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 June 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 August 7, 1998
Common stock, $1 par value	114,711,400 shares

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Loews Corporation and Subsidiaries
Consolidated Condensed Balance Sheets

(Amounts in millions)	June 30, 1998	December 31, 1997
Assets:		
Investments:		
Fixed maturities, amortized cost of $30,467.5 and $30,201.6	$31,010.1	$30,723.2
Equity securities, cost of $1,480.7 and $1,102.6	1,600.4	1,163.3
Other investments	1,206.9	978.4
Short-term investments	7,609.5	8,754.2
Total investments	41,426.9	41,619.1
Cash	186.3	497.8
Receivables-net	15,686.5	13,325.9
Property, plant and equipment-net	2,620.0	2,590.2
Deferred income taxes	882.6	944.3
Goodwill and other intangible assets-net	756.7	751.4
Other assets	1,825.3	1,895.1
Deferred policy acquisition costs of insurance subsidiaries	2,379.4	2,141.7
Separate Account business	5,582.0	5,811.6
Total assets	$71,345.7	$69,577.1
Liabilities and Shareholders' Equity:		
Insurance reserves and claims	$40,621.1	$39,497.4
Payable to brokers	2,151.4	1,559.2
Securities sold under repurchase agreements	302.7	152.7
Long-term debt, less unamortized discount	5,696.3	5,752.6
Other liabilities	4,636.1	4,749.1
Separate Account business	5,582.0	5,811.6
Total liabilities	58,989.6	57,522.6
Minority interest	2,553.1	2,389.4
Shareholders' equity	9,803.0	9,665.1
Total liabilities and shareholders' equity	$71,345.7	$69,577.1

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 June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997
Revenues:				
Insurance premiums:				
Property and casualty	$2,665.9	$2,529.4	$ 5,192.9	$4,999.9
Life	800.1	817.5	1,640.1	1,692.5
Investment income, net of expenses	621.9	604.3	1,252.5	1,219.8
Investment gains (losses)	25.6	(295.4)	(325.0)	(266.6)
Manufactured products (including excise taxes of $127.7, $124.3, $236.7 and $234.4)	724.3	625.5	1,321.0	1,166.6
Other	567.0	467.8	1,118.4	876.0
Total	5,404.8	4,749.1	10,199.9	9,688.2
Expenses:				
Insurance claims and policyholders' benefits	2,937.4	2,860.1	5,787.2	5,752.5
Amortization of deferred policy acquisition costs	670.5	595.9	1,258.8	1,116.2
Cost of manufactured products sold	262.0	260.9	496.6	498.1
Selling, operating, advertising and administrative expenses	917.8	750.8	1,973.8	1,542.1
Interest	99.2	76.3	193.0	151.1
Total	4,886.9	4,544.0	9,709.4	9,060.0
	517.9	205.1	490.5	628.2
Income tax expense	168.8	69.7	147.1	196.1
Minority interest	101.9	71.6	179.9	129.0
Total	270.7	141.3	327.0	325.1
Net income	$ 247.2	$ 63.8	$ 163.5	$ 303.1
Net income per share	$ 2.15	$ .55	$ 1.42	$ 2.63
Cash dividends per share	$ .25	$ .25	$ .50	$ .50
Weighted average number of shares outstanding	115.0	115.0	115.0	115.0

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries
Consolidated Condensed Statements of Cash Flows

(Amounts in millions)	Six Months Ended June 30,	
	1998	1997
Operating Activities:		
Net income	$ 163.5	$ 303.1
Adjustments to reconcile net income to net cash used by operating activities-net	610.8	518.4
Changes in assets and liabilities-net:		
Reinsurance receivable	(306.9)	366.2
Other receivables	(1,438.0)	(475.8)
Deferred policy acquisition costs	(237.7)	(268.7)

Insurance reserves and claims	1,133.3	563.7
Other liabilities	99.3	(1,099.9)
Trading securities	(822.5)	(364.5)
Other-net	108.2	(75.7)
	(690.0)	(533.2)
Investing Activities:		
Purchases of fixed maturities	(26,622.9)	(19,476.5)
Proceeds from sales of fixed maturities	25,623.2	20,419.1
Proceeds from maturities of fixed maturities	1,042.8	1,105.4
Change in securities sold under repurchase agreements	150.0	1,070.3
Purchases of equity securities	(457.5)	(563.9)
Proceeds from sales of equity securities	342.8	781.5
Change in short-term investments	896.6	(2,330.2)
Purchases of property, plant and equipment	(211.8)	(399.8)
Change in other investments	(259.4)	46.3
	503.8	652.2
Financing Activities:		
Dividends paid to shareholders	(57.5)	(57.5)
Issuance of long-term debt	1,005.1	395.3
Principal payments on long-term debt	(1,063.3)	(204.1)
Net change in revolving line of credit		(63.0)
Net change in short-term debt		(10.0)
Receipts credited to policyholders	6.9	4.3
Withdrawals of policyholder account balances	(16.5)	(11.5)
	(125.3)	53.5
Net change in cash	(311.5)	172.5
Cash, beginning of period	497.8	305.7
Cash, end of period	$ 186.3	$ 478.2

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 (loss), except those resulting from investments by, and distributions to, owners. For the three and six months ended June 30, 1998 and 1997, comprehensive income totaled $302.3, $281.5, $195.4 and $194.1 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, provide greater diversification of risk and 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
	Six Months Ended June 30,									
	1998					1997				
Property and casualty ..	$3,938.0	$ 976.0	$262.0	$4,652.0	21.0%	$4,304.0	$560.0	$459.0	$4,405.0	12.7%
Accident and health	1,730.0	115.0	144.0	1,701.0	6.8%	1,856.0	57.0	65.0	1,848.0	3.1
Life	526.0	72.0	118.0	480.0	15.0%	435.0	61.0	57.0	439.0	13.8
Total	$6,194.0	$1,163.0	$524.0	$6,833.0	17.0%	$6,595.0	$678.0	$581.0	$6,692.0	10.1%

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 $501.0 and $394.0 for the six months ended June 30, 1998 and 1997, respectively.

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

	June 30, 1998	December 31, 1997
Reinsurance	$ 6,032.9	$ 5,726.0
Other insurance	7,548.8	6,333.9
Security sales	1,440.5	755.8
Accrued investment income	414.1	422.8
Other	571.8	405.4
Total	16,008.1	13,643.9
Less allowance for doubtful accounts and cash discounts	321.6	318.0
Receivables-net	$15,686.5	$13,325.9

4. Shareholders' equity:

	June 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 and outstanding--115,000,000 shares	$ 115.0	$ 115.0
Additional paid-in capital	165.8	165.8
Earnings retained in the business	9,001.4	8,895.4
Accumulated other comprehensive income	520.8	488.9
Total	$9,803.0	$9,665.1

5. 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 parties will file briefs on the merits during the next several months. The Supreme Court will most likely set oral argument for late 1998 or early 1999.

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

Global Settlement Agreement - 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 approval 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.

Trilateral Agreement - On October 12, 1993, Casualty, Pacific Indemnity and Fibreboard entered into an 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 of $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 as well. Through June 30, 1998, Casualty, Fibreboard and plaintiff attorneys had reached settlements with respect to approximately 135,500 present claims, for an estimated settlement amount of approximately $1,630.0 plus any applicable interest. Approximately $1,660.0 (including interest of $184.0) was paid through June 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 1997 and it is unclear as to what positions 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 June 30, 1998 and December 31, 1997, CNA carried approximately $681.0 and $768.0, 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 included an absolute pollution exclusion. There was no environmental pollution reserve development for the six months ended June 30, 1998 and 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 June 30, 1998 and December 31, 1997, CNA carried approximately $1,382.0 and $1,445.0, 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 six months ended June 30, 1998 and 1997 totaled $29.0 and $25.0, respectively.

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

	June 30, 1998	December 31, 1997

	Environmental Pollution	Asbestos	Environmental Pollution	Asbestos
Reported Claims:				
Gross reserves	$263.0	$1,439.0	$276.0	$1,430.0
Less reinsurance recoverable	(39.0)	(91.0)	(38.0)	(118.0)
Net reported claims	224.0	1,348.0	238.0	1,312.0
Net unreported claims	457.0	34.0	530.0	133.0
Net reserves	$681.0	$1,382.0	$768.0	$1,445.0

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 has 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 600 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 17 of the cases, although four have not been served.

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, must decide whether to grant a new trial due to the ruling.

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 70 purported class actions pending against cigarette manufacturers and other defendants, including the Company. Two 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 two of the purported class actions seek class certification on behalf of individuals who smoked cigarettes or were exposed to environmental tobacco smoke. Two 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 62 of the 70 cases seeking class certification. The Company is a defendant in 27 of the purported class actions, four 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 to be based upon each of the four settling defendants' share of the United States market for the sale of cigarettes. Lorillard presently has 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 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 and jury selection is proceeding.

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. Defendants have noticed an appeal from the class certification order with 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.

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, 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. Plaintiffs have noticed an appeal from both orders to the U.S. Court of Appeals for the Third Circuit.

Holmes v. The American Tobacco Company, et al. (Circuit Court, Montgomery County, Alabama, filed August 8, 1996). The Company is a defendant in the case.

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. Parties have completed briefing of plaintiffs' motion for class certification. The court has indicated to the parties that it will rule on the class certification motion without hearing argument.

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.

Baker v. American Tobacco Company, et al. (Circuit Court, Wayne County, Michigan, filed February 4, 1997).

Woods v. Philip Morris Incorporated, et al. (Circuit Court, McDowell County, West Virginia, filed February 4, 1997).

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

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.

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.

White v. Philip Morris, Inc. et al. (Chancery Court, Jefferson County, Mississippi, filed April 18, 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).

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 discovery 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 heard argument on plaintiffs' motion for class certification.

Kirstein v. American Tobacco Company, Inc., et al. (Superior Court, Camden County, New Jersey, filed May 28, 1997).

Tepper v. Philip Morris Incorporated, et al. (Superior Court, Bergen County, New Jersey, filed May 28, 1997).

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).

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.

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.

McCauley v. Brown & Williamson Tobacco Corporation, et al. (U.S. District Court, Northern District, Georgia, filed August 15, 1997). The court entered an order sua sponte that dismissed plaintiffs' class action allegations.

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.

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).

McCauley v. Brown & Williamson Tobacco Corporation, et al. (U.S. District Court, Northern District, Georgia, filed December 31, 1997). To date, none of the defendants have received service of process.

Herrera v. The American Tobacco Company, et al. (U.S. District Court, Central District, Utah, filed January 28, 1998). The Company is a defendant in the case.

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. (U.S. District Court, Southern District, California, filed April 2, 1998). The Company is a defendant in the case. To date, none of the defendants have received service of process.

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, Atlantic County, New Jersey, filed April 23, 1998). The Company is a defendant in the case.

Landry v. Louisiana Health Service and Indemnity Co., Inc., et al. (U.S. District Court, Middle District, Louisiana, filed May 18, 1998). The Company is a defendant in the case.

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).

REIMBURSEMENT CASES - Approximately 135 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 18 of them.

State Or Local Governmental Reimbursement Cases - To date, suits filed by 41 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 14 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. Certain Texas counties and some Texas hospital districts have filed motions to intervene and for declaratory judgment in order to contest the settlement. The court has not ruled on the motions to date.

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). The court has scheduled the case for trial on September 21, 1998.

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 March 4, 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). The Company is a defendant in the case.

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. The time for plaintiffs to notice an appeal has not expired.

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.

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.

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).

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 Company is a defendant in the case.

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.

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.

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 seven 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).

Reimbursement Cases By Labor Unions - Labor unions have filed approximately 65 reimbursement suits in various states in federal or state courts. 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 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. The time for plaintiffs to notice an appeal has not expired.

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).

Connecticut Pipe Trades Health Fund and International Brotherhood of Electrical Workers Local 90 Benefit Plan v. Philip Morris, Inc., et al. (U.S. District Court, Connecticut, filed July 1, 1997).

Seafarers Welfare Plan and United Industrial Workers Welfare Plan v. Philip Morris, Inc., et al. (U.S. District Court, Maryland, Southern Division, filed July 2, 1997). The court has granted defendants' motion to dismiss the case. The time for plaintiffs to notice an appeal has not expired.

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).

Southeast Florida Laborers District Council Health and Welfare Trust Fund v. Philip Morris, Inc., et al. (U.S. District Court, Southern District, Florida, filed September 11, 1997). The court granted defendants' motion to dismiss the case. Plaintiff has noticed an appeal from the judgment to the United States Court of Appeals for the Eleventh Circuit.

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).

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).

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. (U.S. District Court, 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).

Belk, et al., Trustees of IBEW-NECA Local 505 Health and Welfare Fund v. Philip Morris, Inc., et al. (U.S. District Court, Southern District, Alabama, filed February 19, 1998). The court granted plaintiffs' motion to dismiss the case without prejudice.

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. (U.S. District Court, Eastern District, 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. (U.S. District Court, Eastern District, 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.

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).

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. (District Court, Second Judicial District, Ramsey County, 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, eight 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 three 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).

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. Eighteen 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. 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, which Lorillard has appealed, requires Lorillard to pay the amount of one hundred forty thousand dollars, although the award subsequently was reduced to seventy thousand dollars.

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.

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 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.

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. As of June 30, 1998, Lorillard had posted more than 250,000 documents on the Internet.

On February 19, 1998, the Committee subpoenaed approximately 39,000 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, and perhaps all, 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 and Texas 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 this Form 10-Q, and the discussion herein is qualified by reference thereto. These settlements resulted in pre-tax charges to earnings of $163.4 in the third and fourth quarter of 1997, and $42.7 and $185.1 in the quarter and six months ended June 30, 1998.

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 and Texas settlement

agreements were recently amended pursuant to this provision. Lorillard cannot presently determine what the result of any discussions with Florida regarding the MFN issue may be, nor can it determine what the result of any litigation with Florida concerning that issue may be. A determination of

this issue adverse to Lorillard could result in an obligation to make substantial additional payments to Florida.

On July 6 and July 24, 1998 respectively, Lorillard and the other settling defendants reached agreements with the States of Mississippi and Texas to amend those States' settlements pursuant to the MFN provision. The Mississippi and Texas MFN amendments call for the settling defendants to make additional settlement payments to Mississippi and Texas aggregating $550.0 and $2,275.0, 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
	$198.2	$750.3	$750.3	$750.3	$375.9	$2,825.0

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 and Texas 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 or Texas, 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 and Texas 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 and Texas, to support enumerated legislative and regulatory proposals and

to not support legislation, rules or policies that would diminish Mississippi's and Texas' 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 and Texas 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 and Texas 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 and Texas. (Copies of these 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 and Texas. 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 and Texas totaling $200.0 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.

Included in the charges stated above for settlements of reimbursement cases are charges recorded by Lorillard of $30.7 ($18.4 after taxes) in the second quarter of 1998 to accrue for its share of all fixed and determinable portions of the MFN amendments with Mississippi and Texas as described above.

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 Investigation - 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's, "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.

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.

6. 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 June 30, 1998 and December 31, 1997 and the results of operations for the three and six months and changes in cash flows for the six months ended June 30, 1998 and 1997, respectively.

Results of operations for the second quarter and the first six 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 84% owned subsidiary of the Company.

Statutory surplus of the property and casualty insurance subsidiaries was approximately $7.0 billion at June 30, 1998, compared to approximately $7.1 billion on December 31, 1997. The major component of this change was a decline of $369.0 million of other items, primarily dividends paid to CNA, partially offset by statutory net income of $147.0 million and an increase in net unrealized investment gains of $181.0 million. The statutory surplus of the life insurance subsidiaries was approximately $1.3 billion at June 30, 1998, compared to $1.2 billion at year end 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 six months of 1998, CNA's operating cash flows were a negative $579.6 million, compared to a negative $669.7 million for the six months ended June 30, 1997. Negative cash flows for 1998 and 1997 are substantially the result of claim payments resulting primarily from the settlement of 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 August 5, 1998, CNA announced a reassessment of its businesses which would involve reorganization of a number of its businesses and corporate support areas. The organizational changes include the closing of a number of facilities and consolidating certain processing locations, reducing workforce and enhancing computer systems.

Within its commercial insurance business, CNA will consolidate four regional offices into two zone offices and streamline decision-making processes in support of branch offices and agents. The plan also calls for a reduction of its claim processing offices from 24 to 8 and system upgrades to enable CNA to centralize its policy processing into one center located in Orlando, Florida. These changes are expected to reduce paperwork and allow branch employees to spend more time with customers.

Within its risk management business, CNA will form a new holding company with a simplified cost structure. Two separate claim organizations will be united to form a new claims service company for risk management clients. The new company will employ one of the largest claims technical staff in the insurance industry as well as achieve cost savings through economies of scale.

CNA's remaining businesses anticipate finalizing their reorganization plans by the end of the third quarter of 1998.

With finalization of the plan expected to occur by the end of third quarter, CNA estimates that it will record a pre-tax charge of $100.0 to $140.0 million for restructuring costs. CNA expects additional pre-tax transition costs of $200.0 to $260.0 million related to the restructuring, which will be incurred over the next 12 to 18 months. The pre-tax impact on third-quarter earnings from these reorganization charges is estimated to be $175.0 to $260.0 million. CNA anticipates that its current workforce of approximately 24,000 employees will be reduced by approximately 10%.

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 2 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 18 months.

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.

On August 5, 1998, CNA's board of directors approved a plan to purchase, in open market or privately negotiated transactions, its outstanding common stock from time to time as market conditions warrant.

Cigarettes
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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 5 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 5 of the Notes to Consolidated Condensed Financial Statements.

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 have filed an appeal of the District Court's ruling to the Fourth Circuit Court of Appeals, and oral arguments were heard by that Court on June 8, 1998. To date, the Court has not rendered its decision.

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. It is unlikely that the McCain bill will be reconsidered by that Committee or by the Senate during this Congressional term.

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 5 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 early August of 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. Capital expenditures in relation to the Universal Florida hotel project will be funded by a combination of equity contributions by the development partners and mortgages. Loews Hotels will obtain its share of the 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 50.3% owned subsidiary of the Company.

For the first six months of 1998, Diamond Offshore's cash provided by operating activities amounted to $224.1 million, compared to $159.7 million in the 1997 period. This increase in operating cash flow was primarily attributable to a $70.9 million increase in net income for the first half of 1998, an $11.7 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 revised its 1998 budgeted capital expenditures for rig upgrades to $125.2 million from $108.5 million. Diamond Offshore expended $35.3 million, including capitalized interest expenses, for significant rig upgrades during the six months ended June 30, 1998. The 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 revised the estimated cost of conversion to approximately $210.0 million from $190.0 million due to additional steel requirements and mechanical and electrical system costs. 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 included the cantilever conversion project on the Ocean Warwick, a jack-up drilling rig located in the Gulf of Mexico, which was completed in March 1998. In addition, leg strengthening and other modifications for another jack-up rig operating in the Gulf of Mexico were completed in May 1998. The rig returned to the shipyard for repairs shortly after its return to work due to leg damage sustained on location. The repairs were completed in June 1998 and the rig is currently idle in the Gulf of Mexico. 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 six months of 1998, $38.0 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.

The ability to minimize costs and downtime is critical to Diamond Offshore's results of operations. However, the company's plan to retain qualified rig personnel includes periodic compensation enhancements. As of July 1, 1998,

Diamond Offshore has adjusted the compensation levels for most offshore positions. Although Diamond Offshore does not expect such adjustments to have a material effect on its current results of operations, significant increases in costs, including compensation and training, may occur in the future. In addition, because of periodic inspections required by certain regulatory agencies, 15 of Diamond Offshore's rigs will be in the shipyard for a portion of 1998. At June 30, 1998, eight of these 15 inspections were completed. 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.

Also, increased rig construction and enhancement programs are ongoing by Diamond Offshore's competitors. A significant increase in the supply of technologically advanced rigs capable of drilling in deep water may have an adverse effect on the average operating dayrates for Diamond Offshore's rigs, particularly its more advanced semisubmersible units, and on the overall utilization level of Diamond Offshore's fleet. In such case, Diamond Offshore's results of operations would be adversely affected.

As a result of the recent decline in product prices, the contract drilling market has begun to experience declining dayrates and decreased utilization primarily in the shallow waters of the Gulf of Mexico. The impact of these changing market conditions could have an adverse affect on Diamond Offshore's future results of operations, although the extent of such change cannot be accurately predicted.

Since June 30, 1998 and through August 13, 1998, Diamond Offshore purchased 1,700,000 shares of its outstanding Common Stock at an aggregate cost of approximately $47.4 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 $41.3 million at June 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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Since June 30, 1998 and through August 13, 1998, the Company purchased 288,600 shares of its outstanding Common Stock at an aggregate cost of approximately $24.2 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 loss of $2.1 and $3.2 million at June 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:

	June 30, 1998	December 31, 1997	Change in Unrealized Gains (Losses)
	(In millions)		
Fixed maturity securities:			
U.S. Treasury securities and obligations of government agencies .	$11,043.0	$12,980.0	$ 18.0

Asset-backed securities	5,697.0	4,804.0	8.0
Tax exempt securities	5,996.0	4,724.0	(28.0)
Taxable	6,823.0	7,040.0	18.0
Total fixed maturity securities.	29,559.0	29,548.0	16.0
Stocks	1,054.0	814.0	107.0
Short-term and other investments	5,498.0	5,829.0	(54.0)
Derivative security investments	64.0	12.0	
Total	$36,175.0	$36,203.0	$ 69.0
Short-term investments:			
Commercial paper	$ 1,598.0	$ 1,850.0	
Security repurchase collateral	251.0	154.0	
Escrow	969.0	1,065.0	
U.S. Treasuries	536.0	558.0	
Money markets	446.0	624.0	
Others	588.0	633.0	
Other investments	1,110.0	945.0	
Total short-term and other investments	$ 5,498.0	$ 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 94.3% of which are rated as investment grade. At June 30, 1998, tax exempt securities and short-term investments excluding collateral for securities sold under repurchase agreements, comprised approximately 16.6% and 11.4%, 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 June 30, 1998 and December 31, 1997 are substantially higher than historical levels in anticipation of Fibreboard-related claim payments. At June 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 June 30, 1998, the market value of CNA's general account investments in fixed maturities was $29.6 billion and was greater than amortized cost by approximately $545.0 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 June 30, 1998 were $653.0 and $108.0 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 June 30, 1998 include net unrealized investment gains on high yield securities of $4.0 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). Fair values of high yield securities in the general account decreased $203.0 million to approximately $1.7 billion at June 30, 1998 when compared to December 31, 1997.

At June 30, 1998, total Separate Account cash and investments amounted to approximately $5.5 billion with taxable fixed maturity securities representing approximately 82.5% of the Separate Accounts' portfolios. Approximately 68.7% 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 are 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 $3.5 billion at June 30, 1998 compared to $3.8 billion at December 31, 1997. At June 30, 1998, fair value exceeded amortized cost by approximately $79.0 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 June 30, 1998 were $93.0 and $14.0 million, respectively, as compared to a gain of $87.0 million and loss of $16.0 million at December 31, 1997.

Carrying values of high yield securities in the guaranteed investment portfolio were $272.0 and $310.0 million at June 30, 1998 and December 31,

1997, respectively. Net unrealized investment losses on high yield securities held in such Separate Accounts were $4.0 million at June 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 June 30, 1998, CNA's investment in high yield bonds, including Separate Accounts, was approximately 3.4% of its total assets. In addition, CNA's investment in mortgage loans and investment 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 June 30, 1998 (general and guaranteed investment portfolios) are $8.0 billion of asset-backed securities, consisting of approximately 51.3% in collateralized mortgage obligations ("CMO's"), 16.1% in corporate asset-backed obligations, 23.5% in corporate mortgage backed security pass-through obligations and 9.1% in U.S. government agency issued pass-through certificates. The majority of CMO's held are corporate mortgaged backed securities, which are actively traded in liquid markets and are priced monthly by broker-dealers. At June 30, 1998, the fair value of asset-backed securities exceeded the amortized cost by approximately $139.0 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 June 30, 1998, 38.8% of the general account's fixed maturity securities portfolio was invested in U.S. government securities, 36.2% in other AAA rated securities and 13.9% in AA and A rated securities. CNA's guaranteed investment fixed maturity securities portfolio is comprised of 3.8% U.S. government securities, 62.9% in other AAA rated securities and 14.2% 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 $655.7 and $511.7 million, or 13.8% and 5.3%, respectively, and net income increased by $183.4 million and decreased by $139.6 million, respectively, for the quarter and six months ended June 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 June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997

(In millions)

Revenues (a):				
Property and casualty insurance	$3,454.4	$3,256.7	$ 6,754.0	$6,332.0
Life insurance	978.6	988.2	2,008.4	2,029.6
Cigarettes	709.6	604.3	1,285.3	1,120.8
Hotels	64.9	61.1	113.4	107.0
Offshore drilling	331.3	234.0	623.9	441.6
Watches and clocks	28.5	27.9	60.8	57.9
Investment (loss) income-net (non-insurance companies)	(162.1)	(420.7)	(643.2)	(394.2)
Other and eliminations-net	(.4)	(2.4)	(2.7)	(6.5)
	$5,404.8	$4,749.1	$10,199.9	$9,688.2
Net income (a):				
Property and casualty insurance	$ 153.5	$ 163.7	$ 321.8	$ 284.4
Life insurance	37.5	42.4	79.0	77.1
Cigarettes	138.6	123.5	160.7	203.0
Hotels	10.0	8.9	11.5	9.1
Offshore drilling	52.2	30.6	90.0	57.4
Watches and clocks	1.8	1.2	4.1	2.7
Investment (loss) income-net (non-insurance companies)	(106.3)	(275.1)	(421.4)	(260.6)
Corporate interest expense	(21.7)	(16.6)	(44.0)	(32.4)
Unallocated corporate expense and other-net	(18.4)	(14.8)	(38.2)	(37.6)
	$ 247.2	$ 63.8	$ 163.5	$ 303.1

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997
Revenues:				
Property and casualty insurance	$ 191.3	$ 127.7	$ 325.9	$ 146.0
Life insurance	42.3	43.4	90.5	72.5
Investment income-net	(208.0)	(466.5)	(741.4)	(485.1)
	$ 25.6	$(295.4)	$(325.0)	$(266.6)
Net income:				
Property and casualty insurance	$ 103.1	$ 69.4	$ 175.4	$ 79.5
Life insurance	20.6	22.0	46.3	36.9
Investment income-net	(135.0)	(303.4)	(481.7)	(317.3)
	$ (11.3)	$(212.0)	$(260.0)	$(200.9)

Insurance

Property and casualty revenues, excluding investment gains, increased by $134.1 and $242.1 million, or 4.3% and 3.9%, for the quarter and six months ended June 30, 1998, as compared to the same periods a year ago.

Property and casualty premium revenues increased by $136.5 and $193.0 million, or 5.4% and 3.9%, for the quarter and six months ended June 30, 1998, from the prior year's comparable periods. The increase is attributable to higher involuntary risk earned premium of approximately $206.0 million and an increase in personal lines premiums of approximately $41.0 million, partially offset by lower commercial lines premiums of approximately $54.0 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 involuntary 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 continues the trend seen in 1997 and the first quarter of 1998 and is

attributable to growth in private passenger automobile business and individual long-term care. The decrease in commercial lines is primarily due to a decrease in accident and health business. Net investment income decreased by $2.0 and $10.0 million, or 0.4% and 1.1%, for the quarter and six months ended June 30, 1998, compared with the same period in the prior year, due to lower yielding investments. The bond segment of the investment portfolio yielded 6.2% in the first half of 1998 compared with 6.4% for the same period a year ago.

Life insurance revenues, excluding investment gains, decreased by $8.5 and $39.2 million, or 0.9% and 2.0%, for the quarter and six months ended June 30, 1998 as compared to the same periods a year ago. Life premium revenues decreased by $17.4 and $52.4 million, or 2.1% and 3.1%, for the quarter and six months ended June 30, 1998. The decrease is primarily due to lower premiums for the Federal Employees Health Benefit Plan ("FEHBP") and a reduction in individual annuities. The decrease in FEHBP premiums is due to improved claim experience upon which premiums are based and continues the trend from the first quarter of this year. The decrease in individual annuity premium is attributable to a shift in CNA's marketing efforts towards more profitable products. Life net investment income increased by $14.0 and $20.0 million, or 14.1% and 9.8%, for the quarter and six months ended June 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 half of 1998 and 1997.

Property and casualty underwriting losses for the quarter and six months ended June 30, 1998 were $373.0 and $661.0 million, compared to $277.2 and $570.4 million for the same periods in 1997. The increase in underwriting losses is primarily due to an increase in catastrophe losses for the first six months of 1998. Pre-tax catastrophe losses were approximately $126.0 and $151.0 million for the quarter and six months ended June 30, 1998 as compared to $45.0 and $76.0 million in 1997. The increase in catastrophe losses is mainly due to spring storms throughout the United States.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997
	(In millions)			
Bonds:				
U.S. Government	$ 46.0	$ 43.1	$ 96.0	$ 49.0
Tax exempt	16.0	1.7	32.0	2.2
Asset-backed	14.0	2.4	27.0	9.2
Taxable	40.0	73.6	69.0	84.0
Total bonds	116.0	120.8	224.0	144.4
Stocks	17.0	9.6	13.0	39.3
Derivative instruments	41.0	(4.0)	34.0	(.7)
Separate Accounts and other	58.0	45.6	144.0	55.0
Total investment gains	$232.0	$172.0	$415.0	$238.0

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 5 of the Notes to Consolidated Condensed Financial Statements).

Cigarettes
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Revenues increased by $105.3 and $164.5 million, or 17.4% and 14.7%, respectively, and net income increased by $15.1 million, or 12.2%, and decreased by $42.3 million, or 20.8%, respectively, for the quarter and six months ended June 30, 1998 as compared to the corresponding periods of the prior year.

The increase in revenues is composed primarily of an increase of approximately $76.3 and $134.9 million, or 12.7% and 12.1%, respectively, due to higher average unit prices and an increase of approximately $22.4 and $16.9 million, or 3.7% and 1.5%, reflecting higher unit sales volume for the quarter and six months ended June 30, 1998, as compared to the corresponding periods of

the prior year.

Net income for the quarter and six months ended June 30, 1998 includes a pre-tax charge of $45.1 and $187.5 million ($27.0 and $112.1 million after taxes) to reflect the settlement of tobacco litigation in Texas, Mississippi, Florida and Minnesota. Included in the tobacco litigation charges was $30.7 million ($18.4 million after taxes) for the three months ended June 30, 1998 for the amended settlements with the states of Mississippi and Texas (see Note 5 of the Notes to Consolidated Condensed Financial Statements). Excluding these charges, net income would have increased by $42.1 and $69.8 million, or 34.1% and 34.4%, as a result of the improved revenues, partially offset by higher legal expenses.

Lorillard's unit sales volume increased by 3.8% and 0.9%, while Newport's sales volume increased by 8.4% and 5.5% for the quarter and six months ended June 30, 1998, as compared to the corresponding periods of the prior year. Newport, a full price brand, accounted for 78.3% 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 June 30, 1998, they represented 26.6% of industry sales.

Hotels
- ------

Revenues increased by $3.8 and $6.4 million, or 6.2% and 6.0%, respectively, and net income increased by $1.1 and $2.4 million, or 12.4% and 26.4%, respectively, for the quarter and six months ended June 30, 1998, as compared to the prior year, due primarily to higher overall average room rates and increased occupancy rates at the New York properties. Revenues also increased for the quarter due to the collection of a $2.2 million pre-opening advance which had been fully reserved. These increases were partially offset by lower results from the Loews Monte Carlo.

Offshore drilling
- -----------------

Revenues increased by $97.3 and $182.3 million, or 41.6% and 41.3%, and net income increased by $21.6 and $32.6 million, or 70.6% and 56.8%, respectively, for the quarter and six months ended June 30, 1998, as compared to the prior year.

Revenues from semisubmersible rigs increased by $79.3 and $144.0 million, or 33.9% and 32.6%, for the quarter and six months ended June 30, 1998. The revenue increase is due to higher dayrates ($69.2 and $126.4 million), recognized by semisubmersible rigs located in the North Sea and the Gulf of Mexico. These increases were partially offset by revenues foregone ($14.7 and $47.8 million) during mandatory inspections. Revenues from jackup rigs increased by $16.4 and $32.9 million, or 7.0% and 7.5%, due to improvements in dayrates, primarily in the Gulf of Mexico ($17.9 and $38.6 million).

Net income for the quarter and six months ended June 30, 1998 increased due primarily to the higher revenues discussed above, partially offset by increased contract drilling expenses due to higher utilization of rigs and increased depreciation and administrative expenses.

Watches and Clocks
- ------------------

Revenues increased by $0.6 and $2.9 million, or 2.2% and 5.0%, respectively, and net income increased by $0.6 and $1.4 million, or 50.0% and 51.9%, respectively, for the quarter and six months ended June 30, 1998 as compared to the corresponding periods of the prior year.

Revenues increased for the quarter and six months ended June 30, 1998 due primarily to increased watch unit prices and, for the six months ended June 30, 1998, increased sales volume.

Net income increased for the quarter and six months ended June 30, 1998 due primarily to the increased revenue discussed above and lower cost of sales.

Other
- -----

Revenues increased by $260.6 million, or 61.6%, and decreased $245.2 million, or 61.2%, respectively, and net loss decreased by $160.1 million, or 52.2%, and increased by $173.0, or 52.3%, respectively, for the quarter and six months ended June 30, 1998 as compared to the corresponding periods of the prior year.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997
	(In millions)			
Revenues:				
Derivative instruments (1)	$(121.6)	$(357.4)	$(500.2)	$(380.7)
Equity securities, including short positions (1)	(82.7)	(135.3)	(229.3)	(149.3)
Fixed maturities	(3.7)	(3.3)	(12.0)	14.9
Short-term investments, primarily U.S. government securities	.5	(.3)	.6	(.4)
Gain on issuance of subsidiary's stock		29.1		29.1
Other	(.5)	.7	(.5)	1.3
	(208.0)	(466.5)	(741.4)	(485.1)
Income tax benefit	72.9	163.2	259.6	169.7
Minority interest	.1	(.1)	.1	(1.9)
Net (loss) income	$(135.0)	$(303.4)	$(481.7)	$(317.3)

(1) Includes losses on short sales, equity index futures and options aggregating $171.1, $475.9, $713.4 and $522.1 for the quarter and six months ended June 30, 1998 and 1997, respectively. The Company continues to maintain these positions.

Exclusive of securities transactions, revenues increased $2.1 and $11.1 million, or 4.8% and 13.2%, for the quarter and six months ended June 30, 1998 due primarily to increased investment interest income. Net loss increased by $8.3 and $8.6 million for the quarter and six months ended June 30, 1998 due to higher corporate interest expenses, partially offset by the increased interest income.

Year 2000 Issue

Most of the Company's older computer programs were written using two digits rather than four to define the applicable year. As a result, those computer programs contain time-sensitive software that recognize a date using "00" as the year 1900 rather than the year 2000. This could cause a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

The Company has completed an assessment of the scope of this problem and is working to modify or replace the affected software so that its computer systems will function properly with respect to dates in the year 2000 and thereafter. The total Year 2000 project cost is estimated at approximately $70.0 to $80.0 million.

The project is estimated to be completed not later than December 31, 1998, which is prior to any anticipated impact on its operating systems. The Company believes that with modifications to existing software and conversions to new software, the Year 2000 issue will not pose significant operational problems for its computer systems. However, if such modifications and conversions are not made, or are not completed timely, the Year 2000 issue could have a material impact on the operations of the Company. In addition, 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. In addition, property and casualty insurance subsidiaries may have an underwriting exposure related to the Year 2000. Although CNA has not received any claims for coverage from its policyholders based on losses resulting from Year 2000 issues, there can be no assurance that policyholders will not suffer losses of this type and seek compensation under CNA's insurance policies. If any claims are made, coverage, if any, will depend on the facts and circumstances of the

claim and the provisions of the policy. At this time, CNA is unable to determine whether the adverse impact, if any, in connection with the foregoing circumstances would be material.

The cost of the project and the date on which the Company believes it will complete the Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties.

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 by all entities that are subject to 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 a probable 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.

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, 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
- --------------------------

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.

Loews Corporation 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 June 30, 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:

June 30, 1998

Category of risk exposure:	Fair Value Asset (Liability)	Market Risk
(In millions)		
Equity markets (1):		
Equity securities	$ 218.1	$ 54.5
Options purchased	328.3	(230.1)
Options written	(49.8)	(2.3)
Futures		(249.9)
Short sales	(763.5)	(190.9)
Commodities:		
Oil (2):		
Swaps	(1.5)	3.2
Energy purchase obligations	(14.1)	(6.0)
Gold (3):		
Options purchased	13.6	(13.6)
Options written	(3.4)	3.4
Other (4)	.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%, (3) an increase in gold prices of 20% and (4) a decrease of 10%. 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.

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:

June 30, 1998

Category of risk exposure:	Fair Value Asset (Liability)	Market Risk
(In millions)		
Equity market (1):		
Equity securities:		
CNA Financial general accounts (a)	$ 1,054.0	$ (264.0)
CNA Financial separate accounts	208.0	(52.0)
Equity index futures, separate accounts (b)		(209.0)
Interest rate (2):		
Fixed maturities (a)	31,010.1	(1,633.0)
Short-term investments (a)	7,609.5	(9.0)
Interest rate swaps	(3.0)	9.0
Separate Accounts:		
Fixed maturities (a)	4,496.0	(219.0)
Short-term investments (a)	605.0	(1.0)
Long-term debt	(5,713.4)	

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 $(392.0).
(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 which 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 June 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 June 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 June 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 June 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% and 10% 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 5 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 5 of the Notes to Consolidated Condensed Financial Statements in Part I.

Item 4. Submission of Matters to a Vote of Security Holders.

Set forth below is information relating to the 1998 Annual Meeting of Shareholders of the Registrant:

The annual meeting was called to order at 11:00 A.M., May 12, 1998. Represented at the meeting, in person or by proxy, were 103,646,155 shares, approximately 90.1% of the issued and outstanding shares entitled to vote.

The following business was transacted:

Election of Directors

- ----------

Over 98% of the votes cast for directors were voted for the election of the following directors. The number of votes for and withheld with respect to each director was as follows:

	Votes For	Votes Withheld
Charles B. Benenson	101,643,862	2,002,293
John Brademas	101,644,315	2,001,840
Dennis H. Chookaszian	101,647,016	1,999,139
Paul J. Fribourg	101,647,139	1,999,016
Bernard Myerson	101,600,908	2,045,247
Edward J. Noha	101,579,010	2,067,145
Gloria R. Scott	101,631,308	2,014,847
Andrew H. Tisch	101,540,162	2,105,993
James S. Tisch	101,574,417	2,017,738
Jonathan M. Tisch	101,583,843	2,062,312
Laurence A. Tisch	101,556,813	2,089,342
Preston R. Tisch	101,568,411	2,077,744

Ratification of the appointment of Independent Certified Public Accountants

- ----------

Approved-- 103,353,698 shares, approximately 99.7% of the shares voting, voted to ratify the appointment of Deloitte & Touche, LLP as independent certified public accountants for the Company. 140,438 shares, approximately 0.1% of the shares voting, voted against, and 152,019 shares, approximately 0.2% of the shares voting, abstained.

Shareholder proposal relating to reporting of executive compensation

- ----------

Rejected-- 85,477,678 shares, approximately 89.6% of the shares voting, voted against this shareholder proposal. 3,567,145 shares, approximately 3.8% of the shares voting, were cast for, and 6,323,417 shares, approximately 6.6% of the shares voting, abstained. In addition, there were 8,277,917 shares as to which brokers indicated that they did not have authority to vote ("broker non-votes").

Shareholder proposal relating to pregnant women

- ----------

Rejected-- 84,264,878 shares, approximately 88.4% of the shares voting, voted against this shareholder proposal. 3,262,605 shares, approximately 3.4% of the shares voting, were cast for, and 7,838,358 shares, approximately 8.2% of the shares voting, abstained. In addition, there were 8,280,314 broker non-votes.

Shareholder proposal relating to teen smoking

- ----------

Rejected-- 84,794,827 shares, approximately 88.9% of the shares voting, voted against this shareholder proposal. 2,668,432 shares, approximately 2.8% of the shares voting, were cast for, and 7,904,982 shares, approximately 8.3% of the shares voting, abstained. In addition, there were 8,277,914 broker non-votes.

Shareholder proposal relating to independent directors

- ----------

Rejected-- 69,131,815 shares, approximately 72.5% of the shares voting, voted against this shareholder proposal. 25,680,990 shares, approximately 27.0% of the shares voting, were cast for, and 555,434 shares, approximately 0.5% of the shares voting, abstained. In addition, there were 8,277,916 broker non-votes.

Shareholder proposal relating to confidential voting

- ----------

Rejected-- 54,025,770 shares, approximately 56.6% of the shares voting, voted against this shareholder proposal. 40,908,196 shares, approximately 42.9% of the shares voting, were cast for; and 431,875 shares, approximately 0.5% of the shares voting, abstained. In addition, there were 8,280,314 broker non-votes.

Shareholder proposal relating to nominating committee

- ----------

Rejected-- 72,493,202 shares, approximately 76.0% of the shares voting, voted against this shareholder proposal. 22,301,002 shares, approximately 23.4% of the shares voting, were cast for, and 571,635 shares, approximately 0.6% of the shares voting, abstained. In addition, there were 8,280,316 broker non-votes.

Shareholder proposal relating to cigarette filters

- ----------

Rejected-- 83,881,349 shares, approximately 88.0% of the shares voting, voted against this shareholder proposal. 3,786,727 shares, approximately 4.0% of the shares voting, were cast for, and 7,700,166 shares, approximately 8.0% of the shares voting, abstained. In addition, there were 8,277,913 broker non-votes.

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

(a) Exhibits--

(10.1) Stipulation of Amendment to Settlement Agreement and For Entry of Agreed Order, dated July 2, 1998, regarding the settlement of the Mississippi health care cost recovery action.

(10.2) Mississippi Fee Payment Agreement, dated July 2, 1998, regarding the payment of attorneys' fees.

(10.3) Mississippi MFN Escrow Agreement, dated July 2, 1998.

(10.4) Stipulation of Amendment to Settlement Agreement and For Entry of Consent Decree, dated July 24, 1998, regarding the settlement of the Texas health care recovery action.

(10.5) Texas Fee Payment Agreement, dated July 24, 1998, regarding the payment of attorneys' fees.

(27.1) Financial Data Schedule for the six months ended June 30, 1998.

(b) Current reports on Form 8-K--There were no reports on Form 8-K filed for three months ended June 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: August 14, 1998

By /s/ Peter W. Keegan
PETER W. KEEGAN
Senior Vice President and
Chief Financial Officer
(Duly authorized officer
and principal financial
officer)

IN THE CHANCERY COURT OF JACKSON COUNTY,
STATE OF MISSISSIPPI

IN RE MIKE MOORE, ATTORNEY GENERAL, ex. rel. STATE OF MISSISSIPPI TOBACCO LITIGATION	)	CAUSE No. 94-1429

STIPULATION OF AMENDMENT TO SETTLEMENT AGREEMENT
AND FOR ENTRY OF AGREED ORDER

THIS STIPULATION OF AMENDMENT TO SETTLEMENT AGREEMENT AND FOR ENTRY OF AGREED ORDER (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 Comprehensive Settlement Agreement and Release entered into by the parties hereto with respect to this Action on October 17, 1997 (the "Settlement Agreement").

WHEREAS, on July 2, 1997, the State of Mississippi and certain defendants (the "Settling Defendants") entered into a Memorandum of Understanding (the "MOU"), setting forth the terms of an agreement in principle to settle all present and future claims relating to the subject matter of this Action, which MOU contemplated that the parties would draft and execute a comprehensive settlement agreement incorporating the terms of the MOU as well as other customary terms and conditions, including releases;

WHEREAS, on October 17, 1997, the State of Mississippi 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 December 29, 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 this 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 Mississippi will obtain treatment at least as relatively favorable as any such non-federal governmental entity;

WHEREAS, on May 8, 1998, Settling Defendants entered into a pre-verdict settlement agreement with the State of Minnesota to settle the lawsuit State of Minnesota v. Philip Morris Inc., No. C1-94-8565 (Dist. Ct. Ramsey County, filed Aug. 17, 1994) (the "Minnesota Settlement");

WHEREAS, the State of Mississippi 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 Mississippi and Settling Defendants have agreed on the terms of revisions to the Settlement Agreement in light of the Minnesota Settlement, as set forth in this Stipulation of Amendment and the Agreed Order attached as Exhibit 1 hereto; and

WHEREAS, the parties hereto have further agreed jointly to petition the Court for approval of the Agreed Order:

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. The Court may, upon the State's application, enter the Agreed Order attached hereto as Exhibit A. 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 Agreed Order. 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 Agreed Order, 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 any terms of the Settlement Agreement (as revised hereby) or the Agreed Order that relate to matters other than payments are irreconcilable with any such future federal legislation).

3. Definitions. For the purposes of the Settlement Agreement, this Stipulation of Amendment and the Agreed Order, 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 for consumption in the United States, 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, 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 powder 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 constitute reimbursement for public health expenditures of the State of Mississippi and the political subdivisions and agencies of the State of Mississippi, including but not limited to the Mississippi State Employees Health Insurance Plan, University Medical Center and charity hospitals, as well as for Medicaid expenditures of the State of Mississippi. Any payments made by Settling Defendants in a given year are in settlement of claims for damages by the State in the year of payment or earlier years related to the subject matter of this Action, including, without limitation, claims for equitable and injunctive relief, claims for health care

expenditures and claims for punitive damages, except that 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, penalty (civil or criminal) or enhanced damages or as the cost of a tangible or intangible asset or other future benefit. In consonance with the relief sought by this Action and the Proposed Resolution, the parties hereto anticipate that the funds provided hereunder and under the Settlement Agreement, other than funds provided pursuant to the Settlement Agreement that are dedicated for the Mississippi Pilot Program and legal expense reimbursement, will be used for health-related expenditures of the State of Mississippi. This paragraph 4 supersedes paragraph 11 of the Settlement Agreement, which is hereby rendered null, void and of no further effect.

5. Supplemental Initial Payment. Each Settling Defendant severally shall cause to be paid, pro rata in proportion to its Market Share and in accordance with and subject to paragraph 17 of this Stipulation of Amendment, to an account designated in writing by the State of Mississippi, its share of $41,738,000, to be paid on or before January 4, 1999; its share of $145,173,000, to be paid on or before January 3, 2000; its share of $145,173,000, to be paid on or before January 2, 2001; its share of $145,173,000, to be paid on or before January 2, 2002; and its share of $72,743,000, to be paid on or before January 2, 2003. The payments made by 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 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 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 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 Mississippi shall provide notice to each of the 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

Mississippi shall have the option of providing notice to each of the Settling Defendants of such continued non-payment. In the event that the State of Mississippi elects to provide such notice, any or all of the Settling Defendants (other than the Defaulting Defendant) shall have 15 days after receipt of such notice to elect (in such Settling Defendant's or such 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 Mississippi does not receive the Missed Payment, together with such accrued interest, within such additional 15-day period, all payments required to be made by each of the respective Settling Defendants pursuant to paragraph 5 of this Stipulation of Amendment that have yet to come due prior to the conclusion of such additional 15-day period shall be accelerated and immediately become due and owing to the State of Mississippi from each Settling Defendant, pro rata in proportion to its Market Share; 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 Settling Defendant to pay any amount owed or payable to the State of Mississippi by any other Settling Defendant. All obligations of the 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, beginning on December 31, 1998 (subject to adjustment for appropriate allocation among Settling Defendants by January 30, 1999), and annually thereafter on December 31st of each year after 1998 (subject to final adjustment within 30 days), it shall severally cause to be paid to an account designated in writing by the State of Mississippi, in accordance with and subject to paragraph 17 of this Stipulation of Amendment, pro rata in proportion to its respective Market Share, its share of 1.7% of the following amounts (in billions):

Year	1998	1999	2000	2001	2002	2003	thereafter
	1	2	3	4	5	6	
Amount	$4B	$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 adjustments of payments set forth in Appendix A. This paragraph 7 supersedes paragraph 9 of the Settlement Agreement (and, insofar as not already superseded thereby, paragraph 3 of the MOU), 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 federal excise tax 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 3 business days of receipt of such federal excise tax 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 under paragraph 23 of the Settlement Agreement. 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%.

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) 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 Mississippi 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 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 the Settlement Agreement (including this Stipulation of Amendment and the Agreed Order) (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 Mississippi pursuant to paragraphs 7 and 8 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 (1.7%) used to determine the State of Mississippi'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 Settling Defendants to the State of Mississippi under the Settlement Agreement (as revised hereby) by an amount greater than the amount of

Federal Settlement Funds that the State of Mississippi could elect to receive.

This paragraph 9 supersedes paragraph 10 of the Settlement Agreement (and, insofar as not already superseded thereby, paragraph 5 of the MOU), 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 paragraph 13 of the Settlement Agreement shall, with respect to the Claims identified in subparagraph (2) thereof, apply only to monetary Claims and, further, shall not operate as a release of any person, party or entity (whether or not a signatory to the Settlement Agreement or this Stipulation of Amendment) as to any of the obligations undertaken in the Settlement Agreement (as revised hereby) in connection with a monetary breach or default thereof. This paragraph 10 does not supersede but rather supplements and clarifies the scope of the release provided in paragraph 13 of the Settlement Agreement.

11. Limited Most-Favored Nation Provision. In partial consideration for the monetary payments to be made by Settling Defendants pursuant to this Stipulation of Amendment, the State of Mississippi agrees that, if 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 Agreed Order) (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 Agreed Order) 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 Settling Defendants with respect to monetary payments to be made pursuant to such agreement;

(b) a guarantee by the parent company of any of 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 Agreed Order);

(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 Mississippi, be revised to include terms comparable to such terms.

This paragraph 11 supersedes paragraph 15 of the Settlement Agreement (and, insofar as not already superseded thereby, paragraph 7 of the MOU), which is hereby rendered null, void and of no further effect. The State of Mississippi hereby acknowledges that, pursuant to the terms of this paragraph 11, it has irrevocably waived any future claim to revise the terms of the Settlement Agreement or this Stipulation of Amendment pursuant to paragraph 15 of the Settlement Agreement (or paragraph 7 of the MOU) (except as provided in paragraph 23 of this Stipulation of Amendment), and it hereby further covenants and agrees that, in consideration for 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, except as expressly provided in this paragraph 11 (or pursuant to mutually agreeable amendment by the parties hereto as provided in paragraph 22 of the Settlement Agreement and paragraph 19 hereof).

12. Settling Defendants' Assurances. Settling Defendants agree:

(a) to support the legislative initiatives to enact new laws and administrative initiatives to promulgate new rules described in paragraph 6 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 this Settlement Agreement (including this Stipulation of Amendment and the Agreed Order) 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 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" within the meaning of Miss. Code Ann. ss.ss. 5-8-3, 5-8-7 (Supp. 1997)), if the 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 Mississippi in any way relating to Tobacco Products or their use;

(b) Any payment to a third party, if the 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 Mississippi in any way relating to Tobacco Products or their use; and

(c) Any payment (other than a "campaign contribution" under Miss. Code Ann. ss.ss. 23-15-801 et. seq. (1972 & Supp. 1997) to, or for the benefit of, a state or local official in Mississippi, whether made directly by the Settling Defendant or indirectly through an employee of the Settling Defendant acting within the scope of his employment, or through an affiliate, lobbyist or other agent acting under the substantial control of the 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 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 13 is a "public record" within the meaning of the Mississippi Public Records Act of 1983, Miss. Code Ann. ss.ss. 25-61-1 et seq. (1972 & Supp. 1997).

14. Prohibition of Certain Payments for Product Placement. 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, Settling Defendants shall permanently cease marketing, licensing, distributing, selling or offering, directly or indirectly, including by catalogue or direct mail, in the State of Mississippi, any service or 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.

16. Document Production. Settling Defendants shall provide to the State of Mississippi a copy of any CD-ROMs of documents that 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 under paragraph 23 of the Settlement Agreement.

17. Court Approval. The parties hereto agree to submit this Stipulation of Amendment promptly to the Court for its review and approval. If the Court refuses to approve this Stipulation of Amendment or any material provision hereof, or if such approval is modified in any material respect or set aside on appeal, then this Stipulation of Amendment shall be canceled and terminated and it and all orders issued pursuant hereto (including the Agreed Order) shall become null and void and of no further effect. Any such cancellation or termination of this Stipulation of Amendment shall not result in the cancellation or termination of the Settlement Agreement as approved by the Court on December 29, 1997. All payments described in this Stipulation of Amendment shall be paid into a special escrow account, pursuant to the terms of a mutually acceptable escrow agreement (the "MFN Escrow Agreement"), and if so paid shall remain in said escrow account, until such time as (1) the time for appeal or 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 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. Any payments made into escrow shall be disbursed from escrow only in strict accordance with the terms of the MFN Escrow Agreement.

18. Obligations Several, Not Joint. 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.

19. Applicable Provisions of Settlement Agreement. The provisions of paragraphs 17 (Representations of Parties); 19 (Headings), 20 (No Determination or Admission), 21 (Non-Admissibility), 22 (Amendment), 23 (Notices), 24 (Cooperation), 26 (Construction), 27 (Severability), 28 (Intended Beneficiaries) and 29 (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 paragraphs thereof specifically listed in this paragraph 19 shall be construed to include this Stipulation of Amendment.

20. Release of Right to Additional Compensation. In consideration for the terms hereof, including, inter alia, the provisions of paragraph 5 hereof, the State of Mississippi hereby irrevocably releases Settling Defendants from any claim for additional compensation pursuant to paragraph 16 of the Settlement Agreement (and, insofar as not already superseded thereby, paragraph 8 of the MOU), the provisions of which regarding the State's rights to additional compensation are hereby rendered null, void and of no further effect.

21. Governing Law. The Settlement Agreement (including this Stipulation of Amendment and the Agreed Order) shall be governed by the laws of the State of Mississippi without regard to the conflict of law rules of such State. This paragraph supersedes paragraph 25 of the Settlement Agreement, which is hereby rendered null, void and of no further effect.

22. Attorneys' Fees. The parties hereto acknowledge that the entire obligation of Settling Defendants regarding payment of private counsel's fees pursuant to paragraph 16 of the Settlement Agreement (and, insofar as not already superseded thereby, paragraph 8 of the MOU) is set forth in the Mississippi Fee Payment Agreement dated July 2, 1998. The Attorney General represents that all of the State's outside counsel that have represented the State in connection with this action are, by and through their authorized representatives, signatories to the Mississippi Fee Payment Agreement. Under no circumstances shall Settling

Defendants' entry into this Stipulation of Amendment or the Mississippi 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 Nations clause without incorporation of all terms of any settlement agreement that provides the occasion for any such revision, including all terms with respect to attorneys' fees.

23. 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 Settling Defendants are relieved from making payments required under the Minnesota Settlement) (the "Minnesota Order"), 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 Settling Defendants make such an election:

(a) 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, 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 paragraph 15 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) 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 Mississippi as a result of application of paragraph 15 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 23.

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

24. Entire Agreement of Parties. The Settlement Agreement (including for purposes of this paragraph 24 this Stipulation of Amendment, the Mississippi Fee Payment Agreement and the Agreed Order) 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 Mississippi, 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 2nd day of July, 1998.

STATE OF MISSISSIPPI, acting by and through Michael C. Moore, its duly elected and authorized Attorney General

By: /s/ Michael C. Moore

Michael C. Moore
Attorney General

PHILIP MORRIS INCORPORATED

By: /s/ Meyer G. Koplow

Meyer G. Koplow
Counsel

By: /s/ Martin J. Barrington by MGK

Martin J. Barrington
General Counsel

R.J. REYNOLDS TOBACCO COMPANY

By: /s/ Arthur F. Golden

Arthur F. Golden
Counsel

By: /s/ Charles A. Blixt by AFG

Charles A. Blixt
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: Arthur J. Stevens by MGK

Arthur J. Stevens
Senior Vice President and

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 1.7% 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 CHANCERY COURT OF JACKSON COUNTY,
STATE OF MISSISSIPPI

IN RE MIKE MOORE, ATTORNEY GENERAL, ex. rel. STATE OF MISSISSIPPI TOBACCO LITIGATION	)	CAUSE No. 94-1429

AGREED ORDER APPROVING STIPULATION OF
AMENDMENT TO SETTLEMENT AGREEMENT
PURSUANT TO COURT ORDER OF DECEMBER 29, 1997

WHEREAS, on October 17, 1997, the State of Mississippi and certain Defendants entered into a Comprehensive Settlement Agreement and Release (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 December 29, 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 Mississippi will obtain treatment at least as relatively favorable as any such non-federal governmental entity;

WHEREAS, on May 8, 1998, Settling Defendants entered into a pre-verdict settlement agreement with the State of Minnesota to settle the lawsuit State of Minnesota v. Philip Morris Inc., No. C1-94-8565 (Dist. Ct. Ramsey County, filed Aug. 17, 1994) (the "Minnesota Settlement");

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

WHEREAS, the State of Mississippi and Settling Defendants have agreed on the terms of the revisions to the Settlement Agreement as set forth in a Stipulation of Amendment to Settlement Agreement and for Entry of Agreed Order executed on July 2, 1998 (the "Stipulation of Amendment");

WHEREAS, the Stipulation of Amendment provides for entry of this Agreed Order and, further, provides that the Settling Defendants have waived as specified therein their right to challenge the terms of this Agreed Order as being superseded or preempted by future congressional enactments; and

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

NOW, THEREFORE, the State of Mississippi and Settling Defendants having come before the Court on their joint motion Ore Tenus for approval of a Stipulation of Amendment to the Settlement Agreement pursuant to the Most Favored Nations clause of the Settlement Agreement and this Court's December 29, 1997 Judgment of Dismissal and Order Approving Settlement Agreement (the "December 29, 1997 Order"), 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. Pursuant to the Settlement Agreement and this Court's December 29, 1997 Order, this Court has continuing jurisdiction to enforce and implement the terms of the Settlement Agreement, including the Most Favored Nations clause of the Settlement Agreement. The Court finds that the terms of the Stipulation of Amendment are just and in the best interests of the State of Mississippi and Settling Defendants, and the same is hereby approved. The parties are directed to comply with the terms of the Stipulation of Amendment.

2. Jurisdiction and Venue. In keeping with the Settlement Agreement and this Court's December 29, 1997 Order, the Court retains jurisdiction for the purpose of enforcement of the Settlement Agreement (as amended by the Stipulation of Amendment) and this Agreed Order. Any party to this Agreed Order 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 Agreed Order.

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 Agreed Order applies only to 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 entity acting in concert or participating with them. The remedies and penalties for a violation of this Agreed Order shall apply only to Settling Defendants, and shall not be imposed or assessed against any employee, officer or director of Settling Defendants or other person or entity as a consequence of such a violation, and there shall be no jurisdiction under this Agreed Order to impose or assess a penalty against any employee, officer or director of Settling Defendants or other person or entity as a consequence of a violation of this Agreed Order.

5. Effect on Third Parties. This Agreed Order 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. Settling Defendants are permanently enjoined from:

(a) On and after December 31, 1998, marketing, licensing, distributing, selling or offering, directly or indirectly, including by catalogue or direct mail, in the State of Mississippi, any service or 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.

(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 Agreed Order 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 Mississippi 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 Mississippi.

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 Agreed Order 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 paragraphs 12, 13 and 14 of the Settlement Agreement; nor shall this Agreed Order be construed as, or deemed to be, an admission or concession or evidence of personal jurisdiction by any person not a party to this Agreed Order. Defendants specifically disclaim any liability or wrongdoing whatsoever with respect to the claims and allegations asserted against them in this Action and Settling Defendants have entered into the Settlement Agreement and the

Stipulation of Amendment, and have stipulated to entry of this Agreed Order, solely to avoid the further expense, inconvenience, burden and risk of litigation.

8. Modification. This Agreed Order 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 Agreed Order 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 Settling Defendants will comply with this Agreed Order as originally entered, even if 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 Settling Defendants shall not support modification of this Agreed Order. 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 23 of the Stipulation of Amendment.

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

10. Non-Exclusivity of Remedy. The remedies in this Agreed Order 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 Agreed Order.

SO ORDERED AND ADJUDGED, this the 11th day of July, 1998.

/s/ William H. Myers

WILLIAM H. MYERS,
CHANCELLOR

APPROVED:

/s/ Michael C. Moore
- ---
MICHAEL C. MOORE, Attorney General,
for the State of Mississippi

/s/ Joe R. Colingo
- ---
JOE R. COLINGO, for Settling Defendants

Exhibit 10.2

MISSISSIPPI FEE PAYMENT AGREEMENT

This Mississippi Fee Payment Agreement (the "Agreement") is entered into as of July 2, 1998, by and among Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation and Lorillard Tobacco Company (collectively and severally "Settling Defendants" and each individually a "Settling Defendant"), the State of Mississippi and private counsel retained by the State of Mississippi in connection with the lawsuit In re Mike Moore, Attorney General, ex rel. State of Mississippi Tobacco Litig., No. 94-1429 (Miss. Ch. Ct., Jackson County) (the "Action").

WITNESSETH:

WHEREAS, on October 17, 1997, the State of Mississippi 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 Action (the "Settlement Agreement"), which Settlement Agreement was approved by the Chancery Court for the Jackson County (the "Court") and adopted as an enforceable order of the Court pursuant to Court Order dated December 29, 1997;

WHEREAS, paragraph 16 of the Settlement Agreement provides that Settling Defendants shall pay reasonable attorneys' fees to private counsel for the State of Mississippi, 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, paragraph 16 of the Settlement Agreement did not and was not intended to reflect the entire agreement of Settling Defendants and the State of Mississippi as to the procedures and conditions that would govern Settling Defendants' payment of fees to private counsel retained by the State of Mississippi in connection with the Action ("Mississippi 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, Settling Defendants and Mississippi Counsel have entered into a letter agreement dated October 10, 1997 (the "October 10th Letter") which

describes the essential terms of Settling Defendants' agreement to pay fees to Mississippi Counsel pursuant to paragraph 16 of the Settlement Agreement;

WHEREAS, paragraph 15 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 Mississippi 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 July 2, 1998, Settling Defendants and the State of Mississippi entered into a Stipulation of Amendment to Settlement Agreement and for Entry of Agreed Order (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 Mississippi and Mississippi Counsel, in order to resolve any disputes with respect to paragraphs 15 and 16 of the Settlement Agreement, and to describe more fully the procedures that will govern Settling Defendants' payment of fees to Mississippi 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 Mississippi'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 to Mississippi Counsel for their representation of the State of Mississippi in connection with the Action. The amount of such fees will be set by a panel of three independent arbitrators (the "Panel") whose decision as to the amount of fees for Mississippi Counsel arbitrated in connection with this Agreement (the "Mississippi Fee Award") shall be final and not appealable. The procedures governing Settling Defendants' obligation to pay the Mississippi Fee Award, including the procedures for making, and the timing of payments in satisfaction of, the Mississippi Fee Award, shall be as provided herein.

SECTION 2. Aggregate National Caps on Payment of Certain Fees.

Settling Defendants' payment of the Mississippi Fee Award pursuant to this Agreement shall be subject to the payment schedule and the annual and quarterly aggregate national caps specified in sections 11, 12, 13, 14 and 15 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; Release.

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 Mississippi 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 paragraph 16 of the Settlement Agreement and the October 10th Letter. The State of Mississippi agrees that Settling Defendants shall have no other obligation to pay fees or otherwise compensate Mississippi Counsel, any other counsel or representative of the State of Mississippi or the State of Mississippi itself with respect to attorneys' fees in connection with the Action. Each Mississippi 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.

SECTION 4. 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 Mississippi 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 Mississippi 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 Mississippi shall be a natural person selected by Mississippi Counsel, who shall notify Settling Defendants of the name of the person selected by October 15, 1998.

SECTION 5. 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 State of Florida v. American Tobacco Co., No. 95-1466AH (15th Jud. Circuit, Palm Beach County), or the lawsuit State of Texas v. American Tobacco Co., No. 5-96CV-91 (E.D. Tex. filed Mar. 28, 1996).

SECTION 6. 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 7. Panel Procedures Regarding Application of Mississippi Counsel.

Mississippi Counsel shall make a collective written application to the

Panel for a Fee Award on behalf of all Mississippi Counsel not later than 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 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 Mississippi 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 Mississippi Fee 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 Mississippi Counsel and to advise the Panel that they support a Mississippi Fee Award of full reasonable compensation under the circumstances.

SECTION 8. Award of Fees to Mississippi 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 Mississippi Counsel for their representation of the State of Mississippi in connection with the Action. The Panel shall determine the amount of fees for all Mississippi 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 Mississippi Fee Award, but shall take into account the totality of the circumstances. In considering the amount of the Mississippi Fee Award, the Panel shall not consider Fee Awards that already have been or yet may be awarded to others. 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 9. Allocation of Payments among Mississippi Counsel.

All payments (including advances) made by Settling Defendants in satisfaction of the Mississippi Fee Award pursuant to this Agreement shall be paid in the first instance to an account designated in writing by Joseph F. Rice, Esq. Each Mississippi Counsel shall be entitled to receive a percentage of each such payment equal to the percentage such counsel would receive of any fee recovery in the Action, under the terms of the fee-sharing agreement among Mississippi Counsel (such percentage being such counsel's "Fee Percentage" of the payment in question).

SECTION 10. Advances on Payment of Fees.

Settling Defendants shall severally make two payments as an advance against later payments of the Mississippi Fee Award pursuant to this Agreement, to be credited as provided in section 15 hereof, as follows:

(a) On or before July 6, 1998, each Settling Defendant shall pay to Mississippi Counsel, pro rata in proportion to its Market Share indicated on Schedule A hereto, its respective share of $50 million.

(b) On or before July 31, 1998, each Settling Defendant shall pay to Mississippi Counsel, pro rata in proportion to its Market Share indicated on Schedule A hereto, its respective share of $50 million.

SECTION 11. Annual Amount for 1997; Allocation.

(a) For 1997, Settling Defendants shall pay, in the manner described in section 13 hereof, the unsatisfied amount of the Fee Award (the "Unpaid Fees") of Mississippi 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 State of Florida v. American Tobacco Co., No. 95-1466 AH (15th Jud. Circuit, Palm Beach 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 12. Annual Amount for 1998; Allocation.

(a) For 1998, Settling Defendants shall pay, in the manner described in section 13 hereof, the Unpaid Fees of Mississippi 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 to Mississippi Counsel by Settling Defendants 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 13(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 State of Florida v. American Tobacco Co., No. 95-1466AH (15th Jud. Circuit, Palm Beach 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).

SECTION 13. Payments with Respect to Annual Amounts for 1997 and 1998.

(a) On the earlier of December 15, 1998 or 15 days after the date of the Panel's decision with respect to the Mississippi Fee Award (the "Initial Mississippi Fee Payment Date"), each Settling Defendant shall severally pay, pro rata in proportion to its Market Share, its share of an initial fee payment with respect to the Mississippi Fee Award (the "Initial Mississippi Fee Payment"), which shall include:

(i) Mississippi Counsel's Allocable Share for 1997 as provided in section 11 hereof or, in the event that the Panel has not rendered Fee Awards with respect to all Private Counsel described in section 11(a) hereof as of five business days prior to the Initial Mississippi Fee Payment Date, Settling Defendants' reasonable estimation of Mississippi Counsel's Allocable Share for 1997; and

(ii) Mississippi Counsel's Allocable Share for 1998 as provided in section 12 hereof for each month of 1998 except those with respect to which Mississippi Counsel's Allocable Share could not be determined as of five days prior to the Initial Mississippi Fee Payment Date, 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, its share of Mississippi Counsel's Allocable Share for those months of 1998 not included in the Initial Mississippi Fee Payment. Mississippi 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 Mississippi 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 Mississippi Counsel receive their actual Allocable Share for 1997.

(d) Notwithstanding any provision of this Agreement, Mississippi Counsel agree to defer payment of $62 million of the payment due from Settling Defendant R.J. Reynolds Tobacco Company ("Reynolds") on the Initial Mississippi Fee Payment Date. In the event that (i) Reynolds' share of the Initial Mississippi Fee Payment is less than $62 million or (ii) the Mississippi Fee Award has not been determined as of the date of any other payment by Reynolds in 1998 with respect to Fee Awards, individual Mississippi Counsel Scruggs, Millette, Bozeman & Dent, P.A. ("Scruggs, Millette") and Ness, Motley, Loadholt, Richardson & Poole ("Ness, Motley") shall also defer the amounts of their respective Fee Percentages of such other 1998 payments, until the sum of all deferred amounts equals $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 the appropriate persons the amounts of its 1998 payments deferred pursuant to this section.

SECTION 14. 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 Mississippi 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. In the event that the sum of all such 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).

(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. In the event that the sum of all such 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).

(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, its share of the amounts, if any, allocated to Mississippi Counsel pursuant to this section.

SECTION 15. Credits and Limitations.

Notwithstanding any other provision of this Agreement, all payments by Settling Defendants with respect to Fee Awards shall be subject to the following:

(a) Notwithstanding any other provision of this Agreement, the advances against future payments to Mississippi Counsel made pursuant to section 10 hereof shall be credited against and shall reduce the payments due to Mississippi Counsel hereunder, beginning with the first quarterly payment for 1999 pursuant to section 14 hereof, in an amount equal to 50% of the payment in question, until the advances paid by Settling Defendants are fully credited; provided, however, that the sum of all such credits applied in any calendar year with respect to the advances made to Mississippi Counsel pursuant to section 10 hereof shall not exceed $50 million. The amount of any credit made against any such payment to Mississippi Counsel 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 payment to Mississippi Counsel in any quarterly or annual period.

(b) Under no circumstances shall Settling Defendants be required to make payments that would result in aggregate national payments 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 13 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 with respect to any prior quarter of the calendar year did not total $125 million.

SECTION 16. 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 12, 13, 14 and 15 hereof.

SECTION 17. Payments on Market Share Basis.

All payments to Mississippi Counsel pursuant to this Agreement shall be paid by Settling Defendants pro rata in proportion to their respective Market Shares. Each Settling Defendant shall be severally liable for its share of all such payments. 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 advances

described in section 10 hereof and the payment for 1997 described in section 11 hereof, the Market Share of each Settling Defendant shall be as provided in Schedule A hereto. With respect to the payment for 1998 described in section 12 hereof, the Market Share of each Settling Defendant shall be its respective share of sales of cigarettes, by number of individual cigarettes shipped for consumption in the United States, for 1998. With respect to all other payments pursuant to this Agreement, each Settling Defendant's Market Share shall be its respective share of sales of cigarettes, by number of individual cigarettes shipped for consumption in the United States, for the 12 month period preceding the end of the calendar quarter with respect to which such payment is made.

SECTION 18. 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 federal excise tax reports for the period in question to a third party to be selected by agreement of Settling Defendants (the "Third Party"), who shall within three 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 Mississippi 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%.

SECTION 19. Limited Waiver as to Other Terms.

In consideration of Settling Defendants' agreement to the terms hereof,

each Mississippi Counsel hereby covenants and agrees that it will not argue in any forum (other than in proceedings before the Panel relating to Mississippi Counsel's application) that the arrangements made in connection with the Texas Settlement or the Minnesota Settlement for payment of fees to private counsel for

the States of Texas or Minnesota give rise to any claim or entitlement on the part of Mississippi Counsel (or any other person) in connection with this Action.

SECTION 20. State's Identification of Mississippi Counsel.

The Attorney General represents and warrants that Schedule B hereto contains the names of all Mississippi Counsel.

SECTION 21. 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 release 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 22. 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 23. 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 24. 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 covered by the release provided under 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 potential litigation.

SECTION 25. 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 an action or proceeding arising under this Agreement.

SECTION 26. Amendment and Waiver.

This Agreement may be amended only by a written instrument executed by the Attorney General, Mississippi Counsel and Settling Defendants. 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 27. 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 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 28. Governing Law.

This Settlement Agreement shall be governed by the laws of the State of Mississippi, without regard to the conflict of law rules of such State.

SECTION 29. 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 30. 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 31. Counterparts.

This Agreement may be executed in counterparts. Facsimile or photocopied signatures shall be considered as valid signatures as of the date hereof, although the original signature pages shall thereafter be appended to this Settlement Agreement.

SECTION 32. Entire Agreement of Parties.

This Agreement contains an entire, complete and integrated statement of each and every term and provision agreed to by and among the parties hereto with respect to payment of attorneys' fees by Settling Defendants in connection with the Action 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 Mississippi Fee Payment Agreement as of this 2nd day of July, 1998.

STATE OF MISSISSIPPI acting by and through
Michael C. Moore, its duly elected and authorized
Attorney General

By: /s/ Michael C. Moore

Michael C. Moore
Attorney General

PHILIP MORRIS INCORPORATED

By: /s/ Meyer G. Koplow

Meyer G. Koplow
Counsel

By: /s/ Martin J. Barrington by MGK

Martin J. Barrington
General Counsel

R.J. REYNOLDS TOBACCO COMPANY

By: /s/ Arthur F. Golden

Arthur F. Golden
Counsel

By: /s/ Charles A. Blixt by A.F.G.

Charles A. Blixt
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 by MGK

Arthur J. Stevens
Senior Vice President & General Counsel

MISSISSIPPI COUNSEL

By: /s/ Joseph F. Rice

Joseph F. Rice
Ness, Motley, Loadholt, Richardson & Poole

By: /s/ Richard F. Scruggs by W.S. Bozeman

Richard F. Scruggs
Scruggs, Millette, Bozeman & Dent, P.A

By: /s/ Don Barrett

Don Barrett
Barrett Law Offices

By: /s/ Paul T. Benton

Paul T. Benton

By: /s/ Frederick B. Clark

Frederick B. Clark

By: /s/ Michael T. Lewis

Michael T. Lewis
Lewis & Lewis

By: /s/ David O. McCormick

David O. McCormick

By: /s/ Charles Victor McTeer

Charles Victor McTeer
McTeer & Associates

By: /s/ Robert H. Oswald

Robert H. Oswald
Oswald & Reed

By: /s/ Crymes G. Pittman

Crymes G. Pittman
Pittman, Germany, Roberts & Welsh

By: /s/ Thomas H. Rhoden

Thomas H. Rhoden
Rhoden, Lacy, Downey & Colbert

By: /s/ Paul S. Minor

Paul S. Minor

SCHEDULE A

MARKET SHARE PERCENTAGES

Settling Defendant	Percentage
Philip Morris Incorporated	49.9
R.J. Reynolds Tobacco Company	24.8
Brown & Williamson Tobacco Corp	16.4
Lorillard Tobacco Company	8.9
TOTAL	100

SCHEDULE B

DESIGNATION of MISSISSIPPI COUNSEL
by the Attorney General

Ness, Motley, Loadholt, Richardson & Poole (Ronald L. Motley, Joseph F. Rice, Charles W. Patrick, Jr., Edward J. Westbrook, Ann K. Ritter, J. Anderson Berly, III, John J. McConnell, Jr., Susan Nial, Robert J. McConnell, Richard L. Akel, Nancy Worth Davis, Alexandra M. Wagner, Kimberly S. Vroon, Jodi W. Flowers, Frederick C. Baker, R. Brian Johnson, Cindi Anne Solomon, Jerry Hudson Evans, Gregory S. Lofstead, William Michael Gruenloh)

Scruggs, Millette, Bozeman & Dent, P.A. (Richard F. Scruggs, W. Steve Bozeman, Charles J. Mikhail, Lee E. Young, Jennifer A. Coley, Ashley Hutchings Hendren)

Barrett Law Offices (Don Barrett)

Paul T. Benton

Frederick B. Clark

Lewis & Lewis (Michael T. Lewis, Pauline Shular Lewis)

David O. McCormick

McTeer & Associates (Charles Victor McTeer)

Oswald & Reed (Robert H. Oswald, William T. Reed)

Pittman, Germany, Roberts & Welsh (Crymes G. Pittman, Robert G. Germany, Joseph E. Roberts, Jr., C. Victor Welsh)

Rhoden, Lacy, Downey & Colbert (Thomas H. Rhoden)

Paul S. Minor

SCHEDULE C

NOTICES

State of Mississippi

Hon. Michael C. Moore
Attorney General's Office
450 High Street
Post Office Box 220
Jackson, MS 39205
Fax: (601) 359-3441

With copies to:

Richard F. Scruggs
Scruggs, Millette, Bozeman & Dent, P.A.
743 Delmas Avenue
Pascagoula, MS 39568-1425
Fax: (228) 762-1207

and:

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

and:

David O. McCormick
707 Watts Avenue
P.O. Box 865
Pascagoula, MS 39568-0865
Fax: (228) 762-4864

(continued)

Settling Defendants

Philip Morris Incorporated:

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

With a copy to:

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

Brown & Williamson Tobacco Corp.:

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

With a copy to:

Stephen R. Patton, Esq.
Kirkland & Ellis
200 East Randolph Dr.

R.J. Reynolds Tobacco Company:

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

With a copy to:

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

Lorillard Tobacco Company:

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

Chicago, IL 60601
Fax: (312) 861-2200

(continued)

Mississippi Counsel

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

Richard F. Scruggs
Scruggs, Millette, Bozeman & Dent, P.A.
743 Delmas Avenue
Pascagoula, MS 39568-1425
Fax: (228) 762-1207

Don Barrett, Esq.
Barrett Law Offices
P.O. Box 987
Lexington, Mississippi 39095
Fax 1: (850) 654-4072
Fax 2: (601) 948-6187

Paul T. Benton, Esq.
Attorney At Law
P.O. Box 1341
Biloxi, MS 39533-1341
Fax: (228) 432-0336

Frederick B. Clark, Esq.
Attorney At Law
P.O. Box 1806
Greenwood, MS 38930
Fax: (601) 455-1282

Michael T. Lewis
Lewis & Lewis
P.O. Box 1600
Clarksdale, MS 38614
Fax: (601) 627-2267

David O. McCormick, Esq.
707 Watts Avenue
P.O. Box 865
Pascagoula, MS 39568-0865
Fax: (228) 762-4864

Charles Victor McTeer, Esq.
McTeer & Associates
P.O. Box 1835
Greenville, MS 38702
Fax: (601) 334-6847

Robert H. Oswald, Esq.
Oswald & Reed
3106 Canty Street
Pascagoula, MS 39567
Fax: (228) 769-9019

Crymes Pittman, Esq.
Pittman, Germany, Roberts & Welsh
401 S. President Street
Jackson, MS 39201
Fax: (601) 948-6187

(continued)

Thomas H. Rhoden, Esq.
Rhoden, Lacy, Downey & Colbert
111 Park Circle Drive
Flowood, MS 39208
Fax: (601) 936-2515

Paul S. Minor, Esq.
Minor & Associates
400 Main Street
Biloxi, MS 39530
Fax: (228) 374-6630

Exhibit 10.3

MFN ESCROW AGREEMENT

This escrow agreement (the "MFN Escrow Agreement") is entered into as of July 2, 1998 by and among Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation and Lorillard Tobacco Company (collectively and severally, "Settling Defendants" and each individually a "Settling Defendant"), the State of Mississippi and SouthTrust Bank, N.A., as escrow agent (the "MFN Escrow Agent").

WITNESSETH:

WHEREAS, the State of Mississippi and Settling Defendants entered into a comprehensive settlement agreement and release as of October 17, 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 In re Mike Moore, Attorney General, ex rel. State of Mississippi Tobacco Litig., Cause No. 94-1429 (Miss. Ch. Ct., Jackson County) (the "Action"), in the Chancery Court of Jackson County, Mississippi (the "Court");

WHEREAS, the State of Mississippi and Settling Defendants entered into a Stipulation of Amendment to Settlement Agreement and for Entry of Agreed Order (the "Stipulation of Amendment") on July 2, 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 Settling Defendant shall severally pay to the State of Mississippi, 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 the Stipulation of Amendment shall be paid into a special escrow account (and if so paid shall remain in said escrow account) until such time as (1) the time for appeal or 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 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 be made prior to the Availability Date:

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1. Appointment of MFN Escrow Agent.

Settling Defendants and the State of Mississippi 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 of the Stipulation of Amendment becomes due on a date prior to the Availability Date, each Settling Defendant shall severally deliver to the MFN Escrow Agent in immediately available funds such 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 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 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 and 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 Mississippi; (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 Settling Defendants certifying that such notice has been delivered by counsel for the Settling Defendants to all parties hereto and stating that the Stipulation of Amendment has not received court approval or has been canceled, terminated or has otherwise become null and void for any reason, the MFN Escrow Agent shall upon the expiration of ten (10) business days following the MFN Escrow Agent's receipt of notice, and without an order of the Court, disburse the entire MFN Escrow Amount (including any interest thereon, as provided in Section 3) to the Settling Defendants on the same pro rata basis as such funds were contributed to the MFN Escrow Account.

(b) Upon receipt of written notice signed by counsel for the Settling Defendants and counsel for the State of Mississippi stating that the Availability Date has occurred, the MFN Escrow Agent shall proceed to distribute the MFN Escrow Amount.

(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 Settling Defendants and counsel for the State of Mississippi, 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 Settling Defendants or counsel for the State of Mississippi within 14 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 the Settling Defendants or counsel for the State of Mississippi 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. The MFN Escrow Agent shall be fully protected if it acts in accordance with the written advice of its counsel. 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) 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 Settling Defendants and the State of Mississippi (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 Settling Defendants and agreeable to the State of Mississippi, 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 the Settling Defendants and the State of Mississippi (to be shared equally between the State of Mississippi and the Settling Defendants), petition the Court for the appointment of a successor MFN Escrow Agent.

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

Hon. Michael C. Moore
Attorney General's Office
450 High Street
Post Office Box 220

Jackson, MS 39205
Fax: (601) 359-3441

With copies to:

Richard F. Scruggs
Scruggs, Millette, Bozeman & Dent, P.A.
P.O. Drawer 1425
743 Delmas Avenue
Pascagoula, MS 39568-1425
Fax: (228) 762-1207

and:

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

and:

David O. McCormick
707 Watts Avenue
P.O. Box 865
Pascagoula, MS 39568-0865
Fax: (228) 762-4864

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:

SouthTrust Bank, N.A.
854 Howard Avenue
Post Office Box 1419
Biloxi, MS 39530
Phone: (228) 436-8656
Fax: (228) 436-8689

Wire Transfer Instructions:
ABA #: 062000080
Account #: 62-780173
Account Name: Mississippi MFN Escrow Account

(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 Mississippi, 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 Court 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 the 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 MISSISSIPPI

By: /s/ Michael C. Moore

Michael C. Moore
Attorney General

PHILIP MORRIS INCORPORATED

By: /s/ Meyer G. Koplow

Meyer G. Koplow
Counsel

R.J. REYNOLDS TOBACCO COMPANY

By: /s/ Arthur F. Golden

Arthur F. Golden
Counsel

BROWN & WILLIAMSON TOBACCO
CORPORATION

By: /s/ Stephen R. Patton

Stephen R. Patton
Counsel

LORILLARD TOBACCO COMPANY

By: /s/ Arthur J. Stevens by MGK

Arthur J. Stevens
Senior Vice President & General Counsel

SOUTHTRUST BANK, N.A.
as MFN Escrow Agent

By: /s/ Walter H. Stuart, III

Name: Walter H. Stuart, III
Title: President & CEO

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
TEXARKANA DIVISION

STATE OF TEXAS, Plaintiff, vs. AMERICAN TOBACCO COMPANY, et al., Defendants.	No. 5-96CV-91

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 Comprehensive Settlement Agreement and Release entered into by the parties hereto with respect to this Action on January 16, 1998 (the "Settlement Agreement").

WHEREAS, on January 16, 1998, the State of Texas 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 January 22, 1998.

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 Texas 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 Texas 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 Texas 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 parties hereto 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. Nothing in this Stipulation of Amendment shall be construed to release Settling Defendants from any of the obligations assumed in paragraphs 6 (Elimination of Billboards and Transit Advertisements), 8 (Initial Payments) and 9 (Pilot Program Payments) of the Settlement Agreement.

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 as Exhibit 1 hereto.

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 November 1, 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 this Stipulation of Amendment during the year 1998 are in settlement of the State's claims for reimbursement for public health expenditures of the State of Texas incurred in the year of payment or earlier years related to the subject matter of this Action, including without limitation expenditures made by the State's Employees' Health Insurance Program and Charity Care programs. All other payments made by Settling Defendants pursuant to this Stipulation of Amendment are in settlement of all of the State of Texas's claims for damages incurred by the State in the year of payment or earlier years related to the subject matter of this Action, including claims for reimbursement of Medicaid expenditures and punitive damages, except that 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, penalty (civil or criminal) or enhanced damages or as the cost of a tangible or intangible asset or other future benefit.

5. Supplemental Initial Payment. Each MFN Settling Defendant severally shall cause to be paid into the registry of the court and in accordance with and subject to paragraph 17 of this Stipulation of Amendment, pro rata in proportion to

its Market Share, its share of $156,530,000, to be paid on or before January 4, 1999; its share of $605,090,000, to be paid on or before January 3, 2000; its share of $605,090,000, to be paid on or before January 2, 2001; its share of $605,090,000, to be paid on or before January 2, 2002; and its share of $303,200,000, 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 5 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 Texas 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 Texas 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 Texas 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 Texas 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 Texas from each MFN Settling Defendant, pro rata in proportion to its Market Share; 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 Texas 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 it shall severally cause to be paid into the registry of the Court, in accordance with and subject to paragraph 17 of this Stipulation of Amendment, pro rata in proportion to its Market Share, its share of the following payments (subject to adjustment for appropriate allocation among Settling Defendants by January 30, 1999): $89

million to be paid on or before November 1, 1998; and $201 million to be paid on or before December 31, 1998.

Each of the Settling Defendants further agrees that, on December 31, 1999 and annually thereafter on December 31st of each year after 1999 (subject to final adjustment within 30 days), it shall severally cause to be paid into the registry of the Court and in accordance with and subject to paragraph 17 of this Stipulation of Amendment, pro rata in proportion to its Market Share, its share of 7.25% of the following amounts (in billions):

Year	1999	2000	2001	2002	2003	thereafter
	2	3	4	5	6	
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 payments due pursuant to this paragraph 7 on November 1, 1998 and December 31, 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 paragraph

10 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 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%.

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 Texas 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 any 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 Texas pursuant to paragraphs 8 and 9 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 (7.25%) used to determine the State of Texas'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 Texas under the Settlement Agreement (as revised hereby) by an amount greater than the amount of Federal Settlement Funds that the State of Texas could elect to receive.

This paragraph 9 supersedes paragraph 12 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 paragraph 14 of the Settlement Agreement shall, with respect to the Claims identified in subparagraph (2) thereof, apply only to monetary Claims. This paragraph 10 does not supersede but rather supplements and clarifies the scope of the release provided in paragraph 14 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 Texas 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 Texas, be revised to include terms comparable to such terms.

This paragraph 11 supersedes paragraph 16 of the Settlement Agreement, which is hereby rendered null, void and of no further effect as to any MFN Settling Defendant. The State of Texas 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 paragraph 16 of the Settlement Agreement (except as

provided in paragraph 23 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 paragraph 23 of the Settlement Agreement and paragraph 19 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 paragraph 7 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 Texas Ethics Commission, at the times and in the manner provided below, information about the following payments:

(a) Any payment to a person required to register under Tex. Gov't Code Ann. ss.305.005 (West 1998), 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 Texas 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 Texas in any way relating to Tobacco Products or their use; and

(c) Any payment (other than a "political contribution" under 2 U.S.C. ss.431(8)(A)) to, or for the benefit of, a state or local official in Texas, 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 Texas Ethics Commission 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 "public information" within the meaning of Tex. Gov't Code Ann. ss. 552.002 (West 1998).

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 Texas, 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 paragraph 4(e)(2) of the Settlement Agreement.

16. Document Production. MFN Settling Defendants shall, upon request, provide to the State of Texas 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 promptly to the Court for its review and approval. If the Court refuses to approve this Stipulation of Amendment and the Consent Decree in any respect unacceptable to either of the parties hereto or to enter the Order Granting Joint Motion for Approval of Agreement Regarding Disposition of Settlement Proceeds and to Withdraw with Predjudice All Political Subdivisions' Motions to Intervene (the "Political Subdivisions Order," in the form attached as Exhibit 2 hereto), or if such approval or the Political Subdivisions Order is modified in any respect unacceptable to either of the parties hereto or 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 January 22, 1998. All payments described in this Stipulation of Amendment shall be paid into a special escrow account, pursuant to the terms of a mutually acceptable

escrow agreement (the "MFN Escrow Agreement" in the form attached as Exhibit 3 hereto), and if so paid shall remain in said escrow account, until such time as (1) the 30-day time periods to seek review of the Court's order approving this Stipulation of Amendment and the Political Subdivisions Order have 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 order in question 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 and upon disbursement shall be transferred into the registry of the Court. All payments described in this Stipulation of Amendment that are not required to be paid into the MFN Escrow Account pursuant to this paragraph 17 shall be paid into the registry of the Court.

18. 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 be severally liable for their respective shares of each payment due pursuant to the Settlement Agreement and this Stipulation of Amendment up to (and their liability hereunder shall not exceed) the full extent of their 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 their other assets or earnings to satisfy such obligations.

19. Applicable Provisions of Settlement Agreement. The provisions of paragraphs 18 (Representations of Parties), 20 (Headings), 21 (No Admission), 22 (Non-Admissibility), 23 (Amendment), 25 (Cooperation), 26 (Governing Law), 27 (Construction), 28 (Severability), 29 (Intended Beneficiaries) and 30 (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 19 shall be construed to include this Stipulation of Amendment.

20. Release of Right to Additional Compensation. In consideration for the terms hereof, including, inter alia, the provisions of paragraph 5 hereof, the State of Texas hereby irrevocably releases MFN Settling Defendants from any claim for additional compensation pursuant to paragraphs 17(a) and (d) of the Settlement Agreement, and the provisions of paragraphs 17(a) and (d) regarding the State's

rights to additional compensation are hereby rendered null, void and of no further effect.

21. Discovery Materials. Paragraph 22 of the Settlement Agreement is hereby modified to permit the Attorney General of the State of Texas to seek the dissolution of any protective order in this Action governing treatment of discovery materials during the pendency of this Action (as well as existing confidentiality designations), but only with regard to materials that have been made public in other litigation pursuant to a final court order, subject to any defenses or objections as may be made by Settling Defendants. Except as expressly provided above, the provisions of paragraph 22 of the Settlement Agreement with respect to discovery materials shall remain in effect for the period of time specified therein.

22. Attorneys' Fees. Settling Defendants, the State of Texas, Private Counsel and the Law Offices of Marc D. Murr, P.C. have entered into a separate agreement on July 24, 1998 (the "Texas Fee Payment Agreement") that sets forth the entire obligation of Settling Defendants with respect to payment of attorneys' fees pursuant to paragraph 17 of the Settlement Agreement. The parties hereto agree that the Texas Fee Payment Agreement supersedes Exhibit 1 to the Settlement Agreement, which is hereby rendered null, void and of no further effect. The parties further agree that Settling Defendants shall not be required to perform any obligation pursuant to this Stipulation of Amendment (excepting Settling

Defendants' obligations with respect to the advance to be paid pursuant to section 12 of the Texas Fee Payment Agreement) until such time as (1) the Court issues an order confirming that amounts payable with respect to attorneys' fees of Texas Counsel pursuant to the Texas Fee Payment Agreement are not funds of the State of Texas and that Settling Defendants are under no obligation to pay such amounts to the State of Texas; (2) the 30-day period to seek review of such order 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 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. Under no circumstances shall Settling Defendants' entry into this Stipulation of Amendment or the Texas 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.

23. 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 paragraph 16 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 Texas as a result of application of paragraph 16 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 23.

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 Texas with notice of any filing seeking to obtain a Minnesota Order.

24. Entire Agreement of Parties. The Settlement Agreement (including this Stipulation of Amendment, the Texas Fee Payment Agreement and the Consent Decree but excluding Exhibit 1 to the Settlement Agreement, which is hereby rendered null, void and of no further effect) 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 Texas, 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 24th day of July, 1998.

STATE OF TEXAS, acting by and through
Dan Morales, its duly elected and
authorized Attorney General

By: /s/ Dan Morales

Dan Morales
Attorney General

COUNSEL TO THE STATE OF TEXAS

By: /s/ Walter Umphrey

Walter Umphrey
Provost & Umphrey

By: /s/ John M. O'Quinn

John M. O'Quinn

By: /s/ John Eddie Williams, Jr.

John Eddie Williams, Jr.

By: /s/ Wayne A. Reaud

Wayne A. Reaud
Reaud, Morgan & Quinn, Inc.

By: /s/ Harold W. Nix

Harold W. Nix
The Nix Law Firm

By: /s/ Cary Patterson

Cary Patterson
The Nix Law Firm

By: /s/ Marc D. Murr

Marc D. Murr
Law Offices of Marc D. Murr, P.C.

By: /s/ Grant Kaiser

Grant Kaiser
Kaiser & Morrison

By: /s/ T. Richardson, Jr.

For Joseph F. Rice
Ness, Motley, Loadholt,
Richardson & Poole

PHILIP MORRIS INCORPORATED

By: /s/ Meyer G. Koplow

Meyer G. Koplow
Counsel

By: /s/ Martin J. Barrington by MGK

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
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 by MGK

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 7.25% 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 UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
TEXARKANA DIVISION

STATE OF TEXAS, Plaintiff, vs. AMERICAN TOBACCO COMPANY, et al., Defendants.	No. 5-96CV-91

CONSENT DECREE

WHEREAS, on January 16, 1998, the State of Texas and certain defendants entered into a Comprehensive Settlement Agreement and Release (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 January 22, 1998, 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 Texas 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 Texas 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 Texas and Settling Defendants have agreed on the terms of the revisions to the Settlement Agreement as set forth in a Stipulation

of Amendment to Settlement Agreement and for Entry of Consent Decree executed on July 24, 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 Texas 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 Texas and Settling Defendants, and the same is hereby approved. The Court further finds that the Texas Fee Payment Agreement referred to in paragraph 22 of the Stipulation of Amendment sets forth the entire obligation of Settling Defendants with respect to payment of attorneys' fees pursuant to paragraph 17 of the Settlement Agreement and supersedes Exhibit 1 to the Settlement Agreement, which is hereby declared

to be null, void and of no further effect, that amounts payable with respect to attorneys' fees of Texas Counsel pursuant to the Texas Fee Payment Agreement are not funds of the State of Texas and that Settling Defendants are under no obligation to pay such amounts to the State of Texas.

2. Jurisdiction and Venue. In keeping with the Settlement Agreement and this Court's January 22, 1998 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 entity 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, distributing, selling or offering, directly or indirectly, including by catalogue or direct mail, in the State of Texas, 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 paragraph 4(e)(2) 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 Texas 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 Texas.

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 paragraphs 14 and 15 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 by 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 23 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 Texarkana, Texas, this the 24th day of July, 1998.

/s/ David Folsom

DAVID FOLSOM
JUDGE, UNITED STATES DISTRICT COURT

APPROVED:

/s/ Dan Morales
- ---
Dan Morales, Attorney General,
For the State of Texas

Howard Waldrop

By: /s/ Josh R. Morriss, III
- ---
Howard Waldrop
For MFN Settling Defendants

EXHIBIT 2

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF TEXAS
TEXARKANA DIVISION

THE STATE OF TEXAS, PLAINTIFF,	)	CIVIL NO.: 5:96-CV-0091
VS.	)	JUDGE: DAVID FOLSOM
THE AMERICAN TOBACCO COMPANY, ET AL, DEFENDANTS.	)	MAGISTRATE JUDGE: WENDELL C. RADFORD

ORDER GRANTING JOINT MOTION FOR
APPROVAL OF SETTLEMENT AGREEMENT REGARDING DISPOSITION OF
SETTLEMENT PROCEEDS AND TO WITHDRAW WITH PREJUDICE
POLITICAL SUBDIVISIONS' MOTIONS TO INTERVENE

Before the Court is a Joint Motion for Approval of Settlement Agreement Regarding Disposition of Settlement Proceeds and to Withdraw with Prejudice Political Subdivisions(1) Motions to Intervene. After considering the filings related to this motion, the evidence, and the applicable law, the Court is of

the opinion the Motion should be granted. The Court therefore makes the following findings of fact and conclusions of law.

1. The Court finds that the Agreement Regarding Disposition of Settlement Proceeds ("Disposition Agreement") is in the public interest and should be approved. The benefits of this agreement include certainty for the parties and movants as well as judicial economy.

2. Therefore, the Court approves and adopts the Disposition Agreement, attached hereto and incorporated herein, as an enforceable judgment of this Court. The parties and movants are ordered to comply with all terms and conditions contained in the Disposition Agreement.

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(1)Dallas County, Dallas County Hospital District, El Paso County, El Paso County Hospital District, Harris County, Harris County Hospital District, Montgomery County Hospital District, Nueces County, Nueces County Hospital District, and Tarrant County Hospital District.

3. The Court further finds, as it has previously found, that the Attorney General brought this suit on behalf of the State in its quasi-sovereign capacity. SEE MEMORANDUM OPINION AND ORDER RE: DEFENDANTS' MOTION TO DISMISS COUNTS 1-3 AND COUNTS 4-17 OF THE STATE'S SECOND AMENDED COMPLAINT at 5 (Sept. 8, 1997).

4. The January 16, 1998, Comprehensive Settlement Agreement and Release (the "CSA") negotiated by the parties and approved by the Court defines the "State of Texas" to include "all of its officers acting in their official capacities and any department, subdivision or agency of the State, regardless of whether a named plaintiff". Paragraph 14 of the CSA further provides that the Waiver and Release given pursuant to paragraph 14 of the CSA constitutes a release of claims of "the State of Texas (including any of its past, present or future agents, officials acting in their official capacities, legal representatives, agencies, departments, commissions, divisions, subdivisions (political and otherwise), public entities, corporations, instrumentalities and educational institutions, and whether or not any such person or entity participates in the settlement)".

5. The Court further finds and declares that during the litigation of this action and the negotiation of the CSA, the Attorney General, acting on behalf of the State in its quasi-sovereign capacity, had the authority to and did adequately represent the State of Texas and the persons and entities enumerated in paragraph 14 of the CSA (as quoted in the preceding paragraph of this Order) (the "Releasing Parties"), including, without limitation, all political subdivisions and hospital districts of the State of Texas. Accordingly, the Court further finds and declares that all Releasing Parties are encompassed within and bound by the release provided pursuant to the CSA, that all Releasing Parties are further encompassed within and bound by the Court's January 22, 1998 Final Judgment approving and incorporating the CSA, and that all Released Claims (as defined in paragraph 14 of the CSA) of the Releasing Parties were fully and finally compromised, settled and released by the CSA.

6. The Court also grants the Movants' request that the Political Subdivisions withdraw their motions to intervene and all other motions with prejudice to refiling. All motions filed by the Political Subdivisions are hereby dismissed with prejudice.

7. It is further ordered that this Court shall have exclusive jurisdiction over the provisions of this Order and the Final Judgment in this case. All persons in privity with the parties, including all persons represented by the parties, who seek to raise any objections or challenges in any forum to any provision of this Judgment are hereby enjoined from proceeding in any other state or federal court. SEE, E.G., IN RE CORRUGATED CONTAINER ANTITRUST LITIGATION, 659 F.2d 1332, 1334-35 (5th Cir. 1981), CERT. DENIED, 456 U.S. 936 (1982); SOUTHWEST AIRLINES CO. V. TEXAS INTERNATIONAL AIRLINES, INC., 546 F.2d 84, 91 (5th Cir.), CERT. DENIED, 434 U.S. 832 (1977)

8. The Political Subdivisions' withdrawal of all their motions with prejudice leaves undisturbed the entirety of the merits of the January

22, 1998, Final Judgment in this cause. The Court's January 22, 1998, Final Judgment disposed of all claims in the underlying suit. It is therefore is a "final decision" as a matter of federal law under 28 U.S.C. Section 1291.

SIGNED JULY 24, 1998.

/s/ David Folsom

DAVID FOLSOM
UNITED STATES DISTRICT JUDGE

EXHIBIT 3

MFN ESCROW AGREEMENT

This escrow agreement (the "MFN Escrow Agreement") is entered into as of July __, 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 Texas and _____ Bank, N.A., as escrow agent (the "MFN Escrow Agent").

WITNESSETH:

WHEREAS, the State of Texas and Settling Defendants entered into a comprehensive settlement agreement and release as of January 16, 1998 (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 Texas v. American Tobacco Co., No. 5-96CV-91 (E.D. Tex. filed Mar. 28, 1996) (the "Action"), in the United States District Court for the Eastern District of Texas (the "Court");

WHEREAS, the State of Texas and Settling Defendants entered into a Stipulation of Amendment to Settlement Agreement and for Entry of Consent Decree (the "Stipulation of Amendment") on July 24, 1998, paragraph 17 of which provides for Court approval of the Stipulation of Amendment and the entry by the Court of the Political Subdivisions Order attached to the Stipulation of Amendment as Exhibit 2 thereto;

WHEREAS, the Stipulation of Amendment provides that, on the dates specified therein, each MFN Settling Defendant shall severally pay to the State of Texas, 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 the Stipulation of Amendment shall be paid into a special escrow account (and if so paid shall remain in said escrow account) until such time as (1) the 30 day periods for appeal or to seek review of the Court's order approving this Stipulation of Amendment and the Court's entry of the Political Subdivisions Order have 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 order in question has been affirmed in all material respects by the court of last resort to which such appeal or

EXHIBIT 3

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 be made 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 Texas 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 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 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 and 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 Texas; (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 Stipulation of Amendment has not received court approval or has been canceled, terminated or has otherwise become null and void for any reason, the MFN Escrow Agent shall upon the expiration of ten (10) business days following the MFN Escrow Agent's receipt of notice, and without an order of the Court, 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 Texas stating that the Availability Date has occurred and (ii) an order of the Court 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 Texas, 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 Texas 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 Texas 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 Texas (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 Texas, 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 Texas (to be shared equally between the State of Texas 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 Texas:

Hon. Dan Morales
Office of the Attorney General

P.O. Box 12548
Capitol Station
Austin, TX 78711
(512) 463-2063

With a copy to:

Walter Umphrey
Provost & Umphrey
490 Park Street
P.O. Box 4905
Beaumont, TX 77704
Fax: (409) 838-8888

EXHIBIT 3

Settling Defendants:

Philip Morris Incorporated:

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

With a copy to:

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

R.J. Reynolds Tobacco Company:

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

With a copy to:

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

For Brown & Williamson Tobacco Corporation:

Michael Walter
Brown & Williamson Tobacco Corp.
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) 568-7187

Lorillard Tobacco Company:

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

MFN Escrow Agent:

_____ Bank, N.A.

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 Texas, 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 Eastern District of Texas 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 the 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 TEXAS

By:

Dan Morales
Attorney General

PHILIP MORRIS INCORPORATED

By:

Meyer G. Koplow
Counsel

EXHIBIT 3

R.J. REYNOLDS TOBACCO COMPANY

By:

Arthur F. Golden
Counsel

BROWN & WILLIAMSON TOBACCO
CORPORATION

By:

Stephen R. Patton
Counsel

LORILLARD TOBACCO COMPANY

By:

Arthur J. Stevens
Senior Vice President & General Counsel

EXHIBIT 3

_____ BANK, N.A.
as MFN Escrow Agent

By:

Name:
Title:

Exhibit 10.5

TEXAS FEE PAYMENT AGREEMENT

This Texas Fee Payment Agreement (the "Agreement") is entered into as of July 24, 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"), Walter Umphrey, John M. O'Quinn, P.C., John Eddie Williams, Jr., Reaud, Morgan & Quinn, Inc., The Nix Law Firm and Ness, Motley, Loadholt, Richardson & Poole (collectively, "Private Counsel"), the Law Offices of Marc D. Murr, P.C. ("Other Texas Counsel") and the State of Texas, in connection with the lawsuit State of Texas v. American Tobacco Co., No. 5-96CV-91 (E.D. Tex. filed Mar. 28, 1996) (the "Action").

WITNESSETH:

WHEREAS, on January 16, 1998, the State of Texas 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 Action (the "Settlement Agreement"), which Settlement Agreement was approved by the United States District Court for the Eastern District of Texas (the "Court") and adopted as an enforceable order of the Court pursuant to Court Order dated January 22, 1998.

WHEREAS, paragraph 17 of the Settlement Agreement and Exhibit 1 thereto provide that Settling Defendants shall pay reasonable attorneys' fees to Private Counsel and Other Texas Counsel (collectively "Texas Counsel"), 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 set forth therein;

WHEREAS, paragraph 16 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 Texas will obtain treatment at least as relatively favorable as any such non-federal governmental entity;

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 July 24, 1998, Settling Defendants and the State of Texas 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 Minnesota Settlement; and

WHEREAS, Settling Defendants, the State of Texas and Texas Counsel, in order to resolve any disputes with respect to paragraphs 16 and 17 of the Settlement Agreement, and to describe more fully the procedures that will govern Settling Defendants' payment of fees to Texas 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 Texas'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 to Texas Counsel (as identified by the Attorney General pursuant to section 21 hereof) for their representation of the State of Texas 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 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 13, 14, 15 and 16 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 ("Outside 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 Outside 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 "Outside 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; Release.

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 Texas 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 paragraph 17 of the Settlement Agreement. The State of Texas agrees that Settling Defendants have no obligation to pay attorneys' fees pursuant to paragraph 17 of the Settlement Agreement with respect to any counsel other than Texas Counsel (as identified by the Attorney General pursuant to section 21 hereof), and that Settling Defendants have no other obligation to pay fees or otherwise compensate Texas Counsel, any other counsel or representative of the State of Texas or the State of Texas itself with respect to attorneys' fees in connection with the Action. Each Texas 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.

SECTION 4. No Effect on Texas Counsel's Fee Contracts.

The State of Texas has entered into a contingent-fee contract with certain Private Counsel ("Private Counsel's Contract") and has entered into a fee contract with Other Texas Counsel ("Other Texas Counsel's Contract"). The rights and obligations, if any, of the parties to Private Counsel's Contract and Other Texas Counsel's Contract shall be unaffected by this Agreement. Those Private Counsel that are parties to Private Counsel's Contract shall not be deemed to

have waived any rights under Private Counsel's Contract, nor shall Other Texas Counsel be deemed to have waived any rights under Other Texas Counsel's Contract, as a result of their acceptance of payments made pursuant to this Agreement. However, any Private Counsel Payments made in connection with this Action shall be credited against any amounts that may be due to Private Counsel that are parties to Private Counsel's Contract from the State of Texas under Private

Counsel's Contract, and any payments received pursuant to this Agreement by Other Texas Counsel shall be credited against any amounts that may be due to Other Texas Counsel from the State of Texas under Other Texas Counsel's 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 Outside 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 Texas 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 Texas 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' Outside 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 Texas shall be a natural person selected by Private Counsel, who shall notify Settling

Defendants and Other Texas Counsel 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. Private 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 Florida v. American Tobacco Co., No. 95-1466 AH (15th Jud. Circuit, Palm Beach County).

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 of Private Counsel.

Private Counsel shall make a collective written application to the Panel for a single Fee Award (the "Private Counsel Fee 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 Private 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 Private Counsel Fee 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 Private Counsel and to advise the Panel that they support a Private Counsel Fee Award of full reasonable compensation under the circumstances.

SECTION 9. Award of Fees to Private 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 Private Counsel for their representation of the State of Texas in connection with the Action. The Panel shall determine the amount of the Private Counsel Fee Award for all Private 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 Private Counsel Fee Award, but shall take into account the totality of the circumstances. In considering the amount of the Private Counsel Fee Award, the Panel shall not consider Fee Awards that already have been or yet may be awarded in connection with any other Tobacco Case. 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 Texas Counsel.

Other Texas Counsel may submit an application for a Fee Award separate from Private Counsel. The procedures, schedule and process with respect to such application on behalf of Other Texas 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 Private Counsel, except that Settling Defendants shall be in no way constrained from contesting Other Texas Counsel's entitlement to receive a Fee Award or the amount of the Fee Award requested by Other Texas Counsel.

SECTION 11. Allocation of Payments among Private Counsel.

All payments (including advances) made by Settling Defendants with respect to the Private Counsel Fee Award pursuant to this Agreement ("Private Counsel Payments") shall be paid in the first instance to Walter Umphrey, Esq. (or such other person designated in writing by Private Counsel), on behalf of Private Counsel. Each Private Counsel shall be entitled to receive a percentage of such payment equal to the percentage of any fee recovery allocated to such Private Counsel under the terms of the fee-sharing agreement among Private Counsel (or any written amendment thereto). Settling Defendants shall have no obligation, responsibility or liability with respect to the allocation among Private Counsel, or with respect to any claim of misallocation, of any amounts of any Private Counsel Payment.

SECTION 12. Advances on Payment of Fees.

Each Settling Defendant has paid to Walter Umphrey, Esq., on behalf of Private Counsel, its respective share of $50 million, as listed in Rider B to Exhibit 1 to the Settlement Agreement, as an advance against later Private Counsel Payments. On or before the later of July 31, 1998 or the fifth business day following entry by the Court of an order approving the Stipulation of Amendment, each Settling Defendant shall severally pay to Private Counsel, pro

rata in proportion to its Market Share indicated on Schedule A hereto, its respective share of $50 million, as a further advance against later Private Counsel Payments. Each of the advances described in this section shall be credited as provided in section 16 hereof.

SECTION 13. Annual Amount for 1998; Allocation.

(a) For 1998, Settling Defendants shall pay, in the manner described in section 14 hereof, the unsatisfied amount of the Fee Awards (the "Unpaid Fees") of Texas Counsel, and those Participating Defendants so obligated shall make payments with respect to the Unpaid Fees of all other Outside 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 14(b) hereof, each monthly amount shall be allocated to those

Outside 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 Outside 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 Outside 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 Florida v. American Tobacco Co., No. 95-1466 AH (15th Jud. Cir., Palm Beach County), and Mangini v. R.J. Reynolds Tobacco Co., No. 939359 (Cal. Super. Ct., San Francisco County). In addition, Outside 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 14. Payments with Respect to Annual Amount for 1998.

(a) On December 15, 1998, each Settling Defendant shall severally pay, pro rata in proportion to its Market Share, its share of an initial fee payment with respect to the Private Counsel Award and the Fee Award, if any, on behalf of Other Texas Counsel (the "Initial Texas Fee Payment"), which shall include Texas Counsel's Allocable Share for 1998 as provided in section 13 hereof for each month of 1998 except those with respect to which Texas Counsel's Allocable Share could not be determined as of December 8, 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, its share of Texas Counsel's Allocable

Share for those months of 1998 not included in the Initial Texas Fee Payment. Texas 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) Notwithstanding any provision of this Agreement, Private Counsel shall defer payment of the Private Counsel Payment due from Settling Defendant R.J. Reynolds Tobacco Company ("Reynolds") on December 15, 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 Private Counsel the amount, if any, of the Initial Texas Fee Payment deferred pursuant to this subsection.

SECTION 15. 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 Texas Counsel, and those Participating Defendants so obligated shall make payments with respect to the Unpaid Fees of all other Outside 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 Outside Counsel, up to the amount of their respective Unpaid Fees. Each Outside 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 Outside Counsel's Unpaid Fees exceeds the quarterly amount, in proportion to) the amount of such Outside Counsel's Unpaid Fees. Each quarterly payment shall be allocated among Outside Counsel having Unpaid Fees, without regard to whether there are other Outside 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 Outside 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 Outside Counsel's Unpaid Fees:

(A) in the case of the first such quarterly payment, the quarterly amount shall be allocated among Outside 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 Outside Counsel, if any, that were not paid a proportionate share of all prior quarterly payments for the calendar year (either because such Outside 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 Outside Counsel has been allocated a proportionate share of all prior quarterly payments. In the event that the sum of all such shares exceeds the amount of the quarterly payment, such payment shall be allocated among such Outside Counsel in proportion to the amounts of their respective Unpaid Fees (without regard to whether there are other Outside Counsel that have not yet been granted or denied a Fee Award by the Panel as of the end of the Applicable Quarter).

(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 Outside Counsel retained in connection with Tobacco Cases settled before or during such month (such Outside 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 Outside 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. In the event that the sum of all such 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).

(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, its share of the amounts, if any, allocated to Texas Counsel pursuant to this section.

SECTION 16. Credits and Limitations.

Notwithstanding any other provision of this Agreement, all payments by Settling Defendants with respect to Fee Awards shall be subject to the following:

(a) The advances against future Private Counsel Payments described in section 12 hereof shall be credited against and shall reduce subsequent Private Counsel Payments, beginning with the first quarterly payment for 1999 pursuant to section 15 hereof, in an amount equal to 50% of the Private Counsel Payment in question, until the advances paid by Settling Defendants are fully credited; provided, however, that the sum of all such credits applied in any calendar year with respect to the advances made to Private Counsel described in section 12 hereof shall not exceed $50 million. The amount of any credit made against any such Private Counsel Payment shall be counted toward the annual and quarterly aggregate national caps on all payments made with respect to Outside Counsel, in the amount of the credit applied to any such Private Counsel Payment in any quarterly or annual period. All credits against Private Counsel Payments pursuant to this section shall be allocated among Settling Defendants in proportion to their respective contributions toward the amounts of the advances described in section 12 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) during 1998, totaling more than $500 million, except insofar as payments to certain Outside Counsel with respect to 1997 are made in 1998, and except insofar as advances are made in 1998 against payments due in years after 1998;

(ii) during any year beginning with 1999, totaling more than $500 million, excluding payments with respect to any Outside Counsel's Allocable Shares for 1998 that are paid in 1999; and

(iii) during any calendar quarter beginning with the first calendar quarter of 1999, totaling more than $125 million, excluding payments with

respect to any Outside 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.

SECTION 17. 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 Outside 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 13, 14, 15 and 16 hereof.

SECTION 18. 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 repsective 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 payment due hereunder or any 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 the advance to be paid pursuant to section 12 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 13 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 19. 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 Texas 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%.

SECTION 20. Limited Waiver as to Other Terms.

In consideration of Settling Defendants' agreement to the terms hereof, each Texas 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 Florida

Settlement, the Mississippi Settlement or the Minnesota Settlement for payment

of fees to Outside Counsel for the States of Florida, Mississippi or Minnesota give rise to any claim or entitlement on the part of Texas Counsel (or any other person) in connection with this Action.

SECTION 21. State's Identification of Texas Counsel.

The Attorney General represents and warrants that Schedule B hereto identifies all Texas Counsel.

SECTION 22. Private Counsel's Costs.

Settling Defendants have agreed to reimburse Private 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 Settling Defendants would reimburse their own counsel or agents. To this end, each Settling Defendant has paid to Walter Umphrey, Esq., on behalf of Private Counsel, the respective amount listed for such Settling Defendant in Rider A to Exhibit 1 to the Settlement Agreement, the sum of such payments being $40 million, which equals Private Counsel's best estimate as of the date of the Settlement Agreement of such costs and expenses. Private Counsel shall provide Settling Defendants with an appropriately documented statement of their costs and expenses consistent with the criteria set forth above. Settling Defendants shall promptly pay the amounts of such costs and expenses in excess of $40 million, or shall receive a refund if the total of such costs and expenses is less than $40 million. Any dispute as to the nature or amount of reimbursable costs and expenses shall be decided with finality by the Panel.

SECTION 23. 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 release 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 24. 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 25. 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 26. 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 covered by the release provided under 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 potential litigation.

SECTION 27. 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 an action or proceeding arising under this Agreement.

SECTION 28. Amendment and Waiver.

This Agreement may be amended only by a written instrument executed by the

Attorney General, Texas Counsel and Settling Defendants. 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 29. 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 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 30. Governing Law.

This Settlement Agreement shall be governed by the laws of the State of Texas, without regard to the conflict of law rules of such State.

SECTION 31. 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 32. 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 33. Execution of Agreement.

This 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 Agreement.

SECTION 34. Certain Court Orders Conditions Precedent.

The terms of this Agreement shall supersede the terms of Exhibit 1 to the Settlement Agreement, and the parties hereto will promptly file a joint motion requesting that the Court approve this Agreement. The parties further agree that Settling Defendants shall not be required to perform any obligation hereunder (excepting Settling Defendants' obligations with respect to the advance to be paid pursuant to section 12 hereof) until such time as (1) the Court issues an order declaring Exhibit 1 to the Settlement Agreement to be null, void and of no further effect; (2) the Court issues an order approving the Stipulation of Amendment; (3) the Court issues the Political Subdivisions Order in the form attached to the

Stipulation of Amendment as Exhibit 2 thereto; (4) the Court issues an order confirming that amounts payable to Texas Counsel pursuant to this Agreement are not funds of the State of Texas and are not subject to appropriation by the State of Texas and that Settling Defendants are under no obligation to pay such amounts to the State of Texas; (5) the 30-day periods to seek review of such orders have expired without the filing of any notice of appeal or petition for review; and (6) in the event of a timely appeal or petition, such appeal or petition has been dismissed or the order in question 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.

SECTION 35. Entire Agreement of Parties.

This Agreement contains an entire, complete and integrated statement of each and every term and provision agreed to by and among the parties hereto with respect to payment of attorneys' fees by Settling Defendants in connection with the Action 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 Texas Fee Payment Agreement as of this 24th

day of July, 1998.

STATE OF TEXAS, acting by and through Dan Morales, its duly elected and authorized Attorney General

By: /s/ Dan Morales

Dan Morales
Attorney General

PHILIP MORRIS INCORPORATED

By: /s/ Meyer G. Koplow

Meyer G. Koplow
Counsel

By: /s/ Martin J. Barrington by MGK

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
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 by MGK

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

TEXAS COUNSEL

By: /s/ Walter Umphrey

Walter Umphrey
Provost & Umphrey

By: /s/ John M. O'Quinn, P.C.

John M. O'Quinn, P.C.

By: /s/ John Eddie Williams, Jr.

John Eddie Williams, Jr.

By: /s/ Wayne A. Reaud

Wayne A. Reaud
Reaud, Morgan & Quinn, Inc.

By: /s/ Harold W. Nix

Harold W. Nix
The Nix Law Firm

By: /s/ Cary Patterson

Cary Patterson
The Nix Law Firm

By: /s/ Marc D. Murr by Roy Q. Minton with permission

Marc D. Murr
Law Offices of Marc D. Murr, P.C.

By: /s/ T. Richardson, Jr.

For Joseph F. Rice
Ness, Motley, Loadholt, Richardson & Poole

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.

(b) Each Settling Defendant's Sales Volume with respect to each type of Tobacco Product 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 TEXAS COUNSEL
by the Attorney General

Pursuant to section 21 of the Texas Fee Payment Agreement, I hereby identify as Texas Counsel: (1) Walter Umphrey, John M. O'Quinn, P.C., John Eddie Williams, Jr., Reaud, Morgan & Quinn, Inc., The Nix Law Firm and Ness, Motley, Loadholt, Richardson & Poole ("Private Counsel") and (2) the Law Offices of Marc D. Murr, P.C. ("Other Texas Counsel").

There are no other Texas Counsel entitled to seek any payment of attorneys' fees by Settling Defendants under the Settlement Agreement or the Texas Fee Payment Agreement.

/s/ Dan Morales

Dan Morales
Attorney General

SCHEDULE C

NOTICES

State of Texas

Hon. Dan Morales
Attorney General
P.O. Box 12548
Capitol Station
Austin, TX 78711
Fax: (512) 463-2063

With copies to:

Walter Umphrey
Provost & Umphrey
490 Park Street
P.O. Box 4905
Beaumont, TX 77704
Fax: (409) 838-8888

Harold W. Nix
Cary Patterson
The Nix Law Firm
205 Linda Drive
P.O. Box 679
Daingerfield, TX 75638
Fax: (903) 645-5389

John M. O'Quinn
440 Louisiana Street, Suite 2300
Houston, TX 77002
Fax: (713) 222-6903

John Eddie Williams, Jr.
8441 Gulf Freeway, Suite 600
Houston, TX 77017
Fax: (713) 649-0126

Wayne A. Reaud
Reaud, Morgan & Quinn, Inc.
801 Laurel

Marc D. Murr
Law Offices of Marc D. Murr, P.C
1001 Texas Avenue, Suite 1250

Beaumont, TX 77701
Fax: (409) 833-8236

Houston, TX 77002-3131
Fax: (713) 229-8003

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

(continued)

Settling Defendants

Philip Morris Incorporated:

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

With a copy to:

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

R.J. Reynolds Tobacco Company:

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

With a copy to:

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

Brown & Williamson Tobacco Corp.:

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

With a copy to:

Stephen R. Patton, Esq.
Kirkland & Ellis
200 East Randolph Dr.
Chicago, IL 60601
Fax: (312) 861-2200

Lorillard Tobacco Company:

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

United States Tobacco Company:

Richard H. Verheij
UST Inc.
100 West Putnam Avenue
Greenwich, CT 06830
Fax: (203) 863-7233

(continued)

Texas Counsel

Walter Umphrey
Provost & Umphrey
490 Park Street
P.O. Box 4905
Beaumont, TX 77704
Fax: (409) 838-8888

John Eddie Williams, Jr.
8441 Gulf Freeway, Suite 600
Houston, TX 77017
Fax: (713) 649-0126

Harold W. Nix
Cary Patterson
The Nix Law Firm
205 Linda Drive
P.O. Box 679
Daingerfield, TX 75638
Fax: (903) 645-5389

Wayne A. Reaud
Reaud, Morgan & Quinn, Inc.
801 Laurel
Beaumont, TX 77701
Fax: (409) 833-8236

John M. O'Quinn
440 Louisiana Street, Suite 2300
Houston, TX 77002
Fax: (713) 222-6903

Marc D. Murr
Law Offices of Marc D. Murr, P.C.
1001 Texas Avenue, Suite 1250
Houston, TX 77002-3131
Fax: (713) 229-8003

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

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JUN-30-1998
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