

accumulated postretirement benefit obligation was 7.25% at December 31, 1996 and 1995.

12. STOCK BASED COMPENSATION

Under the terms of the Company's 1995 stock option plan (the "MC Group Stock Option Plan"), stock options and stock appreciation rights may be granted to key employees of the Company. A maximum of 1,250,000 shares of MC Group Common Stock have been reserved for issuance under the MC Group Stock Option Plan. The MC Group options vest one-third each year beginning on the first anniversary of the date of grant and become 100% vested on the third anniversary of the date of grant.

The following table summarizes the stock option transactions under the MC Group Stock Option Plan and the grant of 750,000 options to the Chairman of the Board of Directors for services rendered and to be rendered to the Company.

	YEAR ENDED DECEMBER 31,		F
	1996	1995	
	OPTIONS	EXERCISE PRICE	OPTIONS
Outstanding - beginning of year	750,000	\$ 17.38	-
Granted	875,000	21.57	750,000
Outstanding at year end	1,625,000	19.63	750,000
Exercisable at year end	791,667		250,000
Weighted average fair value of options granted during the year		10.08	
Weighted average remaining contractual life of options outstanding (in years)		9.27	

Cigar Holdings adopted its 1996 stock plan (the "Cigar Stock Option Plan") prior to the effectiveness of the Cigar IPO. Under the Cigar Stock Option Plan, incentive stock options, non-qualified stock options, stock appreciation rights, restricted and unrestricted stock (collectively "Awards"), may be granted to selected employees, consultants and directors of Cigar Holdings, and any of its affiliates, from time to time. The aggregate number of shares of Cigar Holdings common stock as to which options and rights may be granted under the Cigar Stock Option Plan may not exceed 3,000,000. As of December 31, 1996 there were 1,237,500 shares of Cigar Holdings non-qualified options outstanding that were issued to officers and employees, 1,150,000 shares at an exercise price equal to the initial public offering price of \$23.00 per share and 87,500 shares at \$25.00 per share. None of the Cigar Holdings option shares were exercisable at December 31, 1996 and 1,762,500 shares remained available for future grants. These Cigar Holdings options vest one-third each year.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

beginning on the first anniversary of the date of grant and become 100% vested on the third anniversary