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December 22, 1999

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VIA FACSIMILE AND U.S. MAILCONFIDENTIAL  
SETTLEMENT DISCUSSIONS

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Mark N. Todzo, Esq.  
LEXINGTON LAW GROUP  
151 Vermont Street, Suite 11A  
San Francisco, California 94103

Re: People, et al. v. Philip Morris Inc., et al. and People, et al. v. Brown & Williamson Tobacco Corp., et al., JCCP No. 4042

Dear Roger and Mark:

This letter and the proposal it sets forth are subject to the confidentiality provisions memorialized in Pat Cafferty's July 23, 1999 letter to David Sadwick. In addition, final resolution depends upon memorializing our agreement in documents acceptable to counsel for the defendants.

In this letter I want to memorialize our current settlement proposal, parts of which have been communicated to each of you by telephone and letter, and a portion of which was communicated to Mark Todzo by telephone yesterday. I understand that Roger Carrick is out of town and that Mark was going to pass on to Roger what Mark and I discussed. As I discussed with Mark, we request that the plaintiffs respond to this offer prior to December 28, 1999.

Newspaper warnings: Three of the four cigarette manufacturer defendants would provide "safe harbor" Proposition 65 newspaper warnings in the form of advertisements in newspapers published throughout the State of California. The advertisements would be 2 columns by 6 inches in size, and would be published on a quarterly basis for as long as Proposition

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65 remains valid and in effect (and so long as it would otherwise require warnings to be given) and the companies are selling cigarettes in the State of California. The list of newspapers in which the warnings would be published would be subject to mutual agreement between the parties and would include a reasonable number of foreign language newspapers. The text of the warning would be the "safe harbor" language shown in the enclosed Attachment. As indicated in the Attachment, the warning would include a reference to "environmental tobacco smoke" and reproductive effects but would not list the names of any of the companies. The agreement to publish newspaper warnings would not constitute an admission that such warnings are required and the companies would preserve all arguments that such warnings are not required.

Release and Attorney General and Court Approval: Any settlement would include a release of any past, present, and future claims under Proposition 65 and B&P §§ 17200 *et seq.*, or any similar types of claims, related to or based upon ETS exposure and warning issues, including fraud claims. The release would be worded to include parent/sister companies and other companies affiliated with the companies and retailers, distributors, and customers, and both the release and the above-described warning campaign would need to be approved by the Attorney General of the State of California and by the Court.

No Monetary Payment: There would be no monetary payment to any party and any claim to such a payment would be released.

Fees and Costs: We would pay \$750,000 to the plaintiffs, which we contemplate would be divided \$500,000 to the Los Angeles plaintiffs and \$250,000 to the San Jose plaintiffs.

Opt-In: Our agreement would provide that the one cigarette manufacturer defendant who is not participating in making this settlement proposal would be granted an option to opt-in to the settlement for a reasonable period of time in return for its agreement to join in providing the warnings. It would not be required to make any additional payment in the event it did opt-in. In addition, we want to approach Liggett and request that it join in this proposal. Please advise us if you have any objection to our raising this proposal with Liggett's counsel or with counsel for the retailers. Should Liggett join in the proposal, the monetary payment to be made would be unchanged.

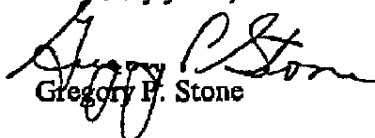
We look forward to hearing back from you prior to December 28. Should you have any questions, please do not hesitate to call me. In addition, if it seems appropriate to all

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parties to do so, we are in a position to work with you to resolve any open questions regarding the exact form of the warning and the identity of the newspapers in which it would appear.

Very truly yours,

  
Gregory P. Stone

GPS:cbp  
Attachment

cc: Vincent B. Sato, Esq., Assistant City Attorney for the City of Los Angeles  
George Rios, Esq., Deputy City Attorney for the City of San Jose  
Bradley P. Kaplan, Esq.  
Donald F. Miles, Esq.  
Stephanie A. Sheridan, Esq.

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bcc: Stephen J. Krigbaum, Esq.  
Mark H. Berlind, Esq.

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