==

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(A)
OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by registrant / /

Filed by a party other than the registrant /x/

/ / Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Check the appropriate box:

/ / Preliminary proxy statement

/ / Definitive proxy statement

/x/ Definitive additional materials

/ / Soliciting material pursuant to Rule 14a-11(c) or Rule 14a-12

RJR NABISCO HOLDINGS CORP.

(Name of Registrant as Specified in its Charter)

BROOKE GROUP LTD.

(Name of Person(s) Filing Proxy Statement)

Payment of filing fee (Check the appropriate box):

/ / $125 per Exchange Act Rule 0-11(c)(1)(ii), 14a-6(i)(1), or 14a-6(j)(2).

/ / $500 per each party to the controversy pursuant to Exchange Act Rule 14a-6(i)(3).

/ / Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:
(2) Aggregate number of securities to which transaction applies:
(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:
(4) Proposed maximum aggregate value of transaction:
(5) Total fee paid:

/x/ Fee paid previously with preliminary materials.

/ / Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid: ____________

(2) Form, schedule or registration statement no.: _____________

(3) Filing party: ____________________

(4) Date filed: _________________

==

International Place
100 S.E. Second Street
Miami, Florida 33131
305/579-8000 - Fax 305/579-8001

BROOKE GROUP LTD.

April 5, 1996

To Our Fellow Stockholders:

Over the past several weeks there has been a lot said and written about Brooke Group's settlements of tobacco-related litigation. Much of the commentary - -- even when well-intentioned -- has been factually inaccurate. Some reports contain misinformation originating with persons whose primary interest is not the well-being of RJR Nabisco's stockholders. We are taking this opportunity to explain the settlements to you in detail and review their effects on RJR Nabisco, its stockholders and the tobacco industry. We hope you will take the time to read this communication and consider it carefully in voting for the election of RJR Nabisco's directors at the Annual Meeting.

Among other things, you will see how the settlements will facilitate a spinoff of Nabisco by removing the specific injunctive threats identified by RJR Nabisco's current management. We think you will be persuaded, as we were before we signed, that the settlements are extremely favorable, affording bulletproof protection from the most significant litigation risks (including the "addiction" theory) confronting the tobacco industry, and doing so for a reasonable price (a little more than a penny a pack) without compromising our or the industry's ability to defend ongoing tobacco related claims. Finally, we believe you will be better able to block out the extraneous noises and focus on what is best for RJR Nabisco and its stockholders.

1. THE SETTLEMENTS REMOVE THE "IMPEDIMENTS" WHICH INCUMBENT MANAGEMENT SAYS PREVENT AN IMMEDIATE SPINOFF OF NABISCO

In opposing Brooke Group's consent solicitation, Messrs. Goldstone and Harper said repeatedly that an immediate spinoff was desirable but could not be done because of the "unacceptable" litigation risks presented by the Castano class action and the various pending Attorney General suits seeking reimbursement for Medicaid payments. Mr. Goldstone went so far as to quote news accounts of a threat by the Castano class action lawyers to seek an injunction. When testifying under oath in the lawsuit brought by RJR Nabisco, in which it unsuccessfully sought to enjoin the consent solicitation, Messrs. Goldstone, Harper and Greeniaus all testified that, based upon discussions with the Company's lawyers, they had concluded that the spinoff likely would be enjoined. In their formal communications to the RJR Nabisco stockholders, management was somewhat coy in the way they phrased the risk: it was not only an injunction barring the spinoff they feared, but also years of prolonged litigation following a spinoff. They straddled all possibilities. When a majority of the outstanding shares of RJR Nabisco were voted in favor of our immediate spinoff resolution, incumbent management still refused to budge, saying the vote had not altered the "unacceptable" nature of the litigation risk presented by the Castano plaintiffs and the State Attorney General suits.

We at Brooke Group have always felt that management's fears of injunction litigation were overblown: it is ridiculous to suggest that RJR Nabisco is insolvent today or would be rendered insolvent by a spinoff, yet this is exactly what a plaintiff would have to show (among other things) in order to obtain an injunction blocking the spinoff. We believe that in opposing our spinoff resolution, management was relying on a presumption in their favor where there is confusion. Certainly, management's conduct promoted confusion: for example, they initially claimed that they were privy to facts the stockholders didn't have. Ultimately, under oath, they had to admit that all facts were known to the public. Our view remains that management's reluctance to spin off Nabisco was and is prompted by fears of personal liability -- in the event of an "industry meltdown" -- for having authorized the spinoff dividend.

In our talks with stockholders during the consent solicitation, we learned that many of you were concerned that you might have to "handicap" the ultimate legal outcome, i.e., decide whether we or management had correctly assessed the spinoff injunction risk, in order to determine how you should vote. These concerns, it appeared, would persist when the question for stockholder action was the election of directors.

We think it was wrong for management to lead stockholders (and plaintiffs lawyers!) to believe that there is a credible risk that an injunction could be granted and to leave you to resolve an artificially manufactured legal dilemma. Brooke Group has taken the initiative to eliminate the dilemma which management created and tried to dump in the stockholders' laps. Brooke Group's settlements of the Castano and Attorney General medicaid reimbursement suits -- announced after RJR Nabisco's directors stated that they would ignore the will of the stockholders and continue to refuse to spin off Nabisco -- mean you no longer need concern yourself with the divergent legal views when deciding whether to put in place new management committed to an immediate spinoff. The settling plaintiffs in each instance have committed that they will not seek to enjoin a Nabisco spinoff if Brooke Group's slate of nominees is elected at the 1996 Annual Meeting. The Settling States, under the Attorneys General Settlement Agreement dated March 15, 1996, and the Castano plaintiffs and the Settlement Class under the Castano Settlement Agreement dated March 12, 1996, have all agreed that they

> "shall not seek to enjoin a spinoff or like disposition of the stock of Nabisco Holdings Inc. by RJR Nabisco Holdings Corp. in the event that a slate of nominees proposed by Brooke Group for election to the RJR Nabisco Holdings Corp. Board of Directors is elected."

This voluntary agreement not to seek to enjoin the spinoff takes effect immediately, and would govern these plaintiffs' actions in the event Brooke Group's slate of nominees is elected this month. Thus, whether or not you believe management's warnings about the supposed injunctive risk which the Castano class and the State Attorneys General present to the completion of the Nabisco spinoff, the issue will become moot if you elect Brooke Group's nominees.

We've said before, and we reiterate here, that there are no strings attached to this commitment to forego injunctive litigation. The commitment of the settling parties not to seek an injunction is binding whether or not the settlement is approved by the courts. If you elect Brooke Group's nominees, you will get the spinoff. It won't cost you a dime, and you won't be required to accept or approve any other corporate transaction.

2. THE SETTLEMENTS ARE A CREATIVE, PRUDENT AND SENSIBLE ALTERNATIVE TO THE "LITIGATE TO THE DEATH" CREDO ESPOUSED BY THE TOBACCO INDUSTRY

The tobacco industry is justifiably proud of its history of successfully defending product liability lawsuits. However, that pride should not and cannot predict the future or determine how the industry should deal with the mounting legal challenges it faces. (In this regard, for example, those who think they can predict how future juries will hold would do well to recall the Cippolone case, where the jury awarded the plaintiff $400,000. That verdict was overturned on legal, not evidentiary, grounds that likely will not arise in future cases.)

Now, the tobacco industry faces legal challenges from all sides: individual product liability lawsuits (which can and should continue to be defended aggressively and successfully); potentially massive addiction-based class action threats (which do not magically disappear even if the Castano class certification is reversed); state attorney general Medicaid reimbursement lawsuits, federal grand jury investigations; numerous new industry whistleblowers emerging as a result of a concerted, two-year effort by federal authorities; and proposed FDA regulation. Brooke Group and Liggett's settlements are a creative and sensible approach to limiting the tobacco companies' potential exposure to the most important threats facing the industry. The no-settlement, "litigate to the death" strategy which has successfully fended off individual cases -- and which is premised in large part on the tobacco companies' ability to exhaust the financial resources of individual plaintiffs and make the "return on investment" unattractive to individual plaintiffs' lawyers -- is not appropriate or prudent when addressing all elements of this changed and matured litigation landscape.

To protect itself and remain in office, RJR management has generated rumors and misinformed you about the settlements. In an attempt to persuade you that the spinoff still faces unacceptable injunction risk, management has questioned the substantive sufficiency of the settlements. In recent weeks you've doubtless heard that Brooke Group's settlements are flawed because they don't resolve all potential claims by present or future litigants. Ironically, those same industry leaders and commentators who have for decades said that there is no liability associated with the manufacture and sale of cigarettes now disingenuously thunder that the Castano and Attorney General actions are only the tip of the iceberg of massive additional tobacco liability claims. The same management that told you that Castano and the Attorney General suits were the bar to an immediate spinoff now says that these cases are only parts of a much bigger "problem." We think a more rational assessment is in order.

"ADDICTION" THEORY RISK AND THE CASTANO SETTLEMENT

The claim that cigarette smoking is a health hazard has long been known to the American public. As the Supreme Court chronicled in Cipollone v. Liggett Group, Inc., 505 U.S. 504 (1992), by the 1920s, medical studies had appeared concerning the connection between smoking and illness, a connection that had been suspected for over a century. By the time the Surgeon General convened an advisory committee to examine the issue in 1962, there were more than 7,000 publications examining the relationship between smoking and health. In 1964, the advisory committee issued its report, which stated as a central conclusion that "Cigarette smoking is a health hazard of sufficient importance in the United States to warrant appropriate remedial action." In response to that report, in 1965, the FTC required that all cigarette packages bear a conspicuous label stating "Caution: Cigarette Smoking May Be Hazardous to Your Health." In 1969, these warnings labels were strengthened, in part by requiring a statement that cigarette smoking "is dangerous."

In the face of these omnipresent warnings, cigarette plaintiffs have been unable successfully to assert ignorance concerning the possible health hazards associated with smoking. Efforts to impose liability on tobacco companies have foundered in the face of the plaintiffs' decision to smoke notwithstanding their knowledge of those risks.

The ability of tobacco companies to sustain this free choice defense becomes somewhat more difficult, however, if the plaintiff's smoking is portrayed as the result of an uncontrollable "addiction", concerning which smokers were not adequately warned, rather than as the product of free choice. It is principally on this "addiction" front that the tobacco litigation wars are presently being fought. Prior to our settlements, industry analysts agreed that addiction-based claims, or the "addiction" theory, constituted the single greatest threat to the tobacco industry's ability to defend itself from tobacco product liability claims. The most serious recent tobacco litigation has been premised, at least in part, on an "addiction" theory through which plaintiffs argue either (1) that having begun to smoke before the health risks associated with smoking were well known, they lacked the ability to stop smoking, or (2) that they began to smoke as a result of misinformation concerning the supposed "addictive" nature of smoking, and are thus entitled to recover based on the tobacco companies' supposed failure to disclose that risk.

Together with the other tobacco companies, we believe that the addiction theory is flawed. Tens of millions of former smokers who chose to stop smoking were able to do so successfully, and public health officials from the Surgeon General of the United States on down readily acknowledge that it is possible to stop smoking. Nevertheless, Gary Black, whose views were widely quoted, wrote in 1995 that the addiction-based Castano class action had the potential to impose a $100 billion judgment on the industry. Although Mr. Black now believes the Castano action may be decertified as a class action, the Castano attorneys are committed to filing successor suits to press the addiction claims, which they are confident will be certified as class actions if Castano is decertified. With the proposed settlement of Castano (which must, like all class action settlements, be approved by the Court, but which would apply as well to any successor

suit filed as a class action by the Castano attorneys), we think that we have resolved for Brooke Group and Liggett the single most serious liability risk out there. Given Gary Black's figures, we certainly have avoided the largest monetary risk, which has potentially catastrophic consequences for the industry and which will not be eliminated by the mere decertification of the Castano class.

The Castano settlement would afford Brooke Group and Liggett a broad release of addiction-based claims which could be asserted by a settlement class of regular smokers. This class includes all persons who fit into any one or more of the following categories:

1. cigarette smokers who have been diagnosed by a medical practitioner as nicotine-dependent

2. regular cigarette smokers who were or have been advised by a medical practitioner that smoking has had or will have adverse health consequences who thereafter do not or have not quit smoking

3. cigarette smokers who claim or are claimed to be addicted to cigarette smoking

4. cigarette smokers who have smoked regularly for at least an aggregate of one year.

Among the persons included in this class are those persons included in the plaintiff class in the Engle case, a Florida class action which also purports to raise addiction-based claims.

The release specifically provides, in addition to the traditional legal language which may be difficult for non-lawyers to parse, the statement that it operates so that any class member who does not opt out may not hereafter assert that addiction to cigarettes containing nicotine was the proximate cause or a contributing proximate cause of any personal injury or wrongful death.* The Castano settlement thus removes addiction as an

- ------------

* The full text of the release provision contained in the Castano Settlement Agreement is as follows:

> Upon the later of the Settlement Date and the date each Settling Defendant becomes bound by this Agreement, for good and sufficient consideration as described herein, all members of the Settlement Class, collectively and individually, on behalf of themselves, the persons they represent, their heirs, executors, administrators, trustees, beneficiaries, agents, attorneys, successors and assigns shall be deemed to and do hereby release, dismiss and discharge each and every claim, right, and cause of action (including, without limitation, all claims for damages, medical expenses, restitution, medical monitoring, or any similar legal or equitable relief, under federal, state or common law) which they had, now have, or may hereafter have against each Settling Defendant (including its past, present and future parents, subsidiaries, affiliates and downstream distribution entities, and their past, present and future agents, servants, attorneys, employees, officers, directors, shareholders, and beneficial owners) which is based on harm, injury or damages claimed by members of the Settlement Class to be caused by addiction to or dependence upon cigarettes which contain nicotine or which is asserted in the Castano action in connection with, or arising out of the acts, facts, transactions, occurrences, representations or omissions set forth, alleged, referred to or otherwise embraced in the complaint in Castano premised, in whole or in part, on the claimed addictive or dependence-producing

(CONTINUED...)

issue in tobacco litigation, leaving potential plaintiffs with the legal and factual arguments that traditionally have not succeeded. Representative of comments suggesting that our settlements did not accomplish enough is Gary Black's March 15 statement that the Castano settlement "would not protect [Brooke Group and Liggett] against new class actions that aren't based on addiction (express warranty, fraud, conspiracy, negligent misrepresentation, violation of consumer protection statutes, etc.)." These and similar remarks by other critics miss the point. In practice, any class of smokers that seeks, without an addiction element to its claims, to assert negligent misrepresentation, fraud, express warranty, conspiracy, violation of consumer protection statutes, or some other theory of liability, will be confronted by the same facts -- nearly 30 years of government mandated health warnings and other awareness of claimed health hazards -- that have historically defeated tobacco plaintiffs, and will not have a way to get around those facts. For example, smokers who assert that they were fraudulently induced to smoke, because they were not informed by the tobacco companies of the alleged health hazards of smoking, would be confronted by the fact of the government mandated warnings and the general public awareness of claimed health hazards. The plaintiffs would lose, as they have until now, because they freely chose to smoke in the face of known risks. Under the Castano settlement, these plaintiffs could not seek to strengthen their claims by asserting that their injuries arose from the alleged failure to disclose the addictive nature of cigarettes containing nicotine, nor could such plaintiffs argue (as they can without the Castano settlement) that their smoking in the face of known risks was the result of addiction. Thus, while Gary Black is literally correct in stating that plaintiffs will continue to be able to assert new, non-addiction based claims such as those listed in his report, his analysis fails to reflect the absence of any probability of success if plaintiffs must prosecute those claims without the ability to rely on the addiction theory.

THE ATTORNEYS GENERAL RISK

In settling with the five State Attorneys General, we resolved for Brooke Group and Liggett potential liabilities which are, as RJR Nabisco management and Gary Black well know, extremely thorny problems. For example, in his recent report, Mr. Black states that the tobacco industry expects to lose the Mississippi Attorney General action (which could result, according to the plaintiff, Mississippi Attorney General Mike Moore, in the imposition of liability in excess of $1 billion) at the trial level but expects to win a reversal on appeal.* While the posting of a $1+ billion appeal bond may be within reach

- -------------

* (...CONTINUED)

nature of nicotine contained in cigarettes or the damage, harm or injury caused by the condition or claimed condition of addiction or dependence resulting from the use of cigarettes which contain nicotine; it being understood that, as a result of such release, a Settlement Class member who does not opt out may not claim as a basis for a current or future personal injury or wrongful death claim against a Settling Defendant that addiction to or dependence upon cigarettes containing nicotine was the proximate cause or a contributing proximate cause of that injury. This release does not extend to claims arising after the termination of this Agreement.

* Florida Attorney General Bob Butterworth's claim against the tobacco industry is currently valued at approximately $1.4 billion.

for the tobacco industry today, with no history of adverse rulings, it may not remain so forever, and the premium payable on such a bond, even today, could easily be so high as to dwarf the settlement payment agreed by Liggett. The alternative for the industry, of putting up its own cash to bond an appeal, is not in our view the best use of the industry's resources. Given the uncertainty necessarily involved in any appeal, and recognizing the fact that it is never good business to litigate against the sovereign, we think it would have been imprudent for Brooke Group and Liggett not to agree to the terms of the Attorneys General settlement.

WHAT THE SETTLEMENTS COST

Most importantly, the economic and other terms to which Brooke Group and Liggett agreed demonstrate that the settlements are, to say the least, reasonable and prudent. Liggett will pay 5% of its pre-tax income from domestic tobacco operations for the next 25 years to the Castano Center for Tobacco Control Innovation and Research, which is to be established under the jurisdiction of the Court upon approval of the Castano Settlement Agreement, the funds to be used primarily to cover one-half the cost of approved smoking cessation programs for class members who wish to quit smoking. Depending upon the number of states that join in the Attorneys General settlement, Liggett will pay between 2.5% and 7.5% of its pre-tax income from domestic tobacco operations to the settling states, for use by those states to defer health care expenses. We estimate the cost of these settlements to be around a penny or two per pack, at the full 12.5% combined pay rate. In addition to these monetary payments, Brooke Group and Liggett have agreed to abide by certain provisions of the FDA's proposed rules governing tobacco advertising and marketing, which are intended to minimize sale and promotion of cigarettes to minors.

Because they were the first settlements by tobacco companies, each settlement contains a "most favored nations" provision that provides that the economic terms of Brooke Group and Liggett's settlement will always be superior to the economic terms which another tobacco company may obtain in a different settlement. To the extent that another tobacco company settles and is not obliged by that settlement to pay a multiple (3x in the case of the Castano settlement, between 3x and 2-1/3x in the case of the Attorneys General settlement) of Liggett's payment, expressed as a percentage of respective pre-tax income, Liggett's payments will be reduced and possibly eliminated completely. Likewise, if another tobacco company settles for less restrictive FDA terms, the Brooke Group and Liggett settlements will be restructured to reflect those less restrictive terms.

Significantly, Brooke Group and Liggett's obligations under the settlements will cease -- there will be no more payments, and no advertising and other restrictions -- if the tobacco industry continues to litigate and wins its cases with the Castano class and the Attorneys General. Thus, if the Castano class is decertified and no successor class action is filed, or if the Castano certification is upheld but the industry prevails at trial on its contention that cigarettes are not addictive, Liggett will not be required to make further payments. Similarly, if any Settling State loses its case against any tobacco company defendant, Liggett will make no further payments to that state. In effect, the settlements

are an insurance policy -- reasonably priced -- against a potential catastrophic risk, and are terminable without further obligation if and when the risk subsides. As a business matter, we find it hard to believe that any tobacco company would not be interested in such coverage.*

SOME COMMON, BUT MISTAKEN, CRITICISMS

Industry sources and commentators hostile to Brooke Group have tried hard to criticize the settlements. With little feel for the irony of their remarks, these critics, who belittle the Castano action as being without merit, at the same time warn that Brooke Group and Liggett's settlement of that suit will not be approved by the court because it does not pay enough money to the class members. Some have mistakenly sought to analogize the Castano settlement to the class-wide settlement reached with purchasers of pickup trucks with allegedly defective fuel tanks, in which class members were offered discount coupons good toward their next pickup truck purchase from the defendant manufacturer, or to settlements in securities class actions, in which the stockholder class members have received warrants entitling them to purchase additional shares of the defendant issuer's stock from the issuer at a modest discount to market. These settlements, which have been subject to attack, are markedly different from the Castano settlement. In the first place, the plaintiffs in those suits were obliged to pay money to the defendants in order to realize any benefits of the settlements; the Castano settlement, in contrast, does not involve any payment by class members to Brooke Group or Liggett. Rather, Liggett will be obliged to make payments to cover costs incurred by those class members who wish to stop smoking. In addition, Brooke Group and Liggett have agreed to advertising and marketing restrictions which advance the societal goal of reducing smoking by minors. Such societal benefits have served to support the sufficiency of class action settlements in the past. As is discussed in greater detail in the next section of this letter, it is clear that any attempt to structure a class-wide settlement around direct money payments to smokers is doomed to failure. We are confident, as are the Castano plaintiffs' attorneys, that the settlement we have reached more than meets the legal criteria of fairness and adequacy required for judicial approval.

It has been suggested that by agreeing to certain advertising and marketing restrictions, Liggett (and, by extension, any tobacco company that avails itself of the settlements through combination with Liggett) has placed itself at an untenable competitive disadvantage. This concern, we think, reflects an incomplete understanding of the settlements. The marketing and advertising restrictions to which Liggett agreed, (the most serious of which phase in over a four year period) are all tied to the FDA's proposed rules governing tobacco. Those proposed rules and the FDA's authority to regulate tobacco are

- --------

* Brooke Group and Liggett may also defease the settlements if it appears they have not provided the contemplated protection. For example, if too many individuals opt out of the Castano settlement, or if the cost of defending the remaining tobacco litigation increases markedly (meaning that the settlement has not stemmed the tide of litigation), Brooke Group and Liggett may terminate the Castano settlement. If other states file Attorney General suits in significant number and do not join the Attorneys General Settlement Agreement, Brooke Group and Liggett may terminate the Attorneys General settlement.

the subject of industry-wide challenge. That challenge will resolve itself, and one of two things will happen: the FDA will prevail and adopt permanent rules applicable to the entire industry, which Liggett and all other companies will then follow; or, the FDA will lose, and the proposed rule, together with Liggett's settlement obligation to comply with parts of that rule, will disappear. Either way, we anticipate that in a relatively short time Liggett and the rest of the industry will be advertising and marketing on exactly the same terms.

There also has been false speculation that, notwithstanding the benefits flowing to Brooke Group and Liggett, the settlements were achieved at the expense of the tobacco industry as a whole. Specifically, uninformed commentators have suggested that Brooke Group and Liggett have "turned state's evidence" and are obliged to provide evidence incriminating to the other, non-settling tobacco companies. This is untrue: Brooke Group and Liggett have not agreed to waive, and will not waive, attorney-client or joint defense privileges which safeguard documents and communications from discovery. They have agreed only that they will act in accordance with what the law requires, and nothing more. Moreover, as a practical matter, any non-settling tobacco company which does not agree to the discoverability of documents sought by the plaintiffs from Brooke Group or Liggett will have the opportunity to be heard by the court before which the matter is pending. If their objections are well-founded, they will be able to block the discovery sought by the plaintiffs. Nothing will occur in secret, out of sight of the tobacco industry. Indeed, Liggett remains a defendant -- invariably with the other tobacco companies -- in numerous individual damage actions by smokers; it would not agree, and has not agreed, to settlement terms that prejudice its ability to defend these cases. Bennett LeBow and Carl Icahn, who together own nearly 7% of RJR Nabisco's stock, would not act in derogation of their $600 million economic interest.

Another criticism leveled against the settlements is that they "break the wall" of industry solidarity and will encourage new litigation by tobacco plaintiffs. This criticism is pure speculation, and the "analysis" that underlies it is flawed. First, if anything is encouraging new tobacco litigation, it is the appearance of new whistleblowers, the disclosure of internal industry documents, the criminal investigations -- all of which have nothing to do with the settlements. To the contrary, we believe that the removal of the addiction issue by the settlements, coupled with Liggett's continuing vigorous defense of all other existing tobacco related litigation, will discourage rather than encourage new suits.

In a nonsensical effort to blame Brooke Group and Liggett's settlements for all of the tobacco industry's woes, we have even heard that the appearance recently of three new industry whistleblowers formerly employed by Philip Morris is being portrayed as somehow our fault. Press accounts from responsible sources have made it abundantly clear that the recent disclosure of additional whistleblowers is the result of a singular, years-long effort by state and federal authorities to locate former industry personnel whose testimony contradicts the positions generally asserted by the industry. Brooke Group and Liggett have had nothing to do with this effort, which so far appears to have turned up several whistleblowers from Philip Morris.

As participants in the industry, both through Liggett's own operations and through our ownership of RJR Nabisco stock, however, we are concerned that the increasing frequency of whistleblower revelation may over time alter the tenor of the public's perception of the industry and weaken the industry's ability to defend itself. You should be concerned as well. It is apparent to any objective observer that the federal government is endeavoring to build a perjury case against tobacco executives arising from their testimony before Congress in 1994. The news media have been encouraging this effort. Should the government obtain indictments, we believe the industry as a whole may be perceived as lawless. The spillover effect that possible criminal indictments and convictions would have on concurrent tobacco product liability litigation would not be favorable. Industry solidarity in the face of indictments of key executives will do nothing to improve public perception of the industry. Yet all is not lost. Far from it. For reasons more fully described below, we think a unique opportunity is at hand.

3. BROOKE GROUP'S SETTLEMENT: AN ALTERNATIVE ECONOMIC MODEL FOR THE TOBACCO INDUSTRY

We believe there has been a growing recognition among knowledgeable antitobacco forces and within the governmental/regulatory community that a resolution of tobacco litigation premised upon financial compensation for smokers is not a possibility. If the entire annual profit of Philip Morris were distributed to U.S. smokers, each individual would receive approximately $140.00 per year. There simply isn't enough money to compensate plaintiffs for the injuries they allege. By the same token, it is irresponsible to suggest, and unrealistic to think, that a $45 billion industry which contributes significantly to the economy and our foreign trade should or will be put out of business overnight. As the industry and its critics have matured, so too have the perceptions of what can and should be done to achieve a compromise which serves the interests of all parties.

RJR Nabisco management, which has in the past embraced our ideas (within 36 hours of the announcement of our consent solicitation for a Nabisco spinoff, RJR Nabisco's management announced that they, too, favored a spinoff), has in its own way acknowledged the good sense of what Brooke Group and Liggett have proposed. Newspaper accounts on March 22, 1996 reported RJR Nabisco CEO Steve Goldstone as hypothesizing that the tobacco industry would in his view not oppose a settlement if it were assured that there would be no further litigation. (Philip Morris's Chairman Geoffrey C. Bible was concurrently reported to have reiterated Philip Morris's commitment to fight to the end.) While critical of our settlements because they do not extinguish all present or possible future litigation, Mr. Goldstone's remarks show a belated and grudging acceptance of the alternative industry model which underlies Brooke Group and Liggett's position.

Contrary to the shopworn and tired "wisdom" of many commentators, our experience in negotiating the settlements with the Castano attorneys and the State Attorneys General has shown that reasonable, acceptable compromise is possible. Instead of hoping wistfully, as Mr. Goldstone has, for cooperation to materialize magically from legislators and regulators (which he acknowledges will not happen), while at the same time fighting at every quarter, we believe that a global solution is a possibility if the tobacco

industry shows some good will and flexibility in the interest of achieving such a result. There are, we believe, powerful and persuasive voices within the government and in the public health community that would be willing to endorse and promote a global settlement which extends the model reached by Brooke Group and Liggett. These persons cannot, and cannot be expected to, act in the absence of some indication from the industry of a willingness to compromise.

One need only review the experts' estimates of the prices at which Philip Morris and RJR Nabisco stock would trade in the absence of litigation risk to appreciate the wisdom of this approach. Payments such as those embodied in Brooke Group and Liggett's settlements would be more than made up, for investors, through vastly enhanced trading multiples and huge savings on legal fees and other costs of defending the product liability and related tobacco suits. While the industry would not be free to promote its products to minors, it would be assured that it could continue to market and sell its products to adults who choose to smoke. To a large degree Brooke Group and Liggett have achieved this result for themselves by the present settlements; we believe their example could set in motion forces that would reach an overall resolution for the tobacco industry.

4. BACK TO BASICS: WHAT DOES THE FUTURE HOLD FOR RJR NABISCO?

Our discussion has taken us far beyond the election of directors at the impending Annual Meeting. Much of what we've discussed is not before you now, but we think there is merit to looking down the road, to make certain that your vote today is not influenced by misinformation about what may occur in the future.

The immediate issue is the Nabisco spinoff. We are hard-pressed to recall a situation in recent years in which public stockholders were presented with such a clear choice. If you vote for Brooke Group's slate of nominees, you will elect a Board of Directors committed to an immediate spinoff, sponsored by parties who have done everything within their power to assure the successful completion of that spinoff. Brooke Group and its affiliates will profit from the spinoff in the same manner as you will: the separated companies will operate more effectively and efficiently, and these improvements will be reflected in stock price and earnings. Moreover, if a spinoff is not declared within six months, Brooke Group's nominees will call a special meeting for the election of directors. If you don't like the job we've done, or if you think we've broken faith with you in any way, you can vote us out of office.

You'll also get a good deal more than an immediate spinoff. You'll get innovative management (Ron Fulford) with a proven track record and experience in a more hostile regulatory environment than currently prevails in the domestic market, committed to finding fresh and creative solutions for RJR Nabisco; a $2.35 per share dividend ($2.00 from the tobacco company and $.35 from Nabisco); and improved corporate governance (including limits on affiliate transactions without stockholder approval, and limits on director compensation and retirement plans).

Your alternative is another year of uninspired "follow the leader" management, under a Board whose recent statements make it abundantly clear that they will never spin off Nabisco. It has long been an article of faith among tobacco industry managers that the wisest and safest course is to emulate Philip Morris. "You won't be second guessed, and you'll keep your job." It's that kind of tired thinking that has landed RJR Nabisco where it is today. Ultimately, no matter how much it may seek to position itself as the tobacco industry's champion, Philip Morris is out for itself: Remember "Marlboro Friday"? Brooke Group and Liggett have concluded that blind adherence to conventional industry "wisdom" is not best for them. You have the opportunity to decide whether it is best for RJR Nabisco. Ask yourself this question: Why is Philip Morris, RJR Nabisco's biggest competitor, aggressively supporting the reelection of incumbent management?

If you elect Brooke Group's slate, Brooke Group and Liggett are committed to affording RJR Nabisco the first opportunity to participate in their tobacco settlements, on essentially the same terms as Brooke Group and Liggett. Obviously, we think it would be highly advantageous for RJR Nabisco to participate in the settlements, but you won't have to take our word for it, and you won't have to accept this opportunity. Indeed, before it will be presented to you, it will be reviewed and passed upon by independent legal and financial advisors specifically engaged for this proposal by the independent nominees on Brooke Group's slate.

Most importantly, however, whether or not you ultimately decide that Brooke Group and Liggett's tobacco settlements are appropriate for RJR Nabisco, you will have already obtained the Nabisco spinoff you supported so overwhelmingly in February 1996. This is a unique opportunity that nobody else is offering you today. We urge you to reflect upon the value of that opportunity in the current industry climate . . . and we ask you to reflect as well upon the possibilities for RJR Nabisco under more creative and pro-active leadership.

We hope you will join with us in writing a new chapter in the history of RJR Nabisco.

Very truly yours,

BENNETT S. LEBOW
Chairman of the Board, President
and Chief Executive Officer