Holdings is the common parent (the "Holdings Group"). Accordingly, the Mafco Group will be included in the consolidated federal income tax returns and, to the extent permitted by applicable law, any combined state or local income tax returns filed on behalf of the Holdings Group Mafco Holdings and MC Group are parties to a tax sharing agreement pursuant to which MC Group will pay to Mafco Holdings with respect to each taxable year an amount equal to the consolidated federal and state and local income taxes that would have been incurred by the Mafco Group had it not been included in the consolidated federal and any combined state or local income tax returns filed by the Holdings Group for such period. Prior to the Merger, Consolidated Cigar and Mafco Worldwide were party to tax sharing agreements with Mafco Holdings pursuant to which Consolidated Cigar and Mafco Worldwide were required to pay to Mafco Holdings with respect to each taxable year an amount equal to the consolidated federal and state and local income taxes that would have been incurred by Consolidated Cigar and Mafco Worldwide had they not been included in the consolidated federal and any combined state and local income tax returns filed by Mafco Holdings For all periods presented, federal and state income taxes are provided as if the Company filed its own income tax returns.

Foreign income primarily consists of Puerto Rico and Dominican Republic income. Pursuant to a grant of industrial tax exemption which expires in 2002, 90% of the income earned from the manufacture of cigars in Puerto Rico is tax exempt from Puerto Rican income taxes The remaining 10% of such income is taxed at a maximum surtax rate of 45%, resulting in an effective income tax rate of approximately 4.5%.
The benefit to the Company amounted to approximately $3 5 million for the year ended December 31, 1994, $5 1 million for the year ended December 31, 1995, and $7 4 million for the year ended December 31, 1996

Funds repatriated to the Company from its Puerto Rico subsidiary are subject to a maximum Puerto Rico tollgate tax of 10% Legislation enacted in Puerto Rico in 1993 included a provision for prepaying a portion of these tollgate taxes effective for the 1993 fiscal year and subsequent periods.

The Company manufactures cigars in the Dominican Republic pursuant to a 100% exemption from Dominican Republic income taxes, which exemption expires in 2010.

Income earned from Puerto Rico operations is generally exempt from federal income tax Section 936 of the Internal Revenue Code allows a "possessions tax credit" against U S. income tax attributable to the Puerto Rico taxable earnings As part of OBRA 1993, the Internal Revenue Service has limited this exemption based upon a percentage of qualified wages in Puerto Rico, plus certain amounts of depreciation The Company believes that it qualified for the possessions tax credit during each of the fiscal years ended 1994, 1995 and 1996

On August 20, 1996, the Small Business Job Protection Act of 1996 (the "SBJPA") was enacted into law Under the SBJPA, Section 936 of the Internal Revenue Code, the possessions tax credit was repealed, subject to special grandfather rules for which the Company would be eligible, provided that the Company does not add a "substantial new line of business " Under the grandfather rules, for the Company's taxable years beginning December 31, 2001 and before January 1, 2006, the Company's business income from its Puerto Rico operations eligible for the possessions tax credit would, in addition to the current limitation based upon a percentage of qualified wages in Puerto Rico, plus certain