NCSL, the National Association of Counties and the National League of Cities of the results of the meetings and conferences referred to in subsection (a)(2) above.

(4) NAAG will support and coordinate the efforts of the Attorneys General of the Settling States in carrying out their responsibilities under this Agreement.

(5) NAAG will perform the other functions specified for it in this Agreement, including the functions specified in section IV.

(b) Upon approval by the NAAG executive committee to assume the responsibilities outlined in subsection VIII(a) hereof, each Original Participating Manufacturer shall cause to be paid, beginning on December 31, 1998, and on December 31 of each year thereafter through and including December 31, 2007, its Relative Market Share of $150,000 per year to the Escrow Agent (to be credited to the Subsection VIII(b) Account), who shall disburse such monies to NAAG within 10 Business Days, to fund the activities described in subsection VIII(a).

(c) The Attorneys General of the Settling States, acting through NAAG, shall establish a fund ("The States' Antitrust/Consumer Protection Tobacco Enforcement Fund") in the form attached as Exhibit J, which will be maintained by such Attorneys General to supplement the Settling States' (1) enforcement and implementation of the terms of this Agreement and the Consent Decrees, and (2) investigation and litigation of potential violations of laws with respect to Tobacco Products, as set forth in Exhibit J. Each Original Participating Manufacturer shall on March 31, 1999, severally pay its Relative Market Share of $50,000,000 to the Escrow Agent (to be credited to the Subsection VIII(c) Account), who shall disburse such monies to NAAG upon the occurrence of State-Specific Finality in at least one Settling State. Such funds will be used in accordance with the provisions of Exhibit J.

IX. PAYMENTS

(a) ALL PAYMENTS INTO ESCROW. All payments made pursuant to this Agreement (except those payments made pursuant to section XVII) shall be made into escrow pursuant to the Escrow Agreement, and shall be credited to the appropriate Account established pursuant to the Escrow Agreement. Such payments shall be disbursed to the

beneficiaries or returned to the Participating Manufacturers only as provided in section XI and the Escrow Agreement. No payment obligation under this Agreement shall arise (1) unless and until the Escrow Court has approved and retained jurisdiction over the Escrow Agreement or (2) if such approval is reversed (unless and until such reversal is itself reversed). The parties agree to proceed as expeditiously as possible to resolve any issues that prevent approval of the Escrow Agreement. If any payment (other than the first initial payment under subsection IX(b)) is delayed because the Escrow Agreement has not been approved, such payment shall be due and payable (together with interest at the Prime Rate) within 10 Business Days after approval of the Escrow Agreement by the Escrow Court.

(b) INITIAL PAYMENTS. On the second Business Day after the Escrow Court approves and retains jurisdiction over the Escrow Agreement, each Original Participating Manufacturer shall severally pay to the Escrow Agent (to be credited to the Subsection IX(b) Account (First)) its Market Capitalization Percentage (as set forth in Exhibit K) of the base amount of $2,400,000,000. On January 10, 2000, each Original Participating Manufacturer shall severally pay to the Escrow Agent its Relative Market Share of the base amount of $2,472,000,000. On January 10, 2001, each Original Participating Manufacturer shall severally pay to the Escrow Agent its Relative Market Share of the base amount of $2,546,160,000. On January 10, 2002, each Original Participating Manufacturer shall severally pay to the Escrow Agent its Relative Market Share of the base amount of $2,622,544,800. On January 10, 2003, each Original Participating Manufacturer shall severally pay to the Escrow Agent its Relative Market Share of the base amount of $2,701,221,144. The payments pursuant to this subsection (b) due on or

after January 10, 2000 shall be credited to the Subsection IX(b) Account (Subsequent). The foregoing payments shall be modified in accordance with this subsection (b). The payments made by the Original Participating Manufacturers pursuant to this subsection (b) (other than the first such payment) shall be subject to the Volume Adjustment, the Non-Settling States Reduction and the offset for miscalculated or disputed payments described in subsection XI(i). The first payment due under this subsection (b) shall be subject to the Non-Settling States Reduction, but such reduction shall be determined as of the date one day before such payment is due (rather than the date 15 days before).

(c) ANNUAL PAYMENTS AND STRATEGIC CONTRIBUTION PAYMENTS.

(1) On April 15, 2000 and on April 15 of each year thereafter in perpetuity, each Original Participating Manufacturer shall severally pay to the Escrow Agent (to be credited to the Subsection IX(c)(1) Account) its Relative Market Share of the base amounts specified below, as such payments are modified in accordance with this subsection (c)(1):

YEAR	BASE AMOUNT
2000	$4,500,000,000
2001	$5,000,000,000
2002	$6,500,000,000
2003	$6,500,000,000
2004	$8,000,000,000
2005	$8,000,000,000
2006	$8,000,000,000
2007	$8,000,000,000
2008	$8,139,000,000
2009	$8,139,000,000
2010	$8,139,000,000
2011	$8,139,000,000
2012	$8,139,000,000
2013	$8,139,000,000
2014	$8,139,000,000
2015	$8,139,000,000
2016	$8,139,000,000
2017	$8,139,000,000
2018 and each year thereafter	$9,000,000,000

The payments made by the Original Participating Manufacturers pursuant to this subsection (c)(1) shall be subject to the Inflation Adjustment, the Volume Adjustment, the Previously Settled States Reduction, the Non-Settling States Reduction, the NPM Adjustment, the offset for miscalculated or disputed payments described in subsection XI(i), the Federal Tobacco Legislation Offset, the Litigating Releasing Parties Offset, and the offsets for claims over described in subsections XII(a)(4)(B) and XII(a)(8).

(2) On April 15, 2008 and on April 15 of each year thereafter through 2017, each Original Participating Manufacturer shall severally pay to the Escrow Agent (to be credited to the Subsection IX(c)(2) Account) its Relative Market Share of the base amount of $861,000,000, as such payments are modified in accordance with this subsection (c)(2). The payments made by the Original

Participating Manufacturers pursuant to this subsection (c)(2) shall be subject to the Inflation Adjustment, the Volume Adjustment, the NPM Adjustment, the offset for miscalculated or disputed payments described in subsection XI(i), the Federal Tobacco Legislation Offset, the Litigating Releasing Parties Offset, and the offsets for claims over described in subsections XII(a)(4)(B) and XII(a)(8). Such payments shall also be subject to the Non-Settling States Reduction; provided, however, that for purposes of payments due pursuant to this subsection (c)(2) (and corresponding payments by Subsequent Participating Manufacturers under subsection IX(i)), the Non-Settling States Reduction shall be derived as follows: (A) the payments made by the Original Participating Manufacturers pursuant to this subsection (c)(2) shall be allocated among the Settling States on a percentage basis to be determined by the Settling States pursuant to the procedures set forth in Exhibit U, and the resulting allocation percentages disclosed to the Escrow Agent, the Independent Auditor and the Original Participating Manufacturers not later than June 30, 1999; and (B) the Non-Settling States Reduction shall be based on the sum of the Allocable Shares so established pursuant to subsection (c)(2)(A) for those States that were Settling States as of the MSA Execution Date and as to which this Agreement has terminated as of the date 15 days before the payment in question is due.

(d) NON-PARTICIPATING MANUFACTURER ADJUSTMENT.

(1) CALCULATION OF NPM ADJUSTMENT FOR ORIGINAL PARTICIPATING MANUFACTURERS. To protect the public health gains achieved by this Agreement, certain payments made pursuant to this Agreement shall be subject to an NPM

Adjustment. Payments by the Original Participating Manufacturers to which the NPM Adjustment applies shall be adjusted as provided below:

(A) Subject to the provisions of subsections (d)(1)(C), (d)(1)(D) and (d)(2) below, each Allocated Payment shall be adjusted by subtracting from such Allocated Payment the product of such Allocated Payment amount multiplied by the NPM Adjustment Percentage. The "NPM Adjustment Percentage" shall be calculated as follows:

(i) If the Market Share Loss for the year immediately preceding the year in which the payment in question is due is less than or equal to 0 (zero), then the NPM Adjustment Percentage shall equal zero.

(ii) If the Market Share Loss for the year immediately preceding the year in which the payment in question is due is greater than 0 (zero) and less than or equal to 16 2/3 percentage points, then the NPM Adjustment Percentage shall be equal to the product of (x) such Market Share Loss and (y) 3 (three).

(iii) If the Market Share Loss for the year immediately preceding the year in which the payment in question is due is greater than 16 2/3 percentage points, then the NPM Adjustment Percentage shall be equal to the sum of (x) 50 percentage points and (y) the product of (1) the Variable Multiplier and (2) the result of such Market Share Loss minus 16 2/3 percentage points.

(B) Definitions:

(i) "Base Aggregate Participating Manufacturer Market Share" means the result of (x) the sum of the applicable Market Shares (the applicable Market Share to be that for 1997) of all present and former Tobacco Product Manufacturers that were Participating Manufacturers during the entire calendar year immediately preceding the year in which the payment in question is due minus (y) 2 (two) percentage points.

(ii) "Actual Aggregate Participating Manufacturer Market Share" means the sum of the applicable Market Shares of all present and former Tobacco Product Manufacturers that were Participating Manufacturers during the entire calendar year immediately preceding the year in which the payment in question is due (the applicable Market Share to be that for the calendar year immediately preceding the year in which the payment in question is due).

(iii) "Market Share Loss" means the result of (x) the Base Aggregate Participating Manufacturer Market Share minus (y) the Actual Aggregate Participating Manufacturer Market Share.

(iv) "Variable Multiplier" equals 50 divided by the result of (x) the Base Aggregate Participating Manufacturer Market Share minus (y) 16 2/3 percentage points.

(C) On or before February 2 of each year following a year in which there was a Market Share Loss greater than zero, a nationally recognized firm of economic consultants (the "Firm") shall determine whether the disadvantages experienced as a result of the provisions of this Agreement were a significant factor contributing to the Market Share Loss for the year in question. If the Firm determines that the disadvantages experienced as a result of the provisions of this Agreement were a significant factor contributing to the Market Share Loss for the year in question, the NPM Adjustment described in subsection IX(d)(1) shall apply. If the Firm determines that the disadvantages experienced as a result of the provisions of this Agreement were not a significant factor contributing to the Market Share Loss for the year in question, the NPM Adjustment described in subsection IX(d)(1) shall not apply. The Original Participating Manufacturers, the Settling States, and the Attorneys General for the Settling States shall cooperate to ensure that the determination described in this subsection (1)(C) is timely made. The Firm shall be acceptable to (and the principals responsible for this assignment shall be acceptable to) both the Original Participating Manufacturers and a majority of those Attorneys General who are both the Attorney General of a Settling State and a member of the NAAG executive committee at the time in question (or in the event no such firm or no such principals shall be acceptable to such parties, National Economic Research Associates, Inc., or its successors by merger, acquisition or otherwise ("NERA"), acting

through a principal or principals acceptable to such parties, if such a person can be identified and, if not, acting through a principal or principals identified by NERA, or a successor firm selected by the CPR Institute for Dispute Resolution). As soon as practicable after the MSA Execution Date, the Firm shall be jointly retained by the Settling States and the Original Participating Manufacturers for the purpose of making the foregoing determination, and the Firm shall provide written notice to each Settling State, to NAAG, to the Independent Auditor and to each Participating Manufacturer of such determination. The determination of the Firm with respect to this issue shall be conclusive and binding upon all parties, and shall be final and non-appealable. The reasonable fees and expenses of the Firm shall be paid by the Original Participating Manufacturers according to their Relative Market Shares. Only the Participating Manufacturers and the Settling States, and their respective counsel, shall be entitled to communicate with the Firm with respect to the Firm's activities pursuant to this subsection (1)(C).

(D) No NPM Adjustment shall be made with respect to a payment if the aggregate number of Cigarettes shipped in or to the fifty United States, the District of Columbia and Puerto Rico in the year immediately preceding the year in which the payment in question is due by those Participating Manufacturers that had become Participating Manufacturers prior to 14 days after the MSA Execution Date is greater than the aggregate number of Cigarettes shipped in or to the fifty United States, the

District of Columbia, and Puerto Rico in 1997 by such Participating Manufacturers (and any of their Affiliates that made such shipments in 1997, as demonstrated by certified audited statements of such Affiliates' shipments, and that do not continue to make such shipments after the MSA Execution Date because the responsibility for such shipments has been transferred to one of such Participating Manufacturers). Measurements of shipments for purposes of this subsection (D) shall be made in the manner prescribed in subsection II(mm); in the event that such shipment data is unavailable for any Participating Manufacturer for 1997, such Participating Manufacturer's shipment volume for such year shall be measured in the manner prescribed in subsection II(z).

(2) ALLOCATION AMONG SETTLING STATES OF NPM ADJUSTMENT FOR ORIGINAL PARTICIPATING MANUFACTURERS.

(A) The NPM Adjustment set forth in subsection (d)(1) shall apply to the Allocated Payments of all Settling States, except as set forth below.

(B) A Settling State's Allocated Payment shall not be subject to an NPM Adjustment: (i) if such Settling State continuously had a Qualifying Statute (as defined in subsection (2)(E) below) in full force and effect during the entire calendar year immediately preceding the year in which the payment in question is due, and diligently enforced the provisions of such statute during such entire calendar year; or (ii) if such Settling State enacted the Model Statute (as defined in subsection (2)(E) below) for the first time during the calendar year immediately preceding the year in

which the payment in question is due, continuously had the Model Statute in full force and effect during the last six months of such calendar year, and diligently enforced the provisions of such statute during the period in which it was in full force and effect.

(C) The aggregate amount of the NPM Adjustments that would have applied to the Allocated Payments of those Settling States that are not subject to an NPM Adjustment pursuant to subsection (2)(B) shall be reallocated among all other Settling States pro rata in proportion to their respective Allocable Shares (the applicable Allocable Shares being those listed in Exhibit A), and such other Settling States' Allocated Payments shall be further reduced accordingly.

(D) This subsection (2)(D) shall apply if the amount of the NPM Adjustment applied pursuant to subsection (2)(A) to any Settling State plus the amount of the NPM Adjustments reallocated to such Settling State pursuant to subsection (2)(C) in any individual year would either (i) exceed such Settling State's Allocated Payment in that year, or (ii) if subsection (2)(F) applies to the Settling State in question, exceed 65% of such Settling State's Allocated Payment in that year. For each Settling State that has an excess as described in the preceding sentence, the excess amount of NPM Adjustment shall be further reallocated among all other Settling States whose Allocated Payments are subject to an NPM Adjustment and that do not have such an excess, pro rata in proportion to their respective Allocable Shares, and such other Settling States' Allocated

Payments shall be further reduced accordingly. The provisions of this subsection (2)(D) shall be repeatedly applied in any individual year until either (i) the aggregate amount of NPM Adjustments has been fully reallocated or (ii) the full amount of the NPM Adjustments subject to reallocation under subsection (2)(C) or (2)(D) cannot be fully reallocated in any individual year as described in those subsections because (x) the Allocated Payment in that year of each Settling State that is subject to an NPM Adjustment and to which subsection (2)(F) does not apply has been reduced to zero, and (y) the Allocated Payment in that year of each Settling State to which subsection (2)(F) applies has been reduced to 35% of such Allocated Payment.

(E) A "Qualifying Statute" means a Settling State's statute, regulation, law and/or rule (applicable everywhere the Settling State has authority to legislate) that effectively and fully neutralizes the cost disadvantages that the Participating Manufacturers experience vis- -vis Non-Participating Manufacturers within such Settling State as a result of the provisions of this Agreement. Each Participating Manufacturer and each Settling State agree that the model statute in the form set forth in Exhibit T (the "Model Statute"), if enacted without modification or addition (except for particularized state procedural or technical requirements) and not in conjunction with any other legislative or regulatory proposal, shall constitute a Qualifying Statute. Each Participating Manufacturer agrees to support the enactment of such Model

Statute if such Model Statute is introduced or proposed (i) without modification or addition (except for particularized procedural or technical requirements), and (ii) not in conjunction with any other legislative proposal.

(F) If a Settling State (i) enacts the Model Statute without any modification or addition (except for particularized state procedural or technical requirements) and not in conjunction with any other legislative or regulatory proposal, (ii) uses its best efforts to keep the Model Statute in full force and effect by, among other things, defending the Model Statute fully in any litigation brought in state or federal court within such Settling State (including litigating all available appeals that may affect the effectiveness of the Model Statute), and (iii) otherwise complies with subsection (2)(B), but a court of competent jurisdiction nevertheless invalidates or renders unenforceable the Model Statute with respect to such Settling State, and but for such ruling the Settling State would have been exempt from an NPM Adjustment under subsection (2)(B), then the NPM Adjustment (including reallocations pursuant to subsections (2)(C) and (2)(D)) shall still apply to such Settling State's Allocated Payments but in any individual year shall not exceed 65% of the amount of such Allocated Payments.

(G) In the event a Settling State proposes and/or enacts a statute, regulation, law and/or rule (applicable everywhere the Settling State has authority to legislate) that is not the Model Statute and asserts that such

statute, regulation, law and/or rule is a Qualifying Statute, the Firm shall be jointly retained by the Settling States and the Original Participating Manufacturers for the purpose of determining whether or not such statute, regulation, law and/or rule constitutes a Qualifying Statute. The Firm shall make the foregoing determination within 90 days of a written request to it from the relevant Settling State (copies of which request the Settling State shall also provide to all Participating Manufacturers and the Independent Auditor), and the Firm shall promptly thereafter provide written notice of such determination to the relevant Settling State, NAAG, all Participating Manufacturers and the Independent Auditor. The determination of the Firm with respect to this issue shall be conclusive and binding upon all parties, and shall be final and non-appealable; provided, however, (i) that such determination shall be of no force and effect with respect to a proposed statute, regulation, law and/or rule that is thereafter enacted with any modification or addition; and (ii) that the Settling State in which the Qualifying Statute was enacted and any Participating Manufacturer may at any time request that the Firm reconsider its determination as to this issue in light of subsequent events (including, without limitation, subsequent judicial review, interpretation, modification and/or disapproval of a Settling State's Qualifying Statute, and the manner and/or the effect of enforcement of such Qualifying Statute). The Original Participating Manufacturers shall severally pay their Relative Market Shares of the reasonable fees and expenses of the Firm. Only the

Participating Manufacturers and Settling States, and their respective counsel, shall be entitled to communicate with the Firm with respect to the Firm's activities pursuant to this subsection (2)(G).

(H) Except as provided in subsection (2)(F), in the event a Qualifying Statute is enacted within a Settling State and is thereafter invalidated or declared unenforceable by a court of competent jurisdiction, otherwise rendered not in full force and effect, or, upon reconsideration by the Firm pursuant to subsection (2)(G) determined not to constitute a Qualifying Statute, then such Settling State's Allocated Payments shall be fully subject to an NPM Adjustment unless and until the requirements of subsection (2)(B) have been once again satisfied.

(3) ALLOCATION OF NPM ADJUSTMENT AMONG ORIGINAL PARTICIPATING MANUFACTURERS. The portion of the total amount of the NPM Adjustment to which the Original Participating Manufacturers are entitled in any year that can be applied in such year consistent with subsection IX(d)(2) (the "Available NPM Adjustment") shall be allocated among them as provided in this subsection IX(d)(3).

(A) The "Base NPM Adjustment" shall be determined for each Original Participating Manufacturer in such year as follows:

(i) For those Original Participating Manufacturers whose Relative Market Shares in the year immediately preceding the year in which the NPM Adjustment in question is applied exceed or are

equal to their respective 1997 Relative Market Shares, the Base NPM Adjustment shall equal 0 (zero).

(ii) For those Original Participating Manufacturers whose Relative Market Shares in the year immediately preceding the year in which the NPM Adjustment in question is applied are less than their respective 1997 Relative Market Shares, the Base NPM Adjustment shall equal the result of (x) the difference between such Original Participating Manufacturer's Relative Market Share in such preceding year and its 1997 Relative Market Share multiplied by both (y) the number of individual Cigarettes (expressed in thousands of units) shipped in or to the United States, the District of Columbia and Puerto Rico by all the Original Participating Manufacturers in such preceding year (determined in accordance with subsection II(mm)) and (z) $20 per each thousand units of Cigarettes (as this number is adjusted pursuant to subsection IX(d)(3)(C) below).

(iii) For those Original Participating Manufacturers whose Base NPM Adjustment, if calculated pursuant to subsection (ii) above, would exceed $300 million (as this number is adjusted pursuant to subsection IX(d)(3)(C) below), the Base NPM Adjustment shall equal $300 million (or such adjusted number, as provided in subsection IX(d)(3)(C) below).

(B) The share of the Available NPM Adjustment each Original Participating Manufacturer is entitled to shall be calculated as follows:

(i) If the Available NPM Adjustment the Original Participating Manufacturers are entitled to in any year is less than or equal to the sum of the Base NPM Adjustments of all Original Participating Manufacturers in such year, then such Available NPM Adjustment shall be allocated among those Original Participating Manufacturers whose Base NPM Adjustment is not equal to 0 (zero) pro rata in proportion to their respective Base NPM Adjustments.

(ii) If the Available NPM Adjustment the Original Participating Manufacturers are entitled to in any year exceeds the sum of the Base NPM Adjustments of all Original Participating Manufacturers in such year, then (x) the difference between such Available NPM Adjustment and such sum of the Base NPM Adjustments shall be allocated among the Original Participating Manufacturers pro rata in proportion to their Relative Market Shares (the applicable Relative Market Shares to be those in the year immediately preceding such year), and (y) each Original Participating Manufacturer's share of such Available NPM Adjustment shall equal the sum of (1) its Base NPM Adjustment for such year, and (2) the amount allocated to such Original Participating Manufacturer pursuant to clause (x).

(iii) If an Original Participating Manufacturer's share of the Available NPM Adjustment calculated pursuant to subsection IX(d)(3)(B)(i) or IX(d)(3)(B)(ii) exceeds such Original Participating Manufacturer's payment amount to which such NPM Adjustment applies (as such payment amount has been determined pursuant to step B of clause "Seventh" of subsection IX(j)), then (1) such Original Participating Manufacturer's share of the Available NPM Adjustment shall equal such payment amount, and (2) such excess shall be reallocated among the other Original Participating Manufacturers pro rata in proportion to their Relative Market Shares.

(C) Adjustments:

(i) For calculations made pursuant to this subsection IX(d)(3) (if any) with respect to payments due in the year 2000, the number used in subsection IX(d)(3)(A)(ii)(z) shall be $20 and the number used in subsection IX(d)(3)(A)(iii) shall be $300 million. Each year thereafter, both these numbers shall be adjusted upward or downward by multiplying each of them by the quotient produced by dividing (x) the average revenue per Cigarette of all the Original Participating Manufacturers in the year immediately preceding such year, by (y) the average revenue per Cigarette of all the Original Participating Manufacturers in the year immediately preceding such immediately preceding year.

(ii) For purposes of this subsection, the average revenue per Cigarette of all the Original Participating Manufacturers in any year shall equal (x) the aggregate revenues of all the Original Participating Manufacturers from sales of Cigarettes in the fifty United States, the District of Columbia and Puerto Rico after Federal excise taxes and after payments pursuant to this Agreement and the tobacco litigation Settlement Agreements with the States of Florida, Mississippi, Minnesota and Texas (as such revenues are reported to the United States Securities and Exchange Commission ("SEC") for such year (either independently by the Original Participating Manufacturer or as part of consolidated financial statements reported to the SEC by an Affiliate of the Original Participating Manufacturers) or, in the case of an Original Participating Manufacturer that does not report income to the SEC, as reported in financial statements prepared in accordance with United States generally accepted accounting principles and audited by a nationally recognized accounting firm), divided by (y) the aggregate number of the individual Cigarettes shipped in or to the United States, the District of Columbia and Puerto Rico by all the Original Participating Manufacturers in such year (determined in accordance with subsection II(mm)).

(D) In the event that in the year immediately preceding the year in which the NPM Adjustment in question is applied both (x) the Relative

Market Share of Lorillard Tobacco Company (or of its successor) ("Lorillard") was less than or equal to 20.0000000%, and (y) the number of individual Cigarettes shipped in or to the United States, the District of Columbia and Puerto Rico by Lorillard (determined in accordance with subsection II(mm)) (for purposes of this subsection (D), "Volume") was less than or equal to 70 billion, Lorillard's and Philip Morris Incorporated's (or its successor's) ("Philip Morris") shares of the Available NPM Adjustment calculated pursuant to subsections (3)(A)-(C) above shall be further reallocated between Lorillard and Philip Morris as follows (this subsection (3)(D) shall not apply in the year in which either of the two conditions specified in this sentence is not satisfied):

(i) Notwithstanding subsections (A)-(C) of this subsection (d)(3), but subject to further adjustment pursuant to subsections (D)(ii) and (D)(iii) below, Lorillard's share of the Available NPM Adjustment shall equal its Relative Market Share of such Available NPM Adjustment (the applicable Relative Market Share to be that in the year immediately preceding the year in which such NPM Adjustment is applied). The dollar amount of the difference between the share of the Available NPM Adjustment Lorillard is entitled to pursuant to the preceding sentence and the share of the Available NPM Adjustment it would be entitled to in the same year pursuant to subsections (d)(3)(A)-(C) shall be reallocated to Philip Morris and used to decrease or increase, as the case may be,

Philip Morris's share of the Available NPM Adjustment in such year calculated pursuant to subsections (d)(3)(A)-(C).

(ii) In the event that in the year immediately preceding the year in which the NPM Adjustment in question is applied either (x) Lorillard's Relative Market Share was greater than 15.0000000% (but did not exceed 20.0000000%), or (y) Lorillard's Volume was greater than 50 billion (but did not exceed 70 billion), or both, Lorillard's share of the Available NPM Adjustment calculated pursuant to subsection (d)(3)(D)(i) shall be reduced by a percentage equal to the greater of (1) 10.0000000% for each percentage point (or fraction thereof) of excess of such Relative Market Share over 15.0000000% (if any), or (2) 2.5000000% for each billion (or fraction thereof) of excess of such Volume over 50 billion (if any). The dollar amount by which Lorillard's share of the Available NPM Adjustment is reduced in any year pursuant to this subsection (D)(ii) shall be reallocated to Philip Morris and used to increase Philip Morris's share of the Available NPM Adjustment in such year.

(iii) In the event that in any year a reallocation of the shares of the Available NPM Adjustment between Lorillard and Philip Morris pursuant to this subsection (d)(3)(D) results in Philip Morris's share of the Available NPM Adjustment in such year exceeding the greater of (x) Philip Morris's Relative Market Share

of such Available NPM Adjustment (the applicable Relative Market Share to be that in the year immediately preceding such year), or (y) Philip Morris's share of the Available NPM Adjustment in such year calculated pursuant to subsections (d)(3)(A)-(C), Philip Morris's share of the Available NPM Adjustment in such year shall be reduced to equal the greater of (x) or (y) above. In such instance, the dollar amount by which Philip Morris's share of the Available NPM Adjustment is reduced pursuant to the preceding sentence shall be reallocated to Lorillard and used to increase Lorillard's share of the Available NPM Adjustment in such year.

(iv) In the event that either Philip Morris or Lorillard is treated as a Non-Participating Manufacturer for purposes of this subsection IX(d)(3) pursuant to subsection XVIII(w)(2)(A), this subsection (3)(D) shall not be applied, and the Original Participating Manufacturers' shares of the Available NPM Adjustment shall be determined solely as described in subsections (3)(A)-(C).

(4) NPM ADJUSTMENT FOR SUBSEQUENT PARTICIPATING MANUFACTURERS. Subject to the provisions of subsection IX(i)(3), a Subsequent Participating Manufacturer shall be entitled to an NPM Adjustment with respect to payments due from such Subsequent Participating Manufacturer in any year during which an NPM Adjustment is applicable under subsection (d)(1) above to payments due

from the Original Participating Manufacturers. The amount of such NPM Adjustment shall equal the product of (A) the NPM Adjustment Percentage for such year multiplied by (B) the sum of the payments due in the year in question from such Subsequent Participating Manufacturer that correspond to payments due from Original Participating Manufacturers pursuant to subsection IX(c) (as such payment amounts due from such Subsequent Participating Manufacturer have been adjusted and allocated pursuant to clauses "First" through "Fifth" of subsection IX(j)). The NPM Adjustment to payments by each Subsequent Participating Manufacturer shall be allocated and reallocated among the Settling States in a manner consistent with subsection (d)(2) above.

(e) SUPPLEMENTAL PAYMENTS. Beginning on April 15, 2004, and on April 15 of each year thereafter in perpetuity, in the event that the sum of the Market Shares of the Participating Manufacturers that were Participating Manufacturers during the entire calendar year immediately preceding the year in which the payment in question would be due (the applicable Market Share to be that for the calendar year immediately preceding the year in which the payment in question would be due) equals or exceeds 99.0500000%, each Original Participating Manufacturer shall severally pay to the Escrow Agent (to be credited to the Subsection IX(e) Account) for the benefit of the Foundation its Relative Market Share of the base amount of $300,000,000, as such payments are modified in accordance with this subsection (e). Such payments shall be utilized by the Foundation to fund the national public education functions of the Foundation described in subsection VI(f)(1), in the manner described in and subject to the provisions of subsections VI(g) and VI(h). The payments made by the Original Participating

Manufacturers pursuant to this subsection shall be subject to the Inflation Adjustment, the Volume Adjustment, the Non-Settling States Reduction, and the offset for miscalculated or disputed payments described in subsection XI(i).

(f) PAYMENT RESPONSIBILITY. The payment obligations of each Participating Manufacturer pursuant to this Agreement shall be the several responsibility only of that Participating Manufacturer. The payment obligations of a Participating Manufacturer shall not be the obligation or responsibility of any Affiliate of such Participating Manufacturer. The payment obligations of a Participating Manufacturer shall not be the obligation or responsibility of any other Participating Manufacturer. Provided, however, that no provision of this Agreement shall waive or excuse liability under any state or federal fraudulent conveyance or fraudulent transfer law. Any Participating Manufacturer whose Market Share (or Relative Market Share) in any given year equals zero shall have no payment obligations under this Agreement in the succeeding year.

(g) CORPORATE STRUCTURES. Due to the particular corporate structures of R.J. Reynolds Tobacco Company ("Reynolds") and Brown & Williamson Tobacco Corporation ("B&W") with respect to their non-domestic tobacco operations, Reynolds and B&W shall be severally liable for their respective shares of each payment due pursuant to this Agreement up to (and their liability hereunder shall not exceed) the full extent of their assets used in and earnings derived from, the manufacture and/or sale in the States of Tobacco Products intended for domestic consumption, and no recourse shall be had against any of their other assets or earnings to satisfy such obligations.

(h) ACCRUAL OF INTEREST. Except as expressly provided otherwise in this Agreement, any payment due hereunder and not paid when due (or payments requiring

the accrual of interest under subsection XI(d)) shall accrue interest from and including the date such payment is due until (but not including) the date paid at the Prime Rate plus three percentage points.

(i) PAYMENTS BY SUBSEQUENT PARTICIPATING MANUFACTURERS.

(1) A Subsequent Participating Manufacturer shall have payment obligations under this Agreement only in the event that its Market Share in any calendar year exceeds 125 percent of its 1997 Market Share (subject to the provisions of subsection (i)(4)). In the year following any such calendar year, such Subsequent Participating Manufacturer shall make payments corresponding to those due in that same following year from the Original Participating Manufacturers pursuant to subsections VI(c) (except for the payment due on March 31, 1999), IX(c)(1), IX(c)(2) and IX(e). The amounts of such corresponding payments by a Subsequent Participating Manufacturer are in addition to the corresponding payments that are due from the Original Participating Manufacturers and shall be determined as described in subsections (2) and (3) below. Such payments by a Subsequent Participating Manufacturer shall (A) be due on the same dates as the corresponding payments are due from Original Participating Manufacturers; (B) be for the same purpose as such corresponding payments; and (C) be paid, allocated and distributed in the same manner as such corresponding payments.

(2) The base amount due from a Subsequent Participating Manufacturer on any given date shall be determined by multiplying (A) the corresponding base amount due on the same date from all of the Original Participating Manufacturers

(as such base amount is specified in the corresponding subsection of this Agreement and is adjusted by the Volume Adjustment (except for the provisions of subsection (B)(ii) of Exhibit E), but before such base amount is modified by any other adjustments, reductions or offsets) by (B) the quotient produced by dividing (i) the result of (x) such Subsequent Participating Manufacturer's applicable Market Share (the applicable Market Share being that for the calendar year immediately preceding the year in which the payment in question is due) minus (y) 125 percent of its 1997 Market Share, by (ii) the aggregate Market Shares of the Original Participating Manufacturers (the applicable Market Shares being those for the calendar year immediately preceding the year in which the payment in question is due).

(3) Any payment due from a Subsequent Participating Manufacturer under subsections (1) and (2) above shall be subject (up to the full amount of such payment) to the Inflation Adjustment, the Non-Settling States Reduction, the NPM Adjustment, the offset for miscalculated or disputed payments described in subsection XI(i), the Federal Tobacco Legislation Offset, the Litigating Releasing Parties Offset and the offsets for claims over described in subsections XII(a)(4)(B) and XII(a)(8), to the extent that such adjustments, reductions or offsets would apply to the corresponding payment due from the Original Participating Manufacturers. Provided, however, that all adjustments and offsets to which a Subsequent Participating Manufacturer is entitled may only be applied against payments by such Subsequent Participating Manufacturer, if any, that are due within 12 months after the date on which the Subsequent Participating

Manufacturer becomes entitled to such adjustment or makes the payment that entitles it to such offset, and shall not be carried forward beyond that time even if not fully used.

(4) For purposes of this subsection (i), the 1997 Market Share (and 125 percent thereof) of those Subsequent Participating Manufacturers that either (A) became a signatory to this Agreement more than 60 days after the MSA Execution Date or (B) had no Market Share in 1997, shall equal zero.

(j) ORDER OF APPLICATION OF ALLOCATIONS, OFFSETS, REDUCTIONS AND ADJUSTMENTS. The payments due under this Agreement shall be calculated as set forth below. The "base amount" referred to in clause "First" below shall mean (1) in the case of payments due from Original Participating Manufacturers, the base amount referred to in the subsection establishing the payment obligation in question; and (2) in the case of payments due from a Subsequent Participating Manufacturer, the base amount referred to in subsection (i)(2) for such Subsequent Participating Manufacturer. In the event that a particular adjustment, reduction or offset referred to in a clause below does not apply to the payment being calculated, the result of the clause in question shall be deemed to be equal to the result of the immediately preceding clause. (If clause "First" is inapplicable, the result of clause "First" will be the base amount of the payment in question prior to any offsets, reductions or adjustments.)

FIRST: the Inflation Adjustment shall be applied to the base amount of the payment being calculated;

SECOND: the Volume Adjustment (other than the provisions of subsection (B)(iii) of Exhibit E) shall be applied to the result of clause "First";

THIRD: the result of clause "Second" shall be reduced by the Previously Settled States Reduction;

FOURTH: the result of clause "Third" shall be reduced by the Non-Settling States Reduction;

FIFTH: in the case of payments due under subsections IX(c)(1) and IX(c)(2), the results of clause "Fourth" for each such payment due in the calendar year in question shall be apportioned among the Settling States pro rata in proportion to their respective Allocable Shares, and the resulting amounts for each particular Settling State shall then be added together to form such Settling State's Allocated Payment. In the case of payments due under subsection IX(i) that correspond to payments due under subsections IX(c)(1) or IX(c)(2), the results of clause "Fourth" for all such payments due from a particular Subsequent Participating Manufacturer in the calendar year in question shall be apportioned among the Settling States pro rata in proportion to their respective Allocable Shares, and the resulting amounts for each particular Settling State shall then be added together. (In the case of all other payments made pursuant to this Agreement, this clause "Fifth" is inapplicable.);

SIXTH: the NPM Adjustment shall be applied to the results of clause "Fifth" pursuant to subsections IX(d)(1) and (d)(2) (or, in the case of payments due from the Subsequent Participating Manufacturers, pursuant to subsection IX(d)(4));

SEVENTH: in the case of payments due from the Original Participating Manufacturers to which clause "Fifth" (and therefore clause "Sixth") does not apply, the result of clause "Fourth" shall be allocated among the Original Participating Manufacturers according to their Relative Market Shares. In the case of payments due

from the Original Participating Manufacturers to which clause "Fifth" applies: (A) the Allocated Payments of all Settling States determined pursuant to clause "Fifth" (prior to reduction pursuant to clause "Sixth") shall be added together; (B) the resulting sum shall be allocated among the Original Participating Manufacturers according to their Relative Market Shares and subsection (B)(iii) of Exhibit E hereto (if such subsection is applicable); (C) the Available NPM Adjustment (as determined pursuant to clause "Sixth") shall be allocated among the Original Participating Manufacturers pursuant to subsection IX(d)(3); (D) the respective result of step (C) above for each Original Participating Manufacturer shall be subtracted from the respective result of step (B) above for such Original Participating Manufacturer; and (E) the resulting payment amount due from each Original Participating Manufacturer shall then be allocated among the Settling States in proportion to the respective results of clause "Sixth" for each Settling State. The offsets described in clauses "Eighth" through "Twelfth" shall then be applied separately against each Original Participating Manufacturer's resulting payment shares (on a Settling State by Settling State basis) according to each Original Participating Manufacturer's separate entitlement to such offsets, if any, in the calendar year in question. (In the case of payments due from Subsequent Participating Manufacturers, this clause "Seventh" is inapplicable.)

EIGHTH: the offset for miscalculated or disputed payments described in subsection XI(i) (and any carry-forwards arising from such offset) shall be applied to the results of clause "Seventh" (in the case of payments due from the Original Participating Manufacturers) or to the results of clause "Sixth" (in the case of payments due from Subsequent Participating Manufacturers);

NINTH: the Federal Tobacco Legislation Offset (including any carry-forwards arising from such offset) shall be applied to the results of clause "Eighth";

TENTH: the Litigating Releasing Parties Offset (including any carry-forwards arising from such offset) shall be applied to the results of clause "Ninth";

ELEVENTH: the offset for claims over pursuant to subsection XII(a)(4)(B) (including any carry-forwards arising from such offset) shall be applied to the results of clause "Tenth";

TWELFTH: the offset for claims over pursuant to subsection XII(a)(8) (including any carry-forwards arising from such offset) shall be applied to the results of clause "Eleventh"; and

THIRTEENTH: in the case of payments to which clause "Fifth" applies, the Settling States' allocated shares of the payments due from each Participating Manufacturer (as such shares have been determined in step (E) of clause "Seventh" in the case of payments from the Original Participating Manufacturers or in clause "Sixth" in the case of payments from the Subsequent Participating Manufacturers, and have been reduced by clauses "Eighth" through "Twelfth") shall be added together to state the aggregate payment obligation of each Participating Manufacturer with respect to the payments in question. (In the case of a payment to which clause "Fifth" does not apply, the aggregate payment obligation of each Participating Manufacturer with respect to the payment in question shall be stated by the results of clause "Eighth.")

X. EFFECT OF FEDERAL TOBACCO-RELATED LEGISLATION

(a) If federal tobacco-related legislation is enacted on or before November 30, 2002, and if such legislation provides for payment(s) by any Original Participating

Manufacturer (whether by settlement payment, tax or any other means), all or part of which are actually made available to a Settling State ("Federal Funds"), each Original Participating Manufacturer shall receive a continuing dollar-for-dollar offset for any and all amounts that are paid by such Original Participating Manufacturer pursuant to such legislation and actually made available to such Settling State (except as described in subsections (b) and (c) below). Such offset shall be applied against the applicable Original Participating Manufacturer's share (determined as described in step E of clause "Seventh" of subsection IX(j)) of such Settling State's Allocated Payment, up to the full amount of such Original Participating Manufacturer's share of such Allocated Payment (as such share had been reduced by adjustment, if any, pursuant to the NPM Adjustment and has been reduced by offset, if any, pursuant to the offset for miscalculated or disputed payments). Such offset shall be made against such Original Participating Manufacturer's share of the first Allocated Payment due after such Federal Funds are first available for receipt by such Settling State. In the event that such offset would in any given year exceed such Original Participating Manufacturer's share of such Allocated Payment: (1) the offset to which such Original Participating Manufacturer is entitled under this section in such year shall be the full amount of such Original Participating Manufacturer's share of such Allocated Payment, and (2) all amounts not offset by reason of subsection (1) shall carry forward and be offset in the following year(s) until all such amounts have been offset.

(b) The offset described in subsection (a) shall apply only to that portion of Federal Funds, if any, that are either unrestricted as to their use, or restricted to any form of health care or to any use related to tobacco (including, but not limited to, tobacco

education, cessation, control or enforcement) (other than that portion of Federal Funds, if any, that is specifically applicable to tobacco growers or communities dependent on the production of tobacco or Tobacco Products). Provided, however, that the offset described in subsection (a) shall not apply to that portion of Federal Funds, if any, whose receipt by such Settling State is conditioned upon or appropriately allocable to:

(1) the relinquishment of rights or benefits under this Agreement (including the Consent Decree); or

(2) actions or expenditures by such Settling State, unless:

(A) such Settling State chooses to undertake such action or expenditure;

(B) such actions or expenditures do not impose significant constraints on public policy choices; or

(C) such actions or expenditures are both: (i) related to health care or tobacco (including, but not limited to, tobacco education, cessation, control or enforcement) and (ii) do not require such Settling State to expend state matching funds in an amount that is significant in relation to the amount of the Federal Funds made available to such Settling State.

(c) Subject to the provisions of subsection IX(i)(3), Subsequent Participating Manufacturers shall be entitled to the offset described in this section X to the extent that they are required to pay Federal Funds that would give rise to an offset under subsections (a) and (b) if paid by an Original Participating Manufacturer.

(d) Nothing in this section X shall (1) reduce the payments to be made to the Settling States under this Agreement other than those described in subsection IX(c) (or

corresponding payments under subsection IX(i)) of this Agreement; or (2) alter the Allocable Share used to determine each Settling State's share of the payments described in subsection IX(c) (or corresponding payments under subsection IX(i)) of this Agreement. Nothing in this section X is intended to or shall reduce the total amounts payable by the Participating Manufacturers to the Settling States under this Agreement by an amount greater than the amount of Federal Funds that the Settling States could elect to receive.

XI. CALCULATION AND DISBURSEMENT OF PAYMENTS

(a) INDEPENDENT AUDITOR TO MAKE ALL CALCULATIONS.

(1) Beginning with payments due in the year 2000, an Independent Auditor shall calculate and determine the amount of all payments owed pursuant to this Agreement, the adjustments, reductions and offsets thereto (and all resulting carry-forwards, if any), the allocation of such payments, adjustments, reductions, offsets and carry-forwards among the Participating Manufacturers and among the Settling States, and shall perform all other calculations in connection with the foregoing (including, but not limited to, determining Market Share, Relative Market Share, Base Aggregate Participating Manufacturer Market Share and Actual Aggregate Participating Manufacturer Market Share). The Independent Auditor shall promptly collect all information necessary to make such calculations and determinations. Each Participating Manufacturer and each Settling State shall provide the Independent Auditor, as promptly as practicable, with information in its possession or readily available to it necessary for the Independent Auditor to perform such calculations. The Independent Auditor shall

agree to maintain the confidentiality of all such information, except that the Independent Auditor may provide such information to Participating Manufacturers and the Settling States as set forth in this Agreement. The Participating Manufacturers and the Settling States agree to maintain the confidentiality of such information.

(2) Payments due from the Original Participating Manufacturers prior to January 1, 2000 (other than the first payment due pursuant to subsection IX(b)) shall be based on the 1998 Relative Market Shares of the Original Participating Manufacturers or, if the Original Participating Manufacturers are unable to agree on such Relative Market Shares, on their 1997 Relative Market Shares specified in Exhibit Q.

(b) IDENTITY OF INDEPENDENT AUDITOR. The Independent Auditor shall be a major, nationally recognized, certified public accounting firm jointly selected by agreement of the Original Participating Manufacturers and those Attorneys General of the Settling States who are members of the NAAG executive committee, who shall jointly retain the power to replace the Independent Auditor and appoint its successor. Fifty percent of the costs and fees of the Independent Auditor (but in no event more than $500,000 per annum), shall be paid by the Fund described in Exhibit J hereto, and the balance of such costs and fees shall be paid by the Original Participating Manufacturers, allocated among them according to their Relative Market Shares. The agreement retaining the Independent Auditor shall provide that the Independent Auditor shall perform the functions specified for it in this Agreement, and that it shall do so in the manner specified in this Agreement.

(c) RESOLUTION OF DISPUTES. Any dispute, controversy or claim arising out of or relating to calculations performed by, or any determinations made by, the Independent Auditor (including, without limitation, any dispute concerning the operation or application of any of the adjustments, reductions, offsets, carry-forwards and allocations described in subsection IX(j) or subsection XI(i)) shall be submitted to binding arbitration before a panel of three neutral arbitrators, each of whom shall be a former Article III federal judge. Each of the two sides to the dispute shall select one arbitrator. The two arbitrators so selected shall select the third arbitrator. The arbitration shall be governed by the United States Federal Arbitration Act.

(d) GENERAL PROVISIONS AS TO CALCULATION OF PAYMENTS.

(1) Not less than 90 days prior to the scheduled due date of any payment due pursuant to this Agreement ("Payment Due Date"), the Independent Auditor shall deliver to each other Notice Party a detailed itemization of all information required by the Independent Auditor to complete its calculation of (A) the amount due from each Participating Manufacturer with respect to such payment, and (B) the portion of such amount allocable to each entity for whose benefit such payment is to be made. To the extent practicable, the Independent Auditor shall specify in such itemization which Notice Party is requested to produce which information. Each Participating Manufacturer and each Settling State shall use its best efforts to promptly supply all of the required information that is within its possession or is readily available to it to the Independent Auditor, and in any event not less than 50 days prior to such Payment Due Date. Such best efforts obligation shall be continuing in the case of information that comes within the

possession of, or becomes readily available to, any Settling State or Participating Manufacturer after the date 50 days prior to such Payment Due Date.

(2) Not less than 40 days prior to the Payment Due Date, the Independent Auditor shall deliver to each other Notice Party (A) detailed preliminary calculations ("Preliminary Calculations") of the amount due from each Participating Manufacturer and of the amount allocable to each entity for whose benefit such payment is to be made, showing all applicable offsets, adjustments, reductions and carry-forwards and setting forth all the information on which the Independent Auditor relied in preparing such Preliminary Calculations, and (B) a statement of any information still required by the Independent Auditor to complete its calculations.

(3) Not less than 30 days prior to the Payment Due Date, any Participating Manufacturer or any Settling State that disputes any aspect of the Preliminary Calculations (including, but not limited to, disputing the methodology that the Independent Auditor employed, or the information on which the Independent Auditor relied, in preparing such calculations) shall notify each other Notice Party of such dispute, including the reasons and basis therefor.

(4) Not less than 15 days prior to the Payment Due Date, the Independent Auditor shall deliver to each other Notice Party a detailed recalculation (a "Final Calculation") of the amount due from each Participating Manufacturer, the amount allocable to each entity for whose benefit such payment is to be made, and the Account to which such payment is to be credited, explaining any changes from

the Preliminary Calculation. The Final Calculation may include estimates of amounts in the circumstances described in subsection (d)(5).

(5) The following provisions shall govern in the event that the information required by the Independent Auditor to complete its calculations is not in its possession by the date as of which the Independent Auditor is required to provide either a Preliminary Calculation or a Final Calculation.

(A) If the information in question is not readily available to any Settling State, any Original Participating Manufacturer or any Subsequent Participating Manufacturer, the Independent Auditor shall employ an assumption as to the missing information producing the minimum amount that is likely to be due with respect to the payment in question, and shall set forth its assumption as to the missing information in its Preliminary Calculation or Final Calculation, whichever is at issue. Any Original Participating Manufacturer, Subsequent Participating Manufacturer or Settling State may dispute any such assumption employed by the Independent Auditor in its Preliminary Calculation in the manner prescribed in subsection (d)(3) or any such assumption employed by the Independent Auditor in its Final Calculation in the manner prescribed in subsection (d)(6). If the missing information becomes available to the Independent Auditor prior to the Payment Due Date, the Independent Auditor shall promptly revise its Preliminary Calculation or Final Calculation (whichever is applicable) and shall promptly provide the revised calculation to each Notice Party, showing the newly available

information. If the missing information does not become available to the Independent Auditor prior to the Payment Due Date, the minimum amount calculated by the Independent Auditor pursuant to this subsection (A) shall be paid on the Payment Due Date, subject to disputes pursuant to subsections (d)(6) and (d)(8) and without prejudice to a later final determination of the correct amount. If the missing information becomes available to the Independent Auditor after the Payment Due Date, the Independent Auditor shall calculate the correct amount of the payment in question and shall apply any overpayment or underpayment as an offset or additional payment in the manner described in subsection (i).

(B) If the information in question is readily available to a Settling State, Original Participating Manufacturer or Subsequent Participating Manufacturer, but such Settling State, Original Participating Manufacturer or Subsequent Participating Manufacturer does not supply such information to the Independent Auditor, the Independent Auditor shall base the calculation in question on its best estimate of such information, and shall show such estimate in its Preliminary Calculation or Final Calculation, whichever is applicable. Any Original Participating Manufacturer, Subsequent Participating Manufacturer or Settling State (except the entity that withheld the information) may dispute such estimate employed by the Independent Auditor in its Preliminary Calculation in the manner prescribed in subsection (d)(3) or such estimate employed by the Independent Auditor in its Final Calculation in the manner prescribed in

subsection (d)(6). If the withheld information is not made available to the Independent Auditor more than 30 days prior to the Payment Due Date, the estimate employed by the Independent Auditor (as revised by the Independent Auditor in light of any dispute filed pursuant to the preceding sentence) shall govern the amounts to be paid on the Payment Due Date, subject to disputes pursuant to subsection (d)(6) and without prejudice to a later final determination of the correct amount. In the event that the withheld information subsequently becomes available, the Independent Auditor shall calculate the correct amount and shall apply any overpayment or underpayment as an offset or additional payment in the manner described in subsection (i).

(6) Not less than five days prior to the Payment Due Date, each Participating Manufacturer and each Settling State shall deliver to each Notice Party a statement indicating whether it disputes the Independent Auditor's Final Calculation and, if so, the disputed and undisputed amounts and the basis for the dispute. Except to the extent a Participating Manufacturer or a Settling State delivers a statement indicating the existence of a dispute by such date, the amounts set forth in the Independent Auditor's Final Calculation shall be paid on the Payment Due Date. Provided, however, that (A) in the event that the Independent Auditor revises its Final Calculation within five days of the Payment Due Date as provided in subsection (5)(A) due to receipt of previously missing information, a Participating Manufacturer or Settling State may dispute such revision pursuant to the procedure set forth in this subsection (6) at any time prior

to the Payment Due Date; and (B) prior to the date four years after the Payment Due Date, neither failure to dispute a calculation made by the Independent Auditor nor actual agreement with any calculation or payment to the Escrow Agent or to another payee shall waive any Participating Manufacturer's or Settling State's rights to dispute any payment (or the Independent Auditor's calculations with respect to any payment) after the Payment Due Date. No Participating Manufacturer and no Settling State shall have a right to raise any dispute with respect to any payment or calculation after the date four years after such payment's Payment Due Date.

(7) Each Participating Manufacturer shall be obligated to pay by the Payment Due Date the undisputed portion of the total amount calculated as due from it by the Independent Auditor's Final Calculation. Failure to pay such portion shall render the Participating Manufacturer liable for interest thereon as provided in subsection IX(h) of this Agreement, in addition to any other remedy available under this Agreement.

(8) As to any disputed portion of the total amount calculated to be due pursuant to the Final Calculation, any Participating Manufacturer that by the Payment Due Date pays such disputed portion into the Disputed Payments Account (as defined in the Escrow Agreement) shall not be liable for interest thereon even if the amount disputed was in fact properly due and owing. Any Participating Manufacturer that by the Payment Due Date does not pay such disputed portion into the Disputed Payments Account shall be liable for interest as

provided in subsection IX(h) if the amount disputed was in fact properly due and owing.

(9) On the same date that it makes any payment pursuant to this Agreement, each Participating Manufacturer shall deliver a notice to each other Notice Party showing the amount of such payment and the Account to which such payment is to be credited.

(10) On the first Business Day after the Payment Due Date, the Escrow Agent shall deliver to each other Notice Party a statement showing the amounts received by it from each Participating Manufacturer and the Accounts credited with such amounts.

(e) GENERAL TREATMENT OF PAYMENTS. The Escrow Agent may disburse amounts from an Account only if permitted, and only at such time as permitted, by this Agreement and the Escrow Agreement. No amounts may be disbursed to a Settling State other than funds credited to such Settling State's State-Specific Account (as defined in the Escrow Agreement). The Independent Auditor, in delivering payment instructions to the Escrow Agent, shall specify: the amount to be paid; the Account or Accounts from which such payment is to be disbursed; the payee of such payment (which may be an Account); and the Business Day on which such payment is to be made by the Escrow Agent. Except as expressly provided in subsection (f) below, in no event may any amount be disbursed from any Account prior to Final Approval.

(f) DISBURSEMENTS AND CHARGES NOT CONTINGENT ON FINAL APPROVAL. Funds may be disbursed from Accounts without regard to the occurrence of Final Approval in the following circumstances and in the following manner:

(1) PAYMENTS OF FEDERAL AND STATE TAXES. Federal, state, local or other taxes imposed with respect to the amounts credited to the Accounts shall be paid from such amounts. The Independent Auditor shall prepare and file any tax returns required to be filed with respect to the escrow. All taxes required to be paid shall be allocated to and charged against the Accounts on a reasonable basis to be determined by the Independent Auditor. Upon receipt of written instructions from the Independent Auditor, the Escrow Agent shall pay such taxes and charge such payments against the Account or Accounts specified in those instructions.

(2) PAYMENTS TO AND FROM DISPUTED PAYMENTS ACCOUNT. The Independent Auditor shall instruct the Escrow Agent to credit funds from an Account to the Disputed Payments Account when a dispute arises as to such funds, and shall instruct the Escrow Agent to credit funds from the Disputed Payments Account to the appropriate payee when such dispute is resolved with finality. The Independent Auditor shall provide the Notice Parties not less than 10 Business Days prior notice before instructing the Escrow Agent to disburse funds from the Disputed Payments Account.

(3) PAYMENTS TO A STATE-SPECIFIC ACCOUNT. Promptly following the occurrence of State-Specific Finality in any Settling State, such Settling State and the Original Participating Manufacturers shall notify the Independent Auditor of such occurrence. The Independent Auditor shall promptly thereafter notify each Notice Party of such State-Specific Finality and of the portions of the amounts in the Subsection IX(b) Account (First), Subsection IX(b) Account (Subsequent), Subsection IX(c)(1) Account and Subsection IX(c)(2) Account, respectively (as

such Accounts are defined in the Escrow Agreement), that are at such time held in such Accounts for the benefit of such Settling State, and which are to be transferred to the appropriate State-Specific Account for such Settling State. If neither the Settling State in question nor any Participating Manufacturer disputes such amounts or the occurrence of such State-Specific Finality by notice delivered to each other Notice Party not later than 10 Business Days after delivery by the Independent Auditor of the notice described in the preceding sentence, the Independent Auditor shall promptly instruct the Escrow Agent to make such transfer. If the Settling State in question or any Participating Manufacturer disputes such amounts or the occurrence of such State-Specific Finality by notice delivered to each other Notice Party not later than 10 Business Days after delivery by the Independent Auditor of the notice described in the second sentence of this subsection (f)(3), the Independent Auditor shall promptly instruct the Escrow Agent to credit the amount disputed to the Disputed Payments Account and the undisputed portion to the appropriate State-Specific Account. No amounts may be transferred or credited to a State-Specific Account for the benefit of any State as to which State-Specific Finality has not occurred or as to which this Agreement has terminated.

(4) PAYMENTS TO PARTIES OTHER THAN PARTICULAR SETTLING STATES.

(A) Promptly following the occurrence of State-Specific Finality in one Settling State, such Settling State and the Original Participating Manufacturers shall notify the Independent Auditor of such occurrence. The Independent Auditor shall promptly thereafter notify each Notice

Party of the occurrence of State-Specific Finality in at least one Settling State and of the amounts held in the Subsection VI(b) Account, Subsection VI(c) Account (First), and Subsection VIII(c) Account (as such Accounts are defined in the Escrow Agreement), if any. If neither any of the Settling States nor any of the Participating Manufacturers disputes such amounts or disputes the occurrence of State-Specific Finality in one Settling State, by notice delivered to each Notice Party not later than ten Business Days after delivery by the Independent Auditor of the notice described in the preceding sentence, the Independent Auditor shall promptly instruct the Escrow Agent to disburse the funds held in such Accounts to the Foundation or to the Fund specified in subsection VIII(c), as appropriate. If any Settling State or Participating Manufacturer disputes such amounts or the occurrence of such State-Specific Finality by notice delivered to each other Notice Party not later than 10 Business Days after delivery by the Independent Auditor of the notice described in the second sentence of this subsection (4)(A), the Independent Auditor shall promptly instruct the Escrow Agent to credit the amounts disputed to the Disputed Payments Account and to disburse the undisputed portion to the Foundation or to the Fund specified in subsection VIII(c), as appropriate.

(B) The Independent Auditor shall instruct the Escrow Agent to disburse funds on deposit in the Subsection VIII(b) Account and Subsection IX(e) Account (as such Accounts are defined in the Escrow Agreement) to NAAG or to the Foundation, as appropriate, within 10

Business Days after the date on which such amounts were credited to such Accounts.

(C) Promptly following the occurrence of State-Specific Finality in Settling States having aggregate Allocable Shares equal to at least 80% of the total aggregate Allocable Shares assigned to all States that were Settling States as of the MSA Execution Date, the Settling States and the Original Participating Manufacturers shall notify the Independent Auditor of such occurrence. The Independent Auditor shall promptly thereafter notify each Notice Party of the occurrence of such State-Specific Finality and of the amounts held in the Subsection VI(c) Account (Subsequent) (as such Account is defined in the Escrow Agreement), if any. If neither any of the Settling States nor any of the Participating Manufacturers disputes such amounts or disputes the occurrence of such State-Specific Finality, by notice delivered to each Notice Party not later than 10 Business Days after delivery by the Independent Auditor of the notice described in the preceding sentence, the Independent Auditor shall promptly instruct the Escrow Agent to disburse the funds held in such Account to the Foundation. If any Settling State or Participating Manufacturer disputes such amounts or the occurrence of such State-Specific Finality by notice delivered to each other Notice Party not later than 10 Business Days after delivery by the Independent Auditor of the notice described in the second sentence of this subsection (4)(C), the Independent Auditor shall promptly instruct the Escrow Agent to credit the amounts disputed to the Disputed

Payments Account and to disburse the undisputed portion to the Foundation.

(5) TREATMENT OF PAYMENTS FOLLOWING TERMINATION.

(A) AS TO AMOUNTS HELD FOR SETTLING STATES. Promptly upon the termination of this Agreement with respect to any Settling State (whether or not as part of the termination of this Agreement as to all Settling States) such State or any Participating Manufacturer shall notify the Independent Auditor of such occurrence. The Independent Auditor shall promptly thereafter notify each Notice Party of such termination and of the amounts held in the Subsection IX(b) Account (First), the Subsection IX(b) Account (Subsequent), the Subsection IX(c)(1) Account, the Subsection IX(c)(2) Account, and the State-Specific Account for the benefit of such Settling State. If neither the State in question nor any Participating Manufacturer disputes such amounts or the occurrence of such termination by notice delivered to each other Notice Party not later than 10 Business Days after delivery by the Independent Auditor of the notice described in the preceding sentence, the Independent Auditor shall promptly instruct the Escrow Agent to transfer such amounts to the Participating Manufacturers (on the basis of their respective contributions of such funds). If the State in question or any Participating Manufacturer disputes the amounts held in the Accounts or the occurrence of such termination by notice delivered to each other Notice Party not later than 10 Business Days after delivery by the Independent Auditor of the notice described in the

second sentence of this subsection (5)(A), the Independent Auditor shall promptly instruct the Escrow Agent to transfer the amount disputed to the Disputed Payments Account and the undisputed portion to the Participating Manufacturers (on the basis of their respective contributions of such funds).

(B) AS TO AMOUNTS HELD FOR OTHERS. If this Agreement is terminated with respect to all of the Settling States, the Original Participating Manufacturers shall promptly notify the Independent Auditor of such occurrence. The Independent Auditor shall promptly thereafter notify each Notice Party of such termination and of the amounts held in the Subsection VI(b) Account, the Subsection VI(c) Account (First), the Subsection VIII(b) Account, the Subsection VIII(c) Account and the Subsection IX(e) Account. If neither any such State nor any Participating Manufacturer disputes such amounts or the occurrence of such termination by notice delivered to each other Notice Party not later than 10 Business Days after delivery by the Independent Auditor of the notice described in the preceding sentence, the Independent Auditor shall promptly instruct the Escrow Agent to transfer such amounts to the Participating Manufacturers (on the basis of their respective contributions of such funds). If any such State or any Participating Manufacturer disputes the amounts held in the Accounts or the occurrence of such termination by notice delivered to each other Notice Party not later than 10 Business Days after delivery by the Independent Auditor of the notice described in the

second sentence of this subsection (5)(B), the Independent Auditor shall promptly instruct the Escrow Agent to credit the amount disputed to the Disputed Payments Account and transfer the undisputed portion to the Participating Manufacturers (on the basis of their respective contribution of such funds).

(C) AS TO AMOUNTS HELD IN THE SUBSECTION VI(C) ACCOUNT (SUBSEQUENT). If this Agreement is terminated with respect to Settling States having aggregate Allocable Shares equal to more than 20% of the total aggregate Allocable Shares assigned to those States that were Settling States as of the MSA Execution Date, the Original Participating Manufacturers shall promptly notify the Independent Auditor of such occurrence. The Independent Auditor shall promptly thereafter notify each Notice Party of such termination and of the amounts held in the Subsection VI(c) Account (Subsequent) (as defined in the Escrow Agreement). If neither any such State with respect to which this Agreement has terminated nor any Participating Manufacturer disputes such amounts or the occurrence of such termination by notice delivered to each other Notice Party not later than 10 Business Days after delivery by the Independent Auditor of the notice described in the preceding sentence, the Independent Auditor shall promptly instruct the Escrow Agent to transfer such amounts to the Participating Manufacturers (on the basis of their respective contributions of such funds). If any such State or any Participating Manufacturer disputes the amounts held in the Account or

the occurrence of such termination by notice delivered to each other Notice Party not later than 10 Business Days after delivery by the Independent Auditor of the notice described in the second sentence of this subsection (5)(C), the Independent Auditor shall promptly instruct the Escrow Agent to credit the amount disputed to the Disputed Payments Account and transfer the undisputed portion to the Participating Manufacturers (on the basis of their respective contribution of such funds).

(g) PAYMENTS TO BE MADE ONLY AFTER FINAL APPROVAL. Promptly following the occurrence of Final Approval, the Settling States and the Original Participating Manufacturers shall notify the Independent Auditor of such occurrence. The Independent Auditor shall promptly thereafter notify each Notice Party of the occurrence of Final Approval and of the amounts held in the State-Specific Accounts. If neither any of the Settling States nor any of the Participating Manufacturers disputes such amounts, disputes the occurrence of Final Approval or claims that this Agreement has terminated as to any Settling State for whose benefit the funds are held in a State-Specific Account, by notice delivered to each Notice Party not later than 10 Business Days after delivery by the Independent Auditor of such notice of Final Approval, the Independent Auditor shall promptly instruct the Escrow Agent to disburse the funds held in the State-Specific Accounts to the respective Settling States. If any Notice Party disputes such amounts or the occurrence of Final Approval, or claims that this Agreement has terminated as to any Settling State for whose benefit the funds are held in a State-Specific Account, by notice delivered to each other Notice Party not later than 10 Business Days after delivery by the Independent Auditor of such notice of Final Approval, the Independent Auditor shall

promptly instruct the Escrow Agent to credit the amounts disputed to the Disputed Payments Account and to disburse the undisputed portion to the respective Settling States.

(h) APPLICABILITY TO SECTION XVII PAYMENTS. This section XI shall not be applicable to payments made pursuant to section XVII; provided, however, that the Independent Auditor shall be responsible for calculating Relative Market Shares in connection with such payments, and the Independent Auditor shall promptly provide the results of such calculation to any Original Participating Manufacturer or Settling State that requests it do so.

(i) MISCALCULATED OR DISPUTED PAYMENTS.

(1) UNDERPAYMENTS.

(A) If information becomes available to the Independent Auditor not later than four years after a Payment Due Date, and such information shows that any Participating Manufacturer was instructed to make an insufficient payment on such date ("original payment"), the Independent Auditor shall promptly determine the additional payment owed by such Participating Manufacturer and the allocation of such additional payment among the applicable payees. The Independent Auditor shall then reduce such additional payment (up to the full amount of such additional payment) by any adjustments or offsets that were available to the Participating Manufacturer in question against the original payment at the time it was made (and have not since been used) but which such Participating Manufacturer was unable to use against such original

payment because such adjustments or offsets were in excess of such original payment (provided that any adjustments or offsets used against such additional payment shall reduce on a dollar-for-dollar basis any remaining carry-forward held by such Participating Manufacturer with respect to such adjustment or offset). The Independent Auditor shall then add interest at the Prime Rate (calculated from the Payment Due Date in question) to the additional payment (as reduced pursuant to the preceding sentence), except that where the additional payment owed by a Participating Manufacturer is the result of an underpayment by such Participating Manufacturer caused by such Participating Manufacturer's withholding of information as described in subsection (d)(5)(B), the applicable interest rate shall be that described in subsection IX(h). The Independent Auditor shall promptly give notice of the additional payment owed by the Participating Manufacturer in question (as reduced and/or increased as described above) to all Notice Parties, showing the new information and all calculations. Upon receipt of such notice, any Participating Manufacturer or Settling State may dispute the Independent Auditor's calculations in the manner described in subsection (d)(3), and the Independent Auditor shall promptly notify each Notice Party of any subsequent revisions to its calculations. Not more than 15 days after receipt of such notice (or, if the Independent Auditor revises its calculations, not more than 15 days after receipt of the revisions), any Participating Manufacturer and any Settling State may dispute the

Independent Auditor's calculations in the manner prescribed in subsection (d)(6). Failure to dispute the Independent Auditor's calculations in this manner shall constitute agreement with the Independent Auditor's calculations, subject to the limitations set forth in subsection (d)(6). Payment of the undisputed portion of an additional payment shall be made to the Escrow Agent not more than 20 days after receipt of the notice described in this subsection (A) (or, if the Independent Auditor revises its calculations, not more than 20 days after receipt of the revisions). Failure to pay such portion shall render the Participating Manufacturer liable for interest thereon as provided in subsection IX(h). Payment of the disputed portion shall be governed by subsection (d)(8).

(B) To the extent a dispute as to a prior payment is resolved with finality against a Participating Manufacturer: (i) in the case where the disputed amount has been paid into the Disputed Payments Account pursuant to subsection (d)(8), the Independent Auditor shall instruct the Escrow Agent to transfer such amount to the applicable payee Account(s); (ii) in the case where the disputed amount has not been paid into the Disputed Payments Account and the dispute was identified prior to the Payment Due Date in question by delivery of a statement pursuant to subsection (d)(6) identifying such dispute, the Independent Auditor shall calculate interest on the disputed amount from the Payment Due Date in question (the applicable interest rate to be that provided in subsection IX(h)) and the allocation of such amount and interest among the applicable

payees, and shall provide notice of the amount owed (and the identity of the payor and payees) to all Notice Parties; and (iii) in all other cases, the procedure described in subsection (ii) shall apply, except that the applicable interest rate shall be the Prime Rate.

(2) OVERPAYMENTS.

(A) If a dispute as to a prior payment is resolved with finality in favor of a Participating Manufacturer where the disputed amount has been paid into the Disputed Payments Account pursuant to subsection (d)(8), the Independent Auditor shall instruct the Escrow Agent to transfer such amount to such Participating Manufacturer.

(B) If information becomes available to the Independent Auditor not later than four years after a Payment Due Date showing that a Participating Manufacturer made an overpayment on such date, or if a dispute as to a prior payment is resolved with finality in favor of a Participating Manufacturer where the disputed amount has been paid but not into the Disputed Payments Account, such Participating Manufacturer shall be entitled to a continuing dollar-for-dollar offset as follows:

(i) offsets under this subsection (B) shall be applied only against eligible payments to be made by such Participating Manufacturer after the entitlement to the offset arises. The eligible payments shall be: in the case of offsets arising from payments under subsection IX(b) or IX(c)(1), subsequent payments under any of such subsections; in the case of offsets arising from

payments under subsection IX(c)(2), subsequent payments under such subsection or, if no subsequent payments are to be made under such subsection, subsequent payments under subsection IX(c)(1); in the case of offsets arising from payments under subsection IX(e), subsequent payments under such subsection or subsection IX(c); in the case of offsets arising from payments under subsection VI(c), subsequent payments under such subsection or, if no subsequent payments are to be made under such subsection, subsequent payments under any of subsection IX(c)(1), IX(c)(2) or IX(e); in the case of offsets arising from payments under subsection VIII(b), subsequent payments under such subsection or, if no subsequent payments are to be made under such subsection, subsequent payments under either subsection IX(c)(1) or IX(c)(2); in the case of offsets arising from payments under subsection VIII(c), subsequent payments under either subsection IX(c)(1) or IX(c)(2); and, in the case of offsets arising from payments under subsection IX(i), subsequent payments under such subsection.

(ii) in the case of offsets to be applied against payments under subsection IX(c), the offset to be applied shall be apportioned among the Settling States pro rata in proportion to their respective shares of such payments.

(iii) the total amount of the offset to which a Participating Manufacturer shall be entitled shall be the full amount of the overpayment it made, together with interest calculated from the time of the overpayment to the Payment Due Date of the first eligible payment against which the offset may be applied. The applicable interest rate shall be the Prime Rate (except that, where the overpayment is the result of a Settling State's withholding of information as described in subsection (d)(5)(B), the applicable interest rate shall be that described in subsection IX(h)).

(iv) an offset under this subsection (B) shall be applied up to the full amount of the Participating Manufacturer's share (in the case of payments due from Original Participating Manufacturers, determined as described in the first sentence of clause "Seventh" of subsection IX(j) (or, in the case of payments pursuant to subsection IX(c), step D of such clause)) of the eligible payment in question, as such payment has been adjusted and reduced pursuant to clauses "First" through "Sixth" of subsection IX(j), to the extent each such clause is applicable to the payment in question. In the event that the offset to which a Participating Manufacturer is entitled under this subsection (B) would exceed such Participating Manufacturer's share of the eligible payment against which it is being applied, the offset shall be the full amount of such Participating Manufacturer's share of such eligible payment and all

amounts not offset shall carry forward and be offset against subsequent eligible payments until all such amounts have been offset.

(j) PAYMENTS AFTER APPLICABLE CONDITION. To the extent that a payment is made after the occurrence of all applicable conditions for the disbursement of such payment to the payee(s) in question, the Independent Auditor shall instruct the Escrow Agent to disburse such payment promptly following its deposit.

XII. SETTLING STATES' RELEASE, DISCHARGE AND COVENANT

(a) RELEASE.

(1) Upon the occurrence of State-Specific Finality in a Settling State, such Settling State shall absolutely and unconditionally release and forever discharge all Released Parties from all Released Claims that the Releasing Parties directly, indirectly, derivatively or in any other capacity ever had, now have, or hereafter can, shall or may have.

(2) Notwithstanding the foregoing, this release and discharge shall not apply to any defendant in a lawsuit settled pursuant to this Agreement (other than a Participating Manufacturer) unless and until such defendant releases the Releasing Parties (and delivers to the Attorney General of the applicable Settling State a copy of such release) from any and all Claims of such defendant relating to the prosecution of such lawsuit.

(3) Each Settling State (for itself and for the Releasing Parties) further covenants and agrees that it (and the Releasing Parties) shall not after the occurrence of State-Specific Finality sue or seek to establish civil liability against

any Released Party based, in whole or in part, upon any of the Released Claims, and further agrees that such covenant and agreement shall be a complete defense to any such civil action or proceeding.

(4) (A) Each Settling State (for itself and for the Releasing Parties) further agrees that, if a Released Claim by a Releasing Party against any person or entity that is not a Released Party (a "non-Released Party") results in or in any way gives rise to a claim-over (on any theory whatever other than a claim based on an express written indemnity agreement) by such non-Released Party against any Released Party (and such Released Party gives notice to the applicable Settling State within 30 days of the service of such claim-over (or within 30 days after the MSA Execution Date, whichever is later) and prior to entry into any settlement of such claim-over), the Releasing Party: (i) shall reduce or credit against any judgment or settlement such Releasing Party may obtain against such non-Released Party the full amount of any judgment or settlement such non-Released Party may obtain against the Released Party on such claim-over; and (ii) shall, as part of any settlement with such non-Released Party, obtain from such non-Released Party for the benefit of such Released Party a satisfaction in full of such non-Released Party's judgment or settlement against the Released Party.

(B) Each Settling State further agrees that in the event that the provisions of subsection (4)(A) do not fully eliminate any and all liability of any Original Participating Manufacturer (or of any person or entity that is a Released Party by virtue of its relation to any Original Participating Manufacturer) with respect to

claims-over (on any theory whatever other than a claim based on an express written indemnity agreement) by any non-Released Party to recover in whole or in part any liability (whether direct or indirect, or whether by way of settlement (to the extent that such Released Party has given notice to the applicable Settling State within 30 days of the service of such claim-over (or within 30 days after the MSA Execution Date, whichever is later) and prior to entry into any settlement of such claim-over), judgment or otherwise) of such non-Released Party to any Releasing Party arising out of any Released Claim, such Original Participating Manufacturer shall receive a continuing dollar-for-dollar offset for any amounts paid by such Original Participating Manufacturer (or by any person or entity that is a Released Party by virtue of its relation to such Original Participating Manufacturer) on any such liability against such Original Participating Manufacturer's share (determined as described in step E of clause "Seventh" of subsection IX(j)) of the applicable Settling State's Allocated Payment, up to the full amount of such Original Participating Manufacturer's share of such Allocated Payment each year, until all such amounts paid on such liability have been offset. In the event that the offset under this subsection (4) with respect to a particular Settling State would in any given year exceed such Original Participating Manufacturer's share of such Settling State's Allocated Payment (as such share had been reduced by adjustment, if any, pursuant to the NPM Adjustment, and has been reduced by offsets, if any, pursuant to the offset for miscalculated or disputed payments, the Federal Tobacco Legislation Offset and the Litigating Releasing Parties Offset): (i) the offset to which such Original Participating

Manufacturer is entitled under this subsection in such year shall be the full amount of such Original Participating Manufacturer's share of such Allocated Payment; and (ii) all amounts not offset by reason of subsection (i) shall carry forward and be offset in the following year(s) until all such amounts have been offset.

(C) Each Settling State further agrees that, subject to the provisions of section IX(i)(3), each Subsequent Participating Manufacturer shall be entitled to the offset described in subsection (B) above to the extent that it (or any person or entity that is a Released Party by virtue of its relationship with such Subsequent Participating Manufacturer) has paid on liability that would give rise to an offset under such subsection if paid by an Original Participating Manufacturer.

(5) This release and covenant shall not operate to interfere with a Settling State's ability to enforce as against any Participating Manufacturer the provisions of this Agreement, or with the Court's ability to enter the Consent Decree or to maintain continuing jurisdiction to enforce such Consent Decree pursuant to the terms thereof. Provided, however, that neither subsection III(a) or III(r) of this Agreement nor subsection V(A) or V(I) of the Consent Decree shall create a right to challenge the continuation, after the MSA Execution Date, of any advertising content, claim or slogan (other than use of a Cartoon) that was not unlawful prior to the MSA Execution Date.

(6) The Settling States do not purport to waive or release any claims on behalf of Indian tribes.

(7) The Settling States do not waive or release any criminal liability based on federal, state or local law.

(8) Notwithstanding the foregoing (and the definition of Released Parties), this release and covenant shall not apply to retailers, suppliers or distributors to the extent of any liability arising from the sale or distribution of Tobacco Products of, or the supply of component parts of Tobacco Products to, any non-Released Party.

(A) Each Settling State (for itself and for the Releasing Parties) agrees that, if a claim by a Releasing Party against a retailer, supplier or distributor that would be a Released Claim but for the operation of the preceding sentence results in or in any way gives rise to a claim-over (on any theory whatever) by such retailer, supplier or distributor against any Released Party (and such Released Party gives notice to the applicable Settling State within 30 days of the service of such claim-over (or within 30 days after the MSA Execution Date, whichever is later) and prior to entry into any settlement of such claim-over), the Releasing Party: (i) shall reduce or credit against any judgment or settlement such Releasing Party may obtain against such retailer, supplier or distributor the full amount of any judgment or settlement such retailer, supplier or distributor may obtain against the Released Party on such claim-over; and (ii) shall, as part of any settlement with such retailer, supplier or distributor, obtain from such retailer, supplier or distributor for the benefit of such Released

Party a satisfaction in full of such retailer's, supplier's or distributor's judgment or settlement against the Released Party.

(B) Each Settling State further agrees that in the event that the provisions of subsection (8)(A) above do not fully eliminate any and all liability of any Original Participating Manufacturer (or any person or entity that is a Released Party by virtue of its relationship to an Original Participating Manufacturer) with respect to claims-over (on any theory whatever) by any such retailer, supplier or distributor to recover in whole or in part any liability (whether direct or indirect, or whether by way of settlement (to the extent that such Released Party has given notice to the applicable Settling State within 30 days of the service of such claim-over (or within 30 days after the MSA Execution Date, whichever is later) and prior to entry into any settlement of such claim-over), judgment or otherwise) of such retailer, supplier or distributor to any Releasing Party arising out of any claim that would be a Released Claim but for the operation of the first sentence of this subsection (8), such Original Participating Manufacturer shall receive a continuing dollar-for-dollar offset for any amounts paid by such Original Participating Manufacturer (or by any person or entity that is a Released Party by virtue of its relation to such Original Participating Manufacturer) on any such liability against such Original Participating Manufacturer's share (determined as described in step E of clause "Seventh" of subsection IX(j)) of the applicable Settling State's Allocated Payment, up to the full amount of such Original

Participating Manufacturer's share of such Allocated Payment each year, until all such amounts paid on such liability have been offset. In the event that the offset under this subsection (8) with respect to a particular Settling State would in any given year exceed such Original Participating Manufacturer's share of such Settling State's Allocated Payment (as such share had been reduced by adjustment, if any, pursuant to the NPM Adjustment, and has been reduced by offsets, if any, pursuant to the offset for miscalculated or disputed payments, the Federal Tobacco Legislation Offset, the Litigating Releasing Parties Offset and the offset for claims-over under subsection XII(a)(4)(B)): (i) the offset to which such Original Participating Manufacturer is entitled under this subsection in such year shall be the full amount of such Original Participating Manufacturer's share of such Allocated Payment; and (ii) all amounts not offset by reason of clause (i) shall carry forward and be offset in the following year(s) until all such amounts have been offset.

(C) Each Settling State further agrees that, subject to the provisions of subsection IX(i)(3), each Subsequent Participating Manufacturer shall be entitled to the offset described in subsection (B) above to the extent that it (or any person or entity that is a Released Party by virtue of its relationship with such Subsequent Participating Manufacturer) has paid on liability that would give rise to an offset under such subsection if paid by an Original Participating Manufacturer.

(9) Notwithstanding any provision of law, statutory or otherwise, which provides that a general release does not extend to claims which the creditor does not know or suspect to exist in its favor at the time of executing the release, which if known by it must have materially affected its settlement with the debtor, the releases set forth in this section XII release all Released Claims against the Released Parties, whether known or unknown, foreseen or unforeseen, suspected or unsuspected, that the Releasing Parties may have against the Released Parties, and the Releasing Parties understand and acknowledge the significance and consequences of waiver of any such provision and hereby assume full responsibility for any injuries, damages or losses that the Releasing Parties may incur.

(b) RELEASED CLAIMS AGAINST RELEASED PARTIES. If a Releasing Party (or any person or entity enumerated in subsection II(pp), without regard to the power of the Attorney General to release claims of such person or entity) nonetheless attempts to maintain a Released Claim against a Released Party, such Released Party shall give written notice of such potential claim to the Attorney General of the applicable Settling State within 30 days of receiving notice of such potential claim (or within 30 days after the MSA Execution Date, whichever is later) (unless such potential claim is being maintained by such Settling State). The Released Party may offer the release and covenant as a complete defense. If it is determined at any point in such action that the release of such claim is unenforceable or invalid for any reason (including, but not limited to, lack of authority to release such claim), the following provisions shall apply:

(1) The Released Party shall take all ordinary and reasonable measures to defend the action fully. The Released Party may settle or enter into a stipulated judgment with respect to the action at any time in its sole discretion, but in such event the offset described in subsection (b)(2) or (b)(3) below shall apply only if the Released Party obtains the relevant Attorney General's consent to such settlement or stipulated judgment, which consent shall not be unreasonably withheld. The Released Party shall not be entitled to the offset described in subsection (b)(2) or (b)(3) below if such Released Party failed to take ordinary and reasonable measures to defend the action fully.

(2) The following provisions shall apply where the Released Party is an Original Participating Manufacturer (or any person or entity that is a Released Party by virtue of its relationship with an Original Participating Manufacturer):

(A) In the event of a settlement or stipulated judgment, the settlement or stipulated amount shall give rise to a continuing offset as such amount is actually paid against the full amount of such Original Participating Manufacturer's share (determined as described in step E of clause "Seventh" of subsection IX(j)) of the applicable Settling State's Allocated Payment until such time as the settlement or stipulated amount is fully credited on a dollar-for-dollar basis.

(B) Judgments (other than a default judgment) against a Released Party in such an action shall, upon payment of such judgment, give rise to an immediate and continuing offset against the full amount of such Original Participating Manufacturer's share (determined as described in

subsection (A)) of the applicable Settling State's Allocated Payment, until such time as the judgment is fully credited on a dollar-for-dollar basis.

(C) Each Settling State reserves the right to intervene in such an action (unless such action was brought by the Settling State) to the extent authorized by applicable law in order to protect the Settling State's interest under this Agreement. Each Participating Manufacturer agrees not to oppose any such intervention.

(D) In the event that the offset under this subsection (b)(2) with respect to a particular Settling State would in any given year exceed such Original Participating Manufacturer's share of such Settling State's Allocated Payment (as such share had been reduced by adjustment, if any, pursuant to the NPM Adjustment, and has been reduced by offsets, if any, pursuant to the Federal Tobacco Legislation Offset and the offset for miscalculated or disputed payments): (i) the offset to which such Original Participating Manufacturer is entitled under this subsection (2) in such year shall be the full amount of such Original Participating Manufacturer's share of such Allocated Payment; and (ii) all amounts not offset by reason of clause (i) shall carry forward and be offset in the following year(s) until all such amounts have been offset.

(3) The following provisions shall apply where the Released Party is a Subsequent Participating Manufacturer (or any person or entity that is a Released Party by virtue of its relationship with a Subsequent Participating Manufacturer): Subject to the provisions of subsection IX(i)(3), each Subsequent Participating

Manufacturer shall be entitled to the offset as described in subsections (2)(A)-(C) above against payments it otherwise would owe under section IX(i) to the extent that it (or any person or entity that is a Released Party by virtue of its relationship with such Subsequent Participating Manufacturer) has paid on a settlement, stipulated judgment or judgment that would give rise to an offset under such subsections if paid by an Original Participating Manufacturer.

XIII. CONSENT DECREES AND DISMISSAL OF CLAIMS

(a) Within 10 days after the MSA Execution Date (or, as to any Settling State identified in the Additional States provision of Exhibit D, concurrently with the filing of its lawsuit), each Settling State and each Participating Manufacturer that is a party in any of the lawsuits identified in Exhibit D shall jointly move for a stay of all proceedings in such Settling State's lawsuit with respect to the Participating Manufacturers and all other Released Parties (except any proceeding seeking public disclosure of documents pursuant to subsection IV(b)). Such stay of a Settling State's lawsuit shall be dissolved upon the earlier of the occurrence of State-Specific Finality or termination of this Agreement with respect to such Settling State pursuant to subsection XVIII(u)(1).

(b) Not later than December 11, 1998 (or, as to any Settling State identified in the Additional States provision of Exhibit D, concurrently with the filing of its lawsuit):

(1) each Settling State that is a party to a lawsuit identified in Exhibit D and each Participating Manufacturer will:

(A) tender this Agreement to the Court in such Settling State for its approval; and

(B) tender to the Court in such Settling State for entry a consent decree conforming to the model consent decree attached hereto as Exhibit L (revisions or changes to such model consent decree shall be limited to the extent required by state procedural requirements to reflect accurately the factual setting of the case in question, but shall not include any substantive revision to the duties or obligations of any Settling State or Participating Manufacturer, except by agreement of all Original Participating Manufacturers); and

(2) each Settling State shall seek entry of an order of dismissal of claims dismissing with prejudice all claims against the Participating Manufacturers and any other Released Party in such Settling State's action identified in Exhibit D. Provided, however, that the Settling State is not required to seek entry of such an order in such Settling State's action against such a Released Party (other than a Participating Manufacturer) unless and until such Released Party has released the Releasing Parties (and delivered to the Attorney General of such Settling State a copy of such release) (which release shall be effective upon the occurrence of State-Specific Finality in such Settling State, and shall recite that in the event this Agreement is terminated with respect to such Settling State pursuant to subsection XVIII(u)(1) the Released Party agrees that the order of dismissal shall be null and void and of no effect) from any and all Claims of such Released Party relating to the prosecution of such action as provided in subsection XII(a)(2).

XIV. PARTICIPATING MANUFACTURERS' DISMISSAL OF RELATED LAWSUITS

(a) Upon State-Specific Finality in a Settling State, each Participating Manufacturer will dismiss without prejudice (and without costs and fees) the lawsuit(s) listed in Exhibit M pending in such Settling State in which the Participating Manufacturer is a plaintiff. Within 10 days after the MSA Execution Date, each Participating Manufacturer and each Settling State that is a party in any of the lawsuits listed in Exhibit M shall jointly move for a stay of all proceedings in such lawsuit. Such stay of a lawsuit against a Settling State shall be dissolved upon the earlier of the occurrence of State-Specific Finality in such Settling State or termination of this Agreement with respect to such Settling State pursuant to subsection XVIII(u)(1).

(b) Upon State-Specific Finality in a Settling State, each Participating Manufacturer will release and discharge any and all monetary Claims against such Settling State and any of such Settling State's officers, employees, agents, administrators, representatives, officials acting in their official capacity, agencies, departments, commissions, divisions and counsel relating to or in connection with the lawsuit(s) commenced by the Attorney General of such Settling State identified in Exhibit D.

(c) Upon State-Specific Finality in a Settling State, each Participating Manufacturer will release and discharge any and all monetary Claims against all subdivisions (political or otherwise, including, but not limited to, municipalities, counties, parishes, villages, unincorporated districts and hospital districts) of such Settling State, and any of their officers, employees, agents, administrators, representatives, officials acting in their official capacity, agencies, departments,

commissions, divisions and counsel arising out of Claims that have been waived and released with continuing full force and effect pursuant to section XII of this Agreement.

XV. VOLUNTARY ACT OF THE PARTIES

The Settling States and the Participating Manufacturers acknowledge and agree that this Agreement is voluntarily entered into by each Settling State and each Participating Manufacturer as the result of arm's-length negotiations, and each Settling State and each Participating Manufacturer was represented by counsel in deciding to enter into this Agreement. Each Participating Manufacturer further acknowledges that it understands that certain provisions of this Agreement may require it to act or refrain from acting in a manner that could otherwise give rise to state or federal constitutional challenges and that, by voluntarily consenting to this Agreement, it (and the Tobacco-Related Organizations (or any trade associations formed or controlled by any Participating Manufacturer)) waives for purposes of performance of this Agreement any and all claims that the provisions of this Agreement violate the state or federal constitutions. Provided, however, that nothing in the foregoing shall constitute a waiver as to the entry of any court order (or any interpretation thereof) that would operate to limit the exercise of any constitutional right except to the extent of the restrictions, limitations or obligations expressly agreed to in this Agreement or the Consent Decree.

XVI. CONSTRUCTION

(a) No Settling State or Participating Manufacturer shall be considered the drafter of this Agreement or any Consent Decree, or any provision of either, for the purpose of any statute, case law or rule of interpretation or construction that would or might cause any provision to be construed against the drafter.

(b) Nothing in this Agreement shall be construed as approval by the Settling States of any Participating Manufacturer's business organizations, operations, acts or practices, and no Participating Manufacturer may make any representation to the contrary.

XVII. RECOVERY OF COSTS AND ATTORNEYS' FEES

(a) The Original Participating Manufacturers agree that, with respect to any Settling State in which the Court has approved this Agreement and the Consent Decree, they shall severally reimburse the following "Governmental Entities": (1) the office of the Attorney General of such Settling State; (2) the office of the governmental prosecuting authority for any political subdivision of such Settling State with a lawsuit pending against any Participating Manufacturer as of July 1, 1998 (as identified in Exhibit N) that has released such Settling State and such Participating Manufacturer(s) from any and all Released Claims (a "Litigating Political Subdivision"); and (3) other appropriate agencies of such Settling State and such Litigating Political Subdivision, for reasonable costs and expenses incurred in connection with the litigation or resolution of claims asserted against the Participating Manufacturers in the actions set forth in Exhibits D, M and N; provided that such costs and expenses are of the same nature as costs and expenses for which the Original Participating Manufacturers would reimburse their own counsel or agents (but not including costs and expenses relating to lobbying activities).

(b) The Original Participating Manufacturers further agree severally to pay the Governmental Entities in any Settling State in which State-Specific Finality has occurred an amount sufficient to compensate such Governmental Entities for time reasonably expended by attorneys and paralegals employed in such offices in connection with the

litigation or resolution of claims asserted against or by the Participating Manufacturers in the actions identified in Exhibits D, M and N (but not including time relating to lobbying activities), such amount to be calculated based upon hourly rates equal to the market rate in such Settling State for private attorneys and paralegals of equivalent experience and seniority.

(c) Such Governmental Entities seeking payment pursuant to subsection (a) and/or (b) shall provide the Original Participating Manufacturers with an appropriately documented statement of all costs, expenses and attorney and paralegal time for which payment is sought, and, solely with respect to payments sought pursuant to subsection (b), shall do so no earlier than the date on which State-Specific Finality occurs in such Settling State. All amounts to be paid pursuant to subsections (a) and (b) shall be subject to reasonable verification if requested by any Original Participating Manufacturer; provided, however, that nothing contained in this subsection (c) shall constitute, cause, or require the performance of any act that would constitute any waiver (in whole or in part) of any attorney-client privilege, work product protection or common interest/joint prosecution privilege. All such amounts to be paid pursuant to subsections (a) and (b) shall be subject to an aggregate cap of $150 million for all Settling States, shall be paid promptly following submission of the appropriate documentation (and the completion of any verification process), shall be paid separately and apart from any other amounts due pursuant to this Agreement, and shall be paid severally by each Original Participating Manufacturer according to its Relative Market Share. All amounts to be paid pursuant to subsection (b) shall be paid to such Governmental Entities in the order in which State-

Specific Finality has occurred in such Settling States (subject to the $150 million aggregate cap).

(d) The Original Participating Manufacturers agree that, upon the occurrence of State-Specific Finality in a Settling State, they will severally pay reasonable attorneys' fees to the private outside counsel, if any, retained by such Settling State (and each Litigating Political Subdivision, if any, within such Settling State) in connection with the respective actions identified in Exhibits D, M and N and who are designated in Exhibit S for each Settling State by the relevant Attorney General (and for each Litigating Political Subdivision, as later certified in writing to the Original Participating Manufacturers by the relevant governmental prosecuting authority of each Litigating Political Subdivision) as having been retained by and having represented such Settling State (or such Litigating Political Subdivision), in accordance with the terms described in the Model Fee Payment Agreement attached as Exhibit O.

XVIII. MISCELLANEOUS

(a) EFFECT OF CURRENT OR FUTURE LAW. If any current or future law includes obligations or prohibitions applying to Tobacco Product Manufacturers related to any of the provisions of this Agreement, each Participating Manufacturer shall comply with this Agreement unless compliance with this Agreement would violate such law.

(b) LIMITED MOST-FAVORED NATION PROVISION.

(1) If any Participating Manufacturer enters into any future settlement agreement of other litigation comparable to any of the actions identified in Exhibit D brought by a non-foreign governmental plaintiff other than the federal government ("Future Settlement Agreement"):

(A) before October 1, 2000, on overall terms more favorable to such governmental plaintiff than the overall terms of this Agreement (after due consideration of relevant differences in population or other appropriate factors), then, unless a majority of the Settling States determines that the overall terms of the Future Settlement Agreement are not more favorable than the overall terms of this Agreement, the overall terms of this Agreement will be revised so that the Settling States will obtain treatment with respect to such Participating Manufacturer at least as relatively favorable as the overall terms provided to any such governmental plaintiff; provided, however, that as to economic terms this Agreement shall not be revised based on any such Future Settlement Agreement if such Future Settlement Agreement is entered into after: (i) the impaneling of the jury (or, in the event of a non-jury trial, the commencement of trial) in such litigation or any severed or bifurcated portion thereof; or (ii) any court order or judicial determination relating to such litigation that (x) grants judgment (in whole or in part) against such Participating Manufacturer; or (y) grants injunctive or other relief that affects the assets or on-going business activities of such Participating Manufacturer in a manner other than as expressly provided for in this Agreement; or

(B) on or after October 1, 2000, on terms more favorable to such governmental plaintiff than the terms of this Agreement (after due consideration of relevant differences in population or other appropriate

factors), and such Future Settlement Agreement includes terms that provide for the implementation of non-economic tobacco-related public health measures different from those contained in this Agreement, then this Agreement shall be revised to include terms comparable to such non-economic terms, unless a majority of the Settling States elects against such revision.

(2) If any Settling State resolves Claims against any Non-Participating Manufacturer after the MSA Execution Date comparable to any Released Claim, and such resolution includes overall terms that are more favorable to such Non-Participating Manufacturer than the terms of this Agreement (including, without limitation, any terms that relate to the marketing or distribution of Tobacco Products and any term that provides for a lower settlement cost on a per pack sold basis), then the overall terms of this Agreement will be revised so that the Original Participating Manufacturers will obtain, with respect to that Settling State, overall terms at least as relatively favorable (taking into account, among other things, all payments previously made by the Original Participating Manufacturers and the timing of any payments) as those obtained by such Non-Participating Manufacturer pursuant to such resolution of Claims. The foregoing shall include but not be limited: (a) to the treatment by any Settling State of a Future Affiliate, as that term is defined in agreements between any of the Settling States and Brooke Group Ltd., Liggett & Myers Inc. and/or Liggett Group, Inc. ("Liggett"), whether or not such Future Affiliate is merged with, or its operations combined with, Liggett or any Affiliate thereof; and (b) to any application of the

terms of any such agreement (including any terms subsequently negotiated pursuant to any such agreement) to a brand of Cigarettes (or tobacco-related assets) as a result of the purchase by or sale to Liggett of such brand or assets or as a result of any combination of ownership among Liggett and any entity that manufactures Tobacco Products. Provided, however, that revision of this Agreement pursuant to this subsection (2) shall not be required by virtue of the subsequent entry into this Agreement by a Tobacco Product Manufacturer that has not become a Participating Manufacturer as of the MSA Execution Date. Notwithstanding the provisions of subsection XVIII(j), the provisions of this subsection XVIII(b)(2) may be waived by (and only by) unanimous agreement of the Original Participating Manufacturers.

(3) The parties agree that if any term of this Agreement is revised pursuant to subsection (b)(l) or (b)(2) above and the substance of such term before it was revised was also a term of the Consent Decree, each affected Settling State and each affected Participating Manufacturer shall jointly move the Court to amend the Consent Decree to conform the terms of the Consent Decree to the revised terms of the Agreement.

(4) If at any time any Settling State agrees to relieve, in any respect, any Participating Manufacturer's obligation to make the payments as provided in this Agreement, then, with respect to that Settling State, the terms of this Agreement shall be revised so that the other Participating Manufacturers receive terms as relatively favorable.

(c) TRANSFER OF TOBACCO BRANDS. No Original Participating Manufacturer may sell or otherwise transfer or permit the sale or transfer of any of its Cigarette brands, Brand Names, Cigarette product formulas or Cigarette businesses (other than a sale or transfer of Cigarette brands or Brand Names to be sold, product formulas to be used, or Cigarette businesses to be conducted, by the acquiror or transferee exclusively outside of the States) to any person or entity unless such person or entity is an Original Participating Manufacturer or prior to the sale or acquisition agrees to assume the obligations of an Original Participating Manufacturer with respect to such Cigarette brands, Brand Names, Cigarette product formulas or businesses. No Participating Manufacturer may sell or otherwise transfer any of its Cigarette brands, Brand Names, Cigarette product formulas or Cigarette businesses (other than a sale or transfer of Cigarette brands or Brand Names to be sold, Cigarette product formulas to be used, or businesses to be conducted, by the acquiror or transferee exclusively outside of the States) to any person or entity unless such person or entity is or becomes prior to the sale or acquisition a Participating Manufacturer. In the event of any such sale or transfer of a Cigarette brand, Brand Name, Cigarette product formula or Cigarette business by a Participating Manufacturer to a person or entity that within 180 days prior to such sale or transfer was a Non-Participating Manufacturer, the Participating Manufacturer shall certify to the Settling States that it has determined that such person or entity has the capability to perform the obligations under this Agreement. Such certification shall not survive beyond one year following the date of any such transfer. Each Original Participating Manufacturer certifies and represents that, except as provided in Exhibit R, it (or a wholly owned Affiliate) exclusively owns and controls in the States the Brand Names of those

Cigarettes that it currently manufactures for sale (or sells) in the States and that it has the capacity to enter into an effective agreement concerning the sale or transfer of such Brand Names pursuant to this subsection XVIII(c). Nothing in this Agreement is intended to create any right for a State to obtain any Cigarette product formula that it would not otherwise have under applicable law.

(d) PAYMENTS IN SETTLEMENT. All payments to be made by the Participating Manufacturers pursuant to this Agreement are in settlement of all of the Settling States' antitrust, consumer protection, common law negligence, statutory, common law and equitable claims for monetary, restitutionary, equitable and injunctive relief alleged by the Settling States with respect to the year of payment or earlier years, except that no part of any payment under this Agreement is made in settlement of an actual or potential liability for a fine, penalty (civil or criminal) or enhanced damages or is the cost of a tangible or intangible asset or other future benefit.

(e) NO DETERMINATION OR ADMISSION. This Agreement is not intended to be and shall not in any event be construed or deemed to be, or represented or caused to be represented as, an admission or concession or evidence of (1) any liability or any wrongdoing whatsoever on the part of any Released Party or that any Released Party has engaged in any of the activities barred by this Agreement; or (2) personal jurisdiction over any person or entity other than the Participating Manufacturers. Each Participating Manufacturer specifically disclaims and denies any liability or wrongdoing whatsoever with respect to the claims and allegations asserted against it by the Attorneys General of the Settling States and the Litigating Political Subdivisions. Each Participating

Manufacturer has entered into this Agreement solely to avoid the further expense, inconvenience, burden and risk of litigation.

(f) NON-ADMISSIBILITY. The settlement negotiations resulting in this Agreement have been undertaken by the Settling States and the Participating Manufacturers in good faith and for settlement purposes only, and no evidence of negotiations or discussions underlying this Agreement shall be offered or received in evidence in any action or proceeding for any purpose. Neither this Agreement nor any public discussions, public statements or public comments with respect to this Agreement by any Settling State or Participating Manufacturer or its agents shall be offered or received in evidence in any action or proceeding for any purpose other than in an action or proceeding arising under or relating to this Agreement.

(g) REPRESENTATIONS OF PARTIES. Each Settling State and each Participating Manufacturer hereby represents that this Agreement has been duly authorized and, upon execution, will constitute a valid and binding contractual obligation, enforceable in accordance with its terms, of each of them. The signatories hereto on behalf of their respective Settling States expressly represent and warrant that they have the authority to settle and release all Released Claims of their respective Settling States and any of their respective Settling States' past, present and future agents, officials acting in their official capacities, legal representatives, agencies, departments, commissions and divisions, and that such signatories are aware of no authority to the contrary. It is recognized that the Original Participating Manufacturers are relying on the foregoing representation and warranty in making the payments required by and in otherwise performing under this Agreement. The Original Participating Manufacturers shall have the right to terminate

this Agreement pursuant to subsection XVIII(u) as to any Settling State as to which the foregoing representation and warranty is breached or not effectively given.

(h) OBLIGATIONS SEVERAL, NOT JOINT. All obligations of the Participating Manufacturers pursuant to this Agreement (including, but not limited to, all payment obligations) are intended to be, and shall remain, several and not joint.

(i) HEADINGS. The headings of the sections and subsections of this Agreement are not binding and are for reference only and do not limit, expand or otherwise affect the contents or meaning of this Agreement.

(j) AMENDMENT AND WAIVER. This Agreement may be amended by a written instrument executed by all Participating Manufacturers affected by the amendment and by all Settling States affected by the amendment. The terms of any such amendment shall not be enforceable in any Settling State that is not a signatory to such amendment. The waiver of any rights conferred hereunder shall be effective only if made by written instrument executed by the waiving party or parties. The waiver by any party of any breach of this Agreement shall not be deemed to be or construed as a waiver of any other breach, whether prior, subsequent or contemporaneous, nor shall such waiver be deemed to be or construed as a waiver by any other party.

(k) NOTICES. All notices or other communications to any party to this Agreement shall be in writing (including, but not limited to, facsimile, telex, telecopy or similar writing) and shall be given at the addresses specified in Exhibit P (as it may be amended to reflect any additional Participating Manufacturer that becomes a party to this Agreement after the MSA Execution Date). Any Settling State or Participating Manufacturer may change or add the name and address of the persons designated to

receive notice on its behalf by notice given (effective upon the giving of such notice) as provided in this subsection.

(l) COOPERATION. Each Settling State and each Participating Manufacturer agrees to use its best efforts and to cooperate with each other to cause this Agreement and the Consent Decrees to become effective, to obtain all necessary approvals, consents and authorizations, if any, and to execute all documents and to take such other action as may be appropriate in connection herewith. Consistent with the foregoing, each Settling State and each Participating Manufacturer agrees that it will not directly or indirectly assist or encourage any challenge to this Agreement or any Consent Decree by any other person, and will support the integrity and enforcement of the terms of this Agreement and the Consent Decrees. Each Settling State shall use its best efforts to cause State-Specific Finality to occur as to such Settling State.

(m) DESIGNEES TO DISCUSS DISPUTES. Within 14 days after the MSA Execution Date, each Settling State's Attorney General and each Participating Manufacturer shall provide written notice of its designation of a senior representative to discuss with the other signatories to this Agreement any disputes and/or other issues that may arise with respect to this Agreement. Each Settling State's Attorney General shall provide such notice of the name, address and telephone number of the person it has so designated to each Participating Manufacturer and to NAAG. Each Participating Manufacturer shall provide such notice of the name, address and telephone number of the person it has so designated to each Settling State's Attorney General, to NAAG and to each other Participating Manufacturer.

(n) GOVERNING LAW. This Agreement (other than the Escrow Agreement) shall be governed by the laws of the relevant Settling State, without regard to the conflict of law rules of such Settling State. The Escrow Agreement shall be governed by the laws of the State in which the Escrow Court is located, without regard to the conflict of law rules of such State.

(o) SEVERABILITY.

(1) Sections VI, VII, IX, X, XI, XII, XIII, XIV, XVI, XVIII(b), (c), (d), (e), (f), (g), (h), (o), (p), (r), (s), (u), (w), (z), (bb), (dd), and Exhibits A, B, and E hereof ("Nonseverable Provisions") are not severable, except to the extent that severance of section VI is permitted by Settling States pursuant to subsection VI(i) hereof. The remaining terms of this Agreement are severable, as set forth herein.

(2) If a court materially modifies, renders unenforceable, or finds to be unlawful any of the Nonseverable Provisions, the NAAG executive committee shall select a team of Attorneys General (the "Negotiating Team") to attempt to negotiate an equivalent or comparable substitute term or other appropriate credit or adjustment (a "Substitute Term") with the Original Participating Manufacturers. In the event that the court referred to in the preceding sentence is located in a Settling State, the Negotiating Team shall include the Attorney General of such Settling State. The Original Participating Manufacturers shall have no obligation to agree to any Substitute Term. If any Original Participating Manufacturer does not agree to a Substitute Term, this Agreement shall be terminated in all Settling States affected by the court's ruling. The Negotiating

Team shall submit any proposed Substitute Term negotiated by the Negotiating Team and agreed to by all of the Original Participating Manufacturers to the Attorneys General of all of the affected Settling States for their approval. If any affected Settling State does not approve the proposed Substitute Term, this Agreement in such Settling State shall be terminated.

(3) If a court materially modifies, renders unenforceable, or finds to be unlawful any term of this Agreement other than a Nonseverable Provision:

(A) The remaining terms of this Agreement shall remain in full force and effect.

(B) Each Settling State whose rights or obligations under this Agreement are affected by the court's decision in question (the "Affected Settling State") and the Participating Manufacturers agree to negotiate in good faith a Substitute Term. Any agreement on a Substitute Term reached between the Participating Manufacturers and the Affected Settling State shall not modify or amend the terms of this Agreement with regard to any other Settling State.

(C) If the Affected Settling State and the Participating Manufacturers are unable to agree on a Substitute Term, then they will submit the issue to non-binding mediation. If mediation fails to produce agreement to a Substitute Term, then that term shall be severed and the remainder of this Agreement shall remain in full force and effect.

(4) If a court materially modifies, renders unenforceable, or finds to be unlawful any portion of any provision of this Agreement, the remaining portions

of such provision shall be unenforceable with respect to the affected Settling State unless a Substitute Term is arrived at pursuant to subsection (o)(2) or (o)(3) hereof, whichever is applicable.

(p) INTENDED BENEFICIARIES. No portion of this Agreement shall provide any rights to, or be enforceable by, any person or entity that is not a Settling State or a Released Party. No Settling State may assign or otherwise convey any right to enforce any provision of this Agreement.

(q) COUNTERPARTS. This Agreement may be executed in counterparts. Facsimile or photocopied signatures shall be considered as valid signatures as of the date affixed, although the original signature pages shall thereafter be appended.

(r) APPLICABILITY. The obligations and duties of each Participating Manufacturer set forth herein are applicable only to actions taken (or omitted to be taken) within the States. This subsection (r) shall not be construed as extending the territorial scope of any obligation or duty set forth herein whose scope is otherwise limited by the terms hereof.

(s) PRESERVATION OF PRIVILEGE. Nothing contained in this Agreement or any Consent Decree, and no act required to be performed pursuant to this Agreement or any Consent Decree, is intended to constitute, cause or effect any waiver (in whole or in part) of any attorney-client privilege, work product protection or common interest/joint defense privilege, and each Settling State and each Participating Manufacturer agrees that it shall not make or cause to be made in any forum any assertion to the contrary.

(t) NON-RELEASE. Except as otherwise specifically provided in this Agreement, nothing in this Agreement shall limit, prejudice or otherwise interfere with the rights of any Settling State or any Participating Manufacturer to pursue any and all rights and

remedies it may have against any Non-Participating Manufacturer or other non-Released Party.

(u) TERMINATION.

(1) Unless otherwise agreed to by each of the Original Participating Manufacturers and the Settling State in question, in the event that (A) State-Specific Finality in a Settling State does not occur in such Settling State on or before December 31, 2001; or (B) this Agreement or the Consent Decree has been disapproved by the Court (or, in the event of an appeal from or review of a decision of the Court to approve this Agreement and the Consent Decree, by the court hearing such appeal or conducting such review), and the time to Appeal from such disapproval has expired, or, in the event of an Appeal from such disapproval, the Appeal has been dismissed or the disapproval has been affirmed by the court of last resort to which such Appeal has been taken and such dismissal or disapproval has become no longer subject to further Appeal (including, without limitation, review by the United States Supreme Court); or (C) this Agreement is terminated in a Settling State for whatever reason (including, but not limited to, pursuant to subsection XVIII(o) of this Agreement), then this Agreement and all of its terms (except for the non-admissibility provisions hereof, which shall continue in full force and effect) shall be canceled and terminated with respect to such Settling State, and it and all orders issued by the courts in such Settling State pursuant hereto shall become null and void and of no effect.

(2) If this Agreement is terminated with respect to a Settling State for whatever reason, then (A) the applicable statute of limitation or any similar time

requirement shall be tolled from the date such Settling State signed this Agreement until the later of the time permitted by applicable law or for one year from the date of such termination, with the effect that the parties shall be in the same position with respect to the statute of limitation as they were at the time such Settling State filed its action, and (B) the parties shall jointly move the Court for an order reinstating the actions and claims dismissed pursuant to sections XIII and XIV hereof, with the effect that the parties shall be in the same position with respect to those actions and claims as they were at the time the action or claim was stayed or dismissed.

(v) FREEDOM OF INFORMATION REQUESTS. Upon the occurrence of State-Specific Finality in a Settling State, each Participating Manufacturer will withdraw in writing any and all requests for information, administrative applications, and proceedings brought or caused to be brought by such Participating Manufacturer pursuant to such Settling State's freedom of information law relating to the subject matter of the lawsuits identified in Exhibit D.

(w) BANKRUPTCY. The following provisions shall apply if a Participating Manufacturer both enters Bankruptcy and at any time thereafter is not timely performing its financial obligations as required under this Agreement:

(1) In the event that both a number of Settling States equal to at least 75% of the total number of Settling States and Settling States having aggregate Allocable Shares equal to at least 75% of the total aggregate Allocable Shares assigned to all Settling States deem (by written notice to the Participating Manufacturers other than the bankrupt Participating Manufacturer) that the

financial obligations of this Agreement have been terminated and rendered null and void as to such bankrupt Participating Manufacturer (except as provided in subsection (A) below) due to a material breach by such Participating Manufacturer, whereupon, with respect to all Settling States:

(A) all agreements, all concessions, all reductions of Releasing Parties' Claims, and all releases and covenants not to sue, contained in this Agreement shall be null and void as to such Participating Manufacturer. Provided, however, that (i) all reductions of Releasing Parties' Claims, and all releases and covenants not to sue, contained in this Agreement shall remain in full force and effect as to all persons or entities (other than the bankrupt Participating Manufacturer itself or any person or entity that, as a result of the Bankruptcy, obtains domestic tobacco assets of such Participating Manufacturer (unless such person or entity is itself a Participating Manufacturer)) who (but for the first sentence of this subsection (A)) would otherwise be Released Parties by virtue of their relationship with the bankrupt Participating Manufacturer; and (ii) in the event a Settling State asserts any Released Claim against a bankrupt Participating Manufacturer after the termination of this Agreement with respect to such Participating Manufacturer as described in this subsection (1) and receives a judgment, settlement or distribution arising from such Released Claim, then the amount of any payments such Settling State has previously received from such Participating Manufacturer under this Agreement shall be applied against the amount of any such judgment,

settlement or distribution (provided that in no event shall such Settling State be required to refund any payments previously received from such Participating Manufacturer pursuant to this Agreement);

(B) the Settling States shall have the right to assert any and all claims against such Participating Manufacturer in the Bankruptcy or otherwise without regard to any limits otherwise provided in this Agreement (subject to any and all defenses against such claims);

(C) the Settling States may exercise all rights provided under the federal Bankruptcy Code (or other applicable bankruptcy law) with respect to their Claims against such Participating Manufacturer, including the right to initiate and complete police and regulatory actions against such Participating Manufacturer pursuant to the exceptions to the automatic stay set forth in section 362(b) of the Bankruptcy Code (provided, however, that such Participating Manufacturer may contest whether the Settling State's action constitutes a police and regulatory action); and

(D) to the extent that any Settling State is pursuing a police and regulatory action against such Participating Manufacturer as described in subsection (1)(C), such Participating Manufacturer shall not request or support a request that the Bankruptcy court utilize the authority provided under section 105 of the Bankruptcy Code to impose a discretionary stay on the Settling State's action. The Participating Manufacturers further agree that they will not request, seek or support relief from the terms of this Agreement in any proceeding before any court of law (including the

federal bankruptcy courts) or an administrative agency or through legislative action, including (without limitation) by way of joinder in or consent to or acquiescence in any such pleading or instrument filed by another.

(2) Whether or not the Settling States exercise the option set forth in subsection (1) (and whether or not such option, if exercised, is valid and enforceable):

(A) In the event that the bankrupt Participating Manufacturer is an Original Participating Manufacturer, such Participating Manufacturer shall continue to be treated as an Original Participating Manufacturer for all purposes under this Agreement except (i) such Participating Manufacturer shall be treated as a Non-Participating Manufacturer (and not as an Original Participating Manufacturer or Participating Manufacturer) for all purposes with respect to subsections IX(d)(1), IX(d)(2) and IX(d)(3) (including, but not limited to, that the Market Share of such Participating Manufacturer shall not be included in Base Aggregate Participating Manufacturer Market Share or Actual Aggregate Participating Manufacturer Market Share, and that such Participating Manufacturer's volume shall not be included for any purpose under subsection IX(d)(1)(D)); (ii) such Participating Manufacturer's Market Share shall not be included as that of a Participating Manufacturer for the purpose of determining whether the trigger percentage specified in subsection IX(e) has been achieved (provided that such Participating Manufacturer shall be

treated as an Original Participating Manufacturer for all other purposes with respect to such subsection); (iii) for purposes of subsection (B)(iii) of Exhibit E, such Participating Manufacturer shall continue to be treated as an Original Participating Manufacturer, but its operating income shall be recalculated by the Independent Auditor to reflect what such income would have been had such Participating Manufacturer made the payments that would have been due under this Agreement but for the Bankruptcy; (iv) for purposes of subsection XVIII(c), such Participating Manufacturer shall not be treated as an Original Participating Manufacturer or as a Participating Manufacturer to the extent that after entry into Bankruptcy it becomes the acquiror or transferee of Cigarette brands, Brand Names, Cigarette product formulas or Cigarette businesses of any Participating Manufacturer (provided that such Participating Manufacturer shall continue to be treated as an Original Participating Manufacturer and Participating Manufacturer for all other purposes under such subsection); and (v) as to any action that by the express terms of this Agreement requires the unanimous agreement of all Original Participating Manufacturers.

(B) In the event that the bankrupt Participating Manufacturer is a Subsequent Participating Manufacturer, such Participating Manufacturer shall continue to be treated as a Subsequent Participating Manufacturer for all purposes under this Agreement except (i) such Participating Manufacturer shall be treated as a Non-Participating Manufacturer (and

not as a Subsequent Participating Manufacturer or Participating Manufacturer) for all purposes with respect to subsections IX(d)(1), (d)(2) and (d)(4) (including, but not limited to, that the Market Share of such Participating Manufacturer shall not be included in Base Aggregate Participating Manufacturer Market Share or Actual Aggregate Participating Manufacturer Market Share, and that such Participating Manufacturer's volume shall not be included for any purpose under subsection IX(d)(1)(D)); (ii) such Participating Manufacturer's Market Share shall not be included as that of a Participating Manufacturer for the purpose of determining whether the trigger percentage specified in subsection IX(e) has been achieved (provided that such Participating Manufacturer shall be treated as a Subsequent Participating Manufacturer for all other purposes with respect to such subsection); and (iii) for purposes of subsection XVIII(c), such Participating Manufacturer shall not be treated as a Subsequent Participating Manufacturer or as a Participating Manufacturer to the extent that after entry into Bankruptcy it becomes the acquiror or transferee of Cigarette brands, Brand Names, Cigarette product formulas or Cigarette businesses of any Participating Manufacturer (provided that such Participating Manufacturer shall continue to be treated as a Subsequent Participating Manufacturer and Participating Manufacturer for all other purposes under such subsection).

(C) Revision of this Agreement pursuant to subsection XVIII(b)(2) shall not be required by virtue of any resolution on an

involuntary basis in the Bankruptcy of Claims against the bankrupt Participating Manufacturer.

(x) NOTICE OF MATERIAL TRANSFERS. Each Participating Manufacturer shall provide notice to each Settling State at least 20 days before consummating a sale, transfer of title or other disposition, in one transaction or series of related transactions, of assets having a fair market value equal to five percent or more (determined in accordance with United States generally accepted accounting principles) of the consolidated assets of such Participating Manufacturer.

(y) ENTIRE AGREEMENT. This Agreement (together with any agreements expressly contemplated hereby and any other contemporaneous written agreements) embodies the entire agreement and understanding between and among the Settling States and the Participating Manufacturers relating to the subject matter hereof and supersedes (l) all prior agreements and understandings relating to such subject matter, whether written or oral, and (2) all purportedly contemporaneous oral agreements and understandings relating to such subject matter.

(z) BUSINESS DAYS. Any obligation hereunder that, under the terms of this Agreement, is to be performed on a day that is not a Business Day shall be performed on the first Business Day thereafter.

(aa) SUBSEQUENT SIGNATORIES. With respect to a Tobacco Product Manufacturer that signs this Agreement after the MSA Execution Date, the timing of obligations under this Agreement (other than payment obligations, which shall be governed by subsection II(jj)) shall be negotiated to provide for the institution of such obligations on a schedule

not more favorable to such subsequent signatory than that applicable to the Original Participating Manufacturers.

(bb) DECIMAL PLACES. Any figure or percentage referred to in this Agreement shall be carried to seven decimal places.

(cc) REGULATORY AUTHORITY. Nothing in section III of this Agreement is intended to affect the legislative or regulatory authority of any local or State government.

(dd) SUCCESSORS. In the event that a Participating Manufacturer ceases selling a brand of Tobacco Products in the States that such Participating Manufacturer owned in the States prior to July 1, 1998, and an Affiliate of such Participating Manufacturer thereafter and after the MSA Execution Date intentionally sells such brand in the States, such Affiliate shall be considered to be the successor of such Participating Manufacturer with respect to such brand. Performance by any such successor of the obligations under this Agreement with respect to the sales of such brand shall be subject to court-ordered specific performance.

(ee) EXPORT PACKAGING. Each Participating Manufacturer shall place a visible indication on each pack of Cigarettes it manufactures for sale outside of the fifty United States and the District of Columbia that distinguishes such pack from packs of Cigarettes it manufactures for sale in the fifty United States and the District of Columbia.

(ff) ACTIONS WITHIN GEOGRAPHIC BOUNDARIES OF SETTLING STATES. To the extent that any provision of this Agreement expressly prohibits, restricts, or requires any action to be taken "within" any Settling State or the Settling States, the relevant prohibition, restriction, or requirement applies within the geographic boundaries of the applicable

Settling State or Settling States, including, but not limited to, Indian country or Indian trust land within such geographic boundaries.

(gg) NOTICE TO AFFILIATES. Each Participating Manufacturer shall give notice of this Agreement to each of its Affiliates.

IN WITNESS WHEREOF, each Settling State and each Participating Manufacturer, through their fully authorized representatives, have agreed to this Agreement.

STATE OF ALABAMA

By:

Fob James, Jr.
Governor

Date:

By:

Bill Pryor
Attorney General

Date:

STATE OF ALASKA

By:

Bruce M. Botelho
Attorney General

Date:

AMERICAN SAMOA

By:

Tauese P. Sunia
Governor

Date:

By:

Toetagata Albert Mailo
Attorney General

Date:

STATE OF ARIZONA

By:

Grant Woods
Attorney General

Date:

By:

John H. Kelley
Director
Arizona Health Care Cost
Containment System

Date:

STATE OF ARKANSAS

By:

Winston Bryant
Attorney General

Date:

STATE OF CALIFORNIA

By:

Daniel E. Lungren
Attorney General

Date:

By:

Kimberly Belshe
Director
California Department of Health Services

Date:

STATE OF COLORADO

By:

Gale A. Norton
Attorney General

Date:

STATE OF CONNECTICUT

By:

Richard Blumenthal
Attorney General

Date:

STATE OF DELAWARE

By:

M. Jane Brady
Attorney General

Date:

DISTRICT OF COLUMBIA

By:

John M. Ferren
Corporation Counsel

Date:

By:

Marion Barry, Jr.
Mayor

Date:

STATE OF GEORGIA

By:

Zell Miller
Governor

Date:

By:

Thurbert E. Baker
Attorney General

Date:

GUAM

By:

Carl T.C. Gutierrez
Governor

Date:

By:

Gus Diaz
Acting Attorney General

Date:

STATE OF HAWAII

By:

Margery S. Bronster
Attorney General

Date:

STATE OF IDAHO

By:

Alan G. Lance
Attorney General

Date:

STATE OF ILLINOIS

By:

Jim Ryan
Attorney General

Date:

STATE OF INDIANA

By:

Frank L. O'Bannon
Governor

Date:

By:

Jeffrey A. Modisett
Attorney General

Date:

STATE OF IOWA

By:

Tom Miller
Attorney General

Date:

STATE OF KANSAS

By:

Carla J. Stovall
Attorney General

Date:

COMMONWEALTH OF KENTUCKY

By:

Albert Benjamin "Ben" Chandler III
Attorney General

Date:

STATE OF LOUISIANA

By:

Richard P. Ieyoub
Attorney General

Date:

STATE OF MAINE

By:

Andrew Ketterer
Attorney General

Date:

STATE OF MARYLAND

By:

J. Joseph Curran, Jr.
Attorney General

Date:

COMMONWEALTH OF MASSACHUSETTS

By:

Scott Harshbarger
Attorney General

Date:

STATE OF MICHIGAN

By:

Frank J. Kelley
Attorney General

Date:

STATE OF MISSOURI

By:

Jeremiah W. (Jay) Nixon
Attorney General

Date:

STATE OF MONTANA

By:

Joseph P. Mazurek
Attorney General

Date:

STATE OF NEBRASKA

By:

Don Stenberg
Attorney General

Date:

STATE OF NEVADA

By:

Frankie Sue Del Papa
Attorney General

Date:

STATE OF NEW HAMPSHIRE

By:

Philip T. McLaughlin
Attorney General

Date:

STATE OF NEW JERSEY

By:

Peter Verniero
Attorney General

Date:

STATE OF NEW MEXICO

By:

Tom Udall
Attorney General

Date:

STATE OF NEW YORK

By:

Dennis C. Vacco
Attorney General

Date:

STATE OF NORTH CAROLINA

By:

James B. Hunt
Governor

Date:

By:

Michael F. Easley
Attorney General

Date:

STATE OF NORTH DAKOTA

By:

Heidi Heitkamp
Attorney General

Date:

NORTHERN MARIANA ISLANDS

By:

Sally Pfund
(Acting) Attorney General

Date:

STATE OF OHIO

By:

Betty D. Montgomery
Attorney General

Date:

STATE OF OKLAHOMA

By:

W.A. Drew Edmondson
Attorney General

Date:

STATE OF OREGON

By:

Hardy Myers
Attorney General

Date: _____

COMMONWEALTH OF PENNSYLVANIA

By:

Mike Fisher
Attorney General

Date:

COMMONWEALTH OF PUERTO RICO

By:

Jose A. Fuentes-Agostini
Attorney General

Date:

STATE OF RHODE ISLAND

By:

Jeffrey B. Pine
Attorney General

Date:

STATE OF SOUTH CAROLINA

By:

Charlie Condon
Attorney General

Date:

STATE OF SOUTH DAKOTA

By:

William J. Janklow
Governor

Date:

By:

Mark Barnett
Attorney General

Date:

STATE OF TENNESSEE

By:

John Knox Walkup
Attorney General

Date:

STATE OF UTAH

By:

Jan Graham
Attorney General

Date:

STATE OF VERMONT

By:

William H. Sorrell
Attorney General

Date:

COMMONWEALTH OF VIRGINIA

By:

Mark L. Earley
Attorney General

Date:

THE VIRGIN ISLANDS OF THE UNITED
STATES

By:

Julio A. Brady
Attorney General

Date:

STATE OF WASHINGTON

By:

Christine O. Gregoire
Attorney General

Date:

STATE OF WEST VIRGINIA

By:

Darrell V. McGraw Jr.
Attorney General

Date:

STATE OF WISCONSIN

By:

Tommy G. Thompson
Governor

Date:

By:

James E. Doyle
Attorney General

Date:

STATE OF WYOMING

By:

Jim Geringer
Governor

Date:

By:

William U. Hill
Attorney General

Date:

PHILIP MORRIS INCORPORATED

By:

Martin J. Barrington
General Counsel

Date:

By:

Meyer G. Koplow
Counsel

Date:

R.J. REYNOLDS TOBACCO COMPANY

By:

Charles A. Blixt
Executive Vice President and
General Counsel

Date:

By:

Arthur F. Golden
Counsel

Date:

BROWN & WILLIAMSON TOBACCO
CORPORATION

By:

F. Anthony Burke
Vice President and General Counsel

Date:

By:

Stephen R. Patton
Counsel

Date:

LORILLARD TOBACCO COMPANY

By:

Ronald S. Milstein
General Counsel

Date:

By:

Herbert M. Wachtell
Counsel

Date:

EXHIBIT A

STATE ALLOCATION PERCENTAGES

State	Percentage
Alabama	1.6161308%
Alaska	0.3414187%
Arizona	1.4738845%
Arkansas	0.8280661%
California	12.7639554%
Colorado	1.3708614%
Connecticut	1.8565373%
Delaware	0.3954695%
D.C.	0.6071183%
Florida	0.0000000%
Georgia	2.4544575%
Hawaii	0.6018650%
Idaho	0.3632632%
Illinois	4.6542472%
Indiana	2.0398033%
Iowa	0.8696670%
Kansas	0.8336712%
Kentucky	1.7611586%
Louisiana	2.2553531%
Maine	0.7693505%
Maryland	2.2604570%
Massachusetts	4.0389790%
Michigan	4.3519476%
Minnesota	0.0000000%
Mississippi	0.0000000%
Missouri	2.2746011%
Montana	0.4247591%
Nebraska	0.5949833%
Nevada	0.6099351%
New Hampshire	0.6659340%
New Jersey	3.8669963%
New Mexico	0.5963897%
New York	12.7620310%
North Carolina	2.3322850%
North Dakota	0.3660138%
Ohio	5.0375098%
Oklahoma	1.0361370%
Oregon	1.1476582%
Pennsylvania	5.7468588%
Rhode Island	0.7189054%
South Carolina	1.1763519%
South Dakota	0.3489458%
Tennessee	2.4408945%
Texas	0.0000000%
Utah	0.4448869%
Vermont	0.4111851%
Virginia	2.0447451%
Washington	2.0532582%
West Virginia	0.8864604%
Wisconsin	2.0720390%
Wyoming	0.2483449%
American Samoa	0.0152170%
N. Mariana Isld.	0.0084376%
Guam	0.0219371%
U.S. Virgin Isld.	0.0173593%
Puerto Rico	1.1212774%
Total	100.0000000%

EXHIBIT B

FORM OF ESCROW AGREEMENT

This Escrow Agreement is entered into as of _____, 1998 by the undersigned State officials (on behalf of their respective Settling States), the undersigned Participating Manufacturers and _____ as escrow agent (the "Escrow Agent").

WITNESSETH:

WHEREAS, the Settling States and the Participating Manufacturers have entered into a settlement agreement entitled the "Master Settlement Agreement" (the "Agreement"); and

WHEREAS, the Agreement requires the Settling States and the Participating Manufacturers to enter into this Escrow Agreement.

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1. APPOINTMENT OF ESCROW AGENT. The Settling States and the Participating Manufacturers hereby appoint _____ to serve as Escrow Agent under this Agreement on the terms and conditions set forth herein, and the Escrow Agent, by its execution hereof, hereby accepts such appointment and agrees to perform the duties and obligations of the Escrow Agent set forth herein. The Settling States and the Participating Manufacturers agree that the Escrow Agent appointed under the terms of this Escrow Agreement shall be the Escrow Agent as defined in, and for all purposes of, the Agreement.

SECTION 2. DEFINITIONS.

(a) Capitalized terms used in this Escrow Agreement and not otherwise defined herein shall have the meaning given to such terms in the Agreement.

(b) "Escrow Court" means the court of the State of New York to which the Agreement is presented for approval, or such other court as agreed to by the Original Participating Manufacturers and a majority of those Attorneys General who are both the Attorney General of a Settling State and a member of the NAAG executive committee at the time in question.

SECTION 3. ESCROW AND ACCOUNTS.

(a) All funds received by the Escrow Agent pursuant to the terms of the Agreement shall be held and disbursed in accordance with the terms of this Escrow Agreement. Such funds and any earnings thereon shall constitute the "Escrow" and shall

be held by the Escrow Agent separate and apart from all other funds and accounts of the Escrow Agent, the Settling States and the Participating Manufacturers.

(b) The Escrow Agent shall allocate the Escrow among the following separate accounts (each an "Account" and collectively the "Accounts"):

Subsection VI(b) Account

Subsection VI(c) Account (First)
Subsection VI(c) Account (Subsequent)
Subsection VIII(b) Account
Subsection VIII(c) Account
Subsection IX(b) Account (First)
Subsection IX(b) Account (Subsequent)
Subsection IX(c)(1) Account
Subsection IX(c)(2) Account
Subsection IX(e) Account
Disputed Payments Account
State-Specific Accounts with respect to each Settling State in which State-Specific Finality occurs.

(c) All amounts credited to an Account shall be retained in such Account until disbursed therefrom in accordance with the provisions of this Escrow Agreement pursuant to (i) written instructions from the Independent Auditor; or (ii) written instructions from all of the following: all of the Original Participating Manufacturers; all of the Subsequent Participating Manufacturers that contributed to such amounts in such Account; and all of the Settling States (collectively, the "Escrow Parties"). In the event of a conflict, instructions pursuant to clause (ii) shall govern over instructions pursuant to clause (i).

(d) On the first Business Day after the date any payment is due under the Agreement, the Escrow Agent shall deliver to each other Notice Party a written statement showing the amount of such payment (or indicating that no payment was made, if such is the case), the source of such payment, the Account or Accounts to which such payment has been credited, and the payment instructions received by the Escrow Agent from the Independent Auditor with respect to such payment.

(e) The Escrow Agent shall comply with all payment instructions received from the Independent Auditor unless before 11:00 a.m. (New York City time) on the scheduled date of payment it receives written instructions to the contrary from all of the Escrow Parties, in which event it shall comply with such instructions.

(f) On the first Business Day after disbursing any funds from an Account, the Escrow Agent shall deliver to each other Notice Party a written statement showing the amount disbursed, the date of such disbursement and the payee of the disbursed funds.

SECTION 4. FAILURE OF ESCROW AGENT TO RECEIVE INSTRUCTIONS.

In the event that the Escrow Agent fails to receive any written instructions contemplated by this Escrow Agreement, the Escrow Agent shall be fully protected in refraining from taking any action required under any section of this Escrow Agreement other than Section 5 until such written instructions are received by the Escrow Agent.

SECTION 5. INVESTMENT OF FUNDS BY ESCROW AGENT.

The Escrow Agent shall invest and reinvest all amounts from time to time credited to the Accounts in either (i) direct obligations of, or obligations the principal and interest on which are unconditionally guaranteed by, the United States of America; (ii) repurchase agreements fully collateralized by securities described in clause (i) above; (iii) money market accounts maturing within 30 days of the acquisition thereof and issued by a bank or trust company organized under the laws of the United States of America or of any of the 50 States thereof (a "United States Bank") and having combined capital, surplus and undistributed profits in excess of $500,000,000; or (iv) demand deposits with any United States Bank having combined capital, surplus and undistributed profits in excess of $500,000,000. To the extent practicable, monies credited to any Account shall be invested in such a manner so as to be available for use at the times when monies are expected to be disbursed by the Escrow Agent and charged to such Account. Obligations purchased as an investment of monies credited to any Account shall be deemed at all times to be a part of such Account and the income or interest earned, profits realized or losses suffered with respect to such investments (including, without limitation, any penalty for any liquidation of an investment required to fund a disbursement to be charged to such Account), shall be credited or charged, as the case may be, to, such Account and shall be for the benefit of, or be borne by, the person or entity entitled to payment from such Account. In choosing among the investment options described in clauses (i) through (iv) above, the Escrow Agent shall comply with any instructions received from time to time from all of the Escrow Parties. In the absence of such instructions, the Escrow Agent shall invest such sums in accordance with clause (i) above. With respect to any amounts credited to a State-Specific Account, the Escrow Agent shall invest and reinvest all amounts credited to such Account in accordance with the law of the applicable Settling State to the extent such law is inconsistent with this Section 5.

SECTION 6. SUBSTITUTE FORM W-9; QUALIFIED SETTLEMENT FUND.

Each signatory to this Escrow Agreement shall provide the Escrow Agent with a correct taxpayer identification number on a substitute Form W-9 or if it does not have such a number, a statement evidencing its status as an entity exempt from back-up withholding, within 30 days of the date hereof (and, if it supplies a Form W-9, indicate thereon that it is not subject to backup withholding). The escrow established pursuant to this Escrow Agreement is intended to be treated as a Qualified Settlement Fund for federal tax purposes pursuant to Treas. Reg. Section 1.468B-l. The Escrow Agent shall comply

with all applicable tax filing, payment and reporting requirements, including, without limitation, those imposed under Treas. Reg. Section 1.468B, and if requested to do so shall join in the making of the relation-back election under such regulation.

SECTION 7. DUTIES AND LIABILITIES OF ESCROW AGENT.

The Escrow Agent shall have no duty or obligation hereunder other than to take such specific actions as are required of it from time to time under the provisions of this Escrow Agreement, and it shall incur no liability hereunder or in connection herewith for anything whatsoever other than any liability resulting from its own gross negligence or willful misconduct. The Escrow Agent shall not be bound in any way by any agreement or contract between the Participating Manufacturers and the Settling States (whether or not the Escrow Agent has knowledge thereof) other than this Escrow Agreement, and the only duties and responsibilities of the Escrow Agent shall be the duties and obligations specifically set forth in this Escrow Agreement.

SECTION 8. INDEMNIFICATION OF ESCROW AGENT.

The Participating Manufacturers shall indemnify, hold harmless and defend the Escrow Agent from and against any and all losses, claims, liabilities and reasonable expenses, including the reasonable fees of its counsel, which it may suffer or incur in connection with the performance of its duties and obligations under this Escrow Agreement, except for those losses, claims, liabilities and expenses resulting solely and directly from its own gross negligence or willful misconduct.

SECTION 9. RESIGNATION OF ESCROW AGENT.

The Escrow Agent may resign at any time by giving written notice thereof to the other parties hereto, but such resignation shall not become effective until a successor Escrow Agent, selected by the Original Participating Manufacturers and the Settling States, shall have been appointed and shall have accepted such appointment in writing. If an instrument of acceptance by a successor Escrow Agent shall not have been delivered to the resigning Escrow Agent within 90 days after the giving of such notice of resignation, the resigning Escrow Agent may, at the expense of the Participating Manufacturers (to be shared according to their pro rata Market Shares), petition the Escrow Court for the appointment of a successor Escrow Agent.

SECTION 10. ESCROW AGENT FEES AND EXPENSES.

The Participating Manufacturers shall pay to the Escrow Agent its fees as set forth in Appendix A hereto as amended from time to time by agreement of the Original Participating Manufacturers and the Escrow Agent. The Participating Manufacturers shall pay to the Escrow Agent its reasonable fees and expenses, including all reasonable expenses, charges, counsel fees, and other disbursements incurred by it or by its attorneys, agents and employees in the performance of its duties and obligations under

this Escrow Agreement. Such fees and expenses shall be shared by the Participating Manufacturers according to their pro rata Market Shares.

SECTION 11. NOTICES.

All notices, written instructions or other communications to any party or other person hereunder shall be given in the same manner as, shall be given to the same person as, and shall be effective at the same time as provided in subsection XVIII(k) of the Agreement.

SECTION 12. SETOFF; REIMBURSEMENT.

The Escrow Agent acknowledges that it shall not be entitled to set off against any funds in, or payable from, any Account to satisfy any liability of any Participating Manufacturer. Each Participating Manufacturer that pays more than its pro rata Market Share of any payment that is made by the Participating Manufacturers to the Escrow Agent pursuant to Section 8, 9 or 10 hereof shall be entitled to reimbursement of such excess from the other Participating Manufacturers according to their pro rata Market Shares of such excess.

SECTION 13. INTENDED BENEFICIARIES; SUCCESSORS.

No persons or entities other than the Settling States, the Participating Manufacturers and the Escrow Agent are intended beneficiaries of this Escrow Agreement, and only the Settling States, the Participating Manufacturers and the Escrow Agent shall be entitled to enforce the terms of this Escrow Agreement. Pursuant to the Agreement, the Settling States have designated NAAG and the Foundation as recipients of certain payments; for all purposes of this Escrow Agreement, the Settling States shall be the beneficiaries of such payments entitled to enforce payment thereof. The provisions of this Escrow Agreement shall be binding upon and inure to the benefit of the parties hereto and, in the case of the Escrow Agent and Participating Manufacturers, their respective successors. Each reference herein to the Escrow Agent or to a Participating Manufacturer shall be construed as a reference to its successor, where applicable.

SECTION 14. GOVERNING LAW.

This Escrow Agreement shall be construed in accordance with and governed by the laws of the State in which the Escrow Court is located, without regard to the conflicts of law rules of such state.

SECTION 15. JURISDICTION AND VENUE.

The parties hereto irrevocably and unconditionally submit to the continuing exclusive jurisdiction of the Escrow Court for purposes of any suit, action or proceeding seeking to interpret or enforce any provision of, or based on any right arising out of, this Escrow Agreement, and the parties hereto agree not to commence any such suit, action or

proceeding except in the Escrow Court. The parties hereto hereby irrevocably and unconditionally waive any objection to the laying of venue of any such suit, action or proceeding in the Escrow Court and hereby further irrevocably waive and agree not to plead or claim in the Escrow Court that any such suit, action or proceeding has been brought in an inconvenient forum.

SECTION 16. AMENDMENTS.

This Escrow Agreement may be amended only by written instrument executed by all of the parties hereto that would be affected by the amendment. The waiver of any rights conferred hereunder shall be effective only if made in a written instrument executed by the waiving party. The waiver by any party of any breach of this Agreement shall not be deemed to be or construed as a waiver of any other breach, whether prior, subsequent or contemporaneous, of this Escrow Agreement, nor shall such waiver be deemed to be or construed as a waiver by any other party.

SECTION 17. COUNTERPARTS.

This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. Delivery by facsimile of a signed counterpart shall be deemed delivery for purposes of acknowledging acceptance hereof; however, an original executed Escrow Agreement must promptly thereafter be delivered to each party.

SECTION 18. CAPTIONS.

The captions herein are included for convenience of reference only and shall be ignored in the construction and interpretation hereof.

SECTION 19. CONDITIONS TO EFFECTIVENESS.

This Escrow Agreement shall become effective when each party hereto shall have signed a counterpart hereof. The parties hereto agree to use their best efforts to seek an order of the Escrow Court approving, and retaining continuing jurisdiction over, the Escrow Agreement as soon as possible, and agree that such order shall relate back to, and be deemed effective as of, the date this Escrow Agreement became effective.

SECTION 20. ADDRESS FOR PAYMENTS.

Whenever funds are under the terms of this Escrow Agreement required to be disbursed to a Settling State, a Participating Manufacturer, NAAG or the Foundation, the Escrow Agent shall disburse such funds by wire transfer to the account specified by such payee by written notice delivered to all Notice Parties in accordance with Section 11 hereof at least five Business Days prior to the date of payment. Whenever funds are under the terms of this Escrow Agreement required to be disbursed to any other person or entity, the Escrow Agent shall disburse such funds to such account as shall have been

specified in writing by the Independent Auditor for such payment at least five Business Days prior to the date of payment.

SECTION 21. REPORTING.

The Escrow Agent shall provide such information and reporting with respect to the escrow as the Independent Auditor may from time to time request.

IN WITNESS WHEREOF, the parties have executed this Escrow Agreement as of the day and year first hereinabove written.

[signature blocks]

APPENDIX A

SCHEDULE OF FEES AND EXPENSES

EXHIBIT C

FORMULA FOR CALCULATING
INFLATION ADJUSTMENTS

(1) Any amount that, in any given year, is to be adjusted for inflation pursuant to this Exhibit (the "Base Amount") shall be adjusted upward by adding to such Base Amount the Inflation Adjustment.

(2) The Inflation Adjustment shall be calculated by multiplying the Base Amount by the Inflation Adjustment Percentage applicable in that year.

(3) The Inflation Adjustment Percentage applicable to payments due in the year 2000 shall be equal to the greater of 3% or the CPI%. For example, if the Consumer Price Index for December 1999 (as released in January 2000) is 2% higher than the Consumer Price Index for December 1998 (as released in January 1999), then the CPI% with respect to a payment due in 2000 would be 2%. The Inflation Adjustment Percentage applicable in the year 2000 would thus be 3%.

(4) The Inflation Adjustment Percentage applicable to payments due in any year after 2000 shall be calculated by applying each year the greater of 3% or the CPI% on the Inflation Adjustment Percentage applicable to payments due in the prior year. Continuing the example in subsection (3) above, if the CPI% with respect to a payment due in 2001 is 6%, then the Inflation Adjustment Percentage applicable in 2001 would be 9.1800000% (an additional 6% applied on the 3% Inflation Adjustment Percentage applicable in 2000), and if the CPI% with respect to a payment due in 2002 is 4%, then the Inflation Adjustment Percentage applicable in 2002 would be 13.5472000% (an additional 4% applied on the 9.1800000% Inflation Adjustment Percentage applicable in 2001).

(5) "Consumer Price Index" means the Consumer Price Index for All Urban Consumers as published by the Bureau of Labor Statistics of the U.S. Department of Labor (or other similar measures agreed to by the Settling States and the Participating Manufacturers).

(6) The "CPI%" means the actual total percent change in the Consumer Price Index during the calendar year immediately preceding the year in which the payment in question is due.

(7) ADDITIONAL EXAMPLES.

(A) Calculating the Inflation Adjustment Percentages:

Payment Year	Hypothetical CPI%	Percentage to be applied on the Inflation Adjustment Percentage for the prior year (i.e., the greater of 3% or the CPI%)	Inflation Adjustment Percentage
2000	2.4%	3.0%	3.0000000%
2001	2.1%	3.0%	6.0900000%
2002	3.5%	3.5%	9.8031500%
2003	3.5%	3.5%	13.6462603%
2004	4.0%	4.0%	18.1921107%
2005	2.2%	3.0%	21.7378740%
2006	1.6%	3.0%	25.3900102%

(B) Applying the Inflation Adjustment:

Using the hypothetical Inflation Adjustment Percentages set forth in section (7)(A):

-- the subsection IX(c)(1) base payment amount for 2002 of $6,500,000,000 as adjusted for inflation would equal $7,137,204,750;

-- the subsection IX(c)(1) base payment amount for 2004 of $8,000,000,000 as adjusted for inflation would equal $9,455,368,856;

-- the subsection IX(c)(1) base payment amount for 2006 of $8,000,000,000 as adjusted for inflation would equal $10,031,200,816.

EXHIBIT D

LIST OF LAWSUITS

1. ALABAMA
BLAYLOCK ET AL. V. AMERICAN TOBACCO CO. ET AL.,
Circuit Court, Montgomery County, No. CV-96-1508-PR

2. ALASKA
STATE OF ALASKA V. PHILIP MORRIS, INC., ET AL., Superior Court, First Judicial District of Juneau, No. IJU-97915 CI (Alaska)

3. ARIZONA

STATE OF ARIZONA V. AMERICAN TOBACCO CO., INC., ET AL., Superior Court, Maricopa County, No. CV-96-14769 (Ariz.)

4. ARKANSAS

STATE OF ARKANSAS V. THE AMERICAN TOBACCO CO., INC., ET AL., Chancery Court, 6th Division, Pulaski County, No. IJ 97-2982 (Ark.)

5. CALIFORNIA

PEOPLE OF THE STATE OF CALIFORNIA ET AL. V. PHILIP MORRIS, INC., ET AL., Superior Court, Sacramento County, No. 97-AS-30301

6. COLORADO

STATE OF COLORADO ET AL., V. R.J. REYNOLDS TOBACCO CO., ET AL., District Court, City and County of Denver, No. 97CV3432 (Colo.)

7. CONNECTICUT

STATE OF CONNECTICUT V. PHILIP MORRIS, ET AL., Superior Court, Judicial District of Waterbury No. X02 CV96-0148414S (Conn.)

8. GEORGIA

STATE OF GEORGIA ET AL. V. PHILIP MORRIS, INC., ET AL., Superior Court, Fulton County, No. CA E-61692 (Ga.)

9. HAWAII

STATE OF HAWAII V. BROWN & WILLIAMSON TOBACCO CORP., ET AL., Circuit Court, First Circuit, No. 97-0441-01 (Haw.)

10. IDAHO

STATE OF IDAHO V. PHILIP MORRIS, INC., ET AL., Fourth Judicial District, Ada County, No. CVOC 9703239D (Idaho)

11. ILLINOIS

PEOPLE OF THE STATE OF ILLINOIS V. PHILIP MORRIS ET AL., Circuit Court of Cook County, No. 96-L13146 (Ill.)

12. INDIANA

STATE OF INDIANA V. PHILIP MORRIS, INC., ET AL., Marion County Superior Court, No. 49D 07-9702-CT-000236 (Ind.)

13. IOWA

STATE OF IOWA V. R.J. REYNOLDS TOBACCO COMPANY ET AL., Iowa District Court, Fifth Judicial District, Polk County, No. CL71048 (Iowa)

14. KANSAS

STATE OF KANSAS V. R.J. REYNOLDS TOBACCO COMPANY, ET AL., District Court of Shawnee County, Division 2, No. 96-CV-919 (Kan.)

15. LOUISIANA

IEYOUB V. THE AMERICAN TOBACCO COMPANY, ET AL., 14th Judicial District Court, Calcasieu Parish, No. 96-1209 (La.)

16. MAINE

STATE OF MAINE V. PHILIP MORRIS, INC., ET AL., Superior Court, Kennebec County, No. CV 97-134 (Me.)

17. MARYLAND

MARYLAND V. PHILIP MORRIS INCORPORATED, ET AL., Baltimore City Circuit Court, No. 96-122017-CL211487 (Md.)

18. MASSACHUSETTS

COMMONWEALTH OF MASSACHUSETTS V. PHILIP MORRIS INC., ET AL., Middlesex Superior Court, No. 95-7378 (Mass.)

19. MICHIGAN

KELLEY V. PHILIP MORRIS INCORPORATED, ET AL., Ingham County Circuit Court, 30th Judicial Circuit, No. 96-84281-CZ (Mich.)

20. MISSOURI

STATE OF MISSOURI V. AMERICAN TOBACCO CO., INC. ET AL., Circuit Court, City of St. Louis, No. 972-1465 (Mo.)

21. MONTANA

STATE OF MONTANA V. PHILIP MORRIS, INC., ET AL., First Judicial Court, Lewis and Clark County, No. CDV 9700306-14 (Mont.)

22. NEBRASKA

STATE OF NEBRASKA V. R.J. REYNOLDS TOBACCO CO., ET AL., District Court, Lancaster County, No. 573277 (Neb.)

23. NEVADA
NEVADA V. PHILIP MORRIS, INCORPORATED, ET AL., Second Judicial Court, Washoe County, No. CV97-03279 (Nev.)

24. NEW HAMPSHIRE
NEW HAMPSHIRE V. R.J. REYNOLDS, TOBACCO CO., ET AL., New Hampshire Superior Court, Merrimack County, No. 97-E-165 (N.H.)

25. NEW JERSEY
STATE OF NEW JERSEY V. R.J. REYNOLDS TOBACCO COMPANY, ET AL., Superior Court, Chancery Division, Middlesex County, No. C-254-96 (N.J.)

26. NEW MEXICO
STATE OF NEW MEXICO, V. THE AMERICAN TOBACCO CO., ET AL., First Judicial District Court, County of Santa Fe, No. SF-1235 c (N.M.)

27. NEW YORK STATE
STATE OF NEW YORK ET AL. V. PHILIP MORRIS, INC., ET AL., Supreme Court of the State of New York, County of New York, No. 400361/97 (N.Y.)

28. OHIO
STATE OF OHIO V. PHILIP MORRIS, INC., ET AL., Court of Common Pleas, Franklin County, No. 97CVH055114 (Ohio)

29. OKLAHOMA
STATE OF OKLAHOMA, ET AL. V. R.J. REYNOLDS TOBACCO COMPANY, ET AL., District Court, Cleveland County, No. CJ-96-1499-L (Okla.)

30. OREGON
STATE OF OREGON V. THE AMERICAN TOBACCO CO., ET AL., Circuit Court, Multnomah County, No. 9706-04457 (Or.)

31. PENNSYLVANIA
COMMONWEALTH OF PENNSYLVANIA V. PHILIP MORRIS, INC., ET AL., Court of Common Pleas, Philadelphia County, April Term 1997, No. 2443

32. PUERTO RICO
ROSSELLO, ET AL. V. BROWN & WILLIAMSON TOBACCO CORPORATION, ET AL., U.S. District Court, Puerto Rico, No. 97-1910JAF

33. RHODE ISLAND
STATE OF RHODE ISLAND V. AMERICAN TOBACCO CO., ET AL., Rhode Island Superior Court, Providence, No. 97-3058 (R.I.)

34. SOUTH CAROLINA
STATE OF SOUTH CAROLINA V. BROWN & WILLIAMSON TOBACCO CORPORATION, ET AL.,

Court of Common Pleas, Fifth Judicial Circuit, Richland County, No. 97-CP-40-1686 (S.C.)

35. SOUTH DAKOTA

STATE OF SOUTH DAKOTA, ET AL. V. PHILIP MORRIS, INC., ET AL., Circuit Court, Hughes County, Sixth Judicial Circuit, No. 98-65 (S.D.)

36. UTAH

STATE OF UTAH V. R.J. REYNOLDS TOBACCO COMPANY, ET AL., U.S. District Court, Central Division, No. 96 CV 0829W (Utah)

37. VERMONT

STATE OF VERMONT V. PHILIP MORRIS, INC., ET AL., Chittenden Superior Court, Chittenden County, No. 744-97 (Vt.) and 5816-98 (Vt.)

38. WASHINGTON

STATE OF WASHINGTON V. AMERICAN TOBACCO CO. INC., ET AL., Superior Court of Washington, King County, No. 96-2-1505608SEA (Wash.)

39. WEST VIRGINIA

MCGRAW, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Kanawha County Circuit Court, No. 94-1707 (W. Va.)

40. WISCONSIN

STATE OF WISCONSIN V. PHILIP MORRIS INC., ET AL., Circuit Court, Branch 11, Dane County, No. 97-CV-328 (Wis.)

ADDITIONAL STATES
- - ----------

For each Settling State not listed above, the lawsuit or other legal action filed by the Attorney General or Governor of such Settling State against Participating Manufacturers in the Court in such Settling State prior to 30 days after the MSA Execution Date asserting Released Claims.

EXHIBIT E

FORMULA FOR CALCULATING
VOLUME ADJUSTMENTS

Any amount that by the terms of the Master Settlement Agreement is to be adjusted pursuant to this Exhibit E (the "Applicable Base Payment") shall be adjusted in the following manner:

(A) In the event the aggregate number of Cigarettes shipped in or to the fifty United States, the District of Columbia, and Puerto Rico by the Original Participating Manufacturers in the Applicable Year (as defined hereinbelow) (the "Actual Volume") is greater than_____ Cigarettes [figure being determined; to represent the aggregate number of Cigarettes shipped in or to the fifty United States, the District of Columbia, and Puerto Rico in 1997 by those entities that were the Original Participating Manufacturers as of the MSA Execution Date (and any of their Affiliates that made such shipments in 1997 (as demonstrated by a certified statement of such Affiliates' shipments), and that do not continue to make such shipments after the MSA Execution Date because the responsibility for such shipments has been transferred to one of such Participating Manufacturers)] (the "Base Volume"), the Applicable Base Payment shall be multiplied by the ratio of the Actual Volume to the Base Volume.

(B) In the event the Actual Volume is less than the Base Volume,

i. The Applicable Base Payment shall be reduced by subtracting from it the amount equal to such Applicable Base Payment multiplied both by 0.98 and by the result of (i) 1(one) minus (ii) the ratio of the Actual Volume to the Base Volume.

ii. Solely for purposes of calculating volume adjustments to the payments required under subsection IX(c)(1), if a reduction of the Base Payment due under such subsection results from the application of subparagraph (B)(i) of this Exhibit E, but the Original Participating Manufacturers' aggregate operating income from sales of Cigarettes for the Applicable Year in the fifty United States, the District of Columbia, and Puerto Rico (the "Actual Operating Income") is greater than $_____ [figure being determined; to represent the Original Participating Manufacturers' aggregate operating income from such sales of Cigarettes (including operating income from such sales of any of their Affiliates that do not continue to have such sales after the MSA Execution Date) in 1996] (the "Base Operating Income") (such

Base Operating Income being adjusted upward in accordance with the formula for inflation adjustments set forth in Exhibit C hereto beginning December 31, 1996 to be applied for each year after 1996) then the amount by which such Base Payment is reduced by the application of subsection (B)(i) shall be reduced (but not below zero) by the amount calculated by multiplying (i) a percentage equal to the aggregate Allocable Shares of the Settling States in which State-Specific Finality has occurred by (ii) 25% of such increase in such operating income. For purposes of this Exhibit E, "operating income from sales of Cigarettes" shall mean operating income from sales of Cigarettes in the fifty United States, the District of Columbia, and Puerto Rico: (a) before goodwill amortization, trademark amortization, restructuring charges and restructuring related charges, minority interest, net interest expense, non-operating income and expense, general corporate expenses and income taxes; and (b) excluding extraordinary items, cumulative effect of changes in method of accounting and discontinued operations -- all as such income is reported to the United States Securities and Exchange Commission ("SEC") for the Applicable Year (either independently by the Participating Manufacturer or as part of consolidated financial statements reported to the SEC by an Affiliate of such Participating Manufacturer) or, in the case of an Original Participating Manufacturer that does not report income to the SEC, as reported in financial statements prepared in accordance with U.S. generally accepted accounting principles and audited by a nationally recognized accounting firm. For years subsequent to 1998, the determination of the Original Participating Manufacturers' aggregate operating income from sales of Cigarettes shall not exclude any charges or expenses incurred or accrued in connection with this Agreement or any prior settlement of a tobacco and health case and shall otherwise be derived using the same principles as were employed in deriving such Original Participating Manufacturers' aggregate operating income from sales of Cigarettes in 1996.

iii. Any increase in a Base Payment pursuant to subsection (B)(ii) above shall be allocated among the Original Participating Manufacturers in the following manner:

(1) only to those Original Participating Manufacturers whose operating income from sales of Cigarettes in the fifty United States, the District of Columbia and Puerto Rico for the year for which the Base Payment is being adjusted is greater than their respective operating income from such sales of Cigarettes

(including operating income from such sales of any of their Affiliates that do not continue to have such sales after the MSA Execution Date) in 1997 (as increased for inflation as provided in Exhibit C hereto); and

(2) among the Original Participating Manufacturers described in paragraph (1) above in proportion to the ratio of (x) the increase in the operating income from sales of Cigarettes (as described in paragraph (1)) of the Original Participating Manufacturer in question, to (y) the aggregate increase in the operating income from sales of Cigarettes (as described in paragraph (1)) of those Original Participating Manufacturers described in paragraph (1) above.

(C) "Applicable Year" means the calendar year immediately preceding the year in which the payment at issue is due, regardless of when such payment is made.

(D) For purposes of this Exhibit, shipments shall be measured as provided in subsection II(mm).

EXHIBIT F

POTENTIAL LEGISLATION NOT TO BE OPPOSED

1. Limitations on Youth access to vending machines.

2. Inclusion of cigars within the definition of tobacco products.

3. Enhancement of enforcement efforts to identify and prosecute violations of laws prohibiting retail sales to Youth.

4. Encouraging or supporting use of technology to increase effectiveness of age-of-purchase laws, such as, without limitation, the use of programmable scanners, scanners to read drivers' licenses, or use of other age/ID data banks.

5. Limitations on promotional programs for non-tobacco goods using tobacco products as prizes or give-aways.

6. Enforcement of access restrictions through penalties on Youth for possession or use.

7. Limitations on tobacco product advertising in or on school facilities, or wearing of tobacco logo merchandise in or on school property.

8. Limitations on non-tobacco products which are designed to look like tobacco products, such as bubble gum cigars, candy cigarettes, etc.

EXHIBIT G

OBLIGATIONS OF THE TOBACCO INSTITUTE
UNDER THE MASTER SETTLEMENT AGREEMENT

(a) Upon court approval of a plan of dissolution The Tobacco Institute ("TI") will:

(1) EMPLOYEES. Promptly notify and arrange for the termination of the employment of all employees; provided, however, that TI may continue to engage any employee who is (A) essential to the wind-down function as set forth in section (g) herein; (B) reasonably needed for the sole purpose of directing and supporting TI's defense of ongoing litigation; or (C) reasonably needed for the sole purpose of performing the Tobacco Institute Testing Laboratory's (the "TITL") industry-wide cigarette testing pursuant to the Federal Trade Commission (the "FTC") method or any other testing prescribed by state or federal law as set forth in section (h) herein.

(2) EMPLOYEE BENEFITS. Fund all employee benefit and pension programs; provided, however, that unless ERISA or other federal or state law prohibits it, such funding will be accomplished through periodic contributions by the Original Participating Manufacturers, according to their Relative Market Shares, into a trust or a like mechanism, which trust or like mechanism will be established within 90 days of court approval of the plan of dissolution. An opinion letter will be appended to the dissolution plan to certify that the trust plan is not inconsistent with ERISA or employee benefit pension contracts.

(3) LEASES. Terminate all leaseholds at the earliest possible date pursuant to the leases; provided, however, that TI may retain or lease anew such space (or lease other space) as needed for its wind-down activities, for TITL testing as described herein, and for subsequent litigation defense activities. Immediately upon execution of this Agreement, TI will provide notice to each of its landlords of its desire to terminate its lease with such landlord, and will request that the landlord take all steps to re-lease the premises at the earliest possible date consistent with TI's performance of its obligations hereunder. TI will vacate such leasehold premises as soon as they are re-leased or on the last day of wind-down, whichever occurs first.

(b) ASSETS/DEBTS. Within 60 days after court approval of a plan of dissolution, TI will provide to the Attorney General of New York and append to the dissolution plan a description of all of its assets, its debts, tax claims against it, claims of state and federal governments against it, creditor claims against it, pending litigation in which it is a party and notices of claims against it.

(c) DOCUMENTS. Subject to the privacy protections provided by New York Public Officers Law Sections 91-99, TI will provide a copy of or otherwise make available to the State of New York all documents in its possession, excluding those that TI continues to claim to be subject to any attorney-client privilege, attorney work product protection, common interest/joint defense privilege or any other applicable privilege (collectively, "privilege") after the re-examination of privilege claims pursuant to court order in STATE OF OKLAHOMA v. R.J. REYNOLDS TOBACCO COMPANY, ET AL., CJ-96-2499-L (Dist. Ct., Cleveland County) (the "Oklahoma action"):

(1) TI will deliver to the Attorney General of the State of New York a copy of the privilege log served by it in the Oklahoma action. Upon a written request by the Attorney General, TI will deliver an updated version of its privilege log, if any such updated version exists.

(2) The disclosure of any document or documents claimed to be privileged will be governed by section IV of this Agreement.

(3) At the conclusion of the document production and privilege logging process, TI will provide a sworn affidavit that all documents in its possession have been made available to the Attorney General of New York except for documents claimed to be privileged, and that any privilege logs that already exist have been made available to the Attorney General.

(d) REMAINING ASSETS. On mutual agreement between TI and the Attorney General of New York, a not-for-profit health or child welfare organization will be named as the beneficiary of any TI assets that remain after lawful transfers of assets and satisfaction of TI's employee benefit obligations and any other debts, liabilities or claims.

(e) DEFENSE OF LITIGATION. Pursuant to Section 1006 of the New York Not-for-Profit Corporations Law, TI will have the right to continue to defend its litigation interests with respect to any claims against it that are pending or threatened now or that are brought or threatened in the future. TI will retain sole discretion over all litigation decisions, including, without limitation, decisions with respect to asserting any privileges or defenses, having privileged communications and creating privileged documents, filing pleadings, responding to discovery requests, making motions, filing affidavits and briefs, conducting party and non-party discovery, retaining expert witnesses and consultants,

preparing for and defending itself at trial, settling any claims asserted against it, intervening or otherwise participating in litigation to protect interests that it deems significant to its defense, and otherwise directing or conducting its defense. Pursuant to existing joint defense agreements, TI may continue to assist its current or former members in defense of any litigation brought or threatened against them. TI also may enter into any new joint defense agreement or agreements that it deems significant to its defense of pending or threatened claims. TI may continue to engage such employees as reasonably needed for the sole purpose of directing and supporting its defense of ongoing litigation. As soon as TI has no litigation pending against it, it will dissolve completely and will cease all functions consistent with the requirements of law.

(f) NO PUBLIC STATEMENT. Except as necessary in the course of litigation defense as set forth in section (e) above, upon court approval of a plan of dissolution, neither TI nor any of its employees or agents acting in their official capacity on behalf of TI will issue any statements, press releases, or other public statement concerning tobacco.

(g) WIND-DOWN. After court approval of a plan of dissolution, TI will effectuate wind-down of all activities (other than its defense of litigation as described in section (e) above) expeditiously, and in no event later than 180 days after the date of court approval of the plan of dissolution. TI will provide monthly status reports to the Attorney General of New York regarding the progress of wind-down efforts and work remaining to be done with respect to such efforts.

(h) TITL. Notwithstanding any other provision of this Exhibit G or the dissolution plan, TI may perform TITL industry-wide cigarette testing pursuant to the FTC method or any other testing prescribed by state or federal law until such function is

transferred to another entity, which transfer will be accomplished as soon as practicable but in no event more than 180 days after court approval of the dissolution plan.

(i) JURISDICTION. After the filing of a Certificate of Dissolution, pursuant to Section 1004 of the New York Not-for-Profit Corporation Law, the Supreme Court for the State of New York will have continuing jurisdiction over the dissolution of TI and the winding-down of TI's activities, including any litigation-related activities described in subsection (e) herein.

(j) NO DETERMINATION OR ADMISSION. The dissolution of TI and any proceedings taken hereunder are not intended to be and shall not in any event be construed as, deemed to be, or represented or caused to be represented by any Settling State as, an admission or concession or evidence of any liability or any wrongdoing whatsoever on the part of TI, any of its current or former members or anyone acting on their behalf. TI specifically disclaims and denies any liability or wrongdoing whatsoever with respect to the claims and allegations asserted against it by the Attorneys General of the Settling States.

(k) COURT APPROVAL. The Attorney General of the State of New York and the Original Participating Manufacturers will prepare a joint plan of dissolution for submission to the Supreme Court of the State of New York, all of the terms of which will be agreed on and consented to by the Attorney General and the Original Participating Manufacturers consistent with this schedule. The Original Participating Manufacturers and their employees, as officers and directors of TI, will take whatever steps are necessary to execute all documents needed to develop such a plan of dissolution and to submit it to the court for approval. If any court makes any material change to any term or

provision of the plan of dissolution agreed upon and consented to by the Attorney General and the Original Participating Manufacturers, then:

(1) the Original Participating Manufacturers may, at their election, nevertheless proceed with the dissolution plan as modified by the court; or

(2) if the Original Participating Manufacturers elect not to proceed with the court-modified dissolution plan, the Original Participating Manufacturers will be released from any obligations or undertakings under this Agreement or this schedule with respect to TI; provided, however, that the Original Participating Manufacturers will engage in good faith negotiations with the New York Attorney General to agree upon the term or terms of the dissolution plan that the court may have modified in an effort to agree upon a dissolution plan that may be resubmitted for the court's consideration.

EXHIBIT H

DOCUMENT PRODUCTION

Section 1.

(a) PHILIP MORRIS COMPANIES, INC., ET AL., v. AMERICAN BROADCASTING COMPANIES, INC., ET AL., At Law No. 760CL94X00816-00 (Cir. Ct., City of Richmond)

(b) HARLEY-DAVIDSON v. LORILLARD TOBACCO CO., No. 93-947 (S.D.N.Y.)

(c) LORILLARD TOBACCO CO. v. HARLEY-DAVIDSON, No. 93-6098 (E.D. Wis.)

(d) BROWN & WILLIAMSON v. JACOBSON AND CBS, INC., No. 82-648 (N.D. Ill.)

(e) The FTC investigations of tobacco industry advertising and promotion as embodied in the following cites:

1. 46 FTC 706

2. 48 FTC 82

3. 46 FTC 735

4. 47 FTC 1393

5. 108 F. Supp. 573

6. 55 FTC 354

7. 56 FTC 96

8. 79 FTC 255

9. 80 FTC 455

10. Investigation #8023069

11. Investigation #8323222

Each Original Participating Manufacturer and Tobacco-Related Organization will conduct its own reasonable inquiry to determine what documents or deposition testimony, if any, it produced or provided in the above-listed matters.

Section 2.

(a) STATE OF WASHINGTON v. AMERICAN TOBACCO CO., ET AL., No. 96-2-15056-8 SEA (Wash. Super. Ct., County of King)

(b) IN RE MIKE MOORE, ATTORNEY GENERAL, EX REL, STATE OF MISSISSIPPI TOBACCO LITIGATION, No. 94-1429 (Chancery Ct., Jackson, Miss.)

(c) STATE OF FLORIDA v. AMERICAN TOBACCO CO., ET AL., No. CL 95-1466 AH (Fla. Cir. Ct., 15th Judicial Cir., Palm Beach Co.)

(d) STATE OF TEXAS v. AMERICAN TOBACCO CO., ET AL., No. 5-96CV-91 (E.D. Tex.)

(e) MINNESOTA v. PHILIP MORRIS ET AL., No. C-94-8565 (Minn. Dist. Ct., County of Ramsey)

(f) BROIN v. R.J. REYNOLDS, No. 91-49738 CA (22) (11th Judicial Ct., Dade County, Florida)

EXHIBIT I

INDEX AND SEARCH FEATURES FOR DOCUMENT WEBSITE

(a) Each Original Participating Manufacturer and Tobacco-Related Organization will create and maintain on its website, at its expense, an enhanced, searchable index, as described below, using Alta-Vista or functionally comparable software, for all of the documents currently on its website and all documents being placed on its website pursuant to section IV of this Agreement.

(b) The searchable indices of documents on these websites will include:

(1) all of the information contained in the 4(b) indices produced to the State Attorneys General (excluding fields specific only to the Minnesota action other than "request number");

(2) the following additional fields of information (or their substantial equivalent) to the extent such information already exists in an electronic format that can be incorporated into such an index:

Document ID	Master ID
Other Number	Document Date
Primary Type	Other Type
Person Attending	Person Noted
Person Author	Person Recipient
Person Copied	Person Mentioned
Organization Author	Organization Recipient
Organization Copied	Organization Mentioned
Organization Attending	Organization Noted
Physical Attachment 1	Physical Attachment 2
Characteristics	File Name
Site	Area
Verbatim Title	Old Brand
Primary Brand	Mentioned Brand
Page Count	

(c) Each Original Participating Manufacturer and Tobacco-Related Organization will add, if not already available, a user-friendly document retrieval feature on the Website consisting of a "view all pages" function with enhanced image viewer capability that will enable users to choose to view and/or print either "all pages" for a specific document or "page-by-page".

(d) Each Original Participating Manufacturer and Tobacco-Related Organizations will provide at its own expense to NAAG a copy set in electronic form of its website document images and its accompanying subsection IV(h) index in ASCII-delimited form for all of the documents currently on its website and all of the documents described in subsection IV(d) of this Agreement. The Original Participating Manufacturers and Tobacco-Related Organizations will not object to any subsequent distribution and/or reproduction of these copy sets.

EXHIBIT J

TOBACCO ENFORCEMENT FUND PROTOCOL

The States' Antitrust/Consumer Protection Tobacco Enforcement Fund ("Fund") is established by the Attorneys General of the Settling States, acting through NAAG, pursuant to section VIII(c) of the Agreement. The following shall be the primary and mandatory protocol for the administration of the Fund.

SECTION A
FUND PURPOSE

SECTION 1

The monies to be paid pursuant to section VIII(c) of the Agreement shall be placed by NAAG in a new and separate interest bearing account, denominated the States' Antitrust/ Consumer Protection Tobacco Enforcement Fund, which shall not then or thereafter be commingled with any other funds or accounts. However, nothing herein shall prevent deposits into the account so long as monies so deposited are then lawfully committed for the purpose of the Fund as set forth herein.

SECTION 2

A committee of three Attorneys General ("Special Committee") shall be established to determine disbursements from the account, using the process described herein. The three shall be the Attorney General of the State of Washington, the Chair of NAAG's antitrust committee, and the Chair of NAAG's consumer protection committee. In the event that an Attorney General shall hold either two or three of the above stated positions, that Attorney General may serve only in a single capacity, and shall be replaced in the remaining positions by first, the President of NAAG, next by the President-Elect of NAAG and if necessary the Vice-President of NAAG.

SECTION 3

The purpose of the Fund is: (1) to enforce and implement the terms of the Agreement, in particular, by partial payment of the monetary costs of the Independent Auditor as contemplated by the Agreement; and (2) to provide monetary assistance to the various states' attorneys general: (A) to investigate and/or litigate suspected violations of the Agreement and/or Consent Decree; (B) to investigate and/or litigate suspected violations of state and/or federal antitrust or consumer protection laws with respect to the manufacture, use, marketing and sales of tobacco products; and (C) to enforce the Qualifying Statute ("Qualifying Actions"). The Special Committee shall entertain requests only from Settling States for disbursement from the fund associated with a Qualifying Action ("Grant Application").

SECTION B
ADMINISTRATION STANDARDS RELATIVE TO GRANT APPLICATIONS

SECTION 1

The Special Committee shall not entertain any Grant Application to pay salaries or ordinary expenses of regular employees of any Attorney General's office.

SECTION 2

The affirmative vote of two or more of the members of the Special Committee shall be required to approve any Grant Application.

SECTION 3

The decision of the Special Committee shall be final and non-appealable.

SECTION 4

The Attorney General of the State of Washington shall be chair of the Special Committee and shall annually report to the Attorneys General on the requests for funds from the Fund and the actions of the Special Committee upon the requests.

SECTION 5

When a Grant Application to the Fund is made by an Attorney General who is then a member of the Special Committee, such member will be temporarily replaced on the Committee, but only for the determination of such Grant Application. The remaining members of the Special Committee shall designate an Attorney General to replace the Attorney General so disqualified, in order to consider the application.

SECTION 6

The Fund shall be maintained in a federally insured depository institution located in Washington, D.C. Funds may be invested in federal government-backed vehicles. The Fund shall be regularly reported on NAAG financial statements and subject to annual audit.

SECTION 7

Withdrawals from and checks drawn on the Fund will require at least two of three authorized signatures. The three persons so authorized shall be the executive director, the deputy director, and controller of NAAG.

SECTION 8

The Special Committee shall meet in person or telephonically as necessary to determine whether a grant is sought for assistance with a Qualifying Action and whether and to what extent

the Grant Application is accepted. The chair of the Special Committee shall designate the times for such meetings, so that a response is made to the Grant Application as expeditiously as practicable.

SECTION 9

The Special Committee may issue a grant from the Fund only when an Attorney General certifies that the monies will be used in connection with a Qualifying Action, to wit: (A) to investigate and/or litigate suspected violations of the Agreement and/or Consent Decree; (B) to investigate and/or litigate suspected violations of state and/or federal antitrust or consumer protection laws with respect to the manufacture, use, marketing and sales of tobacco products; and (C) to enforce the Qualifying Statute. The Attorney General submitting such application shall further certify that the entire grant of monies from the Fund will be used to pay for such investigation and/or litigation. The Grant Application shall describe the nature and scope of the intended action and use of the funds which may be granted.

SECTION 10

To the extent permitted by law, each Attorney General whose Grant Application is favorably acted upon shall promise to pay back to the Fund all of the amounts received from the Fund in the event the state is successful in litigation or settlement of a Qualifying Action. In the event that the monetary recovery, if any, obtained is not sufficient to pay back the entire amount of the grant, the Attorney General shall pay back as much as is permitted by the recovery. In all instances where monies are granted, the Attorney General(s) receiving monies shall provide an accounting to NAAG of all disbursements received from the Fund no later than the 30th of June next following such disbursement.

SECTION 11

In addition to the repayments to the Fund contemplated in the preceding section, the Special Committee may deposit in the Fund any other monies lawfully committed for the precise purpose of the Fund as set forth in section A(3) above. For example, the Special Committee may at its discretion accept for deposit in the Fund a foundation grant or court-ordered award for state antitrust and/or consumer protection enforcement as long as the monies so deposited become part of and subject to the same rules, purposes and limitations of the Fund.

SECTION 12

The Special Committee shall be the sole and final arbiter of all Grant Applications and of the amount awarded for each such application, if any.

SECTION 13

The Special Committee shall endeavor to maintain the Fund for as long a term as is consistent with the purpose of the Fund. The Special Committee will limit the total amount of grants made to a single state to no more than $500,000.00. The Special Committee will not

award a single grant in excess of $200,000.00, unless the grant involves more than one state, in which case, a single grant so made may not total more than $300,000.00. The Special Committee may, in its discretion and by unanimous vote, decide to waive these limitations if it determines that special circumstances exist. Such decision, however, shall not be effective unless ratified by a two-thirds majority vote of the NAAG executive committee.

SECTION C
GRANT APPLICATION PROCEDURES

SECTION 1

This Protocol shall be transmitted to the Attorneys General within 90 days after the MSA Execution Date. It may not be amended unless by recommendation of the NAAG executive committee and majority vote of the Settling States. NAAG will notify the Settling States of any amendments promptly and will transmit yearly to the attorneys general a statement of the Fund balance and a summary of deposits to and withdrawals from the Fund in the previous calendar or fiscal year.

SECTION 2

Grant Applications must be in writing and must be signed by the Attorney General submitting the application.

SECTION 3

Grant Applications must include the following:

(A) A description of the contemplated/pending action, including the scope of the alleged violation and the area (state/regional/multi-state) likely to be affected by the suspected offending conduct.

(B) A statement whether the action is actively and currently pursued by any other Attorney General or other prosecuting authority.

(C) A description of the purposes for which the monies sought will be used.

(D) The amount requested.

(E) A directive as to how disbursements from the Fund should be made, e.g., either directly to a supplier of services (consultants, experts, witnesses, and the like), to the Attorney General's office directly, or in the case of multi-state action, to one or more Attorneys General's offices designated as a recipient of the monies.

(F) A statement that the applicant Attorney(s) General will, to the extent permitted by law, pay back to the Fund all, or as much as is possible, of the monies received, upon receipt of any monetary recovery obtained in the contemplated/pending litigation or settlement of the action.

(G) A certification that no part of the grant monies will be used to pay the salaries or ordinary expenses of any regular employee of the office of the applicant(s) and that the grant will be used solely to pay for the stated purpose.

(H) A certification that an accounting will be provided to NAAG of all monies received by the applicant(s) by no later than the 30th of June next following any receipt of such monies.

SECTION 4

All Grant Applications shall be submitted to the NAAG office at the following address: National Association of Attorneys General, 750 1st Street, NE, Suite 1100, Washington D.C. 20002.

SECTION 5

The Special Committee will endeavor to act upon all complete and properly submitted Grant Applications within 30 days of receipt of said applications.

SECTION D
OTHER DISBURSEMENTS FROM THE FUND

SECTION 1

To enforce and implement the terms of the Agreement, the Special Committee shall direct disbursements from the Fund to comply with the partial payment obligations set forth in section XI of the Agreement relative to costs of the Independent Auditor. A report of such disbursements shall be included in the accounting given pursuant to section C(1) above.

SECTION E
ADMINISTRATIVE COSTS

SECTION 1

NAAG shall receive from the Fund on July 1, 1999 and on July 1 of each year thereafter an administrative fee of $100,000 for its administrative costs in performing its duties under the Protocol and this Agreement. The NAAG executive committee may adjust the amount of the administrative fee in extraordinary circumstances.

EXHIBIT K
MARKET CAPITALIZATION PERCENTAGES

Philip Morris Incorporated	68.0000000%
Brown & Williamson Tobacco Corporation	17.9000000%
Lorillard Tobacco Company	7.3000000%
R.J. Reynolds Tobacco Company	6.8000000%
Total	100.0000000%

EXHIBIT L

MODEL CONSENT DECREE

IN THE [XXXXXX] COURT OF THE STATE OF [XXXXXX]
IN AND FOR THE COUNTY OF [XXXXX]

STATE OF [XXXXXXXXXXX], Plaintiff, v. [XXXXXX XXXXX XXXX], et al., Defendants.	CAUSE NO. XXXXXX CONSENT DECREE AND FINAL JUDGMENT

WHEREAS, Plaintiff, the State of [name of Settling State], commenced this action on [date], [by and through its Attorney General [name]], pursuant to [her/his/its] common law powers and the provisions of [state and/or federal law];

WHEREAS, the State of [name of Settling State] asserted various claims for monetary, equitable and injunctive relief on behalf of the State of [name of Settling State] against certain tobacco product manufacturers and other defendants;

WHEREAS, Defendants have contested the claims in the State's complaint [and amended complaints, if any] and denied the State's allegations [and asserted affirmative defenses];

WHEREAS, the parties desire to resolve this action in a manner which appropriately addresses the State's public health concerns, while conserving the parties' resources, as well as those of the Court, which would otherwise be expended in litigating a matter of this magnitude; and

WHEREAS, the Court has made no determination of any violation of law, this Consent Decree and Final Judgment being entered prior to the taking of any testimony and without trial or final adjudication of any issue of fact or law;

NOW, THEREFORE, IT IS HEREBY ORDERED, ADJUDGED AND DECREED, AS FOLLOWS:

I. JURISDICTION AND VENUE

This Court has jurisdiction over the subject matter of this action and over each of the Participating Manufacturers. Venue is proper in this [county/district].

II. DEFINITIONS

The definitions set forth in the Agreement (a copy of which is attached hereto) are incorporated herein by reference.

III. APPLICABILITY

A. This Consent Decree and Final Judgment applies only to the Participating Manufacturers in their corporate capacity acting through their respective successors and assigns, directors, officers, employees, agents, subsidiaries, divisions, or other internal organizational units of any kind or any other entities acting in concert or participation with them. The remedies, penalties and sanctions that may be imposed or assessed in connection with a violation of this Consent Decree and Final Judgment (or any order issued in connection herewith) shall only apply to the Participating Manufacturers, and shall not be imposed or assessed against any employee, officer or director of any Participating Manufacturer, or against any other person or entity as a consequence of such violation, and there shall be no jurisdiction under this Consent Decree and Final Judgment to do so.

B. This Consent Decree and Final Judgment is not intended to and does not vest standing in any third party with respect to the terms hereof. No portion of this Consent Decree and Final Judgment shall provide any rights to, or be enforceable by, any person or entity other than the State of [name of Settling State] or a Released Party. The State of [name of Settling State] may not assign or otherwise convey any right to enforce any provision of this Consent Decree and Final Judgment.

IV. VOLUNTARY ACT OF THE PARTIES

The parties hereto expressly acknowledge and agree that this Consent Decree and Final Judgment is voluntarily entered into as the result of arm's-length negotiation, and all parties hereto were represented by counsel in deciding to enter into this Consent Decree and Final Judgment.

V. INJUNCTIVE AND OTHER EQUITABLE RELIEF

Each Participating Manufacturer is permanently enjoined from:

A. Taking any action, directly or indirectly, to target Youth within the State of [name of Settling State] in the advertising, promotion or marketing of Tobacco Products, or taking any action the primary purpose of which is to initiate, maintain or increase the incidence of Youth smoking within the State of [name of Settling State].

B. After 180 days after the MSA Execution Date, using or causing to be used within the State of [name of Settling State] any Cartoon in the advertising, promoting, packaging or labeling of Tobacco Products.

C. After 30 days after the MSA Execution Date, making or causing to be made any payment or other consideration to any other person or entity to use, display, make reference to or use as a prop within the State of [name of Settling State] any Tobacco Product, Tobacco Product package, advertisement for a Tobacco Product, or any other item bearing a Brand Name in any Media; provided, however, that the foregoing prohibition shall not apply to (1) Media where the audience or viewers are within an Adult-Only Facility (provided such Media are not visible to persons outside such Adult-Only Facility); (2) Media not intended for distribution or display to the public; (3) instructional Media concerning non-conventional cigarettes viewed only by or provided only to smokers who are Adults; and (4) actions taken by any Participating Manufacturer in connection with a Brand Name Sponsorship permitted pursuant to subsections III(c)(2)(A) and III(c)(2)(B)(i) of the Agreement, and use of a Brand Name to identify a Brand Name Sponsorship permitted by subsection III(c)(2)(B)(ii).

D. Beginning July 1, 1999, marketing, distributing, offering, selling, licensing or causing to be marketed, distributed, offered, sold, or licensed (including, without limitation, by catalogue or direct mail), within the State of [name of Settling State], any apparel or other merchandise (other than Tobacco Products, items the sole function of which is to advertise Tobacco Products, or written or electronic publications) which bears a Brand Name. Provided, however, that nothing in this section shall (1) require any Participating Manufacturer to breach or terminate any licensing agreement or other contract in existence as of June 20, 1997 (this exception shall not apply beyond the current term of any existing contract, without regard to any renewal or option term that may be exercised by such Participating Manufacturer); (2) prohibit the distribution to any Participating Manufacturer's employee who is not Underage of any item described above that is intended for the personal use of such an employee; (3) require any Participating Manufacturer to retrieve, collect or otherwise recover any item that prior to the MSA Execution Date was marketed, distributed, offered, sold, licensed or caused to be marketed, distributed, offered, sold or licensed by such Participating Manufacturer; (4) apply to coupons or other items used by Adults solely in connection with the purchase of Tobacco Products; (5) apply to apparel or other merchandise used within an Adult-Only Facility that is not distributed (by sale or otherwise) to any member of the general public; or (6) apply to apparel or other merchandise (a) marketed, distributed, offered, sold, or licensed at the site of a Brand Name Sponsorship permitted pursuant to subsection III(c)(2)(A) or III(c)(2)(B)(i) of the Agreement by the person to which the relevant Participating Manufacturer has provided payment in exchange for the use of the relevant Brand Name in the Brand Name Sponsorship or a third-party that does not receive payment from the relevant Participating Manufacturer (or any Affiliate of such Participating Manufacturer) in connection with the marketing, distribution, offer, sale or license of such apparel or other merchandise, or (b) used at the site of a Brand Name Sponsorship permitted pursuant to subsections III(c)(2)(A) or III(c)(2)(B)(i) of the Agreement (during such event) that are not distributed (by sale or otherwise) to any member of the general public.

E. After the MSA Execution Date, distributing or causing to be distributed within the State of [name of Settling State] any free samples of Tobacco Products except in an Adult-Only Facility. For purposes of this Consent Decree and Final Judgment, a "free sample" does not include a Tobacco Product that is provided to an Adult in connection with (1) the purchase, exchange or redemption for proof of purchase of any Tobacco Products (including, but not limited to, a free offer in connection with the purchase of Tobacco Products, such as a "two-for-one" offer), or (2) the conducting of consumer testing or evaluation of Tobacco Products with persons who certify that they are Adults.

F. Using or causing to be used as a brand name of any Tobacco Product pursuant to any agreement requiring the payment of money or other valuable consideration, any nationally recognized or nationally established brand name or trade name of any non-tobacco item or service or any nationally recognized or nationally established sports team, entertainment group or individual celebrity. Provided, however, that the preceding sentence shall not apply to any Tobacco Product brand name in existence as of July 1, 1998. For the purposes of this provision, the term "other valuable consideration" shall not include an agreement between two entities who enter into such agreement for the sole purpose of avoiding infringement claims.

G. After 60 days after the MSA Execution Date and through and including December 31, 2001, manufacturing or causing to be manufactured for sale within the State of [name of Settling State] any pack or other container of Cigarettes containing fewer than 20 Cigarettes (or, in the case of roll-your-own tobacco, any package of roll-your-own tobacco containing less than 0.60 ounces of tobacco); and, after 150 days after the MSA Execution Date and through and including December 31, 2001, selling or distributing within the State of [name of Settling State] any pack or other container of Cigarettes containing fewer than 20 Cigarettes (or, in the case of roll-your-own tobacco, any package of roll-your-own tobacco containing less than 0.60 ounces of tobacco).

H. Entering into any contract, combination or conspiracy with any other Tobacco Product Manufacturer that has the purpose or effect of: (1) limiting competition in the production or distribution of information about health hazards or other consequences of the use of their products; (2) limiting or suppressing research into smoking and health; or (3) limiting or suppressing research into the marketing or development of new products. Provided, however, that nothing in the preceding sentence shall be deemed to (1) require any Participating Manufacturer to produce, distribute or otherwise disclose any information that is subject to any privilege or protection; (2) preclude any Participating Manufacturer from entering into any joint defense or joint legal interest agreement or arrangement (whether or not in writing), or from asserting any privilege pursuant thereto; or (3) impose any affirmative obligation on any Participating Manufacturer to conduct any research.

I. Making any material misrepresentation of fact regarding the health consequences of using any Tobacco Product, including any tobacco additives, filters, paper or other ingredients. Provided, however, that nothing in the preceding sentence shall limit the exercise of any First Amendment right or the assertion of any defense or position in any judicial, legislative or regulatory forum.

VI. MISCELLANEOUS PROVISIONS

A. Jurisdiction of this case is retained by the Court for the purposes of implementing and enforcing the Agreement and this Consent Decree and Final Judgment and enabling the continuing proceedings contemplated herein. Whenever possible, the State of [name of Settling State] and the Participating Manufacturers shall seek to resolve any issue that may exist as to compliance with this Consent Decree and Final Judgment by discussion among the appropriate designees named pursuant to subsection XVIII(m) of the Agreement. The State of [name of Settling State] and/or any Participating Manufacturer may apply to the Court at any time for further orders and directions as may be necessary or appropriate for the implementation and enforcement of this Consent Decree and Final Judgment. Provided, however, that with regard to subsections V(A) and V(I) of this Consent Decree and Final Judgment, the Attorney General shall issue a cease and desist demand to the Participating Manufacturer that the Attorney General believes is in violation of either of such sections at least ten Business Days before the Attorney General applies to the Court for an order to enforce such subsections, unless the Attorney General reasonably determines that either a compelling time-sensitive public health and safety concern requires more immediate action or the Court has previously issued an Enforcement Order to the Participating Manufacturer in question for the same or a substantially similar action or activity. For any claimed violation of this Consent Decree and Final Judgment, in determining whether to seek an order for monetary, civil contempt or criminal sanctions for any claimed violation, the Attorney General shall give good-faith consideration to whether: (1) the Participating Manufacturer that is claimed to have committed the violation has taken appropriate and reasonable steps to cause the claimed violation to be cured, unless that party has been guilty of a pattern of violations of like nature; and (2) a legitimate, good-faith dispute exists as to the meaning of the terms in question of this Consent Decree and Final Judgment. The Court in any case in its discretion may determine not to enter an order for monetary, civil contempt or criminal sanctions.

B. This Consent Decree and Final Judgment is not intended to be, and shall not in any event be construed as, or deemed to be, an admission or concession or evidence of (1) any liability or any wrongdoing whatsoever on the part of any Released Party or that any Released Party has engaged in any of the activities barred by this Consent Decree and Final Judgment; or (2) personal jurisdiction over any person or entity other than the Participating Manufacturers. Each Participating Manufacturer specifically disclaims and denies any liability or wrongdoing whatsoever with respect to the claims and allegations asserted against it in this action, and has stipulated to the entry of this Consent Decree and Final Judgment solely to avoid the further expense, inconvenience, burden and risk of litigation.

C. Except as expressly provided otherwise in the Agreement, this Consent Decree and Final Judgment shall not be modified (by this Court, by any other court or by any other means) unless the party seeking modification demonstrates, by clear and convincing evidence, that it will suffer irreparable harm from new and unforeseen conditions. Provided, however, that the provisions of sections III, V, VI and VII of this Consent Decree and Final Judgment shall in no event be subject to modification without the consent of the State of [name of Settling State] and all affected Participating Manufacturers. In the event that any of the sections of this Consent

Decree and Final Judgment enumerated in the preceding sentence are modified by this Court, by any other court or by any other means without the consent of the State of [name of Settling State] and all affected Participating Manufacturers, then this Consent Decree and Final Judgment shall be void and of no further effect. Changes in the economic conditions of the parties shall not be grounds for modification. It is intended that the Participating Manufacturers will comply with this Consent Decree and Final Judgment as originally entered, even if the Participating Manufacturers' obligations hereunder are greater than those imposed under current or future law (unless compliance with this Consent Decree and Final Judgment would violate such law). A change in law that results, directly or indirectly, in more favorable or beneficial treatment of any one or more of the Participating Manufacturers shall not support modification of this Consent Decree and Final Judgment.

D. In any proceeding which results in a finding that a Participating Manufacturer violated this Consent Decree and Final Judgment, the Participating Manufacturer or Participating Manufacturers found to be in violation shall pay the State's costs and attorneys' fees incurred by the State of [name of Settling State] in such proceeding.

E. The remedies in this Consent Decree and Final Judgment are cumulative and in addition to any other remedies the State of [name of Settling State] may have at law or equity, including but not limited to its rights under the Agreement. Nothing herein shall be construed to prevent the State from bringing an action with respect to conduct not released pursuant to the Agreement, even though that conduct may also violate this Consent Decree and Final Judgment. Nothing in this Consent Decree and Final Judgment is intended to create any right for [name of Settling State] to obtain any Cigarette product formula that it would not otherwise have under applicable law.

F. No party shall be considered the drafter of this Consent Decree and Final Judgment for the purpose of any statute, case law or rule of interpretation or construction that would or might cause any provision to be construed against the drafter. Nothing in this Consent Decree and Final Judgment shall be construed as approval by the State of [name of Settling State] of the Participating Manufacturers' business organizations, operations, acts or practices, and the Participating Manufacturers shall make no representation to the contrary.

G. The settlement negotiations resulting in this Consent Decree and Final Judgment have been undertaken in good faith and for settlement purposes only, and no evidence of negotiations or discussions underlying this Consent Decree and Final Judgment shall be offered or received in evidence in any action or proceeding for any purpose. Neither this Consent Decree and Final Judgment nor any public discussions, public statements or public comments with respect to this Consent Decree and Final Judgment by the State of [name of Settling State] or any Participating Manufacturer or its agents shall be offered or received in evidence in any action or proceeding for any purpose other than in an action or proceeding arising under or relating to this Consent Decree and Final Judgment.

H. All obligations of the Participating Manufacturers pursuant to this Consent Decree and Final Judgment (including, but not limited to, all payment obligations) are, and shall remain, several and not joint.

I. The provisions of this Consent Decree and Final Judgment are applicable only to actions taken (or omitted to be taken) within the States. Provided, however, that the preceding sentence shall not be construed as extending the territorial scope of any provision of this Consent Decree and Final Judgment whose scope is otherwise limited by the terms thereof.

J. Nothing in subsection V(A) or V(I) of this Consent Decree shall create a right to challenge the continuation, after the MSA Execution Date, of any advertising content, claim or slogan (other than use of a Cartoon) that was not unlawful prior to the MSA Execution Date.

K. If the Agreement terminates in this State for any reason, then this Consent Decree and Final Judgment shall be void and of no further effect.

VII. FINAL DISPOSITION

A. The Agreement, the settlement set forth therein, and the establishment of the escrow provided for therein are hereby approved in all respects, and all claims are hereby dismissed with prejudice as provided therein.

B. The Court finds that the person[s] signing the Agreement have full and complete authority to enter into the binding and fully effective settlement of this action as set forth in the Agreement. The Court further finds that entering into this settlement is in the best interests of the State of [name of Settling State].

LET JUDGMENT BE ENTERED ACCORDINGLY

DATED this _____ day of _____, 1998.

EXHIBIT M

LIST OF PARTICIPATING MANUFACTURERS' LAWSUITS
AGAINST THE SETTLING STATES

1. PHILIP MORRIS, INC., ET AL. V. MARGERY BRONSTER, ATTORNEY GENERAL OF THE STATE OF HAWAII, IN HER OFFICIAL CAPACITY, Civ. No. 96-00722HG, United States District Court for the District of Hawaii

2. PHILIP MORRIS, INC., ET AL. V. BRUCE BOTELHO, ATTORNEY GENERAL OF THE STATE OF ALASKA, IN HIS OFFICIAL CAPACITY, Civ. No. A97-0003CV, United States District Court for the District of Alaska

3. PHILIP MORRIS, INC., ET AL. V. SCOTT HARSHBARGER, ATTORNEY GENERAL OF THE COMMONWEALTH OF MASSACHUSETTS, IN HIS OFFICIAL CAPACITY, Civ. No. 95-12574-GAO, United States District Court for the District of Massachusetts

4. PHILIP MORRIS, INC., ET AL. V. RICHARD BLUMENTHAL, ATTORNEY GENERAL OF THE STATE OF CONNECTICUT, IN HIS OFFICIAL CAPACITY, Civ. No. 396CV01221 (PCD), United States District Court for the District of Connecticut

5. PHILIP MORRIS, ET AL. V. WILLIAM H. SORRELL, ET AL., No. 1:98-ev-132, United States District Court for the District of Vermont

EXHIBIT N

LITIGATING POLITICAL SUBDIVISIONS

1. CITY OF NEW YORK, ET AL. V. THE TOBACCO INSTITUTE, INC. ET AL., Supreme Court of the State of New York, County of New York, Index No. 406225/96

2. COUNTY OF ERIE V. THE TOBACCO INSTITUTE, INC. ET AL., Supreme Court of the State of New York, County of Erie, Index No. I 1997/359

3. COUNTY OF LOS ANGELES V. R.J. REYNOLDS TOBACCO CO. ET al., San Diego Superior Court, No. 707651

4. THE PEOPLE V. PHILIP MORRIS, INC. ET AL., San Francisco Superior Court, No. 980864

5. COUNTY OF COOK V. PHILIP MORRIS, INC. ET AL., Circuit Court of Cook County, Ill., No. 97-L-4550

EXHIBIT O

[MODEL] STATE FEE PAYMENT AGREEMENT

This STATE Fee Payment Agreement (the "STATE Fee Payment Agreement") is entered into as of _____, _____ between and among the Original Participating Manufacturers and STATE Outside Counsel (as defined herein), to provide for payment of attorneys' fees pursuant to Section XVII of the Master Settlement Agreement (the "Agreement").

WITNESSETH:

WHEREAS, the State of STATE and the Original Participating Manufacturers have entered into the Agreement to settle and resolve with finality all Released Claims against the Released Parties, including the Original Participating Manufacturers, as set forth in the Agreement; and

WHEREAS, Section XVII of the Agreement provides that the Original Participating Manufacturers shall pay reasonable attorneys' fees to those private outside counsel identified in Exhibit S to the Agreement, pursuant to the terms hereof;

NOW, THEREFORE, BE IT KNOWN THAT, in consideration of the mutual agreement of the State of STATE and the Original Participating Manufacturers to the terms of the Agreement and of the mutual agreement of STATE Outside Counsel and the Original Participating Manufacturers to the terms of this STATE Fee Payment Agreement, and such other consideration described herein, the Original Participating Manufacturers and STATE Outside Counsel agree as follows:

SECTION 1. DEFINITIONS.

All definitions contained in the Agreement are incorporated by reference herein, except as to terms specifically defined herein.

(a) "ACTION" means the lawsuit identified in Exhibit D, M or N to the Agreement that has been brought by or against the State of STATE [or Litigating Political Subdivision].

(b) "ALLOCATED AMOUNT" means the amount of any Applicable Quarterly Payment allocated to any Private Counsel (including STATE Outside Counsel) pursuant to section 17 hereof.

(c) "ALLOCABLE LIQUIDATED SHARE" means, in the event that the sum of all Payable Liquidated Fees of Private Counsel as of any date specified in section 8 hereof exceeds the Applicable Liquidation Amount for any payment described therein, a percentage share of the Applicable Liquidation Amount equal to the proportion of (i) the amount of

the Payable Liquidated Fee of STATE Outside Counsel to (ii) the sum of Payable Liquidated Fees of all Private Counsel.

(d) "APPLICABLE LIQUIDATION AMOUNT" means, for purposes of the payments described in section 8 hereof -

(i) for the payment described in subsection (a) thereof, $125 million;

(ii) for the payment described in subsection (b) thereof, the difference between (A) $250 million and (B) the sum of all amounts paid in satisfaction of all Payable Liquidated Fees of Outside Counsel pursuant to subsection (a) thereof;

(iii) for the payment described in subsection (c) thereof, the difference between (A) $250 million and (B) the sum of all amounts paid in satisfaction of all Payable Liquidated Fees of Outside Counsel pursuant to subsections (a) and (b) thereof;

(iv) for the payment described in subsection (d) thereof, the difference between (A) $250 million and (B) the sum of all amounts paid in satisfaction of all Payable Liquidated Fees of Outside Counsel pursuant to subsections (a), (b) and (c) thereof;

(v) for the payment described in subsection (e) thereof, the difference between (A) $250 million and (B) the sum of all amounts paid in satisfaction of all Payable Liquidated Fees of Outside Counsel pursuant to subsections (a), (b), (c) and (d) thereof;

(vi) for each of the first, second and third quarterly payments for any calendar year described in subsection (f) thereof, $62.5 million; and

(vii) for each of the fourth calendar quarterly payments for any calendar year described in subsection (f) thereof, the difference between (A) $250 million and (B) the sum of all amounts paid in satisfaction of all Payable Liquidated Fees of Outside Counsel with respect to the preceding calendar quarters of the calendar year.

(e) "APPLICATION" means a written application for a Fee Award submitted to the Panel, as well as all supporting materials (which may include video recordings of interviews).

(f) "APPROVED COST STATEMENT" means both (i) a Cost Statement that has been accepted by the Original Participating Manufacturers; and (ii) in the event that a Cost Statement submitted by STATE Outside Counsel is disputed, the determination by arbitration pursuant to subsection (b) of section 19 hereof as to the amount of the reasonable costs and expenses of STATE Outside Counsel.

(g) "COST STATEMENT" means a signed and attested statement of reasonable costs and expenses of Outside Counsel for any action identified on Exhibit D, M or N to the Agreement that has been brought by or against a Settling State or Litigating Political Subdivision.

(h) "DESIGNATED REPRESENTATIVE" means the person designated in writing, by each person or entity identified in Exhibit S to the Agreement [by the Attorney General of the State of STATE or as later certified in writing by the governmental prosecuting authority of the Litigating Political Subdivision], to act as their agent in receiving payments from the Original Participating Manufacturers for the benefit of STATE Outside Counsel pursuant to sections 8, 16 and 19 hereof, as applicable.

(i) "DIRECTOR" means the Director of the Private Adjudication Center of the Duke University School of Law or such other person or entity as may be chosen by agreement of the Original Participating Manufacturers and the Committee described in the second sentence of paragraph (b)(ii) of section 11 hereof.

(j) "ELIGIBLE COUNSEL" means Private Counsel eligible to be allocated a part of a Quarterly Fee Amount pursuant to section 17 hereof.

(k) "FEDERAL LEGISLATION" means federal legislation that imposes an enforceable obligation on Participating Defendants to pay attorneys' fees with respect to Private Counsel.

(l) "FEE AWARD" means any award of attorneys' fees by the Panel in connection with a Tobacco Case.

(m) "LIQUIDATED FEE" means an attorneys' fee for Outside Counsel for any action identified on Exhibit D, M or N to the Agreement that has been brought by or against a Settling State or Litigating Political Subdivision, in an amount agreed upon by the Original Participating Manufacturers and such Outside Counsel.

(n) "OUTSIDE COUNSEL" means all those Private Counsel identified in Exhibit S to the Agreement.

(o) "PANEL" means the three-member arbitration panel described in section 11 hereof.

(p) "PARTY" means (i) STATE Outside Counsel and (ii) an Original Participating Manufacturer.

(q) "PAYABLE COST STATEMENT" means the unpaid amount of a Cost Statement as to which all conditions precedent to payment have been satisfied.

(r) "PAYABLE LIQUIDATED FEE" means the unpaid amount of a Liquidated Fee as to which all conditions precedent to payment have been satisfied.

(s) "PREVIOUSLY SETTLED STATES" means the States of Mississippi, Florida and Texas.

(t) "PRIVATE COUNSEL" means all private counsel for all plaintiffs in a Tobacco Case (including STATE Outside Counsel).

(u) "QUARTERLY FEE AMOUNT" means, for purposes of the quarterly payments described in sections 16, 17 and 18 hereof -

(i) for each of the first, second and third calendar quarters of any calendar year beginning with the first calendar quarter of 1999 and ending with the third calendar quarter of 2008, $125 million;

(ii) for each fourth calendar quarter of any calendar year beginning with the fourth calendar quarter of 1999 and ending with the fourth calendar quarter of 2003, the sum of (A) $125 million and (B) the difference, if any, between (1) $375 million and (2) the sum of all amounts paid in satisfaction of all Fee Awards of Private Counsel during such calendar year, if any;

(iii) for each fourth calendar quarter of any calendar year beginning with the fourth calendar quarter of 2004 and ending with the fourth calendar quarter of 2008, the sum of (A) $125 million; (B) the difference between (1) $375 million; and (2) the sum of all amounts paid in satisfaction of all Fee Awards of Private Counsel during such calendar year, if any; and (C) the difference, if any, between (1) $250 million and (2) the product of (A) .2 (two tenths) and (B) the sum of all amounts paid in satisfaction of all Liquidated Fees of Outside Counsel pursuant to section 8 hereof, if any;

(iv) for each of the first, second and third calendar quarters of any calendar year beginning with the first calendar quarter of 2009, $125 million; and

(v) for each fourth calendar quarter of any calendar year beginning with the fourth calendar quarter of 2009, the sum of (A) $125 million and (B) the difference, if any, between (1) $375 million and (2) the sum of all amounts paid in satisfaction of all Fee Awards of Private Counsel during such calendar year, if any.

(v) "RELATED PERSONS" means each Original Participating Manufacturer's past, present and future Affiliates, divisions, officers, directors, employees, representatives, insurers, lenders, underwriters, Tobacco-Related Organizations, trade associations, suppliers, agents, auditors, advertising agencies, public relations entities, attorneys, retailers and distributors (and the predecessors, heirs, executors, administrators, successors and assigns of each of the foregoing).

(w) "STATE OF STATE" means the [applicable Settling State or the Litigating Political Subdivision], any of its past, present and future agents, officials acting in their

official capacities, legal representatives, agencies, departments, commissions and subdivisions.

(x) "STATE OUTSIDE COUNSEL" means all persons or entities identified in Exhibit S to the Agreement by the Attorney General of State of STATE [or as later certified by the office of the governmental prosecuting authority for the Litigating Political Subdivision] as having been retained by and having represented the STATE in connection with the Action, acting collectively by unanimous decision of all such persons or entities.

(y) "TOBACCO CASE" means any tobacco and health case (other than a non-class action personal injury case brought directly by or on behalf of a single natural person or the survivor of such person or for wrongful death, or any non-class action consolidation of two or more such cases).

(z) "UNPAID FEE" means the unpaid portion of a Fee Award.

SECTION 2. AGREEMENT TO PAY FEES.

The Original Participating Manufacturers will pay reasonable attorneys' fees to STATE Outside Counsel for their representation of the State of STATE in connection with the Action, as provided herein and subject to the CODE OF PROFESSIONAL RESPONSIBILITY of the American Bar Association. Nothing herein shall be construed to require the Original Participating Manufacturers to pay any attorneys' fees other than (i) a Liquidated Fee or a Fee Award and (ii) a Cost Statement, as provided herein, nor shall anything herein require the Original Participating Manufacturers to pay any Liquidated Fee, Fee Award or Cost Statement in connection with any litigation other than the Action.

SECTION 3. EXCLUSIVE OBLIGATION OF THE ORIGINAL PARTICIPATING MANUFACTURERS.

The provisions set forth herein constitute the entire obligation of the Original Participating Manufacturers with respect to payment of attorneys' fees of STATE Outside Counsel (including costs and expenses) in connection with the Action and the exclusive means by which STATE Outside Counsel or any other person or entity may seek payment of fees by the Original Participating Manufacturers or Related Persons in connection with the Action. The Original Participating Manufacturers shall have no obligation pursuant to Section XVII of the Agreement to pay attorneys' fees in connection with the Action to any counsel other than STATE Outside Counsel, and they shall have no other obligation to pay attorneys' fees to or otherwise to compensate STATE Outside Counsel, any other counsel or representative of the State of STATE or the State of STATE itself with respect to attorneys' fees in connection with the Action.

SECTION 4. RELEASE.

(a) Each person or entity identified in Exhibit S to the Agreement by the Attorney General of the State of STATE [or as certified by the office of the governmental prosecuting authority for the Litigating Political Subdivision] hereby irrevocably releases

the Original Participating Manufacturers and all Related Persons from any and all claims that such person or entity ever had, now has or hereafter can, shall or may have in any way related to the Action (including but not limited to any negotiations related to the settlement of the Action). Such release shall not be construed as a release of any person or entity as to any of the obligations undertaken herein in connection with a breach thereof.

(b) In the event that STATE Outside Counsel and the Original Participating Manufacturers agree upon a Liquidated Fee pursuant to section 7 hereof, it shall be a precondition to any payment by the Original Participating Manufacturers to the Designated Representative pursuant to section 8 hereof that each person or entity identified in Exhibit S to the Agreement by the Attorney General of the State of STATE [or as certified by the office of the governmental prosecuting authority for the Litigating Political Subdivision] shall have irrevocably released all entities represented by STATE Outside Counsel in the Action, as well as all persons acting by or on behalf of such entities (including the Attorney General [or the office of the governmental prosecuting authority] and each other person or entity identified on Exhibit S to the Agreement by the Attorney General [or the office of the governmental prosecuting authority]) from any and all claims that such person or entity ever had, now has or hereafter can, shall or may have in any way related to the Action (including but not limited to any negotiations related to the settlement of the Action). Such release shall not be construed as a release of any person or entity as to any of the obligations undertaken herein in connection with a breach thereof.

SECTION 5. NO EFFECT ON STATE OUTSIDE COUNSEL'S FEE CONTRACT.

The rights and obligations, if any, of the respective parties to any contract between the State of STATE and STATE Outside Counsel shall be unaffected by this STATE Fee Payment Agreement except (a) insofar as STATE Outside Counsel grant the release described in subsection (b) of section 4 hereof; and (b) to the extent that STATE Outside Counsel receive any payments in satisfaction of a Fee Award pursuant to section 16 hereof, any amounts so received shall be credited, on a dollar-for-dollar basis, against any amount payable to STATE Outside Counsel by the State of STATE [or the Litigating Political Subdivision] under any such contract.

SECTION 6. LIQUIDATED FEES.

(a) In the event that the Original Participating Manufacturers and STATE Outside Counsel agree upon the amount of a Liquidated Fee, the Original Participating Manufacturers shall pay such Liquidated Fee, pursuant to the terms hereof.

(b) The Original Participating Manufacturers' payment of any Liquidated Fee pursuant to this STATE Fee Payment Agreement shall be subject to (i) satisfaction of the conditions precedent stated in section 4 and paragraph (c)(ii) of section 7 hereof; and (ii) the payment schedule and the annual and quarterly aggregate national caps specified in

sections 8 and 9 hereof, which shall apply to all payments made with respect to Liquidated Fees of all Outside Counsel.

SECTION 7. NEGOTIATION OF LIQUIDATED FEES.

(a) If STATE Outside Counsel seek to be paid a Liquidated Fee, the Designated Representative shall so notify the Original Participating Manufacturers. The Original Participating Manufacturers may at any time make an offer of a Liquidated Fee to the Designated Representative in an amount set by the unanimous agreement, and at the sole discretion, of the Original Participating Manufacturers and, in any event, shall collectively make such an offer to the Designated Representative no more than 60 Business Days after receipt of notice by the Designated Representative that STATE Outside Counsel seek to be paid a Liquidated Fee. The Original Participating Manufacturers shall not be obligated to make an offer of a Liquidated Fee in any particular amount. Within ten Business Days after receiving such an offer, STATE Outside Counsel shall either accept the offer, reject the offer or make a counteroffer.

(b) The national aggregate of all Liquidated Fees to be agreed to by the Original Participating Manufacturers in connection with the settlement of those actions indicated on Exhibits D, M and N to the Agreement shall not exceed one billion two hundred fifty million dollars ($1,250,000,000).

(c) If the Original Participating Manufacturers and STATE Outside Counsel agree in writing upon a Liquidated Fee -

(i) STATE Outside Counsel shall not be eligible for a Fee Award;

(ii) such Liquidated Fee shall not become a Payable Liquidated Fee until such time as (A) State-Specific Finality has occurred in the State of STATE; (B) each person or entity identified in Exhibit S to the Agreement by the Attorney General of the State of STATE [or as certified by the office of the governmental prosecuting authority of the Litigating Political Subdivision] has granted the release described in subsection (b) of section 4 hereof; and (C) notice of the events described in subparagraphs (A) and (B) of this paragraph has been provided to the Original Participating Manufacturers.

(iii) payment of such Liquidated Fee pursuant to sections 8 and 9 hereof (together with payment of costs and expenses pursuant to section 19 hereof), shall be STATE Outside Counsel's total and sole compensation by the Original Participating Manufacturers in connection with the Action.

(d) If the Original Participating Manufacturers and STATE Outside Counsel do not agree in writing upon a Liquidated Fee, STATE Outside Counsel may submit an Application to the Panel for a Fee Award to be paid as provided in sections 16, 17 and 18 hereof.

SECTION 8. PAYMENT OF LIQUIDATED FEE.

In the event that the Original Participating Manufacturers and STATE Outside Counsel agree in writing upon a Liquidated Fee, and until such time as the Designated Representative has received payments in full satisfaction of such Liquidated Fee -

(a) On February 1, 1999, if the Liquidated Fee of STATE Outside Counsel became a Payable Liquidated Fee before January 15, 1999, each Original Participating Manufacturer shall severally pay to the Designated Representative its Relative Market Share of the lesser of (i) the Payable Liquidated Fee of STATE Outside Counsel, (ii) $5 million or (iii) in the event that the sum of all Payable Liquidated Fees of all Outside Counsel as of January 15, 1999 exceeds the Applicable Liquidation Amount, the Allocable Liquidated Share of STATE Outside Counsel.

(b) On August 1, 1999, if the Liquidated Fee of STATE Outside Counsel became a Payable Liquidated Fee on or after January 15, 1999 and before July 15, 1999, each Original Participating Manufacturer shall severally pay to the Designated Representative its Relative Market Share of the lesser of (i) the Payable Liquidated Fee of STATE Outside Counsel, (ii) $5 million or (iii) in the event that the sum of all Payable Liquidated Fees of all Outside Counsel that became Payable Liquidated Fees on or after January 15, 1999 and before July 15, 1999 exceeds the Applicable Liquidation Amount, the Allocable Liquidated Share of STATE Outside Counsel.

(c) On December 15, 1999, if the Liquidated Fee of STATE Outside Counsel became a Payable Liquidated Fee on or after July 15, 1999 and before December 1, 1999, each Original Participating Manufacturer shall severally pay to the Designated Representative its Relative Market Share of the lesser of (i) the Payable Liquidated Fee of STATE Outside Counsel, (ii) $5 million or (iii) in the event that the sum of all Payable Liquidated Fees of all Outside Counsel that became Payable Liquidated Fees on or after July 15, 1999 and before December 1, 1999 exceeds the Applicable Liquidation Amount, the Allocable Liquidated Share of STATE Outside Counsel.

(d) On December 15, 1999, if the Liquidated Fee of STATE Outside Counsel became a Payable Liquidated Fee before December 1, 1999, each Original Participating Manufacturer shall severally pay to the Designated Representative its Relative Market Share of the lesser of (i) the Payable Liquidated Fee of STATE Outside Counsel, or (ii) $5 million or (iii) in the event that the sum of all Payable Liquidated Fees of all Outside Counsel that become Payable Liquidated Fees before December 1, 1999 exceeds the Applicable Liquidation Amount, the Allocable Liquidated Share of STATE Outside Counsel.

(e) On December 15, 1999, if the Liquidated Fee of STATE Outside Counsel became a Payable Liquidated Fee before December 1, 1999, each Original Participating Manufacturer shall severally pay to the Designated Representative its Relative Market Share of the lesser of (i) the Payable Liquidated Fee of STATE Outside Counsel or (ii) in the event that the sum of all Payable Liquidated Fees of all Outside Counsel that became

Payable Liquidated Fees before December 1, 1999 exceeds the Applicable Liquidation Amount, the Allocable Liquidated Share of STATE Outside Counsel.

(f) On the last day of each calendar quarter, beginning with the first calendar quarter of 2000 and ending with the fourth calendar quarter of 2003, if the Liquidated Fee of STATE Outside Counsel became a Payable Liquidated Fee at least 15 Business Days prior to the last day of each such calendar quarter, each Original Participating Manufacturer shall severally pay to the Designated Representative its Relative Market Share of the lesser of (i) the Payable Liquidated Fee of STATE Outside Counsel or (ii) in the event that the sum of all Payable Liquidated Fees of all Outside Counsel as of the date 15 Business Days prior to the date of the payment in question exceeds the Applicable Liquidation Amount, the Allocable Liquidated Share of STATE Outside Counsel.

SECTION 9. LIMITATIONS ON PAYMENTS OF LIQUIDATED FEES.

Notwithstanding any other provision hereof, all payments by the Original Participating Manufacturers with respect to Liquidated Fees shall be subject to the following:

(a) Under no circumstances shall the Original Participating Manufacturers be required to make any payment that would result in aggregate national payments of Liquidated Fees:

(i) during 1999, totaling more than $250 million;

(ii) with respect to any calendar quarter beginning with the first calendar quarter of 2000 and ending with the fourth calendar quarter of 2003, totaling more than $62.5 million, except to the extent that a payment with respect to any prior calendar quarter of any calendar year did not total $62.5 million; or

(iii) with respect to any calendar quarter after the fourth calendar quarter of 2003, totaling more than zero.

(b) The Original Participating Manufacturers' obligations with respect to the Liquidated Fee of STATE Outside Counsel, if any, shall be exclusively as provided in this STATE Fee Payment Agreement, and notwithstanding any other provision of law, such Liquidated Fee shall not be entered as or reduced to a judgment against the Original Participating Manufacturers or considered as a basis for requiring a bond or imposing a lien or any other encumbrance.

SECTION 10. FEE AWARDS.

(a) In the event that the Original Participating Manufacturers and STATE Outside Counsel do not agree in writing upon a Liquidated Fee as described in section 7 hereof, the Original Participating Manufacturers shall pay, pursuant to the terms hereof, the Fee Award awarded by the Panel to STATE Outside Counsel.

(b) The Original Participating Manufacturers' payment of any Fee Award pursuant to this STATE Fee Payment Agreement shall be subject to the payment schedule and the annual and quarterly aggregate national caps specified in sections 17 and 18 hereof, which shall apply to:

(i) all payments of Fee Awards in connection with an agreement to pay fees as part of the settlement of any Tobacco Case on terms that provide for payment by the Original Participating Manufacturers or other defendants acting in agreement with the Original Participating Manufacturers (collectively, "Participating Defendants") of fees with respect to any Private Counsel, subject to an annual cap on payment of all such fees; and

(ii) all payments of attorneys' fees (other than fees for attorneys of Participating Defendants) pursuant to Fee Awards for activities in connection with any Tobacco Case resolved by operation of Federal Legislation.

SECTION 11. COMPOSITION OF THE PANEL.

(a) The first and the second members of the Panel shall both be permanent members of the Panel and, as such, will participate in the determination of all Fee Awards. The third Panel member shall not be a permanent Panel member, but instead shall be a state-specific member selected to determine Fee Awards on behalf of Private Counsel retained in connection with litigation within a single state. Accordingly, the third, state-specific member of the Panel for purposes of determining Fee Awards with respect to litigation in the State of STATE shall not participate in any determination as to any Fee Award with respect to litigation in any other state (unless selected to participate in such determinations by such persons as may be authorized to make such selections under other agreements).

(b) The members of the Panel shall be selected as follows:

(i) The first member shall be the natural person selected by Participating Defendants.

(ii) The second member shall be the person jointly selected by the agreement of Participating Defendants and a majority of the committee described in the fee payment agreements entered in connection with the settlements of the Tobacco Cases brought by the Previously Settled States. In the event that the person so selected is unable or unwilling to continue to serve, a replacement for such member shall be selected by agreement of the Original Participating Manufacturers and a majority of the members of a committee composed of the following members: Joseph F. Rice, Richard F. Scruggs, Steven W. Berman, Walter Umphrey, one additional representative, to be selected in the sole discretion of NAAG, and two representatives of Private Counsel in Tobacco Cases, to be selected at the sole discretion of the Original Participating Manufacturers.

(iii) The third, state-specific member for purposes of determining Fee Awards with respect to litigation in the State of STATE shall be a natural person selected by STATE Outside Counsel, who shall notify the Director and the Original Participating Manufacturers of the name of the person selected.

SECTION 12. APPLICATION OF STATE OUTSIDE COUNSEL.

(a) STATE Outside Counsel shall make a collective Application for a single Fee Award, which shall be submitted to the Director. Within five Business Days after receipt of the Application by STATE Outside Counsel, the Director shall serve the Application upon the Original Participating Manufacturers and the STATE. The Original Participating Manufacturers shall submit all materials in response to the Application to the Director by the later of (i) 60 Business Days after service of the Application upon the Original Participating Manufacturers by the Director, (ii) five Business Days after the date of State-Specific Finality in the State of STATE or (iii) five Business Days after the date on which notice of the name of the third, state-specific panel member described in paragraph (b)(iii) of section 11 hereof has been provided to the Director and the Original Participating Manufacturers.

(b) The Original Participating Manufacturers may submit to the Director any materials that they wish and, notwithstanding any restrictions or representations made in any other agreements, the Original Participating Manufacturers shall be in no way constrained from contesting the amount of the Fee Award requested by STATE Outside Counsel. The Director, the Panel, the State of STATE, the Original Participating Manufacturers and STATE Outside Counsel shall preserve the confidentiality of any attorney work-product materials or other similar confidential information that may be submitted.

(c) The Director shall forward the Application of STATE Outside Counsel, as well as all written materials relating to such Application that have been submitted by the Original Participating Manufacturers pursuant to subsection (b) of this section, to the Panel within five Business Days after the later of (i) the expiration of the period for the Original Participating Manufacturers to submit such materials or (ii) the earlier of (A) the date on which the Panel issues a Fee Award with respect to any Application of other Private Counsel previously forwarded to the Panel by the Director or (B) 30 Business Days after the forwarding to the Panel of the Application of other Private Counsel most recently forwarded to the Panel by the Director. The Director shall notify the Parties upon forwarding the Application (and all written materials relating thereto) to the Panel.

(d) In the event that either Party seeks a hearing before the Panel, such Party may submit a request to the Director in writing within five Business Days after the forwarding of the Application of STATE Outside Counsel to the Panel by the Director, and the Director shall promptly forward the request to the Panel. If the Panel grants the request, it shall promptly set a date for hearing, such date to fall within 30 Business Days after the date of the Panel's receipt of the Application.

SECTION 13. PANEL PROCEEDINGS.

The proceedings of the Panel shall be conducted subject to the terms of this Agreement and of the Protocol of Panel Procedures attached as an Appendix hereto.

SECTION 14. AWARD OF FEES TO STATE OUTSIDE COUNSEL.

The members of the Panel will consider all relevant information submitted to them in reaching a decision as to a Fee Award that fairly provides for full reasonable compensation of STATE Outside Counsel. In considering the amount of the Fee Award, the Panel shall not consider any Liquidated Fee agreed to by any other Outside Counsel, any offer of or negotiations relating to any proposed liquidated fee for STATE Outside Counsel or any Fee Award that already has been or yet may be awarded in connection with any other Tobacco Case. The Panel's decisions as to the Fee Award of STATE Outside Counsel shall be in writing and shall report the amount of the fee awarded (with or without explanation or opinion, at the Panel's discretion). The Panel shall determine the amount of the Fee Award to be paid to STATE Outside Counsel within the later of 30 calendar days after receiving the Application (and all related materials) from the Director or 15 Business Days after the last date of any hearing held pursuant to subsection (d) of section 12 hereof. The Panel's decision as to the Fee Award of STATE Outside Counsel shall be final, binding and non-appealable.

SECTION 15. COSTS OF ARBITRATION.

All costs and expenses of the arbitration proceedings held by the Panel, including costs, expenses and compensation of the Director and of the Panel members (but not including any costs, expenses or compensation of counsel making applications to the Panel), shall be borne by the Original Participating Manufacturers in proportion to their Relative Market Shares.

SECTION 16. PAYMENT OF FEE AWARD OF STATE OUTSIDE COUNSEL.

On or before the tenth Business Day after the last day of each calendar quarter beginning with the first calendar quarter of 1999, each Original Participating Manufacturer shall severally pay to the Designated Representative its Relative Market Share of the Allocated Amount for STATE Outside Counsel for the calendar quarter with respect to which such quarterly payment is being made (the "Applicable Quarter").

SECTION 17. ALLOCATED AMOUNTS OF FEE AWARDS.

The Allocated Amount for each Private Counsel with respect to any payment to be made for any particular Applicable Quarter shall be determined as follows:

(a) The Quarterly Fee Amount shall be allocated equally among each of the three months of the Applicable Quarter. The amount for each such month shall be allocated among those Private Counsel retained in connection with Tobacco Cases settled before or

during such month (each such Private Counsel being an "Eligible Counsel" with respect to such monthly amount), each of which shall be allocated a portion of each such monthly amount up to (or, in the event that the sum of all Eligible Counsel's respective Unpaid Fees exceeds such monthly amount, in proportion to) the amount of such Eligible Counsel's Unpaid Fees. The monthly amount for each month of the calendar quarter shall be allocated among those Eligible Counsel having Unpaid Fees, without regard to whether there may be Eligible Counsel that have not yet been granted or denied a Fee Award as of the last day of the Applicable Quarter. The allocation of subsequent Quarterly Fee Amounts for the calendar year, if any, shall be adjusted, as necessary, to account for any Eligible Counsel that are granted Fee Awards in a subsequent quarter of such calendar year, as provided in paragraph (b)(ii) of this section.

(b) In the event that the amount for a given month is less than the sum of the Unpaid Fees of all Eligible Counsel:

(i) in the case of the first quarterly allocation for any calendar year, such monthly amount shall be allocated among all Eligible Counsel for such month in proportion to the amounts of their respective Unpaid Fees.

(ii) in the case of a quarterly allocation after the first quarterly allocation, the Quarterly Fee Amount shall be allocated among only those Private Counsel, if any, that were Eligible Counsel with respect to any monthly amount for any prior quarter of the calendar year but were not allocated a proportionate share of such monthly amount (either because such Private Counsel's applications for Fee Awards were still under consideration as of the last day of the calendar quarter containing the month in question or for any other reason), until each such Eligible Counsel has been allocated a proportionate share of all such prior monthly payments for the calendar year (each such share of each such Eligible Counsel being a "Payable Proportionate Share"). In the event that the sum of all Payable Proportionate Shares exceeds the Quarterly Fee Amount, the Quarterly Fee Amount shall be allocated among such Eligible Counsel on a monthly basis in proportion to the amounts of their respective Unpaid Fees (without regard to whether there may be other Eligible Counsel with respect to such prior monthly amounts that have not yet been granted or denied a Fee Award as of the last day of the Applicable Quarter). In the event that the sum of all Payable Proportionate Shares is less than the Quarterly Fee Amount, the amount by which the Quarterly Fee Amount exceeds the sum of all such Payable Proportionate Shares shall be allocated among each month of the calendar quarter, each such monthly amount to be allocated among those Eligible Counsel having Unpaid Fees in proportion to the amounts of their respective Unpaid Fees (without regard to whether there may be Eligible Counsel that have not yet been granted or denied a Fee Award as of the last day of the Applicable Quarter).

(c) Adjustments pursuant to subsection (b)(ii) of this section 17 shall be made separately for each calendar year. No amounts paid in any calendar year shall be subject

to refund, nor shall any payment in any given calendar year affect the allocation of payments to be made in any subsequent calendar year.

SECTION 18. CREDITS TO AND LIMITATIONS ON PAYMENT OF FEE AWARDS.

Notwithstanding any other provision hereof, all payments by the Original Participating Manufacturers with respect to Fee Awards shall be subject to the following:

(a) Under no circumstances shall the Original Participating Manufacturers be required to make payments that would result in aggregate national payments and credits by Participating Defendants with respect to all Fee Awards of Private Counsel:

(i) during any year beginning with 1999, totaling more than the sum of the Quarterly Fee Amounts for each calendar quarter of the calendar year, excluding certain payments with respect to any Private Counsel for 1998 that are paid in 1999; and

(ii) during any calendar quarter beginning with the first calendar quarter of 1999, totaling more than the Quarterly Fee Amount for such quarter, excluding certain payments with respect to any Private Counsel for 1998 that are paid in 1999.

(b) The Original Participating Manufacturers' obligations with respect to the Fee Award of STATE Outside Counsel, if any, shall be exclusively as provided in this STATE Fee Payment Agreement, and notwithstanding any other provision of law, such Fee Award shall not be entered as or reduced to a judgment against the Original Participating Manufacturers or considered as a basis for requiring a bond or imposing a lien or any other encumbrance.

SECTION 19. REIMBURSEMENT OF OUTSIDE COUNSEL'S COSTS.

(a) The Original Participating Manufacturers shall reimburse STATE Outside Counsel for reasonable costs and expenses incurred in connection with the Action, provided that such costs and expenses are of the same nature as costs and expenses for which the Original Participating Manufacturers ordinarily reimburse their own counsel or agents. Payment of any Approved Cost Statement pursuant to this STATE Fee Payment Agreement shall be subject to (i) the condition precedent of approval of the Agreement by the Court for the State of STATE and (ii) the payment schedule and the aggregate national caps specified in subsection (c) of this section, which shall apply to all payments made with respect to Cost Statements of all Outside Counsel.

(b) In the event that STATE Outside Counsel seek to be reimbursed for reasonable costs and expenses incurred in connection with the Action, the Designated Representative shall submit a Cost Statement to the Original Participating Manufacturers. Within 30 Business Days after receipt of any such Cost Statement, the Original Participating Manufacturers shall either accept the Cost Statement or dispute the Cost

Statement, in which event the Cost Statement shall be subject to a full audit by examiners to be appointed by the Original Participating Manufacturers (in their sole discretion). Any such audit will be completed within 120 Business Days after the date the Cost Statement is received by the Original Participating Manufacturers. Upon completion of such audit, if the Original Participating Manufacturers and STATE Outside Counsel cannot agree as to the appropriate amount of STATE Outside Counsel's reasonable costs and expenses, the Cost Statement and the examiner's audit report shall be submitted to the Director for arbitration before the Panel or, in the event that STATE Outside Counsel and the Original Participating Manufacturers have agreed upon a Liquidated Fee pursuant to section 7 hereof, before a separate three-member panel of independent arbitrators, to be selected in a manner to be agreed to by STATE Outside Counsel and the Original Participating Manufacturers, which shall determine the amount of STATE Outside Counsel's reasonable costs and expenses for the Action. In determining such reasonable costs and expenses, the members of the arbitration panel shall be governed by the Protocol of Panel Procedures attached as an Appendix hereto. The amount of STATE Outside Counsel's reasonable costs and expenses determined pursuant to arbitration as provided in the preceding sentence shall be final, binding and non-appealable.

(c) Any Approved Cost Statement of STATE Outside Counsel shall not become a Payable Cost Statement until approval of the Agreement by the Court for the State of STATE. Within five Business Days after receipt of notification thereof by the Designated Representative, each Original Participating Manufacturer shall severally pay to the Designated Representative its Relative Market Share of the Payable Cost Statement of STATE Outside Counsel, subject to the following -

(i) All Payable Cost Statements of Outside Counsel shall be paid in the order in which such Payable Cost Statements became Payable Cost Statements.

(ii) Under no circumstances shall the Original Participating Manufacturers be required to make payments that would result in aggregate national payments by Participating Defendants of all Payable Cost Statements of Private Counsel in connection with all of the actions identified in Exhibits D, M and N to the Agreement, totaling more than $75 million for any given year.

(iii) Any Payable Cost Statement of Outside Counsel not paid during the year in which it became a Payable Cost Statement as a result of paragraph (ii) of this subsection shall become payable in subsequent years, subject to paragraphs (i) and (ii), until paid in full.

(d) The Original Participating Manufacturers' obligations with respect to reasonable costs and expenses incurred by STATE Outside Counsel in connection with the Action shall be exclusively as provided in this STATE Fee Payment Agreement, and notwithstanding any other provision of law, any Approved Cost Statement determined pursuant to subsection (b) of this section (including any Approved Cost Statement

determined pursuant to arbitration before the Panel or the separate three-member panel of independent arbitrators described therein) shall not be entered as or reduced to a judgment against the Original Participating Manufacturers or considered as a basis for requiring a bond or imposing a lien or any other incumbrance.

SECTION 20. RECOVERY OF PAYMENTS BY STATE OF STATE.

(a) In the event that the State of STATE pays attorneys' fees in connection with the Action to STATE Outside Counsel and STATE Outside Counsel have not agreed with the Original Participating Manufacturers on the amount of a Liquidated Fee, have not submitted an Application for a Fee Award to the Director, and have not submitted a Cost Statement to the Original Participating Manufacturers, the State of STATE may seek to be paid either a Liquidated Fee or a Fee Award, as well as a Cost Statement, in the place of STATE Outside Counsel, in the same manner as and subject to the same conditions applicable to the payment of a Liquidated Fee, Fee Award or Cost Statement of STATE Outside Counsel.

[METHODOLOGY TO BE DETERMINED]

SECTION 21. DISTRIBUTION OF PAYMENTS AMONG STATE OUTSIDE COUNSEL.

(a) All payments made to the Designated Representative pursuant to this STATE Fee Payment Agreement shall be for the benefit of each person or entity identified in Exhibit S to the Agreement by the Attorney General of the State of STATE [or as certified by the governmental prosecuting authority of the Litigating Political Subdivision], each of which shall receive from the Designated Representative a percentage of each such payment in accordance with the fee sharing agreement, if any, among STATE Outside Counsel (or any written amendment thereto).

(b) The Original Participating Manufacturers shall have no obligation, responsibility or liability with respect to the allocation among those persons or entities identified in Exhibit S to the Agreement by the Attorney General of the State of STATE [or as certified by the governmental prosecuting authority of the Litigating Political Subdivision], or with respect to any claim of misallocation, of any amounts paid to the Designated Representative pursuant to this STATE Fee Payment Agreement.

SECTION 22. CALCULATIONS OF AMOUNTS.

All calculations that may be required hereunder shall be performed by the Original Participating Manufacturers, with notice of the results thereof to be given promptly to the Designated Representative. Any disputes as to the correctness of calculations made by the Original Participating Manufacturers shall be resolved pursuant to the procedures described in Section XI(c) of the Agreement for resolving disputes as to calculations by the Independent Auditor.

SECTION 23. PAYMENT RESPONSIBILITY.

(a) Each Original Participating Manufacturer shall be severally liable for its share of all payments pursuant to this STATE Fee Payment Agreement. Under no circumstances shall any payment due hereunder or any portion thereof become the joint obligation of the Original Participating Manufacturers or the obligation of any person other than the Original Participating Manufacturer from which such payment is originally due, nor shall any Original Participating Manufacturer be required to pay a portion of any such payment greater than its Relative Market Share.

(b) Due to the particular corporate structures of R. J. Reynolds Tobacco Company ("Reynolds") and Brown & Williamson Tobacco Corporation ("Brown & Williamson") with respect to their non-domestic tobacco operations, Reynolds and Brown & Williamson shall each be severally liable for its respective share of each payment due pursuant to this STATE Fee Payment Agreement up to (and its liability hereunder shall not exceed) the full extent of its assets used in, and earnings and revenues derived from, its manufacture and sale in the United States of Tobacco Products intended for domestic consumption, and no recourse shall be had against any of its other assets or earnings to satisfy such obligations.

SECTION 24. TERMINATION.

In the event that the Agreement is terminated with respect to the State of STATE pursuant to Section XVIII(u) of the Agreement (or for any other reason) the Designated Representative and each person or entity identified in Exhibit S to the Agreement by the Attorney General of the State of STATE [or as certified by the governmental prosecuting authority of the Litigating Political Subdivision] shall immediately refund to the Original Participating Manufacturers all amounts received under this STATE Fee Payment Agreement.

SECTION 25. INTENDED BENEFICIARIES.

No provision hereof creates any rights on the part of, or is enforceable by, any person or entity that is not a Party or a person covered by either of the releases described in section 4 hereof, except that sections 5 and 20 hereof create rights on the part of, and shall be enforceable by, the State of STATE. Nor shall any provision hereof bind any non-signatory or determine, limit or prejudice the rights of any such person or entity.

SECTION 26. REPRESENTATIONS OF PARTIES.

The Parties hereto hereby represent that this STATE Fee Payment Agreement has been duly authorized and, upon execution, will constitute a valid and binding contractual obligation, enforceable in accordance with its terms, of each of the Parties hereto.

SECTION 27. NO ADMISSION.

This STATE Fee Payment Agreement is not intended to be and shall not in any event be construed as, or deemed to be, an admission or concession or evidence of any liability or wrongdoing whatsoever on the part of any signatory hereto or any person covered by either of the releases provided under section 4 hereof. The Original Participating Manufacturers specifically disclaim and deny any liability or wrongdoing whatsoever with respect to the claims released under section 4 hereof and enter into this STATE Fee Payment Agreement for the sole purposes of memorializing the Original Participating Manufacturers' rights and obligations with respect to payment of attorneys' fees pursuant to the Agreement and avoiding the further expense, inconvenience, burden and uncertainty of potential litigation.

SECTION 28. NON-ADMISSIBILITY.

This STATE Fee Payment Agreement having been undertaken by the Parties hereto in good faith and for settlement purposes only, neither this STATE Fee Payment Agreement nor any evidence of negotiations relating hereto shall be offered or received in evidence in any action or proceeding other than an action or proceeding arising under this STATE Fee Payment Agreement.

SECTION 29. AMENDMENT AND WAIVER.

This STATE Fee Payment Agreement may be amended only by a written instrument executed by the Parties. The waiver of any rights conferred hereunder shall be effective only if made by written instrument executed by the waiving Party. The waiver by any Party of any breach hereof shall not be deemed to be or construed as a waiver of any other breach, whether prior, subsequent or contemporaneous, of this STATE Fee Payment Agreement.

SECTION 30. NOTICES.

All notices or other communications to any party hereto shall be in writing (including but not limited to telex, facsimile or similar writing) and shall be given to the notice parties listed on Schedule A hereto at the addresses therein indicated. Any Party hereto may change the name and address of the person designated to receive notice on behalf of such Party by notice given as provided in this section including an updated list conformed to Schedule A hereto.

SECTION 31. GOVERNING LAW.

This STATE Fee Payment Agreement shall be governed by the laws of the State of STATE without regard to the conflict of law rules of such State.

SECTION 32. CONSTRUCTION.

None of the Parties hereto shall be considered to be the drafter hereof or of any provision hereof for the purpose of any statute, case law or rule of interpretation or construction that would or might cause any provision to be construed against the drafter hereof.

SECTION 33. CAPTIONS.

The captions of the sections hereof are included for convenience of reference only and shall be ignored in the construction and interpretation hereof.

SECTION 34. EXECUTION OF STATE FEE PAYMENT AGREEMENT.

This STATE Fee Payment Agreement may be executed in counterparts. Facsimile or photocopied signatures shall be considered valid signatures as of the date hereof, although the original signature pages shall thereafter be appended to this STATE Fee Payment Agreement.

SECTION 35. ENTIRE AGREEMENT OF PARTIES.

This STATE Fee Payment Agreement contains an entire, complete and integrated statement of each and every term and provision agreed to by and among the Parties with respect to payment of attorneys' fees by the Original Participating Manufacturers in connection with the Action and is not subject to any condition or covenant, express or implied, not provided for herein.

IN WITNESS WHEREOF, the Parties hereto, through their fully authorized representatives, have agreed to this STATE Fee Payment Agreement as of this __th day of _____, 1998.

[SIGNATURE BLOCK]

APPENDIX
to MODEL FEE PAYMENT AGREEMENT

PROTOCOL OF PANEL PROCEEDINGS

This Protocol of procedures has been agreed to between the respective parties to the STATE Fee Payment Agreement, and shall govern the arbitration proceedings provided for therein.

SECTION 1. DEFINITIONS.

All definitions contained in the STATE Fee Payment Agreement are incorporated by reference herein.

SECTION 2. CHAIRMAN.

The person selected to serve as the permanent, neutral member of the Panel as described in paragraph (b)(ii) of section 11 of the STATE Fee Payment Agreement shall serve as the Chairman of the Panel.

SECTION 3. ARBITRATION PURSUANT TO AGREEMENT.

The members of the Panel shall determine those matters committed to the decision of the Panel under the STATE Fee Payment Agreement, which shall govern as to all matters discussed therein.

SECTION 4. ABA CODE OF ETHICS.

Each of the members of the Panel shall be governed by the CODE OF ETHICS FOR ARBITRATORS IN COMMERCIAL DISPUTES prepared by the American Arbitration Association and the American Bar Association (the "CODE OF ETHICS") in conducting the arbitration proceedings pursuant to the STATE Fee Payment Agreement, subject to the terms of the STATE Fee Payment Agreement and this Protocol. Each of the party-appointed members of the Panel shall be governed by Canon VII of the CODE OF ETHICS. No person may engage in any EX PARTE communications with the permanent, neutral member of the Panel selected pursuant to paragraph (b)(ii) of section 11, in keeping with Canons I, II and III of the CODE OF ETHICS.

SECTION 5. ADDITIONAL RULES AND PROCEDURES.

The Panel may adopt such rules and procedures as it deems necessary and appropriate for the discharge of its duties under the STATE Fee Payment Agreement and this Protocol, subject to the terms of the STATE Fee Payment Agreement and this Protocol.

SECTION 6. MAJORITY RULE.

In the event that the members of the Panel are not unanimous in their views as to any matter to be determined by them pursuant to the STATE Fee Payment Agreement or this Protocol, the determination shall be decided by a vote of a majority of the three members of the Panel.

SECTION 7. APPLICATION FOR FEE AWARD AND OTHER MATERIALS.

(a) The Application of STATE Outside Counsel and any materials submitted to the Director relating thereto (collectively, "submissions") shall be forwarded by the Director to each of the members of the Panel in the manner and on the dates specified in the STATE Fee Payment Agreement.

(b) All materials submitted to the Director by either Party (or any other person) shall be served upon all Parties. All submissions required to be served on any Party shall be deemed to have been served as of the date on which such materials have been sent by either (i) hand delivery or (ii) facsimile and overnight courier for priority next-day delivery.

(c) To the extent that the Panel believes that information not submitted to the Panel may be relevant for purposes of determining those matters committed to the decision of the Panel under the terms of the STATE Fee Payment Agreement, the Panel shall request such information from the Parties.

SECTION 8. HEARING.

Any hearing held pursuant to section 12 of the STATE Fee Payment Agreement shall not take place other than in the presence of all three members of the Panel upon notice and an opportunity for the respective representatives of the Parties to attend.

SECTION 9. MISCELLANEOUS.

(a) Each member of the Panel shall be compensated for his services by the Original Participating Manufacturers on a basis to be agreed to between such member and the Original Participating Manufacturers.

(b) The members of the Panel shall refer all media inquiries regarding the arbitration proceeding to the respective Parties to the STATE Fee Payment Agreement and shall refrain from any comment as to the arbitration proceedings to be conducted pursuant to the STATE Fee Payment Agreement during the pendency of such arbitration proceedings, in keeping with Canon IV(B) of the CODE OF ETHICS.

EXHIBIT P

NOTICES

NAAG	Executive Director 750 First Street, N.E. Suite 1100 Washington, DC 20002	PHO: (202) 326-6053 FAX: (202) 408-6999
ESCROW AGENT [to come]		
ALABAMA	Honorable Bill Pryor Attorney General of Alabama Office of the Attorney General State House 11 South Union Street Montgomery, AL 36130	PHO: (334) 242-7300 FAX: (334) 242-4891
ALASKA	Honorable Bruce M. Botelho Attorney General of Alaska Office of the Attorney General Post Office Box 110300 Diamond Courthouse Juneau, AK 99811-0300	PHO: (907) 465-3600 FAX: (907) 465-2075
AMERICAN SAMOA	Honorable Toetagata Albert Mailo Attorney General of American Samoa Office of the Attorney General Post Office Box 7 Pago Pago, AS 96799	PHO: (684) 633-4163 FAX: (684) 633-1838
ARIZONA	Honorable Grant Woods Attorney General of Arizona Office of the Attorney General 1275 West Washington Street Phoenix, AZ 85007	PHO: (602) 542-4266 FAX: (602) 542-4085
ARKANSAS	Honorable Winston Bryant Attorney General of Arkansas Office of the Attorney General 200 Tower Building, 323 Center Street Little Rock, AR 72201-2610	PHO: (501) 682-2007 FAX: (501) 682-8084

CALIFORNIA	Honorable Daniel E. Lungren Attorney General of California Office of the Attorney General 1300 I Street, Suite 1740 Sacramento, CA 95814	PHO: (916) 324-5437 FAX: (916) 324-6734
COLORADO	Honorable Gale A. Norton Attorney General of Colorado Office of the Attorney General Department of Law 1525 Sherman Street Denver, CO 80203	PHO: (303) 866-3052 FAX: (303) 866-3955
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DELAWARE	Honorable M. Jane Brady Attorney General of Delaware Office of the Attorney General Carvel State Office Building 820 North French Street Wilmington, DE 19801	PHO: (302) 577-8400 FAX: (302) 577-2610
DISTRICT OF COLUMBIA	Honorable John M. Ferren District of Columbia Corporation Counsel Office of the Corporation Counsel 441 4th Street NW Washington, DC 20001	PHO: (202) 727-6248 FAX: (202) 347-9822
GEORGIA	Honorable Thurbert E. Baker Attorney General of Georgia Office of the Attorney General 40 Capitol Square, S.W. Atlanta, GA 30334-1300	PHO: (404) 656-4585 FAX: (404) 657-8733
GUAM	Honorable Gus Diaz Acting Attorney General of Guam Office of the Attorney General Judicial Center Building 120 West O'Brien Drive Agana, GU 96910	PHO: (671) 475-3324 FAX: (671) 472-2493

HAWAII	Honorable Margery S. Bronster Attorney General of Hawaii Office of the Attorney General 425 Queen Street Honolulu, HI 96813	PHO: (808) 586-1282 FAX: (808) 586-1239
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ILLINOIS	Honorable Jim Ryan Attorney General of Illinois Office of the Attorney General James R. Thompson Center 100 West Randolph Street Chicago, IL 60601	PHO: (312) 814-2503 FAX: (217)785-2551
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MISSOURI	Honorable Jeremiah W. (Jay) Nixon Attorney General of Missouri Office of the Attorney General Supreme Court Building 207 West High Street Jefferson City, MO 65101	PHO: (573) 751-3321 FAX: (573) 751-0774
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NEBRASKA	Honorable Don Stenberg Attorney General of Nebraska Office of the Attorney General State Capitol Post Office Box 98920 Lincoln, NE 68509-8920	PHO: (402) 471-2682 FAX: (402) 471-3820
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NEW MEXICO	Honorable Tom Udall Attorney General of New Mexico Office of the Attorney General Post Office Drawer 1508 Santa Fe, NM 87504-1508	PHO: (505) 827-6000 FAX: (505) 827-5826
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NORTH DAKOTA	Honorable Heidi Heitkamp Attorney General of North Dakota Office of the Attorney General State Capitol 600 East Boulevard Avenue Bismarck, ND 58505-0040	PHO: (701) 328-2210 FAX: (701) 328-2226
N. MARIANA ISLANDS	Honorable Sally Pfund (Acting) Attorney General of the Northern Mariana Islands Office of the Attorney General Administration Building Saipan, MP 96950	PHO: (670) 664-2341 FAX: (670) 664-2349
OHIO	Honorable Betty D. Montgomery Attorney General of Ohio Office of the Attorney General State Office Tower 30 East Broad Street Columbus, OH 43266-0410	PHO: (614) 466-3376 FAX: (614) 466-5087
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PUERTO RICO	Honorable Jose A. Fuentes-Agostini Attorney General of Puerto Rico Office of the Attorney General Post Office Box 192 San Juan, PR 00902-0192	PHO: (787) 721-7700 FAX: (787) 724-4770
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VIRGIN ISLANDS	Honorable Julio A. Brady Attorney General of the Virgin Islands Office of the Attorney General Department of Justice G.E.R.S. Complex 48B-50C Kronprinsdens Gade St. Thomas, VI 00802	PHO: (340) 774-5666 FAX: (340) 774-9710
WASHINGTON	Honorable Christine O. Gregoire Attorney General of Washington Office of the Attorney General P.O. Box 40100 1125 Washington Street, SE Olympia, WA 98504-0100 WITH A COPY TO: Joseph F. Rice John J. McConnell, Jr. Ness, Motley, Loadholt, Richardson & Poole 151 Meeting Street, Suite 200 Post Office Box 1137 Charleston, SC 29402 Phone: 843-720-9000 Fax: 843-720-9290	PHO: (360) 753-6200 FAX: (360) 664-0228
WEST VIRGINIA	Honorable Darrell V. McGraw Jr. Attorney General of West Virginia Office of the Attorney General State Capitol 1900 Kanawha Boulevard East Charleston, WV 25305	PHO: (304) 558-2021 FAX: (304) 558-0140

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FOR PHILIP MORRIS INCORPORATED:

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WITH A COPY TO:

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WITH A COPY TO:

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FOR LORILLARD TOBACCO COMPANY:

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Fax: 336-335-7707

EXHIBIT Q

1997 DATA

[INFORMATION TO BE SUPPLIED AND VERIFIED]

EXHIBIT R

EXCLUSION OF CERTAIN BRAND NAMES

[INFORMATION TO BE SUPPLIED AND VERIFIED]

EXHIBIT S

DESIGNATION OF OUTSIDE COUNSEL

The following sets forth those private counsel that were retained by and represented each of the Settling States and Litigating Political Subdivisions in the actions indicated on Exhibits D, M and N brought by or against each such Settling State or Litigating Political Subdivision.

EXHIBIT T

MODEL STATUTE

SECTION __. FINDINGS AND PURPOSE.(1)

(a) Cigarette smoking presents serious public health concerns to the State and to the citizens of the State. The Surgeon General has determined that smoking causes lung cancer, heart disease and other serious diseases, and that there are hundreds of thousands of tobacco-related deaths in the United States each year. These diseases most often do not appear until many years after the person in question begins smoking.

(b) Cigarette smoking also presents serious financial concerns for the State. Under certain health-care programs, the State may have a legal obligation to provide medical assistance to eligible persons for health conditions associated with cigarette smoking, and those persons may have a legal entitlement to receive such medical assistance.

(c) Under these programs, the State pays millions of dollars each year to provide medical assistance for these persons for health conditions associated with cigarette smoking.

(d) It is the policy of the State that financial burdens imposed on the State by cigarette smoking be borne by tobacco product manufacturers rather than by the State to the extent that such manufacturers either determine to enter into a settlement with the State or are found culpable by the courts.

(e) On _____, 1998, leading United States tobacco product manufacturers entered into a settlement agreement, entitled the "Master Settlement Agreement," with the State. The Master Settlement Agreement obligates these manufacturers, in return for a release of past, present and certain future claims against them as described therein, to pay substantial sums to the State (tied in part to their volume of sales); to fund a national foundation devoted to the interests of public health; and to make substantial changes in their advertising and marketing practices and corporate culture, with the intention of reducing underage smoking.

(f) It would be contrary to the policy of the State if tobacco product manufacturers who determine not to enter into such a settlement could use a resulting cost advantage to derive large, short-term profits in the years before liability may arise without ensuring that the State will have an eventual source of recovery from them if they are proven to have acted culpably. It is thus in the interest of the State to require that such

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(1) [A State may elect to deletem the "Findings and purposes" sections in its entirety. Other changes or substitutions with respect to the "findings and purposes" section (except for particularized state procedural or technical requirements) will mean that the statute will no longer conform to this model.]

manufacturers establish a reserve fund to guarantee a source of compensation and to prevent such manufacturers from deriving large, short-term profits and then becoming judgment-proof before liability may arise.

SECTION __. DEFINITIONS.

(a) "Adjusted for inflation" means increased in accordance with the formula for inflation adjustment set forth in Exhibit C to the Master Settlement Agreement.

(b) "Affiliate" means a person who directly or indirectly owns or controls, is owned or controlled by, or is under common ownership or control with, another person. Solely for purposes of this definition, the terms "owns," "is owned" and "ownership" mean ownership of an equity interest, or the equivalent thereof, of ten percent or more, and the term "person" means an individual, partnership, committee, association, corporation or any other organization or group of persons.

(c) "Allocable share" means Allocable Share as that term is defined in the Master Settlement Agreement.

(d) "Cigarette" means any product that contains nicotine, is intended to be burned or heated under ordinary conditions of use, and consists of or contains (1) any roll of tobacco wrapped in paper or in any substance not containing tobacco; or (2) tobacco, in any form, that is functional in the product, which, because of its appearance, the type of tobacco used in the filler, or its packaging and labeling, is likely to be offered to, or purchased by, consumers as a cigarette; or (3) any roll of tobacco wrapped in any substance containing tobacco which, because of its appearance, the type of tobacco used in the filler, or its packaging and labeling, is likely to be offered to, or purchased by, consumers as a cigarette described in clause (1) of this definition. The term "cigarette" includes "roll-your-own" (i.e., any tobacco which, because of its appearance, type, packaging, or labeling is suitable for use and likely to be offered to, or purchased by, consumers as tobacco for making cigarettes). For purposes of this definition of "cigarette," 0.09 ounces of "roll-your-own" tobacco shall constitute one individual "cigarette."

(e) "Master Settlement Agreement" means the settlement agreement (and related documents) entered into on _____, 1998 by the State and leading United States tobacco product manufacturers.

(f) "Qualified escrow fund" means an escrow arrangement with a federally or State chartered financial institution having no affiliation with any tobacco product manufacturer and having assets of at least $1,000,000,000 where such arrangement requires that such financial institution hold the escrowed funds' principal for the benefit of releasing parties and prohibits the tobacco product manufacturer placing the funds into escrow from using, accessing or directing the use of the funds' principal except as consistent with section ___(b)-(c) of this Act.

(g) "Released claims" means Released Claims as that term is defined in the Master Settlement Agreement.

(h) "Releasing parties" means Releasing Parties as that term is defined in the Master Settlement Agreement.

(i) "Tobacco Product Manufacturer" means an entity that after the date of enactment of this Act directly (and not exclusively through any affiliate):

(1) manufactures cigarettes anywhere that such manufacturer intends to be sold in the United States, including cigarettes intended to be sold in the United States through an importer (except where such importer is an original participating manufacturer (as that term is defined in the Master Settlement Agreement) that will be responsible for the payments under the Master Settlement Agreement with respect to such cigarettes as a result of the provisions of subsections II(mm) of the Master Settlement Agreement and that pays the taxes specified in subsection II(z) of the Master Settlement Agreement, and provided that the manufacturer of such cigarettes does not market or advertise such cigarettes in the United States);

(2) is the first purchaser anywhere for resale in the United States of cigarettes manufactured anywhere that the manufacturer does not intend to be sold in the United States; or

(3) becomes a successor of an entity described in paragraph (1) or (2).

The term "Tobacco Product Manufacturer" shall not include an affiliate of a tobacco product manufacturer unless such affiliate itself falls within any of (1) - (3) above.

(j) "Units sold" means the number of individual cigarettes sold in the State by the applicable tobacco product manufacturer (whether directly or through a distributor, retailer or similar intermediary or intermediaries) during the year in question, as measured by excise taxes collected by the State on packs (or "roll-your-own" tobacco containers) bearing the excise tax stamp of the State. The [fill in name of responsible state agency] shall promulgate such regulations as are necessary to ascertain the amount of State excise tax paid on the cigarettes of such tobacco product manufacturer for each year.

SECTION __. REQUIREMENTS.

Any tobacco product manufacturer selling cigarettes to consumers within the State (whether directly or through a distributor, retailer or similar intermediary or intermediaries) after the date of enactment of this Act shall do one of the following:

(a) become a participating manufacturer (as that term is defined in section II(jj) of the Master Settlement Agreement) and generally perform its financial obligations under the Master Settlement Agreement; or

(b) (1) place into a qualified escrow fund by April 15 of the year following the year in question the following amounts (as such amounts are adjusted for inflation) --

1999: $.0094241 per unit sold after the date of enactment of this Act;(2)

2000: $.0104712 per unit sold after the date of enactment of this Act;(3)

for each of 2001 and 2002: $.0136125 per unit sold after the date of enactment of this Act;

for each of 2003 through 2006: $.0167539 per unit sold after the date of enactment of this Act;

for each of 2007 and each year thereafter: $.0188482 per unit sold after the date of enactment of this Act.

(2) A tobacco product manufacturer that places funds into escrow pursuant to paragraph (1) shall receive the interest or other appreciation on such funds as earned. Such funds themselves shall be released from escrow only under the following circumstances --

(A) to pay a judgment or settlement on any released claim brought against such tobacco product manufacturer by the State or any releasing party located or residing in the State. Funds shall be released from escrow under this subparagraph (i) in the order in which they were placed into escrow and (ii) only to the extent and at the time necessary to make payments required under such judgment or settlement;

(B) to the extent that a tobacco product manufacturer establishes that the amount it was required to place into escrow in a particular year was greater than the State's allocable share of the total payments that such manufacturer would have been required to make in that year under the Master Settlement Agreement (as determined pursuant to section IX(i)(2) of the Master Settlement Agreement, and before any of the adjustments or offsets described in section IX(i)(3) of that Agreement other than the Inflation Adjustment) had it been a participating

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(2) [All per unit numbers are subject to verification]

(3) [The phrase "after the date of enactment of this Act" would need to be included only in the calendar year in which the Act is enacted.]

manufacturer, the excess shall be released from escrow and revert back to such tobacco product manufacturer; or

(C) to the extent not released from escrow under subparagraphs (A) or (B), funds shall be released from escrow and revert back to such tobacco product manufacturer twenty-five years after the date on which they were placed into escrow.

(3) Each tobacco product manufacturer that elects to place funds into escrow pursuant to this subsection shall annually certify to the Attorney General [or other State official] that it is in compliance with this subsection. The Attorney General [or other State official] may bring a civil action on behalf of the State against any tobacco product manufacturer that fails to place into escrow the funds required under this section. Any tobacco product manufacturer that fails in any year to place into escrow the funds required under this section shall --

(A) be required within 15 days to place such funds into escrow as shall bring it into compliance with this section. The court, upon a finding of a violation of this subsection, may impose a civil penalty [to be paid to the general fund of the state] in an amount not to exceed 5 percent of the amount improperly withheld from escrow per day of the violation and in a total amount not to exceed 100 percent of the original amount improperly withheld from escrow;

(B) in the case of a knowing violation, be required within 15 days to place such funds into escrow as shall bring it into compliance with this section. The court, upon a finding of a knowing violation of this subsection, may impose a civil penalty [to be paid to the general fund of the state] in an amount not to exceed 15 percent of the amount improperly withheld from escrow per day of the violation and in a total amount not to exceed 300 percent of the original amount improperly withheld from escrow; and

(C) in the case of a second knowing violation, be prohibited from selling cigarettes to consumers within the State (whether directly or through a distributor, retailer or similar intermediary) for a period not to exceed 2 years.

Each failure to make an annual deposit required under this section shall constitute a separate violation.(4)

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(4) [A State may elect to include a requirement that the violater also pay the State's costs and attorney's fees incurred during a successful prosecution under this paragraph (3).]

EXHIBIT U

STRATEGIC CONTRIBUTION FUND PROTOCOL

The payments made by the Participating Manufacturers pursuant to section IX(c)(2) of the Agreement ("Strategic Contribution Fund") shall be allocated among the Settling States pursuant to the process set forth in this Exhibit U.

SECTION 1

A panel committee of three former Attorneys General or former Article III judges ("Allocation Committee") shall be established to determine allocations of the Strategic Contribution Fund, using the process described herein. Two of the three members of the Allocation Committee shall be selected by the NAAG executive committee. Those two members shall choose the third Allocation Committee member. The Allocation Committee shall be geographically and politically diverse.

SECTION 2

Within 60 days after the MSA Execution Date, each Settling State will submit an itemized request for funds from the Strategic Contribution Fund, based on the criteria set forth in Section 4 of this Exhibit U.

SECTION 3

The Allocation Committee will determine the appropriate allocation for each Settling State based on the criteria set forth in Section 4 below. The Allocation Committee shall make its determination based upon written documentation.

SECTION 4

The criteria to be considered by the Allocation Committee in its allocation decision include each Settling State's contribution to the litigation or resolution of state tobacco litigation, including, but not limited to, litigation and/or settlement with tobacco product manufacturers, including Liggett and Myers and its affiliated entities.

SECTION 5

Within 45 days after receiving the itemized requests for funds from the Settling States, the Allocation Committee will prepare a preliminary decision allocating the Strategic Contribution Fund payments among the Settling States who submitted itemized requests for funds. All Allocation Committee decisions must be by majority vote. Each Settling State will have 30 days to submit comments on or objections to the draft decision. The Allocation Committee will issue a final decision allocating the Strategic Contribution Fund payments within 45 days.

SECTION 6

The decision of the Allocation Committee shall be final and non-appealable.

SECTION 7

The expenses of the Allocation Committee, in an amount not to exceed $100,000, will be paid from disbursements from the Subsection VIII(c) Account.

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1,000

9-MOS
DEC-31-1998
SEP-30-1998
181,000
41,056,200
15,283,600
323,300
266,400
0
3,501,900
832,100
70,999,400
0
5,701,300
0
0
115,000
10,396,100
70,999,400
2,126,200
16,151,800
769,200
11,133,500
0
0
282,300
1,555,200
532,000
780,600
0
0
0
780,600
6.79
6.79