

WACHTELL, LIPTON, ROSEN & KATZ

MARTIN LIPTON
HERBERT M. WACHTELL
THEODORE GEWERTZ
BERNARD W. NUSSBAUM
RICHARD D. KATCHER
DOUGLAS S. LIEBHAFSKY
STEVEN M. BARNA
CHAIM J. FORTGANG
PETER C. CANELLOS
MICHAEL W. SCHWARTZ
ALLAN A. MARTIN
BARRY A. BRYER
LAWRENCE B. PEDOWITZ
ROBERT B. MAZUR
PAUL VIZCARRONDO, JR.
PETER C. HEIN
HAROLD S. NOVIKOFF
DAVID M. EINHORN
KENNETH B. FORREST
MEYER G. KOPLOW
THEODORE N. MIRVIS
EDWARD D. HERLIHY
RICHARD D. FEINTUCH
DANIEL A. NEFF
ERIC M. ROTH
WARREN R. STERN
ANDREW R. BROWNSTEIN
MICHAEL K. BYOWITZ
PAUL K. ROWE
MICHAEL B. BENNER
MARC WOLINSKY
DAVID GRUENSTEIN
PATRICIA A. VLAKAKIS

STEPHEN G. GELLMAN
SETH A. KAPLAN
BARBARA ROBBINS
STEVEN A. ROSENBLUM
PAMELA S. SEYMON
STEPHANIE J. SELIGMAN
ERIC S. ROBINSON
ELLIOTT V. STEIN
JOHN F. SAVARESE
ANDREW C. HOUSTON
PHILIP MINDLIN
DAVID S. NEILL
JODI J. SCHWARTZ
ADAM G. EMMERICH
CRAIG M. WASSERMAN
ADAM D. CHINN
GEORGE T. CONWAY III
RALPH M. LEVENE
RICHARD G. MASON
KAREN G. KRUEGER
DOUGLAS K. MAYER
DAVID M. SILK
ROBIN PANOVKA
DAVID A. KATZ
MITCHELL S. PRESSER
ILENE KNABLE GOTTS
JEFFREY R. BOFFA
DAVID M. MURPHY
JEFFREY M. WINTNER
TREVOR S. NORWITZ
BEN H. GERMANA
ANDREW J. NUSSBAUM

51 WEST 52ND STREET
NEW YORK, N. Y. 10019-6150
TELEPHONE: (212) 403-1000
FACSIMILE: (212) 403-2000

GEORGE A. KATZ (1985-1989)
JAMES H. FOGELSON (1987-1991)

COUNSEL

WILLIAM T. ALLEN
SCOTT K. CHARLES
RICHARD K. KIM*
LAWRENCE R. KING
PETER D. MCKENNA
NORMAN REDLICH
JOHN M. RICHMAN
LEONARD M. ROSEN
AMY R. WOLF

PAMELA EHRENKRANZ
MICHAEL S. KATZKE
DEBORAH L. PAUL
TONI P. REAMER
STEVEN M. ABRAMOWITZ
BRADLEY A. ROBINS
STUART C. BERMAN
YOCHEVED COHEN
DAVID R. LURIE
RACHELLE SILVERBERG
STEPHEN R. BLACKLOCKS
DAVID C. BRYAN
STEVEN A. COHEN
GAVIN D. SOLOVAR
ADRIENNE ATKINSON
DAVID C. KARP
BARBARA S. KOHL
MIRIAM P. LONGCHAMP
HOWARD A. MERGELKAMP III
EDWARD A. STELZER
ELIZABETH K. STEPP
MARC D. ASHLEY
JOSHUA R. CAMMAKER
THAD A. DAVIS*
SETH GARDNER
MARK GORDON
BARRY R. KLEINER
JOSEPH D. LARSON
LAWRENCE S. MAKOW
JEANNEMARIE O'BRIEN
PAULA N. RAMOS
JARED M. RUSMAN
MARIA L. SACHS
SHEENA WRIGHT

LARA ADAMSON
SCOTT L. BLACK
JAMES COLE, JR.
STEPHEN R. OPRIMA
DAVID L. ELSBERG
DOUGLAS C. FREEMAN
NANCY B. GREENBAUM
SALIL KUMAR
ARRIE R. PARK
ERIC A. RUTKOSKE
DAVID A. SCHWARTZ
JULIUS R. SCHWARTZ
ALEXANDER SHANNES
KEVIN P. SHEEHAN
WAYNE W. YU
ANDREW J. H. CHEUNG
NICOLE E. CLARK
BRUCE N. GOLDBERGER
ELAINE P. GOLIN
MICHAEL F. MASLANSKY
JONATHAN M. MOSES
SUSAN POWELL
ADAM J. SHAPIRO
DHANANJAI SHIVAKUMAR
ROBB L. TRETTER
JED I. BERGMAN
MICHAEL A. CHARISH
ASHWINI K. CHHABRA
MICHAEL E. GILLIGAN
JOHN F. LYNCH
ROBERT T. MILLER
JAMES R. RESKE
PETER F. WILKINSS

*OF DC BAR ONLY

March 23, 1999

John McArthur, Esq.
P.O. Box 754
Cory, North Carolina 27512

Re: Liquidated Fee Offer—Kentucky, North Carolina & Tennessee

Dear Mr. McArthur:

Pursuant to Section XVII(d) of the Master Settlement Agreement ("MSA") and Section 7 of the Kentucky, North Carolina, and Tennessee Fee Payment Agreements, the Original Participating Manufacturers hereby offer as a single Liquidated Fee for Outside Counsel for Kentucky, North Carolina, and Tennessee (including all such counsel listed for those States on MSA Exhibit S) the sum of \$1.5 million.

The Original Participating Manufacturers are making simultaneous offers of Liquidated Fees to Outside Counsel in Settling States who have requested such an offer. We have endeavored to arrive at Liquidated Fee offers in an objective manner, taking into account payments to be made to each state, how early each case was filed, how close each case was to trial and the provisions of outside counsel's fee arrangements in each state. Each such offer is valid for ten Business Days or until such time as the aggregate total of accepted offers equals \$1,250,000,000 (including the eight states where agreements on Liquidated Fees have already

83551169.

John McArthur, Esq.

March 23, 1999

Page 2

been reached), whichever comes sooner, and is void thereafter. Acceptances will be counted against the cap provided for in Exhibit O in the order they are received.

Kindly advise us, within the ten Business Day period provided for by the Kentucky, North Carolina, and Tennessee Fee Payment Agreements, as to whether this offer is acceptable to you.

Very truly yours,



Meyer G. Koplow

MGK:pa

cc: Martin J. Barrington, Esq.
Charles A. Blixt, Esq.
D. Scott Wise, Esq.
Neil Mellen, Esq.
Stephen R. Patton, Esq.
Ronald Milstein, Esq.

83551170