

Total stockholders' (deficit)				
equity	360.5 (4)	103.7	(10.8)	(25.4)

(1) Reflects the results of Flavors Holdings or its predecessor prior to March 3, 1993.

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(2) Reflects the combined results of Flavors Holdings and Cigar Holdings since March 3, 1993 (the first date that Flavors Holdings and Cigar Holdings were under the common control of Mafco Holdings)

(3) Reflects the assets and liabilities of Abex acquired in the Merger from June 15, 1995.

(4) Reflects the gains in 1996 on the Cigar IPO of \$127.8 and the Flavors Disposition of \$151.7.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following should be read in conjunction with the financial statements of the Company included elsewhere herein

OVERVIEW

The Company is the largest manufacturer and marketer of cigars sold in the United States in terms of dollar sales, with a 1996 market share of approximately 23% according to the Company's estimates. The Company markets its cigar products under a number of well-known brand names at all price levels and in all segments of the growing cigar market. The Company is also a leading producer of pipe tobacco and is the largest supplier of private label and branded generic pipe tobacco to mass market retailers. In addition, the Company distributes a variety of pipe and cigar smokers' accessories. For the year ended December 31, 1996, cigars accounted for approximately 92% of the Company's net sales.

The United States cigar industry experienced declining consumption between 1964 and 1993 at a compound annual unit rate of 3.6% (and, with respect to large cigar consumption, at a compound annual unit rate of 5.0%). Recently, cigar smoking has gained popularity in the United States, resulting in a significant increase in consumption and retail sales of cigars, particularly for premium cigars. Management believes that this increase in cigar consumption and retail sales is the result of a number of factors, including (i) the increase in the number of adults over the age of 50 (a demographic group believed to smoke more cigars than any other demographic segment) and (ii) the emergence of an expanding base of younger affluent adults who have recently started smoking cigars and who tend to smoke premium cigars. The growth in industry retail sales of cigars has outpaced unit growth since 1991 primarily as a result of a combination of increased prices and a shift in the sales mix to more expensive cigars. There can be no assurance that unit consumption and retail sales of cigars will continue to increase in the future.

The increased demand for cigars, especially premium cigars, and the shortage of experienced skilled laborers caused as a result thereof have resulted in the Company's backorders of premium cigars to increase from 3.2 million cigars at December 31, 1994 to 4.3 million cigars at December 31, 1995, and to further increase to 37.0 million cigars at December 31, 1996. Although the demand for premium