

Securities And Exchange Commission
Washington, D.C. 20549

FORM 10-K

JOINT ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999

BROOKE GROUP LTD.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

1-5759
Commission File Number

65-0949535
(I.R.S. Employer Identification No.)

BGLS INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

33-93576
Commission File Number

65-0949536
(I.R.S. Employer Identification No.)

100 S.E. SECOND STREET
MIAMI, FLORIDA 33131
305/579-8000

(Address, including zip code and telephone number, including area code,
of the principal executive offices)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, par value \$.10 per share	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark whether the Registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), during the preceding 12 months (or for such shorter period that the Registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. [X] Yes [] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X] Yes [] No

The aggregate market value of the voting stock held by non-affiliates of Brooke Group Ltd. as of March 24, 2000 was approximately \$142,000,000. Directors and officers and ten percent or greater stockholders of Brooke Group Ltd. are considered affiliates for purposes of this calculation but should not necessarily be deemed affiliates for any other purpose.

At March 24, 2000, Brooke Group Ltd. had 21,989,782 shares of common stock outstanding, and BGLS Inc. had 100 shares of common stock outstanding, all of which are held by Brooke Group Ltd.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III (Items 10, 11, 12 and 13) from the definitive Proxy Statement for the 2000 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission no later than 120 days after the end of the registrant's fiscal year covered by this report.

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BROOKE GROUP LTD.
BGLS INC.

FORM 10-K

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PART I

ITEM 1. BUSINESS

GENERAL

Brooke Group Ltd., a Delaware corporation, is a holding company for a number of businesses. It is engaged principally in the manufacture and sale of cigarettes in the United States through its subsidiary Liggett Group Inc.; in the manufacture and sale of cigarettes in Russia through its subsidiary Liggett-Ducat Ltd.; and in the investment banking and brokerage business in the United States, real estate operations in Russia and investment in Internet-related businesses through its majority-owned subsidiary New Valley Corporation. Brooke holds these businesses through its wholly-owned subsidiary, BGLS Inc., a Delaware corporation.

Brooke is controlled by Bennett S. LeBow, the Chairman and Chief Executive Officer of Brooke, BGLS and New Valley, who beneficially owns approximately 44% of Brooke's common stock. The principal executive offices of Brooke and BGLS are located at 100 S.E. Second Street, Miami, Florida, and the telephone number is (305) 579-8000.

LIGGETT GROUP INC.

GENERAL. Liggett, which is the operating successor to the Liggett & Myers Tobacco Company, is the fifth largest manufacturer of cigarettes in the United States in terms of unit sales. Substantially all of Liggett's manufacturing facilities are located in or near Durham, North Carolina.

Liggett is a wholly-owned subsidiary of Brooke Group Holding Inc., the predecessor of Brooke and a wholly-owned subsidiary of BGLS.

Liggett manufactures and sells cigarettes primarily in the United States. Liggett believes, based on published industry sources, that Liggett's domestic shipments of approximately 5.24 billion cigarettes during 1999 accounted for 1.2% of the total cigarettes shipped in the United States during such year. This market share percentage represents a decline of 0.1% from 1998 and 1997. Liggett produces both premium cigarettes as well as discount cigarettes (which include among others, control label, branded discount and generic cigarettes). Premium cigarettes are generally marketed under well-recognized brand names at full retail prices to adult smokers with strong preference for branded products, whereas discount cigarettes are marketed at lower retail prices to adult smokers who are more cost conscious. Liggett's cigarettes are produced in approximately 200 combinations of length, style and packaging.

Until May 1999, Liggett produced four premium cigarette brands: L&M, CHESTERFIELD, LARK and EVE. Liggett's premium cigarettes represented approximately 18.6% in 1999, 30.2% in 1998 and 32.8% in 1997 of Liggett's net sales (excluding federal excise taxes). Liggett's management believes, based on published industry sources, that Liggett's share of the premium market segment was approximately 0.3% for 1999 and 0.5% for 1998 and 1997. As part of the Philip Morris brand transaction which closed on May 24, 1999, Liggett transferred the L&M, CHESTERFIELD and LARK brands, which represented approximately 16.1% in 1998 and 18.1% in 1997 of Liggett's net sales (excluding federal excise taxes).

In 1980, Liggett was the first major domestic cigarette manufacturer to successfully introduce discount cigarettes as an alternative to premium

cigarettes. In 1989, Liggett established a new price point within the discount market segment by introducing PYRAMID, a branded discount product which, at that time, sold for less than most other discount cigarettes. Liggett's management believes, based on published industry sources, that Liggett held a share of approximately 3.9% of the discount market segment for 1999 compared to 3.5% for 1998 and 1997.

In January 1997, Liggett underwent a major restructuring from a centralized organization to a decentralized enterprise with four regional Strategic Business Units, each a profit center, and a corporate headquarters. This restructuring was designed to more closely align sales and marketing strategies with the unique requirements of regional markets as well as reduce working capital by improved production planning and inventory control. As a result of this reorganization, Liggett reduced its headcount by a total of 108 positions (18%) over the succeeding twelve months.

In November 1999, Liggett acquired an industrial facility in Mebane, North Carolina. Liggett plans to relocate its tobacco manufacturing operations from its current facility in Durham, North Carolina to the Mebane facility by the end of 2000. Liggett's management currently estimates that the move will result in annual cost savings of approximately \$6 million per year for Liggett.

At the present time, Liggett has no foreign operations. Liggett does not own the international rights to its remaining premium cigarette brand, EVE, which is marketed by Philip Morris in foreign markets, thereby adversely affecting Liggett's ability to penetrate those markets. Liggett does, however, export other cigarette brands primarily to Eastern Europe and the Middle East. Export sales of approximately 128 million cigarettes accounted for approximately 2.5% of Liggett's 1999 total unit sales volume. Revenues from export sales were \$1.2 million for 1999, compared to \$0.6 million for 1998 and \$0.8 million for 1997. Operating income attributable to export sales in 1999 amounted to approximately \$0.1 million compared to operating income of \$0.07 million in 1998 and an operating loss of \$0.1 million in 1997.

BUSINESS STRATEGY. Liggett's business strategy is to capitalize upon its cost advantage in the United States cigarette market due to the favorable treatment Liggett has received under the settlement agreements with the state attorneys general and the Master Settlement Agreement described below. Liggett's long-term business strategy is to focus its marketing efforts on the discount segment of the market. Liggett will seek to increase its profitability by reorganizing its manufacturing facility at a new site and by better targeting of marketing and selling costs using market research and analysis. Liggett intends to reinvest a portion of the price increases and cost savings in marketing to grow its volume and income in the discount segment. Liggett's strategy in the premium segment of the market is to maintain or improve the profitability of its remaining premium brand, EVE, in the face of declining unit sales and market share through improved operating efficiencies and targeted promotional strategies.

SALES, MARKETING AND DISTRIBUTION. Liggett's products are distributed from a central distribution center in Durham, North Carolina to 26 public warehouses located throughout the United States. These warehouses serve as local distribution centers for Liggett's customers. Liggett's products are transported from the central distribution center to the warehouses via third-party trucking companies to meet pre-existing contractual obligations to its customers.

Liggett's customers are primarily candy and tobacco distributors, the military and large grocery, drug and convenience store chains. Liggett offers its customers discount payment terms, traditional rebates and promotional incentives. Customers typically pay for purchased goods within two weeks following delivery from Liggett. Liggett's largest single customer, Speedway SuperAmerica LLC, accounted for approximately 30.7% of its net sales in 1999,

approximately 26.9% of its net sales in 1998, and approximately 19.4% of its net sales in 1997. Sales to this customer were primarily in the private label discount segment and constituted approximately 38.2% in 1999, 32.8% in 1998 and 29.1% in 1997 of Liggett's discount segment sales.

Liggett's marketing and sales functions are performed by approximately 115 direct sales representatives calling on national and regional customer accounts, together with approximately 80 part-time retail sales consultants who service retail outlets. Liggett also employs food broker groups in certain geographic locations to perform these marketing and sales functions.

TRADEMARKS. All of the major trademarks used by Liggett are federally registered or are in the process of being registered in the United States and other markets where Liggett's products are sold. Trademark registrations typically have a duration of ten years and can be renewed at Liggett's option prior to their expiration date. In view of the significance of cigarette brand awareness among consumers, management believes that the protection afforded by these trademarks is material to the conduct of its business. All of Liggett's trademarks are owned by its wholly-owned subsidiaries, Eve Holdings Inc. and Cigarette Exporting Company of America, Ltd.

MANUFACTURING. Liggett purchases and maintains leaf tobacco inventory to support its cigarette manufacturing requirements. Liggett believes that there is a sufficient supply of tobacco within the worldwide tobacco market to satisfy its current production requirements. Liggett stores its leaf tobacco inventory in warehouses in North Carolina and Virginia. There are several different types of tobacco, including flue-cured leaf, burley leaf, Maryland leaf, oriental leaf, cut stems and reconstituted sheet. Leaf components of cigarettes are generally the flue-cured and burley tobaccos. While premium and discount brands use many of the same tobacco products, input ratios of tobacco products account for the differences between premium and discount products. Domestically grown tobacco is an agricultural commodity subject to United States government production controls and price supports which can substantially affect its market price. Foreign flue-cured and burley tobaccos, some of which are used in the manufacture of Liggett's cigarettes, are generally 10% to 15% less expensive than comparable domestic tobaccos. Liggett normally purchases all of its tobacco requirements from domestic and foreign leaf tobacco dealers, much of it under long-term purchase commitments. As of December 31, 1999, substantially all of Liggett's commitments were for the purchase of foreign tobacco.

Liggett's cigarette manufacturing facilities are designed for the execution of short production runs in a cost-effective manner, which enables Liggett to manufacture and market a wide variety of cigarette brand styles. Liggett's cigarettes are produced in approximately 200 different brand styles under Eve's and Cigarette Exporting's trademarks and brand names as well as private labels for other companies, typically retail or wholesale distributors who supply supermarkets and convenience stores. Liggett believes that its existing facilities are sufficient to accommodate a substantial increase in production.

While Liggett pursues product development, its total expenditures for research and development on new products have not been financially material over the past three years.

COMPETITION. Liggett is the smallest of the five major manufacturers of cigarettes in the United States. The four largest manufacturers of cigarettes are Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation and Lorillard Tobacco Company, Inc.

There are substantial barriers to entry into the cigarette business, including extensive distribution organizations, large capital outlays for sophisticated production equipment, substantial inventory investment, costly promotional spending, regulated advertising and for premium brands strong brand loyalty. In this industry, the major cigarette manufacturers compete among

themselves for market share on the basis of brand loyalty, advertising and promotional activities and trade rebates and incentives. Liggett's four major competitors all have substantially greater financial resources and most of these competitors' brands have greater sales and consumer recognition than Liggett's brands.

Liggett's management believes, based on published industry sources, that Philip Morris' and RJR's sales together accounted for approximately 72.6% of the domestic cigarette market in 1999. Liggett's domestic shipments of approximately 5.24 billion cigarettes during 1999 accounted for 1.2% of the approximately 419.3 billion cigarettes shipped in the United States during that year, compared to 5.91 billion cigarettes (1.3%) during 1998 and 6.45 billion cigarettes (1.3%) during 1997.

Industry-wide shipments of cigarettes in the United States have been declining for a number of years. Consistent with published industry sources that domestic industry-wide shipments declined by approximately 9.0% in 1999, Liggett's management believes that industry-wide shipments of cigarettes in the United States will continue to decline as a result of numerous factors, including health considerations, diminishing social acceptance of smoking, legislative limitations on smoking in public places and federal and state excise tax increases which have contributed to cigarette price increases.

Historically, because of their dominant market share, Philip Morris and RJR have been able to determine cigarette prices for the various pricing tiers within the industry and the other cigarette manufacturers have brought their prices in line with the levels established by the two industry leaders. Off-list price discounting by manufacturers, however, has substantially affected the average price differential at retail, which can be significantly greater than the manufacturers' list price gap.

PHILIP MORRIS BRAND TRANSACTION. In November 1998, Brooke and Liggett granted Philip Morris options to purchase interests in Trademarks LLC which holds three domestic cigarette brands, L&M, CHESTERFIELD and LARK, formerly held by Liggett's subsidiary, Eve.

Under the terms of the Philip Morris agreements, Eve contributed the three brands to Trademarks, a newly-formed limited liability company, in exchange for 100% of Trademarks' interests, the Class A Voting Interest and the Class B Redeemable Nonvoting Interest. Philip Morris acquired two options to purchase the interests from Eve. In December 1998, Philip Morris paid Eve a total of \$150 million for the options, \$5 million for the option for the Class A interest and \$145 million for the option for the Class B interest. Liggett used the option payment proceeds to fund the redemption of Liggett's Senior Secured Notes on December 28, 1998.

The Class A option entitled Philip Morris to purchase the Class A interest for \$10.1 million. On March 19, 1999, Philip Morris exercised the Class A option, and the closing occurred on May 24, 1999.

The Class B option entitles Philip Morris to purchase the Class B interest for \$139.9 million. The Class B option will be exercisable during the 90-day period beginning on December 2, 2008, with Philip Morris being entitled to extend the 90-day period for up to an additional six months under certain circumstances. The Class B interest will also be redeemable by Trademarks for \$139.9 million during the same period the Class B option may be exercised.

On May 24, 1999, Trademarks borrowed \$134.9 million from a lending institution. The loan is guaranteed by Eve and is collateralized by a pledge by Trademarks of the three brands and Trademarks' interest in the trademark license agreement (discussed below) and by a pledge by Eve of its Class B interest. In connection with the closing of the Class A option, Trademarks distributed the

loan proceeds to Eve as the holder of the Class B interest. The cash exercise price of the Class B option and Trademarks' redemption price were reduced by the amount distributed to Eve. Upon Philip Morris' exercise of the Class B option or Trademarks' exercise of its redemption right, Philip Morris or Trademarks, as relevant, will be required to obtain Eve's release from its guaranty. The Class B interest will be entitled to a guaranteed payment of \$500,000 each year with the Class A interest allocated all remaining income or loss of Trademarks. The proceeds of the loan and the exercise of the Class A option were used to retire a portion of the BGLS notes.

Trademarks has granted Philip Morris an exclusive license of the three brands for an 11-year term expiring May 24, 2010 at an annual royalty based on sales of cigarettes under the brands, subject to a minimum annual royalty payment of not less than the annual debt service obligation on the loan plus \$1 million.

If Philip Morris fails to exercise the Class B option, Eve will have an option to put its Class B interest to Philip Morris, or Philip Morris' designees, at a put price that is \$5 million less than the exercise price of the Class B option (and includes Philip Morris' obtaining Eve's release from its loan guaranty). The Eve put option is exercisable at any time during the 90-day period beginning March 2, 2010.

If the Class B option, Trademarks' redemption right and the Eve put option expire unexercised, the holder of the Class B interest will be entitled to convert the Class B interest, at its election, into a Class A interest with the same rights to share in future profits and losses, the same voting power and the same claim to capital as the entire existing outstanding Class A interest, i.e. a 50% interest in Trademarks.

LEGISLATION, REGULATION AND LITIGATION. Reports with respect to the alleged harmful physical effects of cigarette smoking have been publicized for many years and, in the opinion of Liggett's management, have had and may continue to have an adverse effect on cigarette sales. Since 1964, the Surgeon General of the United States and the Secretary of Health and Human Services have released a number of reports which claim that cigarette smoking is a causative factor with respect to a variety of health hazards, including cancer, heart disease and lung disease, and have recommended various government actions to reduce the incidence of smoking. In 1997, Liggett publicly acknowledged that, as the Surgeon General and respected medical researchers have found, smoking causes health problems, including lung cancer, heart vascular disease and emphysema.

Since 1966, federal law has required that cigarettes manufactured, packaged or imported for sale or distribution in the United States include specific health warnings on their packaging. Since 1972, Liggett and the other cigarette manufacturers have included the federally required warning statements in print advertising, on billboards and on certain categories of point-of-sale display materials relating to cigarettes. The Comprehensive Smoking Education Act, which became effective in October 1985, requires that packages of cigarettes distributed in the United States and cigarette advertisements (other than billboard advertisements) in the United States bear one of the following four warning statements on a quarterly rotating basis: "SURGEON GENERAL'S WARNING: Smoking Causes Lung Cancer, Heart Disease, Emphysema, and May Complicate Pregnancy"; "SURGEON GENERAL'S WARNING: Quitting Smoking Now Greatly Reduces Serious Risks to Your Health"; "SURGEON GENERAL'S WARNING: Smoking by Pregnant Women May Result in Fetal Injury, Premature Birth, and Low Birth Weight"; and "SURGEON GENERAL'S WARNING: Cigarette Smoke Contains Carbon Monoxide". By a limited eligibility amendment to the Comprehensive Smoking Education Act, for which Liggett qualifies, Liggett is allowed to display all four required package warnings for the majority of its brand packages on a simultaneous basis (such that the packages at any time may carry any one of the four required warnings), although it rotates the required warnings for advertising on a quarterly basis in the same manner as do the other major cigarette manufacturers. The law also requires that each person who

manufactures, packages or imports cigarettes annually provide to the Secretary of Health and Human Services a list of ingredients added to tobacco in the manufacture of cigarettes. Annual reports to the United States Congress are also required from the Secretary of Health and Human Services as to current information on the health consequences of smoking and from the Federal Trade Commission on the effectiveness of cigarette labeling and current practices and methods of cigarette advertising and promotion. Both federal agencies are also required annually to make such recommendations as they deem appropriate with regard to further legislation. In addition, since 1997, Liggett has included the warning "Smoking is Addictive" on its cigarette packages.

In August 1996, the Food and Drug Administration filed in the Federal Register a Final Rule classifying tobacco as a "drug" or "medical device", asserting jurisdiction over the manufacture and marketing of tobacco products and imposing restrictions on the sale, advertising and promotion of tobacco products. Litigation was initiated by certain tobacco companies challenging the FDA's authority to assert jurisdiction. In March 2000, the United States Supreme Court ruled that the FDA does not have the power to regulate tobacco. Liggett supported the FDA rule and began to phase in compliance with certain of the proposed FDA regulations.

In August 1996, Massachusetts enacted legislation requiring tobacco companies to publish information regarding the ingredients in cigarettes and other tobacco products sold in that state. In December 1997, the United States District Court for the District of Massachusetts enjoined this legislation from going into effect on the grounds that it was preempted by federal law. In November 1998, the First Circuit affirmed this ruling. However, in December 1997, Liggett began complying with this legislation by providing ingredient information to the Massachusetts Department of Public Health. Several other states have enacted, or are considering, legislation similar to that enacted in Massachusetts.

In 1993, Congress amended the Agricultural Adjustment Act of 1938 to require each United States cigarette manufacturer to use at least 75% domestic tobacco in the aggregate of the cigarettes manufactured by it in the United States, effective January 1994, on an annualized basis or pay a domestic marketing assessment based upon price differentials between foreign and domestic tobacco and, under certain circumstances, make purchases of domestic tobacco from the tobacco stabilization cooperatives organized by the United States government. After an audit, the United States Department of Agriculture informed Liggett that it did not satisfy the 75% domestic tobacco usage requirement in 1994 and assessed Liggett approximately \$5.5 million. Liggett has paid this assessment. Since the levels of domestic tobacco inventories on hand at the tobacco stabilization organizations were below reserve stock levels, Liggett was not obligated to make purchases of domestic tobacco from the tobacco stabilization cooperatives.

In February 1996, the United States Trade representative issued an "advance notice of rule making" concerning how tobaccos imported under a previously established tobacco rate quota should be allocated. Currently, tobacco imported under the quota is allocated on a "first-come, first-served" basis, meaning that entry is allowed on an open basis to those first requesting entry in the quota year. Others in the cigarette industry have suggested an "end-user licensing" system under which the right to import tobacco under the quota would be initially assigned on the basis of domestic market share. Such an approach, if adopted, could have a material adverse effect on Liggett.

In 1993, the Environmental Protection Agency released a report on the respiratory effect of secondary smoke which concluded that secondary smoke is a known human lung carcinogen in adults and, in children, causes increased respiratory tract disease and middle ear disorders and increases the severity and frequency of asthma. In June 1993, the two largest domestic cigarette manufacturers, together with other segments of the tobacco and distribution industries, commenced a lawsuit against the agency seeking a determination that the agency did not have the statutory authority to regulate secondary smoke and that given the current body of scientific evidence and the agency's failure to follow its own guidelines in making the determination, its classification of secondary smoke was arbitrary and capricious. Whatever the outcome of this

litigation, issuance of the report may encourage efforts to limit smoking in public areas. In July 1998, a federal district court vacated those sections of the report relating to lung cancer, finding that the agency may have reached different conclusions had it complied with relevant statutory requirements. The federal government has appealed the court's ruling.

As part of the 1997 budget agreement approved by Congress, federal excise taxes on a pack of cigarettes, which are currently 34 cents, were increased at the beginning of 2000 and will rise 5 cents more in the year 2002. In general, excise taxes and other taxes on cigarettes have been increasing. These taxes vary considerably and, when combined with sales taxes and the current federal excise tax, may be as high as \$1.66 per pack in a given locality in the United States. Congress has been considering significant increases in the federal excise tax or other payments from tobacco manufacturers, and the Clinton Administration's fiscal year 2001 budget proposal includes an additional increase of \$.25 per pack in the federal excise tax, as well as a contingent special assessment related to youth smoking rates. Increases in other cigarette-related taxes have been proposed at the state and local level.

There are various other legislative efforts pending on the federal and state level which seek, among other things, to restrict or prohibit smoking in public buildings and other areas, increase excise taxes, require additional warnings on cigarette packaging and advertising, ban vending machine sales, curtail affirmative defenses of tobacco companies in product liability litigation, place cigarettes under the regulatory jurisdiction of the FDA and require that cigarettes meet certain fire safety standards. If adopted, at least certain of the foregoing legislative proposals could have a material adverse impact on Liggett and Brooke.

While attitudes toward cigarette smoking vary around the world, a number of foreign countries have also taken steps to discourage cigarette smoking, to restrict or prohibit cigarette advertising and promotion and to increase taxes on cigarettes. Those restrictions are, in some cases, more onerous than restrictions imposed in the United States. Due to Liggett's lack of foreign operations, and minimal export sales to foreign countries, the risks of foreign limitations or restrictions on the sale of cigarettes are limited to entry barriers into additional foreign markets and the inability to expand the existing markets.

The cigarette industry continues to be challenged on numerous fronts. The industry is facing increased pressure from anti-smoking groups and an extraordinary increase in smoking and health litigation, including private class action litigation and health care cost recovery actions brought by governmental entities and other third parties, the effects of which, at this time, Brooke is unable to evaluate. As of December 31, 1999, there were approximately 300 individual suits, approximately 50 purported class actions or actions where class certification has been sought and approximately 90 governmental and other third-party payor health care recovery actions pending in the United States in which Liggett is a named defendant. These cases are referred to herein as though commenced against Liggett (without regard to whether such cases were actually commenced against Liggett or against Brooke Group Holding, Brooke's predecessor). The plaintiffs' allegations of liability in those cases in which individuals seek recovery for injuries allegedly caused by cigarette smoking are based on various theories of recovery, including negligence, gross negligence, breach of special duty, strict liability, fraud, misrepresentation, design defect, failure to warn, breach of express and implied warranties, conspiracy, aiding and abetting, concert of action, unjust enrichment, common law public nuisance, property damage, invasion of privacy, mental anguish, emotional distress, disability, shock, indemnity and violations of deceptive trade practice laws, the Federal Racketeer Influenced and Corrupt Organization Act, state racketeering statutes and antitrust statutes. In many of these cases, in addition to compensatory damages, plaintiffs also seek other forms of relief including treble/multiple damages, disgorgement of profits and punitive damages. Defenses raised by defendants in these cases include lack of proximate cause, assumption of the risk, comparative fault and/or contributory negligence, lack of design defect, statutes of limitations, equitable defenses such as "unclean hands" and lack of benefit, failure to state a claim and federal preemption.

The claims asserted in the health care cost recovery actions vary. In most of these cases, plaintiffs assert the equitable claim that the tobacco industry was "unjustly enriched" by plaintiffs' payment of health care costs

allegedly attributable to smoking and seek reimbursement of those costs. Other claims made by some but not all plaintiffs include the equitable claim of indemnity, common law claims of negligence, strict liability, breach of express and implied warranty, breach of special duty, fraud, negligent misrepresentation, conspiracy, public nuisance, claims under state and federal statutes governing consumer fraud, antitrust, deceptive trade practices and false advertising, and claims under RICO.

In September 1999, the United States government commenced litigation against Liggett and the other tobacco companies in the United States District Court for the District of Columbia. The action seeks to recover an unspecified amount of healthcare costs paid for and furnished, and to be paid for and furnished, by the Federal Government for lung cancer, heart disease, emphysema and other smoking-related illnesses allegedly caused by the fraudulent and tortious conduct of defendants, to restrain defendants and co-conspirators from engaging in fraud and other unlawful conduct in the future, and to compel defendants to disgorge the proceeds of their unlawful conduct. The complaint alleges that such costs total more than \$20 billion annually. The action asserts claims under three Federal statutes: the Medical Care Recovery Act, the Medicare Secondary Payer provisions of the Social Security Act and RICO. In December 1999, Liggett filed a motion to dismiss the lawsuit on numerous grounds, including that the statutes invoked by the government do not provide a basis for the relief sought.

Approximately 20 purported state class action complaints have been filed on behalf of various consumers of cigarette products against the tobacco manufacturers. The complaints allege that cigarette manufacturers engaged in illegal and unethical activities since the 1940's, many conspiratorial in nature, designed to increase profits at the financial and physical expense of customers. These alleged activities include knowingly increasing the addictiveness of cigarettes through crop manipulation; downplaying the detrimental health effects of cigarette smoking; conspiring to refrain from researching and introducing "safer" cigarettes; creating false and misleading scientific research design to combat the growing scientific consensus about the lethal health effects associated with cigarettes; aggressively marketing products to children and minors in an effort to addict them to cigarettes at a young age; and systematically covering up activities to avoid regulation of products by governmental agencies. The purported class actions are brought pursuant to various state laws.

In March 1996, Brooke Group Holding and Liggett entered into an agreement, subject to court approval, to settle the CASTANO class action tobacco litigation. The CASTANO class was subsequently decertified by the court. In 1996, 1997 and 1998, Brooke Group Holding and Liggett entered into settlements of smoking-related litigation with the Attorneys General of 45 states and territories. The settlements released Brooke Group Holding and Liggett from all smoking-related claims, including claims for health care cost reimbursement and claims concerning sales of cigarettes to minors.

In November 1998, Philip Morris, RJR, Brown & Williamson, Lorillard, and Liggett entered into the Master Settlement Agreement with 46 states, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Marianas to settle the asserted and unasserted health care cost recovery and certain other claims of those settling jurisdictions. As described above, Brooke Group Holding and Liggett had previous settlements with a number of these settling states.

The Master Settlement Agreement is subject to final judicial approval in each of the settling states and territories, which approval has been obtained, as of December 31, 1999, in 47 jurisdictions.

Liggett has no payment obligations under the Master Settlement Agreement unless its market share exceeds a base share of 125% of its 1997 market share or 1.67% of total cigarettes sold in the United States. In the year

following any year in which Liggett's market share does exceed the base share, Liggett will pay on each excess unit an amount equal (on a per-unit basis) to that paid during such following year by the original participating manufacturers under the annual and strategic contribution payment provisions of the Master Settlement Agreement, subject to applicable adjustments, offsets and reductions. Under the annual and strategic contribution payment provisions of the Master Settlement Agreement, the original participating manufacturers (and Liggett to the extent its market share exceeds the base share) will pay the following annual amounts (subject to certain adjustments):

YEAR ----	AMOUNT -----
2000	\$4.5 billion
2001	\$5.0 billion
2002 - 2003	\$6.5 billion
2004 - 2007	\$8.0 billion
2008 - 2017	\$8.1 billion
2018 and each year thereafter	\$9.0 billion

These annual payments will be allocated based on relative unit volume of domestic cigarette shipments. The payment obligations under the Master Settlement Agreement are the several, and not joint, obligations of each participating manufacturer and are not the responsibility of any parent or affiliate of a participating manufacturer.

The Master Settlement Agreement replaces Liggett's prior agreements with all states and territories except for Florida, Mississippi, Texas and Minnesota. In the event the Master Settlement Agreement does not receive final judicial approval in any state or territory, Liggett's prior settlement with that state or territory, if any, will be revived.

The states of Florida, Mississippi, Texas and Minnesota, prior to the effective date of the Master Settlement Agreement, negotiated and executed settlement agreements with each of the other major tobacco companies separate from those settlements reached previously with Liggett. Because these states' settlement agreements with Liggett provided for "most favored nation" protection for both Brooke Group Holding and Liggett, any payments due these states by Liggett (with certain possible exceptions) have been eliminated.

In May 1994, an action entitled ENGLE, ET AL. V. R.J. REYNOLDS TOBACCO COMPANY, ET AL., Circuit Court Eleventh Judicial Circuit, Dade County, Florida, was filed against Liggett and others. The class consists of all Florida residents and citizens, and their survivors, who have suffered, presently suffer or have died from diseases and medical conditions caused by their addiction to cigarettes that contain nicotine. In July 1998, Phase I of the trial in this action commenced. On July 7, 1999, the jury returned the Phase I verdict. The Phase I verdict concerned certain issues determined by the trial court to be "common" to the causes of action of the plaintiff class. Among other things, the jury found that smoking cigarettes causes 20 diseases or medical conditions, that cigarettes are addictive or dependence producing, defective and unreasonably dangerous, that defendants made materially false statements with the intention of misleading smokers, that defendants concealed or omitted material information concerning the health effects and/or the addictive nature of smoking cigarettes and agreed to misrepresent and conceal the health effects and/or the addictive nature of smoking cigarettes, and that defendants were negligent and engaged in extreme and outrageous conduct or acted with reckless disregard with the intent to inflict emotional distress. The jury also found that defendants' conduct "rose to a level that would permit a potential award or entitlement to punitive damages." The court decided that Phase II of the trial, which commenced November 1, 1999, would be a causation and damages trial for three of the class representatives and a punitive damages trial on a class-wide basis, before the same jury that returned the verdict in Phase I. Phase III of the trial will be conducted before separate juries to address absent class members' claims, including issues of specific causation and other individual issues regarding entitlement to compensatory damages.

In March 1997, Liggett, Brooke Group Holding and a nationwide class of individuals that allege smoking-related claims filed a mandatory class settlement agreement in an action entitled FLETCHER, ET AL. V. BROOKE GROUP LTD., ET AL., Circuit Court of Mobile County, Alabama, where the court granted preliminary approval and preliminary certification of the class. In July 1998, the parties filed an amended class action settlement agreement which was preliminarily approved by the court in December 1998. In July 1999, the court denied approval of the settlement. The parties' motion for reconsideration is still pending.

Management is not able to predict the outcome of the smoking-related litigation pending against Brooke Group Holding or Liggett. Management believes, and has been so advised by counsel handling the cases, that Brooke Group Holding and Liggett have a number of valid defenses to the claims asserted against them. Litigation is subject to many uncertainties. An unfavorable verdict has been returned in the first phase of the ENGLE smoking and health class action trial pending in Florida. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the ENGLE case. In a worst case scenario, it is possible that a judgment for punitive damages could be entered in the ENGLE case in an amount not capable of being bonded, resulting in an execution of the judgment before it could be set aside on appeal. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation. Management is unable to make a meaningful estimate with respect to the amount of loss that could result from an unfavorable outcome of many of the cases pending against Brooke Group Holding or Liggett or the costs of defending such cases. It is possible that Brooke's consolidated financial position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any such smoking-related litigation.

Liggett's management is unaware of any material environmental conditions affecting its existing facilities. Liggett's management believes that current operations are conducted in accordance with all environmental laws and regulations. Compliance with federal, state and local provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, have not had a material effect on the capital expenditures, earnings or competitive position of Liggett.

Liggett's management believes that it is in compliance in all material respects with the laws regulating cigarette manufacturers.

See Note 22 to Brooke's consolidated financial statements for a description of legislation, regulation and litigation and of the Master Settlement Agreement and Brooke Group Holding's and Liggett's other settlements.

LIGGETT-DUCAT LTD.

LIGGETT-DUCAT LTD. Brooke (Overseas) Ltd., a wholly-owned subsidiary of BGLS, owns a 99.9% equity interest in Liggett-Ducat Ltd., a Russian joint stock company, through its subsidiary Western Tobacco Investments LLC. Liggett-Ducat, one of Russia's leading cigarette producers since 1892, manufactured and marketed 25.2 billion cigarettes in 1999, an increase of 24% from the 20.3 billion cigarettes manufactured and marketed in 1998. Liggett-Ducat produces or has rights to produce 26 different brands of cigarettes, including Russian brands such as PEGAS, PRIMA, NOVOSTI and BELOMORKANAL. In 1999, Liggett-Ducat launched two new American blend cigarettes under the names "DUKAT" and "LD".

Liggett-Ducat manufactures three types of cigarettes: filter, non-filter and papirossi. Papirossi is a traditional type of Russian cigarette featuring a long paper filter comprising two-thirds of the cigarette with

tobacco filling up the balance. In 1999, Liggett-Ducat sold 8.9 billion filter cigarettes (35% of its total volume), 13.0 billion non-filter cigarettes (52%) and 3.3 billion papirossi (13%).

The long-term strategy of Liggett-Ducat is to continue to upgrade the quality of its traditional Russian cigarette brands to international standards and to expand the range of cigarettes it offers to include more higher-margin American blend and international blend cigarettes. The new types of cigarettes should appeal to the growing segment of the market that prefers American blend cigarettes over traditional Russian blended cigarettes. Russian blend cigarettes have a very strong flavored oriental tobacco blend with a heavy pungent odor, while the American blend is a lighter flavored Virginia tobacco blend. The international blend will be a mix between Russian and American blends. As markets have developed in Eastern Europe, consumer preferences have typically shifted toward international and American blend cigarettes.

Until March 1999, Liggett-Ducat produced its cigarettes in a 150,000 square foot factory complex located on Gasheka Street in downtown Moscow. Liggett-Ducat also operates a 150,000 square foot warehouse outside of the city. In June 1999, Liggett-Ducat completed construction of a new cigarette factory on the outskirts of Moscow on land it has leased for a term of 49 years. The new factory, which utilizes Western cigarette making technology and has a capacity in excess of 40 billion units per year, produces American and international blend cigarettes, as well as traditional Russian cigarettes. The old factory closed at the end of March 1999 with production starting in the new factory in June 1999.

Liggett-Ducat manufactures its cigarettes on 29 production lines at the new factory, comprised of both imported and Russian-made machinery. Liggett-Ducat acquired 14 new high-speed tobacco lines which are being used at the new factory. In recent years, Liggett-Ducat had upgraded the equipment at the old factory to improve its operations and all upgraded equipment has been utilized at the new factory. In 1997, Liggett-Ducat completed installation of an upgraded primary processing complex manufactured by GBE Tobacco. The upgraded primary equipment has been moved to and expanded in the new factory, allowing Liggett-Ducat to produce American blend, international blend and traditional Russian cigarettes. In addition, Liggett-Ducat acquired four new or rebuilt filter-making complexes from Hoechst Celanese which allow Liggett-Ducat to produce Western quality filters, and installed a new cigarette tobacco reclamation machine to reduce waste.

The Russian cigarette market is one of the largest and fastest growing cigarette markets in the world. Annual consumption of cigarettes is estimated at in excess of 270 billion units in Russia (1999 estimate), making the market the fourth largest in the world after the United States, China and Japan. The potential size of the market is estimated by management at up to 350 billion units per year. Approximately 61% of Russian men and 23% of Russian women are estimated to smoke cigarettes. The market has been growing rapidly over the past several years (particularly the female market) as imported cigarettes have become available to satisfy increasing demand.

While growth in consumption had been restrained historically by static domestic cigarette making capacity, domestic production capacity has increased significantly in the past several years to approximately 230 billion cigarettes in 1999. Excess demand and demand for Western-style cigarettes are satisfied by imported cigarettes. Industry estimates indicate that imported product represented approximately 45% of the total Russian market in 1997 and 1998. This trend changed substantially in 1999 with only 11% of the market supplied through imports. This resulted from the continued effects of the August 1998 Russian financial crisis and the related decline in the value of the ruble. In order to increase their presence in the Russian market and avoid import duties, several of the major international cigarette manufacturers have begun to produce American and international blend cigarettes domestically.

Russian customs legislation continues to support local producers. The Russian Government imposes high import duties on imported cigarettes with a current effective rate of 100% of cost. In the past, many imported cigarettes were sold illegally without payment of required duties. Recent efforts to

improve enforcement of import duties have maintained the differential between the price of imported and domestic cigarettes. Imported cigarettes currently range in price at retail from approximately 10 to 29 rubles (\$.35 to \$1.01) per pack, while domestically produced cigarettes sell for approximately 2.2 to 9.2 rubles (\$.08 to \$.32) per pack.

Liggett-Ducat's Russian brands currently compete primarily against those of other Russian cigarette makers. Liggett-Ducat as well as other Russian producers sell their cigarettes at the lowest price points in the market. Competition in this sector of the market is generally based on price and name recognition of the producing factory. There is very limited advertising of these products, typically only in trade publications and wholesale catalogs. Liggett-Ducat's Russian brands also compete to a lesser extent against lower priced imported cigarettes from Eastern Europe and Asia. Liggett-Ducat's recently introduced "DUKAT" and "LD" brands will compete with the brands of the other major international manufacturers in the mid-priced segment of the market. Liggett-Ducat will support the introduction of the brand with billboard and print advertising and other promotional activities.

NEW VALLEY CORPORATION

GENERAL. New Valley, a Delaware corporation, is engaged in the investment banking and brokerage business through its ownership of Ladenburg, Thalmann & Co. Inc., in the real estate development business in Russia through BrookeMil Ltd., Western Realty Development LLC and Western Realty Repin LLC, and in investment in Internet-related businesses. New Valley is registered under the Securities Exchange Act of 1934 and files periodic reports and other information with the SEC.

BGLS currently holds, either directly or indirectly through BGLS' wholly-owned subsidiary, New Valley Holdings, Inc., approximately 55.5% of the Common Shares of New Valley.

New Valley was originally organized under the laws of New York in 1851 and operated for many years under the name "Western Union Corporation". In 1991, bankruptcy proceedings were commenced against New Valley. In January 1995, New Valley emerged from bankruptcy. As part of the bankruptcy plan, New Valley sold the Western Union money transfer and messaging services businesses and all allowed claims in the bankruptcy were paid in full.

In October 1999, New Valley's Board of Directors authorized the repurchase of up to 2,000,000 Common Shares from time to time in the open market or in privately negotiated transactions. As of March 24, 2000, New Valley had repurchased 75,200 shares for approximately \$346,000.

PLAN OF RECAPITALIZATION. New Valley consummated a plan of recapitalization on June 4, 1999, following approval by New Valley's stockholders. Pursuant to the plan of recapitalization:

- o each \$15.00 Class A Increasing Rate Cumulative Senior Preferred Share (\$100 liquidation), \$.01 par value, was reclassified into 20 Common Shares and one Warrant exercisable for five years,
- o each \$3.00 Class B Cumulative Convertible Preferred Share, \$.10 par value, was reclassified into 1/3 of a Common Share and five Warrants, and
- o each outstanding Common Share was reclassified into 1/10 of a Common Share and 3/10 of a Warrant.

The recapitalization had a significant effect on New Valley's financial position and results of operations. As a result of the exchange of the outstanding preferred shares for common shares and warrants in the recapitalization, New Valley's stockholders' equity increased by \$343.4 million from the elimination of the carrying value and dividend arrearages on the

redeemable preferred stock. Furthermore, the recapitalization resulted in the elimination of the on-going dividend accruals on the existing redeemable preferred shares of New Valley, as well as the redemption obligation for the Series A Preferred Shares in January 2003. Also as a result of the recapitalization, the number of outstanding Common Shares more than doubled, and additional Common Shares were reserved for issuance upon exercise of the Warrants, which have an initial exercise price of \$12.50 per Common Share. In addition, Brooke increased its ownership of the Common Shares from 42.3% to 55.1%, and its total voting power from 42% to 55.1%. At December 31, 1999, Brooke owned 55.4% of New Valley's Common Shares. If all outstanding Warrants were exercised, the percentage of the Common Shares that Brooke owns would decline to 38.8%.

LADENBURG, THALMANN & CO. INC. In May 1995, a subsidiary of New Valley acquired all of the outstanding shares of common stock and other equity interests of Ladenburg for \$25.8 million, net of cash acquired, subject to adjustment. Ladenburg is a full service broker-dealer, which has been a member of the New York Stock Exchange since 1876. Ladenburg provides its services principally for middle market and emerging growth companies and high net worth individuals through a coordinated effort among corporate finance, research, capital markets, investment management, brokerage and trading professionals.

Ladenburg's investment banking area maintains relationships with businesses and provides them with research, advisory and investor relations support. Services include merger and acquisition consulting, management of and participation in underwriting of equity and debt financing, private debt and equity financing, and rendering appraisals, financial evaluations and fairness opinions. Ladenburg's listed securities, fixed income and over-the-counter trading areas trade a variety of financial instruments. Ladenburg's client services and institutional sales departments serve over 20,000 accounts worldwide and its asset management area provides investment management and financial planning services to numerous individuals and institutions.

On December 23, 1999, New Valley completed the sale of a 19.9% interest in Ladenburg to Berliner Effektengesellschaft AG, a German public financial holding company. New Valley received \$10.2 million in cash and Berliner shares valued in accordance with the purchase agreement. Pursuant to the agreement, Berliner also acquired a three-year option to purchase additional interests in Ladenburg subject to certain conditions. New Valley recorded a \$4.3 million gain in connection with the transaction for the year ended December 31, 1999.

BROOKEMIL LTD. In January 1997, New Valley entered into a purchase agreement with Brooke (Overseas), under which New Valley acquired 10,483 shares of the BrookeMil common stock. These shares comprise 99.1% of the outstanding shares of BrookeMil, which is engaged in the real estate development business in Moscow, Russia. New Valley paid Brooke (Overseas) a purchase price of \$55 million for the BrookeMil shares, consisting of \$21.5 million in cash and a \$33.5 million 9% note. The note, which was collateralized by the BrookeMil shares, was paid during 1997.

BrookeMil is developing a three-phase complex on 2.2 acres of land in downtown Moscow, for which it has a 49-year lease. In 1993, the first phase of the project, Ducat Place I, a 46,500 sq. ft. Class-A office building, was successfully built and leased. In April 1997, BrookeMil sold Ducat Place I to one of its tenants, Citibank, for approximately \$7.5 million. This price had been reduced to reflect approximately \$6.2 million of rent prepayments by Citibank. In 1997, BrookeMil completed construction of Ducat Place II, a premier 150,000 sq. ft. office building. Ducat Place II has been leased to a number of leading international companies including Motorola, Conoco and Morgan Stanley. Ducat Place II is one of the leading modern office buildings in Moscow due to

its design and full range of amenities. The third phase, Ducat Place III, has been planned as a 450,000 sq. ft. office tower. The site of the proposed third phase of the project was used by Liggett-Ducat as the site for its former tobacco factory under a use agreement with BrookeMil. Liggett-Ducat, which completed construction in 1999 of a new factory on the outskirts of Moscow, is vacating the site.

Under the BrookeMil purchase agreement, certain liabilities of BrookeMil aggregating approximately \$40 million remained as liabilities of BrookeMil after the purchase of the BrookeMil shares. These liabilities included a \$20.4 million construction loan from a Russian bank. In addition, the liabilities of BrookeMil at the time of purchase included approximately \$13.8 million of rents and related payments prepaid by tenants in Ducat Place II for periods generally ranging from 15 to 18 months.

In August 1997, BrookeMil refinanced all amounts due under the construction loan with borrowings under a new credit facility with the Russian bank SBS-Agro. The new credit facility bears interest at 16% per year, matures no later than August 2002, with principal payments commencing after the first year, and is collateralized by a mortgage on Ducat Place II and guaranteed by New Valley. At December 31, 1999, borrowings under the new credit agreement totaled \$14.7 million.

WESTERN REALTY DEVELOPMENT. In February 1998, New Valley and Apollo Real Estate Investment Fund III, L.P. organized Western Realty Development to make real estate and other investments in Russia. New Valley agreed to contribute the real estate assets of BrookeMil, including Ducat Place II and the site for Ducat Place III, to Western Realty Development, and Apollo agreed to contribute up to \$65.9 million, including the \$25.9 million investment in Western Realty Repin discussed below.

The ownership and voting interests in Western Realty Development are held equally by Apollo and New Valley. Apollo will be entitled to a preference on distributions of cash from Western Realty Development to the extent of its investment of \$40 million, of which \$39.6 million had been funded through December 31, 1999, together with a 15% annual rate of return. New Valley will then be entitled to a return of \$20 million of BrookeMil-related expenses incurred and cash invested by New Valley since March 1, 1997, together with a 15% annual rate of return. Subsequent distributions will be made 70% to New Valley and 30% to Apollo. Western Realty Development is managed by a Board of Managers consisting of an equal number of representatives chosen by Apollo and New Valley. Material corporate transactions by Western Realty Development will generally require the unanimous consent of the Board of Managers. Accordingly, New Valley accounts for its non-controlling interest in Western Realty Development on the equity method.

In March 2000, Apollo and New Valley each agreed to increase its capital commitment to Western Realty Development by \$3.75 million.

New Valley, Brooke and their affiliates have other business relationships with affiliates of Apollo. In January 1996, New Valley acquired from an affiliate of Apollo eight shopping centers for \$72.5 million. New Valley's two remaining shopping centers are subject to second mortgages in favor of the sellers. New Valley and pension plans sponsored by BGLS have invested in investment partnerships managed by an affiliate of Apollo. Affiliates of Apollo have owned a substantial amount of debt securities of BGLS and hold warrants to purchase common stock of Brooke.

Western Realty Development may seek additional real estate and other investments in Russia. Western Realty Development has made a \$30 million participating loan to, and payable out of a 30% profits interest in, Western Tobacco Investments which holds Brooke (Overseas)'s interest in Liggett-Ducat and its new factory. Western Realty Development is entitled to receive a 15% annual rate of return on amounts advanced on the loan under certain circumstances in the event of a sale or refinancing of Western Tobacco Investments or the new factory.

New Valley has determined that a permanent impairment occurred in the value of the site for the proposed Ducat Place III office building and related goodwill due to the economic difficulties in the Russian economy following the financial crisis of August 1998. New Valley recognized an impairment charge of \$11.6 million in 1999.

WESTERN REALTY REPIN. In June 1998, New Valley and Apollo organized Western Realty Repin to make a loan to BrookeMil. The proceeds of the loan will be used by BrookeMil for the acquisition and preliminary development of the Kremlin sites, two adjoining sites totaling 10.25 acres located on the Sofiskaya Embankment of the Moscow River. The sites are directly across the river from the Kremlin and have views of the Kremlin walls, towers and nearby church domes. BrookeMil is planning the development of a hotel, office, retail and residential complex on the Kremlin sites. BrookeMil owned 95.9% of one site and 100% of the other site at December 31, 1999. Apollo will be entitled to a preference on distributions of cash from Western Realty Repin to the extent of its investment of \$25.9 million, together with a 20% annual rate of return, and New Valley will then be entitled to a return of its investment of \$10.5 million, together with a 20% annual rate of return. Subsequent distributions will be made 50% to New Valley and 50% to Apollo. Western Realty Repin is managed by a board of managers consisting of an equal number of representatives chosen by Apollo and New Valley. Material corporate transactions by Western Realty Repin will generally require the unanimous consent of the board of managers.

Through December 31, 1999, Western Realty Repin had advanced \$36.4 million, of which \$25.9 million was funded by Apollo, under the loan. The loan bears no fixed interest and is payable only out of distributions by the entities owning the Kremlin sites to BrookeMil. Such distributions must be applied first to pay the principal of the loan and then as contingent participating interest on the loan. Any rights of payment on the loan are subordinate to the rights of all other creditors of BrookeMil. BrookeMil used a portion of the proceeds of the loan to reimburse New Valley for expenditures on the Kremlin sites previously incurred. The loan is due and payable upon the dissolution of BrookeMil and is collateralized by a pledge of New Valley's shares of BrookeMil.

As of December 31, 1999, BrookeMil had invested \$32 million in the Kremlin sites and held approximately \$.93 million in cash and \$1.4 million in receivables from an affiliate, both of which were restricted for future investment in the Kremlin sites. In acquiring its interest in one of the Kremlin sites, BrookeMil agreed with the City of Moscow to invest an additional \$22 million by May 2000 in the development of the property. Management believes that short-term financing alternatives are available to fund the investment. Failure to make the required investment could result in the forfeiture of a 34.8% interest in the site. New Valley's investment in the Kremlin sites, net of the participating loan of \$32.1 million, was carried in the accompanying financial statements at \$2.3 million at December 31, 1999.

INTERNET INVESTMENTS. New Valley has invested \$8.1 million in various Internet-related businesses. These investments include an approximate 4% interest in JFAX.COM, Inc. JFAX is an Internet-based messaging and communications services provider to individuals and businesses, which completed an initial public offering in July 1999. New Valley has also invested \$4.5 million for a 33.33% interest in Atomic Pop, an online music enterprise founded by Al Teller, the former head of MCA Music Entertainment and president of CBS Records, dedicated to leveraging the digital medium to change the way music is acquired, promoted, sold and distributed. New Valley also owns smaller interests in other Internet companies.

NEW VALLEY REALTY DIVISION. In January 1996, New Valley acquired four office buildings and eight shopping centers for an aggregate purchase price of \$183.9 million, consisting of \$23.9 million in cash and \$160 million in non-recourse mortgage financing provided by the sellers. The office buildings and shopping centers have been operated through its New Valley Realty division. In September 1998, New Valley sold the office buildings.

In January 1996, New Valley acquired the shopping centers for an aggregate purchase price of \$72.5 million. Each seller was an affiliate of Apollo. The shopping centers are located in Marathon and Royal Palm Beach, Florida; Lincoln, Nebraska; Santa Fe, New Mexico; Milwaukie, Oregon; Richland and Marysville, Washington; and Kanawha, West Virginia. In August 1999, New Valley sold five of the shopping centers for an aggregate purchase price of

\$46.1 million before closing adjustments and expenses. The five shopping centers were subject to approximately \$35 million of mortgage financing which was assumed by the purchasers at closing. New Valley's two remaining shopping centers in Royal Palm Beach, Florida and Kanawha, West Virginia are subject to approximately \$19.7 million of underlying mortgages in favor of senior lenders and second mortgages in favor of the original sellers.

THINKING MACHINES CORPORATION. Thinking Machines, New Valley's 73% owned subsidiary, designed, developed, marketed and supported software offering prediction-based management solutions under the name LoyaltyStream(TM) for businesses such as financial services and telecommunications providers. This software was designed to help reduce customer attrition, control costs, more effectively cross-sell or bundle products or services and manage risks. Incorporated in LoyaltyStream was Darwin(R), a data mining software tool set with which a customer can analyze large amounts of its pre-existing data as well as external demographics data to predict behavior or outcomes. The customer can then send this information through systems integration to those divisions of the customer, which can use it to more effectively anticipate and solve business problems. To date, no material revenues have been recognized by Thinking Machines from the sale or licensing of such software and services.

On June 2, 1999, Thinking Machines sold substantially all of its assets, consisting of its Darwin(R) software and services business, to Oracle Corporation. The purchase price was \$4.7 million in cash at the closing of the sale and up to an additional \$20.3 million, payable in cash on January 31 in each of the years 2001 through 2003, based on sales by Oracle of Darwin product above specified sales targets.

MISCELLANEOUS INVESTMENTS. At December 31, 1999, New Valley owned approximately 48% of the outstanding shares of CDSI Holdings, Inc. (formerly known as PC411, Inc.), a development stage company, which completed an initial public offering in May 1997. CDSI holds a minority interest in a business engaged in the delivery of an on-line electronic directory information service.

As of December 31, 1999, long-term investments consisted primarily of investments in limited partnerships of \$8.7 million. New Valley determined that an other than temporary impairment in the value of an investment had occurred and wrote down this investment to zero in 1997 with a charge to operations of \$3.8 million.

New Valley may acquire additional operating businesses through merger, purchase of assets, stock acquisition or other means, or seek to acquire control of operating companies through one of such means.

CORPORATE DEVELOPMENTS

Effective October 1, 1999, Brooke was reorganized into a holding company form of organizational structure. The new corporate structure was implemented by the merger of a wholly-owned indirect subsidiary of the former Brooke Group Ltd., the predecessor of the current Brooke, with the predecessor, which was the surviving corporation. As a result of this merger, each share of the common stock of the predecessor issued and outstanding or held in its treasury was converted into one share of common stock of the current Brooke (formerly known as BGL Successor Inc.). The current Brooke became the holding company for the business and operations previously conducted by the predecessor and its subsidiaries, and the predecessor become an indirect wholly-owned subsidiary of Brooke. On the effective date of the merger, the name of the current Brooke was changed to Brooke Group Ltd. and the name of the predecessor was changed to Brooke Group Holding Inc.

In connection with the merger, BGLS Inc., a subsidiary of the predecessor, sold the stock of all of its direct wholly-owned subsidiaries, other than Liggett, to BGLS Holding Inc., a Delaware corporation which is a

wholly-owned subsidiary of Brooke. In consideration for such shares, BGLS transferred and assigned to BGLS Holding, and BGLS Holding assumed and agreed to perform and discharge, pursuant to a supplemental indenture, all of BGLS' obligations under the Indenture for BGLS' 15.75% Series B Senior Secured Notes due 2001. In addition, BGLS Holding assumed all of BGLS' liability as plan sponsor of three pension plans. Following these transactions, BGLS merged into the predecessor and the name of BGLS Holding was changed to BGLS Inc.

Except as otherwise stated, all references in this report to Brooke and BGLS include references to their predecessors.

All information in this report concerning Brooke's common stock has been adjusted to give effect to the 5% stock dividend paid to stockholders on September 30, 1999.

EMPLOYEES

At December 31, 1999, Brooke had approximately 2,200 full-time employees, of whom approximately 133 were employed by Liggett, approximately 1,392 were employed by Liggett-Ducat and approximately 365 were employed by New Valley. Approximately 9.1% of Brooke's employees are hourly employees and are represented by unions. Brooke has not experienced any significant work stoppages since 1977, and Brooke believes that relations with its employees and their unions are satisfactory.

RISK FACTORS

BROOKE IS HIGHLY LEVERAGED, HAS NEGATIVE NET WORTH AND HAS SUFFERED SIGNIFICANT LOSSES

At December 31, 1999, Brooke had total outstanding indebtedness of \$190 million and a net worth deficiency of \$133 million. Brooke has substantial debt service requirements on a consolidated basis, including \$108,037 principal amount and deferred interest of the BGLS senior secured notes which mature on January 31, 2001. Brooke has experienced significant losses from continuing operations every year since 1991 except for 1998 and 1999. There is a risk that Brooke will not be able to generate enough funds to repay its debts. If Brooke cannot service its fixed charges, it would significantly harm Brooke and the value of its common stock.

BROOKE IS A HOLDING COMPANY AND DEPENDS ON CASH PAYMENTS FROM SUBSIDIARIES WHICH ARE SUBJECT TO RESTRICTIONS

Brooke is a holding company and has no operations of its own. Brooke's ability to pay dividends on its common stock depends primarily on the ability of Liggett, Liggett-Ducat and New Valley, in which Brooke indirectly holds an approximately 55% interest, to generate cash and make it available to Brooke. Liggett's revolving credit agreement prohibits Liggett from paying cash dividends to Brooke unless Liggett's adjusted net worth and borrowing availability exceed specified levels.

Liggett-Ducat has significant debt service requirements over the next three years relating to equipment purchased for Liggett-Ducat's new factory and working capital lines. Brooke anticipates that substantially all of Liggett-Ducat's cash flow will be required to meet these requirements and will not be available for distribution to Brooke over this period.

As the controlling New Valley stockholder, Brooke must deal fairly with New Valley, which may limit its ability to enter into transactions with New Valley that result in the receipt of cash from New Valley and to influence New Valley's dividend policy. In addition, since Brooke owns only approximately 55% of the common shares of New Valley, a significant portion of any cash and other assets distributed by New Valley will be received by persons other than Brooke and its subsidiaries.

Brooke's receipt of cash payments, as dividends or otherwise, from its subsidiaries is an important source of its liquidity and capital resources. If Brooke does not receive payments from its subsidiaries in an amount sufficient to repay its debts, it must obtain additional funds from other sources. There is a risk that Brooke will not be able to obtain additional funds at all or on terms acceptable to Brooke. Brooke's inability to service these obligations would significantly harm BGLS and the value of its common stock.

LIGGETT FACES INTENSE COMPETITION IN THE DOMESTIC TOBACCO INDUSTRY

Liggett is considerably smaller and has fewer resources than all its major competitors and has a more limited ability to respond to market developments. Published industry sources indicate that the three largest manufacturers control approximately 86% of the United States cigarette market. Philip Morris Companies Inc. is the largest and most profitable manufacturer in the market, and its profits are derived principally from its sale of premium cigarettes. Based on published industry sources, Liggett's management believes that Philip Morris had more than 59% of the premium segment and more than 49% of the total domestic market during 1999. Philip Morris and RJR, the two largest cigarette manufacturers, have historically, because of their dominant market share, been able to determine cigarette prices for the various pricing tiers within the industry. The other cigarette manufacturers historically have brought their prices into line with the levels established by the two major manufacturers.

LIGGETT'S BUSINESS IS HIGHLY DEPENDENT ON THE DISCOUNT SEGMENT

Liggett depends more on sales in the discount segment of the market, relative to the full-price premium segment, than its major competitors. After giving effect for the entire year to the transfer in May 1999 of three of Liggett's premium cigarette brands in connection with the Philip Morris brand transaction, approximately 88% of Liggett's net sales in 1999 were generated in the discount segment. The discount segment is highly competitive with consumers having less brand loyalty and placing greater emphasis on price. Since 1993, Liggett's management believes that Philip Morris' market strategy has been to minimize the actual price spread between discount and premium products and to curtail the sales made by the makers of discount products. In part, Philip Morris sought to minimize that spread by dropping its premium prices in early 1993. In addition, that strategy has also been carried out through wholesale and retail trade programs. The result has been a greater decline in recent years of industry-wide sales in the United States of discount cigarettes than of premium cigarettes. If this decline in the discount segment continues, Liggett's sales volumes, operating income and cash flows could be negatively affected, which in turn could negatively affect the value of Brooke's common stock.

LIGGETT'S MARKET SHARE HAS DECLINED IN RECENT PERIODS

Liggett has suffered a substantial decline in unit sales and associated market share. This market share erosion results in part from its highly leveraged capital structure that existed until December 1998 and Liggett's limited ability to match other competitors' wholesale and retail trade programs, obtain retail shelf space for its products and advertise its brands. The decline also resulted from adverse developments in the tobacco industry, intense competition and changes in consumer preferences. Based on published industry sources, Liggett's management believes that Liggett's overall market share during 1999 was 1.2%, down from 1.3% for 1998 and 1997. Based on published industry sources, Liggett's management believes that Liggett's share of the premium segment during 1999 was .3%, down from .5% in 1998 and 1997, and its share of the discount segment during 1999 was 3.9%, up from 3.5% in 1998 and 1997. As adjusted for the Philip Morris brand transaction, Liggett's share of the premium segment during 1998 and 1997 was .2%. If Liggett's market share decline continues, Liggett's sales volume, operating income and cash flows could be negatively affected, which in turn could negatively affect the value of Brooke's common stock.

THE DOMESTIC CIGARETTE INDUSTRY HAS EXPERIENCED DECLINING UNIT SALES IN RECENT PERIODS

Industry-wide shipments of cigarettes in the United States have been steadily declining for a number of years. Published industry sources estimate that domestic industry-wide shipments decreased by approximately 9.0% in 1999 compared to 1998. Liggett's unit sales volume decreased more significantly (11.3% in 1999) without giving effect to the Philip Morris transaction. Liggett's management believes that industry-wide shipments of cigarettes in the United States will continue to decline as a result of numerous factors. These factors include health considerations, diminishing social acceptance of smoking and legislative limitations on smoking in public places, federal and state excise tax increases and settlement-related expense which have contributed to large cigarette price increases. If this decline in industry shipments continues and Liggett is unable to capture market share from its competitors, or if the industry is unable to offset the decline in unit sales with price increases, Liggett's sales volume, operating income and cash flows could be negatively affected, which in turn could negatively affect the value of Brooke's common stock.

LITIGATION AND REGULATION WILL CONTINUE TO HARM THE TOBACCO INDUSTRY

The cigarette industry continues to be challenged on numerous fronts. New court cases continue to be commenced against Liggett and the other cigarette manufacturers. At December 31, 1999, there were approximately 300 individual law suits, 50 purported class actions and 90 governmental and other third-party payor health care cost recovery actions pending in the United States in which Liggett is a named defendant. As new cases are commenced, the costs associated with defending them and the risks resulting from the inherent unpredictability of litigation continue to increase. An unfavorable verdict has been returned in the first phase of the ENGLE smoking and health class action trial pending in Florida. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the ENGLE case. In a worst case scenario, it is possible that a judgment for punitive damages could be entered in the ENGLE case in an amount not capable of being bonded, resulting in an execution of the judgment before it could be set aside on appeal. Recently, there have been a number of restrictive regulatory actions by various Federal administrative bodies, including the Environmental Protection Agency and the Food and Drug Administration. There have also been adverse political and legal decisions and other unfavorable developments concerning cigarette smoking and the tobacco industry, including the commencement and certification of class actions and the commencement of third-party payor actions. These developments generally receive widespread media attention. Brooke is not able to evaluate the effect of these developing matters on pending litigation or the possible commencement of additional litigation, but Brooke's consolidated financial position, results of operations or cash flows could be materially adversely affected by an ultimate unfavorable outcome in any of such tobacco-related litigation, which in turn could negatively affect the value of Brooke's common stock.

LIGGETT-DUCAT'S NEW CIGARETTE BRANDS WILL COMPETE DIRECTLY WITH THOSE OF THE MAJOR INTERNATIONAL MANUFACTURERS

Liggett-Ducat's brands currently compete primarily against those of other Russian cigarette makers. In 1999, Liggett-Ducat launched in Russia two new American-style blended cigarettes under the names "DUKAT" and "LD". These brands will compete directly with established products in Russia made by the major international cigarette manufacturers in the mid-priced segments of the market. In addition, several of these major international companies have begun to increase their production in Russia of American and international blend cigarettes. Such activities by larger, better capitalized companies with well established international brands will create significant additional competition for Liggett-Ducat as its seeks to increase its sales of higher margin products.

LIGGETT HAS SIGNIFICANT SALES TO A SINGLE CUSTOMER

In 1999, 30.7% of Liggett's net sales, 38.2% of Liggett's net sales in the discount segment and 22.9% of Brooke's consolidated revenues were to Liggett's largest customer. If this customer were to discontinue its relationship with Liggett or experience financial difficulties, Liggett's results of operations could be adversely affected.

EXCISE TAX INCREASES MAY ADVERSELY AFFECT CIGARETTE SALES

As part of the 1997 budget agreement approved by Congress, federal excise taxes on a pack of cigarettes, which are currently 34 cents, were increased at the beginning of 2000 and will rise 5 cents more in the year 2002. In general, excise taxes and other taxes on cigarettes have been increasing. These taxes vary considerably and, when combined with sales taxes and the current federal excise tax, may be as high as \$1.66 per pack in a given locality in the United States. Congress has been considering significant increases in the federal excise tax or other payments from tobacco manufacturers, and the Clinton Administration's fiscal year 2001 budget proposal includes an additional increase of \$.25 per pack in the federal excise tax, as well as a contingent special assessment related to youth smoking rates. Increases in other cigarette-related taxes have been proposed at the state and local level. A substantial federal or state excise tax increase could accelerate the trend away from smoking and could have an unfavorable effect on Liggett's sales and profitability.

OPERATIONS IN RUSSIA ARE SUBJECT TO A HIGH LEVEL OF RISK

Brooke has significant investments in its cigarette manufacturing operations in Russia and, through its subsidiary, New Valley, in real estate development operations in Russia. These operations are subject to a high level of risk. There is a risk that investments in Russia will harm Brooke's profitability (if any) or liquidity and cash flow.

In its on-going transition from a centrally-controlled economy under communist rule, Russia has experienced dramatic political, social and economic upheaval. There is a risk that further reforms necessary to complete this transition will not occur. In August 1998, the economy of the Russian Federation entered a period of even greater economic instability which has continued since that time. The country's currency continues to devalue. There is continued volatility in the debt and equity markets, and hyperinflation persists. Confidence in the banking sector has yet to be restored, and there continues to be a general lack of liquidity in the economy. In addition, Brooke and New Valley may be harmed by regulatory, political and legal developments beyond the control of companies operating in the Russian Federation, including:

- o diplomatic developments;
- o decisions of international lending organizations;
- o regional tensions;
- o currency repatriation restrictions;
- o foreign exchange fluctuations;
- o an undeveloped system of commercial laws, including laws on real estate titles and mortgages, and a relatively untested judicial system;
- o an evolving taxation system subject to constant changes which may be applied retroactively and subject to varying interpretations by tax authorities which may not coincide with that of management and

can result in assessments of additional taxes, penalties and interest, which can be significant; and

- o other legal developments and, in particular, the risks of expropriation, nationalization and confiscation of assets and changes in legislation relating to foreign ownership.

CHANGES IN FOREIGN EXCHANGE RATES COULD HAVE ADVERSE EFFECTS ON LIGGETT-DUCAT'S OPERATIONS

Liggett-Ducat's revenues are in Russian rubles while its costs and liabilities are denominated in multiple currencies, particularly the U.S. dollar, the Russian ruble and the German mark. This exposes Liggett-Ducat to currency fluctuations, which may affect Brooke's consolidated financial condition and results of operations as reported in U.S. dollars. The Russian ruble depreciated against the U.S. dollar 247% in 1998 and 31% in 1999 (based on average exchange rates for these periods).

NEW VALLEY IS SUBJECT TO RISKS RELATING TO THE INDUSTRIES IN WHICH IT OPERATES

THE SECURITIES INDUSTRY. As a broker-dealer, Ladenburg is subject to uncertainties endemic to the securities industry. These uncertainties include the volatility of domestic and international financial, bond and stock markets, as demonstrated by recent disruptions in the financial markets, extensive governmental regulation, litigation, intense competition and substantial fluctuations in the volume and price level of securities. Ladenburg also depends on the solvency of various counterparties. As a result, revenues and earnings may vary significantly from quarter to quarter and from year to year. In periods of low volume, profitability is impaired because certain expenses remain relatively fixed. Ladenburg is much smaller and has much less capital than many competitors in the securities industry.

RISKS OF REAL ESTATE JOINT VENTURES AND DEVELOPMENT PROJECTS. New Valley has two significant joint ventures with Apollo to make real estate and other investments in Russia. New Valley must seek Apollo's approval for important actions regarding the joint ventures. Since Apollo's interests may differ from those of New Valley, a deadlock could arise that might impair the ability of the joint ventures to function. Such a deadlock could significantly harm the joint ventures. The terms of the joint ventures, which require New Valley to offer Apollo the first opportunity to participate in new investments in Russia, may make it more difficult for New Valley to forge alliances in Russia with other entities.

New Valley plans to pursue a variety of real estate development projects. Development projects are subject to special risks including potential increase in costs, inability to meet deadlines which may delay the timely completion of projects, reliance on contractors who may be unable to perform and the need to obtain various governmental and third party consents.

RISKS RELATING TO RUSSIAN REAL ESTATE OPERATIONS. New Valley has significant real estate development operations in Russia. These operations are subject to a high level of risk.

As a result of the recent economic difficulties in the Russian economy, New Valley took a charge of \$11.6 million in 1999 for a permanent impairment in the value of the site for the proposed Ducat Place III office building and related goodwill. The uncertainties in Russia may also impair New Valley's ability to complete planned financing and investing activities. The development of certain Russian properties will require significant amounts of debt and other financing. In acquiring its interest in the Kremlin sites, New Valley agreed with the City of Moscow to invest an additional \$22 million by May 2000 in the development of the property. Failure to make the required investment could

result in the forfeiture of a 34.8% interest in one of the sites. New Valley is considering potential financing alternatives on behalf of the joint ventures. However, given the recent economic turmoil in Russia, there is a risk that financing will not be available on acceptable terms. Failure to obtain sufficient capital for the projects would force the joint ventures to curtail or delay their projects.

NEW VALLEY'S POTENTIAL INVESTMENTS ARE UNIDENTIFIED AND MAY NOT SUCCEED

New Valley currently holds a significant amount of marketable securities and cash not committed to any specific investments. This subjects you to increased risk and uncertainty because you will not be able to evaluate how this cash will be invested and the economic merits of particular investments. There may be substantial delay in locating suitable investment opportunities. In addition, New Valley may lack relevant management experience in the areas in which New Valley may invest. There is a risk that New Valley will fail in targeting, consummating or effectively managing any of these investments.

BROOKE DEPENDS ON ITS KEY PERSONNEL

Brooke depends on the efforts of its executive officers and other key personnel. While Brooke believes that it could find replacements for these key personnel, the loss of their services could have a significant adverse effect on Brooke's operations. Brooke does not maintain key-man life insurance for any of its personnel.

BROOKE AND NEW VALLEY HAVE MANY POTENTIALLY DILUTIVE SECURITIES OUTSTANDING

In March 1998, in connection with agreements to amend the terms of BGLS' senior secured notes, Brooke issued five-year warrants to purchase 4,357,500 shares of Brooke's common stock. These warrants are currently exercisable as to 2,100,000 shares, at a price of \$4.76 per share, and as to 2,257,500 additional shares, at a price of \$.095 per share. In 1998, Brooke granted options for 1,312,500 shares of Brooke's common stock, at a price of \$5.71 per share, to a law firm that represents Brooke, Liggett and New Valley, all of which are currently exercisable. At December 31, 1999, Brooke had outstanding options granted to employees and a consultant to purchase 7,936,910 shares of its common stock, at prices ranging from \$1.90 to \$18.00 per share, of which options for 2,600,284 shares are exercisable during 2000. The issuance of these shares will cause dilution which may adversely affect the market price of Brooke's common stock. The availability for sale of significant quantities of Brooke's common stock could adversely affect the prevailing market price of the stock.

As part of New Valley's recapitalization, a total of 17,898,629 warrants to purchase common shares were issued to New Valley's stockholders. The potential issuance of common shares on exercise of the warrants would increase the number of New Valley's common shares outstanding by more than 76%.

BROOKE'S STOCK PRICE HAS BEEN VOLATILE

The trading price of Brooke's common stock has fluctuated widely, ranging between \$10.63 and \$25.36 per share over the past 52 weeks. The overall market and the price of its common stock may continue to fluctuate greatly. The trading price of its common stock may be significantly affected by various factors, including:

- o the depth and liquidity of the trading market for Brooke's common stock;
- o quarterly variations in its actual or anticipated operating results;
- o changes in investors' and analysts' perceptions of the business and legal risks facing Brooke and the tobacco industry;

- o changes in estimates of its earnings by investors and analysts;
and
- o announcements or activities by its competitors.

ITEM 2. PROPERTIES

Brooke's, BGLS' and New Valley's principal executive offices are located in Miami, Florida. Brooke leases 12,356 square feet of office space from an unaffiliated company in an office building in Miami, which it shares with BGLS and New Valley and various of their subsidiaries. New Valley has entered into an expense-sharing arrangement for use of such office space. The lease expires in May 2003.

Substantially all of Liggett's tobacco manufacturing facilities, consisting principally of factories, distribution and storage facilities, are located in or near Durham, North Carolina. Such facilities are both owned and leased. As of December 31, 1999, the principal properties owned or leased by Liggett are as follows:

TYPE	LOCATION	OWNED OR LEASED	APPROXIMATE TOTAL SQUARE FOOTAGE
Office and Manufacturing Complex	Durham, NC	Owned	836,000
Warehouse	Durham, NC	Owned	203,000
Storage Facilities	Danville, VA	Owned	578,000

Liggett's Durham, North Carolina complex consists of eight major structures over approximately 13 acres. Included are Liggett's manufacturing plant, research facility and corporate offices. Liggett's management believes its property, plant and equipment are well maintained and in good condition and that its existing facilities are sufficient to accommodate a substantial increase in production.

In November 1999, 100 Maple Lane LLC, a newly formed entity owned by Liggett, purchased for \$8.4 million an industrial facility in Mebane, North Carolina. The Mebane facility is an approximately 240,000 square foot manufacturing facility located on 42 acres. Liggett plans to relocate its tobacco manufacturing operations from Durham, North Carolina to the Mebane facility, which is approximately 30 miles from Durham.

Liggett-Ducat has a 49-year land lease on a site on the outskirts of Moscow, Russia where Liggett-Ducat has built its new cigarette factory.

Ladenburg leases approximately 74,000 square feet of office space under a lease that expires on June 30, 2015. Effective September 1, 1999, Ladenburg subleased approximately 13,125 square feet of office space under a 10-year sublease. New Valley's operating properties are described above.

ITEM 3. LEGAL PROCEEDINGS

Liggett (and, in certain cases, Brooke Group Holding) and other United States cigarette manufacturers have been named as defendants in numerous direct, third-party and class actions predicated on the theory that they should be liable for damages from adverse health effects alleged to have been caused by cigarette smoking or by exposure to secondary smoke from cigarettes. See Item 1. "Business -- Liggett Group Inc. -- Legislation, Regulation and Litigation." Reference is made to Note 22 to Brooke's consolidated financial statements,

which contains a general description of certain legal proceedings to which Brooke Group Holding, BGLS, New Valley or their subsidiaries are a party and certain related matters. Reference is also made to Exhibit 99.1, Material Legal Proceedings, incorporated herein, for additional information regarding the pending smoking-related material legal proceedings to which Brooke Group Holding, BGLS and/or Liggett are party. A copy of Exhibit 99.1 will be furnished to security holders of Brooke and its subsidiaries without charge upon written request to Brooke at its principal executive offices, 100 S.E. Second Street, Miami, Florida 33131, Attn: Investor Relations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of 1999, Brooke submitted the following matter to a vote of stockholders at its Annual Meeting of Stockholders held on November 9, 1999. Proxies for the annual meeting were solicited pursuant to Regulation 14A under the Securities Exchange Act of 1934.

The matter voted upon at the annual meeting was the election of four directors and the following is a tabulation of the results:

Total shares of Common Stock outstanding as of October 6, 1999 (the record date) - 21,990,916

Total shares of Common Stock voted in person or by proxy - 20,345,912

Election of Directors:

	FOR ---	WITHHOLD -----
Robert J. Eide	20,214,773	131,139
Bennett S. LeBow	20,214,528	131,384
Jeffrey S. Podell	20,214,773	131,139
Jean E. Sharpe	20,214,773	131,139

EXECUTIVE OFFICERS OF THE REGISTRANTS

The table below, together with the accompanying text, presents certain information regarding all current executive officers of Brooke and of BGLS as of March 24, 2000. Each of the executive officers of Brooke and of BGLS serves until the election and qualification of such individual's successor or until such individual's death, resignation or removal by the Board of Directors of the respective company.

NAME ----	AGE ---	POSITION -----	YEAR INDIVIDUAL BECAME AN EXECUTIVE OFFICER -----
Bennett S. LeBow	62	Chairman of the Board, President and Chief Executive Officer of the Company and of BGLS	1990
Richard J. Lampen	46	Executive Vice President of the Company and of BGLS	1996
Joselynn D. Van Siclen	59	Vice President, Chief Financial Officer and Treasurer of the Company and of BGLS	1996
Marc N. Bell	39	Vice President, General Counsel and Secretary of the Company and of BGLS	1998
Ronald S. Fulford	66	Chairman of the Board, President and Chief Executive Officer of Liggett	1996

BENNETT S. LEBOW has been the Chairman of the Board, President and Chief Executive Officer of Brooke since June 1990 and has been a director of Brooke since October 1986. Since November 1990, he has been Chairman of the Board, President and Chief Executive Officer of BGLS. Mr. LeBow has been a director of Liggett since June 1990. Mr. LeBow has been Chairman of the Board of New Valley since January 1988, and Chief Executive Officer since November 1994.

RICHARD J. LAMPEN has served as the Executive Vice President of Brooke and of BGLS since July 1996. Since October 1995, Mr. Lampen has been the Executive Vice President of New Valley. From May 1992 to September 1995, Mr. Lampen was a partner at Steel Hector & Davis, a law firm located in Miami, Florida. From January 1991 to April 1992, Mr. Lampen was a Managing Director at Salomon Brothers Inc, an investment bank, and was an employee at Salomon Brothers Inc from 1986 to April 1992. Mr. Lampen is a director of New Valley, Thinking Machines, CDSI Holdings Inc. and PANACO, INC., an independent oil and gas exploration and production company. Mr. Lampen has served as a director of a number of other companies, including U.S. Can Corporation, The International Bank of Miami, N.A. and Spec's Music Inc., as well as a court-appointed independent director of Trump Plaza Funding, Inc.

JOSELYNN D. VAN SICLEN has been Vice President, Chief Financial Officer and Treasurer of Brooke and of BGLS since May 1996, and currently holds various positions with certain of BGLS' subsidiaries, including Vice President and Treasurer of Eve since April 1994 and May 1996, respectively. Prior to May 1996, Ms. Van Siclen served as Director of Finance of Brooke and was employed in various accounting capacities with subsidiaries of Brooke since 1992.

Since before 1990 to November 1992, Ms. Van Siclen was an audit manager for the accounting firm of Coopers & Lybrand L.L.P.

MARC N. BELL has been the Vice President of Brooke and of BGLS since January 1998 and has served as General Counsel and Secretary of Brooke and of BGLS since May 1994. Since November 1994, Mr. Bell has served as Associate General Counsel and Secretary of New Valley and since February 1998, as Vice President. Prior to May 1994, Mr. Bell was with the law firm of Zuckerman, Spaeder, Taylor & Evans in Miami, Florida and from June 1991 to May 1993, with the law firm of Fischbein o Badillo o Wagner o Harding in New York, New York.

RONALD S. FULFORD has served as Chairman of the Board, President and Chief Executive Officer of Liggett since September 1996. Mr. Fulford has also served as a consultant to Brooke from March 1996 to March 1997. From June, 1986 until February 1996, Mr. Fulford served as Executive Chairman of Imperial Tobacco, the British tobacco unit of the British conglomerate Hanson PLC. Before Imperial, Mr. Fulford was chief executive of three other Hanson companies: London Brick, British EverReady UK & South Africa and United Gas Industries UK & Europe.

PART II

ITEM 5. MARKET FOR REGISTRANTS' COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Brooke's common stock is listed and traded on the New York Stock Exchange under the symbol "BGL". The following table sets forth, for the periods indicated, high and low sale prices for a share of its common stock on the NYSE, as reported by the NYSE, and quarterly cash dividends declared on shares of common stock:

YEAR	HIGH	LOW	CASH DIVIDENDS
----	----	---	-----
1999:			
Fourth Quarter	\$ 18.38	\$ 13.56	\$.25
Third Quarter	22.56	16.50	.25
Second Quarter	25.36	13.09	.07
First Quarter	23.22	14.83	.07
1998:			
Fourth Quarter	\$ 23.57	\$ 4.46	\$.07
Third Quarter	11.19	3.63	.07
Second Quarter	15.83	8.10	.07
First Quarter	16.43	8.27	.07

There is no public market for BGLS' common stock, \$.01 par value per share, as all of such common stock is held by Brooke.

At March 24, 2000, there were approximately 470 holders of record of Brooke's common stock.

The declaration of future cash dividends is within the discretion of the Board of Directors of Brooke and is subject to a variety of contingencies such as market conditions, earnings and the financial condition of Brooke as well as the availability of cash. The payment of dividends and other distributions to Brooke by BGLS are subject to the Indenture for BGLS' senior secured notes. Liggett's revolving credit agreement prohibits Liggett from paying cash dividends to Brooke unless Liggett's adjusted net worth and borrowing availability exceed specified levels.

Brooke paid a 5% stock dividend on September 30, 1999 to the holders of Brooke's Common Stock. All information presented above is adjusted for the stock dividend.

RECENT SALES OF UNREGISTERED SECURITIES

No securities of Brooke which were not registered under the Securities Act of 1933 have been issued or sold by Brooke during 1999, except (i) on November 4, 1999, Brooke granted to six executive officers of Brooke and/or New Valley stock options to purchase 2,210,000 shares of Brooke's common stock at an exercise price of \$15 7/16 per share, subject to increase under certain circumstances; (ii) on November 24, 1999, Brooke granted to an executive officer of Liggett stock options to purchase 250,000 shares of Brooke's common stock at an exercise price of \$18 per share; and (iii) on November 24, 1999, Brooke granted to 26 officers and employees of Liggett stock options to purchase 670,000 shares of Brooke's common stock at an exercise price of \$15 7/16 per share. The foregoing transactions were effected in reliance on the exemption from registration afforded by Section 4(2) of the Securities Act of 1933 or did not involve a "sale" under the Securities Act of 1933.

ITEM 6. SELECTED FINANCIAL DATA

BROOKE GROUP LTD.

	Year Ended December 31,				
	1999	1998	1997	1996	1995
(dollars in thousands, except per share amounts)					
STATEMENT OF OPERATIONS DATA:					
Revenues(1).....	\$567,045	\$444,566	\$389,615	\$460,356	\$461,459
Income (loss) from continuing operations.	236,084	24,219	(51,421)	(65,515)	(45,344)
Income from discontinued operations(2)...	1,249	3,208	1,536	2,982	21,229
Loss from extraordinary items(4).....	(1,660)				(9,810)
Net income (loss).....	235,673	27,427	(49,885)	(62,533)	(33,925)
Per basic common share:					
Income (loss) from continuing operations(3) (5).....	10.74	1.13	(2.70)	(3.28)	(1.48)
Income from discontinued operations....	0.06	0.15	0.08	0.15	1.10
Net loss from extraordinary items.....	(0.08)				(0.51)
Net income (loss) applicable to common shares.....	10.72	1.28	(2.62)	(3.13)	(0.89)
Per diluted common share:					
Income (loss) from continuing operations.....	8.81	0.93	(2.70)	(3.28)	(1.48)
Income from discontinued operations....	0.05	0.12	0.08	0.15	1.10
Net loss from extraordinary items.....	(0.06)				(0.51)
Net income (loss) applicable to common shares.....	8.80	1.05	(2.62)	(3.13)	(0.89)
Cash distributions declared per common share.....	0.63	0.29	0.29	0.29	0.29
BALANCE SHEET DATA:					
Current assets.....	\$188,732	\$122,560	\$ 66,759	\$ 80,552	\$ 96,615
Total assets	504,448	228,982	125,234	177,677	225,620
Current liabilities.....	226,654	273,441	139,278	204,463	119,177
Notes payable, long-term debt and other obligations, less current portion	148,349	262,665	399,835	378,243	406,744
Noncurrent employee benefits, deferred credits and other long-term liabilities	262,543	87,051	74,518	49,960	55,803
Stockholders' equity (deficit).....	(133,098)	(394,175)	(488,397)	(454,989)	(356,104)

- (1) Revenues include federal excise taxes of \$66,698, \$82,613, \$87,683, \$112,218 and \$123,420, respectively.
- (2) In 1998, 1997 and 1996, income from discontinued operations pertains to sale of Western Union Data Services Inc. and in 1995 to the sale of Western Union, SkyBox International Inc. and the distribution of MAI Systems Corporation common stock.
- (3) Per share computations include the impact of New Valley's repurchase of Class A Preferred Shares in 1996 and 1995.
- (4) In 1999 and 1995, extraordinary items represent loss resulting from the early extinguishment of debt.
- (5) Per share computations include the impact of a 5% stock dividend on September 30, 1999.

ITEM 6. SELECTED FINANCIAL DATA

BGLS INC.

	Year Ended December 31,				
	1999	1998	1997	1996	1995
	(dollars in thousands, except per share amounts)				
STATEMENT OF OPERATIONS DATA:					
Revenues(1).....	\$567,045	\$444,566	\$389,615	\$460,356	\$461,459
Operating income (loss).....	74,214	74,528	8,419	(2,016)	8,311
Interest expense.....	57,910	84,194	65,581	64,417	61,036
Income (loss) from continuing operations.....	235,933	22,358	(54,411)	(75,201)	(50,502)
Income from discontinued operations.....	1,249	3,208	1,536	2,982	21,229
Loss from extraordinary items(3).....	(1,660)				(9,810)
Net income (loss).....	235,522	25,566	(52,875)	(72,219)	(39,083)
Distributions to parent.....	9,636			3,621	5,872
BALANCE SHEET DATA:					
Current assets.....	187,985	\$122,186	\$ 67,366	\$ 80,197	\$ 99,643
Total assets.....	502,521	227,396	128,916	178,108	229,242
Current liabilities.....	224,353	304,516	161,475	229,736	142,885
Notes payable, long-term debt and other obligations, less current portion.....	148,349	262,665	399,835	378,243	420,449
Noncurrent employee benefits and other long-term obligations.....	262,275	90,917	80,721	53,214	55,803
Stockholders' equity (deficit).....	(132,456)	(430,702)	(513,115)	(483,085)	(389,895)

- (1) Revenues include federal excise taxes of \$66,698, \$82,613, \$87,683, \$112,218 and \$123,420, respectively.
- (2) In 1998, 1997 and 1996, income from discontinued operations pertains to sale of Western Union and in 1995 to the sale of Western Union, SkyBox and distribution of MAI common stock.
- (3) In 1995, extraordinary items represent loss resulting from the early extinguishment of debt.

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

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

OVERVIEW

Brooke is a holding company for a number of businesses. It is engaged principally in:

- o the manufacture and sale of cigarettes in the United States through its subsidiary Liggett Group Inc.;
- o the manufacture and sale of cigarettes in Russia through its subsidiary Liggett-Ducat Ltd.; and
- o the investment banking and brokerage business in the United States, real estate operations in Russia and investment in Internet-related businesses through its majority-owned subsidiary New Valley Corporation.

Brooke's domestic cigarette business, Liggett, shipped approximately 5.24 billion cigarettes during 1999 which accounted for 1.2% of the total cigarettes shipped in the United States during that year. After giving effect for the entire year to the Philip Morris transaction, Liggett would have shipped 5.71 billion cigarettes, representing 1.4% of the market. In May 1999, Liggett transferred to Philip Morris the rights to manufacture the L&M, CHESTERFIELD and LARK brands. Together, these three brands represented approximately 16.1% in 1998 and 18.1% in 1997 of Liggett's net sales excluding federal excise taxes. After giving effect for the entire year to this transaction, approximately 88% of Liggett's net sales in 1999 would have been generated in the discount segment.

Brooke believes that Liggett has gained a sustainable cost advantage over its competitors through its various settlement agreements. Under the Master Settlement Agreement reached in November 1998 with 46 state attorneys general and various territories, Liggett's four major competitors must make settlement payments to the states and territories based on how many cigarettes they sell annually. Liggett, however, is not required to make any payments unless its market share exceeds 1.67% of the U.S. cigarette market.

Brooke's Russian tobacco business, Liggett-Ducat, produces some of the leading discount and value brands in the Russian market. Liggett-Ducat's sales have increased rapidly from approximately 10.3 billion cigarettes in 1995 to approximately 25.2 billion cigarettes in 1999, which accounted for approximately 9% of the cigarettes sold in Russia during 1999.

Brooke's majority - owned subsidiary New Valley is engaged in:

- o the investment banking and securities brokerage business through its subsidiary Ladenburg Thalmann & Co.;
- o real estate development in Russia through its joint ventures Western Realty Development LLC and Western Realty Repin LLC; and
- o investment in Internet-related investments.

Ladenburg operates as a full service broker-dealer which provides its services principally for middle market and emerging growth companies and high

net worth individuals through a coordinated effort among corporate finance, research, capital markets, investment management, brokerage and trading professionals.

New Valley has entered into two separate joint venture agreements with Apollo Real Estate Investment Fund III, L.P. to make real estate and other investments in Russia. New Valley and Apollo developed and manage a 150,000 square foot class A office building located in downtown Moscow. Its tenants include Motorola, Conoco and Morgan Stanley Dean Witter. Once economic conditions improve in Russia, the adjacent site will be developed into additional commercial office space.

During 1999, New Valley has made several long-term investments in Internet-related businesses. New Valley owns a substantial interest in Atomic Pop, an online music enterprise, and owns smaller interests in other Internet companies.

In recent years, the domestic tobacco business has experienced the following trends:

- o Declining unit volumes due to health considerations, diminishing social acceptance of smoking, legislative limitations on smoking in public places, federal and state excise tax increases and settlement-related expenses which have augmented cigarette prices;
- o Narrower price spreads between the premium and discount segments and aggressive premium price promotions by larger competitors including Philip Morris and RJR; and
- o Loss of discount market share by generic brand discount cigarettes such as those sold by Liggett due to higher distribution penetration and vendor promotions by branded discount cigarettes sold by Philip Morris and RJR.

In recent years, the Russian tobacco business has experienced the following trends:

- o Strong market growth as consumers gained exposure to Western-style cigarettes;
- o Consumer migration toward lower priced cigarettes following the Russian economic turmoil beginning in 1998;
- o Increased market penetration of domestic producers due to high import duties; and
- o Consumer preference evolving toward lighter tasting international and American blend cigarettes away from the traditional stronger tasting Russian cigarettes.

In recent years, the industries in which New Valley operates have experienced the following trends:

- o Strong growth in securities trading, merger and acquisition activity and corporate bond and equity underwriting due to healthy underlying U.S. economic fundamentals; and
- o A slowdown of new construction and development in Russia since the economic turmoil experienced beginning in 1998.

RECENT DEVELOPMENTS

MASTER SETTLEMENT AGREEMENT. In November 1998, Liggett and the four largest U.S. cigarette manufacturers, Philip Morris, Brown & Williamson, RJR and Lorillard, entered into the Master Settlement Agreement with 46 states, the

District of Columbia, Puerto Rico and various other territories to settle their asserted and unasserted health care cost recovery and certain other claims caused by cigarette smoking.

Pursuant to the Master Settlement Agreement, Liggett has no payment obligation unless its market share exceeds 125% of its 1997 domestic market share, or 1.67% of total cigarettes sold in the United States. In the year following any year in which Liggett's market share exceeds 1.67%, Liggett will pay on each excess unit an amount equal (on a per-unit basis) to that paid during the year by the four original participating manufacturers pursuant to the annual and strategic contribution payments provided for under the Master Settlement Agreement. Under the Master Settlement Agreement terms, the original participating manufacturers (and Liggett to the extent its market share exceeds 1.67%) will make annual payments based on relative unit volume of domestic cigarette shipments.

PHILIP MORRIS BRAND TRANSACTION. In November 1998, Brooke and Liggett granted Philip Morris options to purchase interests in Trademarks LLC which holds three domestic cigarette brands, L&M, CHESTERFIELD and LARK, formerly held by Liggett's subsidiary, Eve Holdings Inc.

Under the terms of the Philip Morris agreements, Eve contributed the three brands to Trademarks, a newly-formed limited liability company, in exchange for 100% of two classes of interests in Trademarks, the Class A and the Class B interests. Philip Morris acquired two options to purchase the interests from Eve. In December 1998, Philip Morris paid Eve a total of \$150,000 for these options. Liggett used the payments to fund the redemption of Liggett's Senior Secured Notes on December 28, 1998.

On May 24, 1999, Philip Morris paid Eve \$10,100 upon exercise of the option to purchase the Class A interest and Trademarks borrowed \$134,900, the proceeds of which were distributed to Eve. The proceeds were used to retire a portion of BGLS' senior secured notes. Financial information related to these three brands, which represented approximately one-half of Liggett's premium brand sales, are reflected in the Brooke's financial statements through May 24, 1999.

NEW VALLEY RECAPITALIZATION. On June 4, 1999, New Valley consummated a plan of recapitalization following approval by its stockholders. Under the recapitalization, New Valley's outstanding preferred and common shares were exchanged for new common shares and warrants. As a result of the recapitalization, BGLS increased its ownership from approximately 42.3% of New Valley's outstanding common shares to 55.1%. New Valley became a consolidated subsidiary of Brooke as of June 1, 1999. In addition, Brooke's equity in New Valley increased by \$59,263 (\$38,331 net of taxes). Prior to the recapitalization, Brooke had accounted for its investment in New Valley's common shares using the equity method and its New Valley preferred shares were classified as available for sale and carried at fair value.

NEW VALLEY SHOPPING CENTERS. On August 30 1999, New Valley sold five of its shopping centers for an aggregate purchase price of \$46,125 (before closing adjustments and expenses). The shopping centers were subject to \$35,023 of mortgage financing which was assumed by the purchasers at closing. In connection with the transaction, New Valley recorded a gain of \$3,849 on the sale.

On December 23, 1999, New Valley sold a 19.9% interest in Ladenburg to a German public financial holding company. New Valley received \$10.2 million in cash and shares of the purchaser valued in accordance with the purchase agreement. New Valley recognized a gain of \$4,256 on the sale.

RECENT DEVELOPMENTS IN LEGISLATION, REGULATION AND LITIGATION

The cigarette industry continues to be challenged on numerous fronts. New court cases continue to be commenced against Liggett and other cigarette manufacturers. As of December 31, 1999, there were approximately 300 individual

law suits, 50 purported class actions and 90 governmental and other third-party payor health care recovery actions pending in the United States in which Liggett was a named defendant. As new cases are commenced, the costs associated with defending such cases and the risks attendant to the inherent unpredictability of litigation continue to increase. An unfavorable verdict has been returned in the first phase of the ENGLE smoking and health class action trial pending in Florida. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the ENGLE case. In a worst case scenario, it is possible that a judgment for punitive damages could be entered in the ENGLE case in an amount not capable of being bonded, resulting in an execution of the judgment before it could be set aside on appeal. Recently, there have been a number of restrictive regulatory actions from various Federal administrative bodies, including the Environmental Protection Agency and the Food and Drug Administration. There have also been adverse political decisions and legal decisions and other unfavorable developments concerning cigarette smoking and the tobacco industry, including the commencement and certification of class actions and the commencement of third-party payor actions. These developments generally receive widespread media attention. Management is not able to evaluate the effect of these developing matters on pending litigation or the possible commencement of additional litigation, but Brooke's consolidated financial position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any of such smoking-related litigation. See Note 22 to Brooke's consolidated financial statements for a description of legislation, regulation and litigation.

In March 1996, March 1997 and March 1998, Brooke's predecessor, Brooke Group Holding Inc., and Liggett entered into settlements of smoking-related litigation with the Attorneys General of 45 states and territories. The settlements released Brooke Group Holding and Liggett from all smoking-related claims, including claims for health care cost reimbursement and claims concerning sales of cigarettes to minors. Brooke accrued approximately \$16,902 for the present value of the fixed payments under the March 1998 Attorneys General settlements. As a result of Liggett's treatment under the Master Settlement Agreement, \$14,928 of net charges accrued for the prior settlements were reversed in 1998 and \$1,051 were reversed in 1999. See the discussions of the tobacco litigation settlements appearing in Note 22 to Brooke's consolidated financial statements.

RESULTS OF OPERATIONS

The following discussion provides an assessment of the results of operations, capital resources and liquidity of Brooke and should be read in conjunction with Brooke's consolidated financial statements and related notes included elsewhere in this report. The consolidated financial statements include the accounts of BGLS, Liggett, Brooke (Overseas), Liggett-Ducat and other less significant subsidiaries. As of June 1, 1999, New Valley became a consolidated subsidiary of Brooke as a result of New Valley's recapitalization in which Brooke's interest in New Valley's common shares increased to 55.1%. New Valley's stock repurchase program, which began in late 1999, increased Brooke's interest to 55.4% at December 31, 1999.

For purposes of this discussion and other consolidated financial reporting, Brooke's significant business segments for the year ended December 31, 1999 were tobacco sold in the United States and Russia, broker-dealer transactions and real estate. Brooke's significant business segment for the years ended December 31, 1998 and 1997 was tobacco sold in the United States and Russia.

1999 COMPARED TO 1998 AND 1998 COMPARED TO 1997

	FOR THE YEARS ENDED DECEMBER 31,		
	1999	1998	1997
	(Dollars in Thousands)		
NET REVENUES:			
Liggett.....	\$422,748	\$347,129	\$312,268
Liggett-Ducat.....	100,059	97,350	77,115
Total tobacco.....	522,807	444,479	389,383
*Broker-dealer.....	40,852		
*Real estate.....	3,386		
Other.....		87	232
Total revenues.....	567,045	444,566	389,615
OPERATING INCOME:			
Liggett.....	76,700	54,422	3,688
Liggett-Ducat.....	5,215	13,234	8,642
Total tobacco.....	81,915	67,656	12,330
*Broker-dealer.....	369		
*Real estate.....	(776)		
Corporate and other.....	(9,505)	3,938	(4,301)
Total operating income.....	\$ 72,003	\$ 71,594	\$ 8,029

* New Valley became a consolidated subsidiary of Brooke on June 4, 1999. Broker-Dealer, Real Estate and New Valley's portion of Corporate and Other are included for the seven months ended December 31, 1999.

1999 COMPARED TO 1998

REVENUES. Total revenues were \$567,045 for the year ended December 31, 1999 compared to \$444,566 for the year ended December 31, 1998. This 27.6% increase in revenues was due to a \$75,619 or 21.8% increase in revenues at Liggett, a \$2,709 or 2.8% increase at Liggett-Ducat and the addition of revenues from New Valley of \$44,238.

TOBACCO REVENUES. In August 1999, the major cigarette manufacturers, including Liggett, announced a list price increase of \$1.50 per carton. During 1998, the major cigarette manufacturers, including Liggett, announced list price increases of \$6.35 per carton. This included an increase of \$4.50 per carton announced by the industry in December 1998 following the signing of the Master Settlement Agreement. In January 2000, an additional list price increase of \$1.30 per carton was announced.

Tobacco revenues at Liggett increased for both the premium and discount segments due to price increases of \$129,291 partially offset by a 13.6% (\$47,235) decline in unit sales volume (approximately 794.8 million units) and \$6,437 in unfavorable sales mix. The decline in Liggett's unit sales volume was due to an overall decline in industry volume, the closing of the Philip Morris brand transaction, certain competitors continuing leveraged rebate programs tied to their products and increased promotional activity by certain other manufacturers.

Premium sales at Liggett for the year ended December 31, 1999 amounted to \$78,182 and represented 18.5% of total Liggett sales, compared to \$105,422 and 30.4% of total sales for 1998. In the premium segment, revenues declined by 25.8% (\$27,240) in the year ended December 31, 1999 compared to 1998, due to an unfavorable volume variance of \$48,789, reflecting a 46.3% decline in unit sales volume (approximately 697.2 million units), primarily due to the closing of the

Philip Morris brand transaction on May 24, 1999, which was partially offset by price increases of \$21,549. As adjusted for the contribution of the three brands in the Philip Morris brand transaction, the decline in Liggett's premium segment from the prior year period was 21.5% (approximately 232.7 million units). Although this decline compares unfavorably to an overall industry decline in the premium segment of approximately 8.5% during 1999, Liggett's management believes that the percentage decline is consistent with other, smaller premium brands.

Discount sales at Liggett (comprising the brand categories of branded discount, private label, control label, generic, international and contract manufacturing) for 1999 amounted to \$344,566 and represented 81.5% of total Liggett sales, compared to \$241,707 and 69.6% of total Liggett sales in 1998. In the discount segment, revenues grew by 42.6% (\$102,859) in the year ended December 31, 1999 compared to 1998, due to price increases of \$107,742, and a favorable product mix among the discount brand categories of \$560 partially offset by a 2.3% decline in unit sales volume (approximately 97.6 million units) accounting for \$5,443 in volume variance.

For the year ended December 31, 1999, fixed manufacturing costs on a basis comparable to 1998 at Liggett were \$1,073 lower, although costs per thousand units remained unchanged despite a 6.1% decline in production volume from the previous year. Payroll expenses increased but were offset by a decline in non-payroll expense over the prior year.

The increase in tobacco revenues at Liggett-Ducat is attributable to a 20.9% increase in unit sales volume of \$20,387 and a favorable product mix of \$3,672 offset by decreased prices of \$21,350. Although volume increased by approximately 4,265 million units in 1999, Liggett-Ducat's sales volume was adversely affected by the move to the new factory and price declines in Russia due to the full impact of the 1998 ruble devaluation.

TOBACCO GROSS PROFIT. Tobacco consolidated gross profit was \$333,179 for the year ended December 31, 1999 compared to \$243,570 for the year ended December 31, 1998, an increase of \$89,609 or 36.8% when compared to 1998, due primarily to price increases at Liggett offset by the price declines at Liggett-Ducat discussed above. Liggett's premium brands contributed 17.7% to Brooke's gross profit, the discount segment contributed 75.9% and Liggett-Ducat contributed 6.4% for the year ended December 31, 1999. In 1998, Liggett's premium brands contributed 28.8%, the discount segment contributed 60.6% and Liggett-Ducat contributed 10.3%.

Liggett's gross profit of \$310,964 for the year ended December 31, 1999 increased \$93,122 or 42.7% from gross profit of \$217,842 in 1998, due primarily to the price increases discussed above. As a percent of revenues (excluding federal excise taxes), gross profit at Liggett increased to 85.5% for the year ended December 31, 1999 compared to 78.4% in 1998, with gross profit for the premium segment at 85.8% in 1999 and 80.2% in 1998 and gross profit for the discount segment at 85.4% in 1999 and 77.5% in 1998. This increase is primarily the result of the 1998 list price increases and, to a lesser degree, list price increases in August 1999.

As a percentage of revenues (excluding Russian excise taxes), gross profit at Liggett-Ducat decreased to 23.5% for the year ended December 31, 1999 compared to 29.9% in 1998, due to declining prices as discussed above.

BROKER-DEALER AND REAL ESTATE REVENUES. New Valley's broker-dealer revenues were \$40,852 and real estate revenues were \$3,386 for the seven months ended December 31, 1999.

EXPENSES. Operating, selling, general and administrative expenses were \$306,228 for the year ended December 31, 1999 compared to \$186,904 in 1998. The increase of \$119,324 is due primarily to a \$56,967 increase at Liggett, a \$4,371 increase at Brooke (Overseas) and additional expenses of \$52,870 as a result of the consolidation of New Valley. The increase in operating expenses at Liggett was due primarily to an increase of \$61,703 in spending for promotional and marketing programs partially offset by a reduction in amortization charges and legal expenses. In 1999, such expenses were offset by the reversal of charges for the Attorneys General settlements of \$1,051 which were previously accrued. In 1998, operating expenses of \$178,348 at Liggett were offset by the reversal of \$14,928 in net charges for the Attorneys General settlements previously accrued but reversed in the fourth quarter 1998 as a result of the Master Settlement Agreement.

The increase at Brooke (Overseas) is largely due to an increase in depreciation expense of \$3,689 due to Liggett-Ducat's new factory being placed in service in June of 1999 and increased promotional and advertising expense as Liggett-Ducat introduces new products into the Russian market.

OTHER INCOME (EXPENSES). For the year ended December 31, 1999, Liggett recognized a gain of \$294,078 in connection with the closing of the Philip Morris brand transaction. In addition, the Company recognized a gain of \$11,883 from the sales by New Valley of five U. S. shopping centers, Thinking Machines' assets and a 19.9% interest in Ladenburg. Brooke also recognized in March 1999 a deferred gain of \$7,050 relating to the expiration of the put obligation on Ducat Place III (the site of the old cigarette factory in Russia) in connection with the 1997 sale of the BrookeMil common shares.

Interest expense was \$54,378 for the year ended December 31, 1999 compared to \$79,704 in 1998. The decrease of \$25,326 is largely due to a savings of \$19,165 because of the redemption by Liggett of its senior secured notes on December 28, 1998 and lower interest expense on Liggett's credit facility. In addition, BGLS realized a savings of \$14,185 due to the repurchase of a portion of BGLS' senior secured notes. This was offset by additional interest expense at Brooke (Overseas) of \$8,753 and interest at New Valley of \$5,060.

Equity in earnings of affiliate was a loss of \$11,315 and includes Brooke's loss in New Valley which was accounted for on the equity method for the five months ended May 31, 1999 as well as losses at New Valley on its equity method investees. This is compared to a loss of \$28,717 for the year ended December 31, 1998 which relates to New Valley's net loss applicable to common shares of \$96,553 accounted for on the equity method for the year ended December 31, 1998. The loss in joint venture of \$12,082 in 1999 resulted primarily from an impairment charge of \$11,561 associated with Western Realty Development.

INCOME FROM CONTINUING OPERATIONS. The income from continuing operations for the year ended December 31, 1999 was \$236,084 compared to income of \$24,219 for 1998. Income tax expense for the year ended December 31, 1999 was \$82,458 compared to a benefit of \$59,613 for the year ended December 31, 1998.

OTHER. At December 31, 1999, Brooke and its consolidated group had U.S. tax operating loss carryforwards for tax purposes of approximately \$135,000 which may be subject to certain restrictions and limitations and which will generally expire in the years 2006 to 2017.

1998 COMPARED TO 1997

REVENUES. Consolidated revenues were \$444,566 for the year ended December 31, 1998 compared to \$389,615 for the year ended December 31, 1997, an increase of \$54,951 or 14.1% due to increases in tobacco revenues at Liggett of \$34,861 and at Liggett-Ducat of \$20,235.

During 1998, the major cigarette manufacturers, including Liggett, announced price increases of \$6.35 per carton. This is compared with announced increases of \$1.20 per carton in 1997.

Revenues at Liggett increased in both the premium and discount segments by 11.2% due to price increases of \$60,384 and a favorable product mix of \$1,214, partially offset by an 8.6% decline in unit sales volume (approximately 547 million units), which accounted for \$26,737 in volume variance. The decline in Liggett's sales volume was due to certain competitors' continuing leveraged rebate programs tied to their products and increased promotional activity by certain other manufacturers.

Premium sales at Liggett for the 1998 year amounted to \$105,422 and represented 30.4% of Liggett's total revenues, compared to \$102,440 and 32.8% of total sales in 1997. In the premium segment, revenues grew by 2.9% (\$2,982) for the year ended December 31, 1998, compared to the prior year, due to price increases of \$14,604, which were partially offset by an 11.3% decline in unit sales volume (approximately 192.8 million units), accounting for \$11,622 in volume variance. The brands contributed to Trademarks, L&M, CHESTERFIELD and LARK, represented 16.1% in 1998 and 18.1% in 1997 of Liggett's net sales (excluding federal excise taxes).

Liggett's discount sales for 1998 amounted to \$241,707 and represented 69.6% of total revenues, compared to \$209,828 and 67.2% of total sales for the prior year. In the discount segment, revenues grew by 15.2% (\$31,879) for the year ended December 31, 1998 compared to the prior year, due to price increases of \$45,780 and a favorable product mix among the discount brand categories of \$1,949, which were partially offset by a 7.6% decline in unit sales volume (approximately 354.2 million units), accounting for \$15,850 in volume variance.

For the year ended December 31, 1998, fixed manufacturing costs on a basis comparable to 1997 were \$2,040 lower at Liggett, although costs per thousand units increased by \$0.12 per thousand due to lower volume.

Revenues at Liggett-Ducat increased 26.2% (\$20,235) due to a 5.8 billion increase in unit sales volume (\$30,991) offset by a decline in price (\$10,634) due to Russian currency fluctuation and slightly unfavorable product mix (\$122). For the year ended 1998, manufacturing costs increased by \$8,914, but costs per thousand units decreased by \$0.81 per thousand.

GROSS PROFIT. Consolidated gross profit of \$243,570 for the year ended December 31, 1998 increased \$56,076 (29.9%) from gross profit of \$187,494 for the year ended December 31, 1997 reflecting an increase in gross profit at Liggett of \$44,884 primarily due to price increases discussed above. Liggett-Ducat's gross profit increased \$11,600 (85.7%) primarily due to increased volume also discussed above. In 1998, Liggett's premium and discount brands contributed 28.8% and 60.6%, respectively, to Brooke's total gross profit and Liggett-Ducat contributed 10.3%. In 1997, Liggett's premium and discount brands contributed 33.8% and 58.5%, respectively, while Liggett-Ducat contributed 7.2%.

As a percentage of revenues (excluding federal excise taxes), Liggett's gross profit increased to 78.4% for the year ended December 31, 1998 compared to 73.0% for the same period in 1997, with gross profit for the premium segment at 80.2% in 1998 and 77.1% in 1997, and gross profit for the discount segment at 77.5% in 1998 and 70.8% in 1997. This increase is the result of Liggett's 1998 list price increases and improved production variances. These increases were partially offset by increased tobacco costs at Liggett due to a reduction in the average discount available to Liggett from leaf tobacco dealers on tobacco purchased under prior years' purchase commitments.

As a percentage of revenues (excluding Russian excise taxes), Liggett-Ducat's gross profit increased to 29.9% for the year ended December 31, 1998 compared to 20.6% for the same period in 1997. The improved gross profit margin at Liggett-Ducat was due to higher volume and lower manufacturing costs (\$3.55 per thousand units in 1998 vs. \$4.36 per thousand units in 1997). The 40% growth in unit sales volume arose, in part, following a move to a four-shift, 24-hour production cycle in the Russian factory.

EXPENSES. Consolidated operating, selling, general and administrative expenses were \$186,904 for the year ended December 31, 1998 compared with \$162,938 for the year ended December 31, 1997. The increase in expenses of \$23,966 was largely the result of higher spending for promotional and marketing programs (\$20,106) and increased administrative expense (\$6,508) at Liggett. These costs were offset by lower pension expenses and decreases in systems development costs at Liggett when compared with the prior year. At Brooke (Overseas), consolidated operating, selling, general and administrative expenses were \$11,894 for the year ended December 31, 1998 compared to \$9,293 for the year ended December 31, 1997, an increase of \$2,601 over the prior year due primarily to timing of employee compensation awards of \$2,014, an increase in employee benefits and in various Russian taxes of \$2,782 and increased depreciation expense of \$812. These costs were offset primarily by a decrease in consulting fees of approximately \$2,500.

In addition, \$14,928 of net charges for the Attorneys General settlements previously accrued in 1997 and in early 1998 were reversed in 1998 as a result of the Master Settlement Agreement.

OTHER INCOME (EXPENSE). Consolidated other expense was \$106,988 for the twelve months ended December 31, 1998 compared to overall expense of \$58,327 in 1997. In 1998, interest expense increased by \$17,926 due primarily to non-cash charges for debt restructuring of approximately \$10,560 at BGLS and \$2,600 at Liggett as well as an increase of approximately \$3,200 at Brooke (Overseas) caused by higher interest rates in Russia and the preference requirement on the net income of Western Tobacco Investments.

In 1998, sale of assets of \$5,975 included \$4,246 representing a portion of the gain on the sale of the BrookeMil shares which had been deferred due to Brooke's 42% equity ownership of New Valley. With the contribution of the real estate assets of BrookeMil by New Valley to Western Realty Development, a joint venture between New Valley and Apollo, Brooke recognized a portion of the deferred gain to the extent of Apollo's interest in Western Realty Development. In 1997, the sale of assets included recognition of \$21,300 or 58% of the gain on the sale of the BrookeMil shares.

Equity in loss of affiliate in 1998 was \$28,717 compared to a loss of \$26,646 in 1997 and represents Brooke's proportionate share of losses from continuing operations at New Valley and a portion of New Valley's dividend arrearages. This was partially offset by discontinued operations in which Brooke reflected its portion of New Valley's income from discontinued operations of \$3,208 in 1998 and \$1,536 in 1997.

INCOME FROM CONTINUING OPERATIONS. The income from continuing operations for the year ended December 31, 1998 was \$24,219 compared with a loss of \$51,421 for the same period in the prior year. Brooke recognized a tax benefit of \$59,613 in 1998 as compared to a provision of \$1,123 for 1997.

LIQUIDITY AND CAPITAL RESOURCES

Net cash and cash equivalents increased \$12,727 in 1999, \$2,642 in 1998 and \$2,813 in 1997.

Net cash provided by operations in 1999 was \$58,093 compared to net cash used in operations of \$3,289 in 1998 and \$25,063 in 1997. The increase of \$61,382 in net cash provided by operating activities in 1999 over the prior year was due primarily to an increase in operating income at Liggett, a reduction in debt service resulting from Liggett's bond redemption on December 28, 1998 and an increase in deferred taxes and non-cash expenses including certain interest expenses, loss in joint venture and loss in equity of affiliate. In the 1998 period, cash payments included interest payments by BGLS and Liggett of approximately \$50,000. In addition, increases in inventories were partially offset by decreases in receivables and in payables and in other long-term liabilities.

Net cash used in operations in 1998 was \$3,289 compared to net cash used in 1997 of \$25,063, a net change of \$21,774 due primarily to an increase in operating income over the prior year, a reduction in cash interest on the BGLS senior secured notes of \$9,806, additional other non-cash interest of \$1,991 and non-cash stock based expense of \$9,394 which includes legal expenses of \$4,192, charges for stock issued to the Liggett bondholders of \$3,648 and other non-cash compensation expenses of \$1,554. Other non-cash expenses in 1998 include a foreign currency translation loss of \$4,294. These non-cash expenses were offset by a decrease in deferred taxes, an increase in receivables and net liabilities which included increasing accruals for interest charges on the BGLS notes.

Net cash provided by investing activities of \$127,968 in 1999 compares to net cash provided of \$131,327 in 1998. In 1999, the majority of the proceeds were from the purchase of the Class A option by Philip Morris in May 1999, loan proceeds which Trademarks borrowed and distributed to Eve and the sale of real estate. In 1999, these proceeds were partially offset by capital expenditures primarily for machinery and equipment at Liggett of \$17,432 and equipment and construction costs for the new factory of \$42,825 at Liggett-Ducat. Other payments made principally pertained to broker-dealer transactions and the sale of assets at New Valley. In 1998, net cash provided by investing activities of \$131,327 was due to the payment by Philip Morris of \$150,000 for options in Trademarks, offset by capital expenditures of \$21,006, primarily costs for construction and equipment for the new Liggett-Ducat cigarette factory in Russia.

Net cash provided by investing activities in 1998 of \$131,327 compares to net cash provided in 1997 of \$36,327 which was due principally to the sale of the BrookeMil shares by Brooke (Overseas) for \$55,000 on January 30, 1997 and the sale of used equipment by Liggett offset by capital expenditures of \$20,142, principally for construction and equipment costs for the new Liggett-Ducat factory.

Net cash used in financing activities was \$172,169 in 1999 as compared with cash used in financing activities in 1998 of \$124,024. Cash was used in 1999 primarily to retire the BGLS notes in principal amount of \$144,794 and to retire \$35,023 of New Valley mortgage financing relating to the five shopping centers sold in August 1999. Cash was also used in the 1999 period to decrease the margin loan at New Valley, to purchase preferred stock in a New Valley subsidiary and for distributions on common stock. Net borrowings under the revolving credit facilities were \$16,765, of which \$19,203 is attributable to Liggett-Ducat offset by net repayments at Liggett of \$2,438. Proceeds included \$4,500 of equipment financing, a \$5,000 term loan for the Mebane facility and the effect of the New Valley recapitalization which was \$9,010. Cash used in the 1998 period includes the redemption of Liggett's senior secured notes of \$144,919 and net repayments on revolving credit facilities of \$14,728. These payments were offset by the \$30,000 participating loan from Western Realty Development.

Net cash used in financing activities in 1998 of \$124,024 compares with net cash used of \$8,532 in 1997. Cash used in 1997 included the repurchase of \$7,500 principal amount of the Liggett notes, repayment of credit facilities in Russia and repayments of Liggett's credit facility partially offset by proceeds from credit facilities in Russia and proceeds from the credit facility at Liggett.

LIGGETT. On December 28, 1998, Liggett redeemed the entire outstanding \$144,891 principal amount of its senior secured notes at 100% of the principal amount together with accrued interest. Proceeds of \$150,000 from the purchase by Philip Morris of two options to purchase interests in Trademarks which acquired the three brands of Eve were used to fund the redemption.

The closing of the exercise by Philip Morris of the Class A option occurred on May 24, 1999. Upon closing, Liggett received \$145,000 from the purchase of the Class A interest and the distribution of certain loan proceeds by Trademarks to Eve, which guaranteed the loan.

Liggett has a \$35,000 credit facility, under which \$0 was outstanding at December 31, 1999. Availability under the credit facility was approximately \$26,816 based on eligible collateral at December 31, 1999. The facility is collateralized by all inventories and receivables of Liggett. Borrowings under the facility, whose interest is calculated at a rate equal to 1.0% above Philadelphia National Bank's (the indirect parent of Congress Financial Corporation, the lead lender) prime rate, bore a rate of 9.5% at December 31, 1999. The facility requires Liggett's compliance with certain financial and other covenants including a restriction on the payment of cash dividends unless Liggett's borrowing availability under the facility for the 30-day period prior to the payment of the dividend, and after giving effect to the dividend, is at least \$5,000. In addition, the facility, as amended, imposes requirements with respect to Liggett's adjusted net worth (not to fall below \$8,000 as computed in accordance with the agreement) and working capital (not to fall below a deficit of \$17,000 as computed in accordance with the agreement). At December 31, 1999, Liggett was in compliance with all covenants under the credit facility; Liggett's adjusted net worth was \$37,597 and net working capital was \$36,157, as computed in accordance with the agreement. The facility expires on March 8, 2003 subject to automatic renewal for an additional year unless a notice of termination is given by the lender at least 60 days prior to the anniversary date.

In November 1999, 100 Maple Lane LLC, a subsidiary of Liggett, purchased an industrial facility in Mebane, North Carolina for \$8.4 million. Liggett plans to relocate its tobacco manufacturing operations to the new facility by the end of 2000. Maple Lane borrowed \$5,040 from the lender under Liggett's credit facility. The loan is payable in 59 monthly installments of \$60 including annual interest of 1% above the prime rate with a final payment of \$1,500. Liggett has guaranteed the loan, and a first mortgage on the Mebane property collateralizes the Maple Lane loan and Liggett's credit facility.

On March 11, 1997, Liggett sold certain surplus realty in Durham, North Carolina to Blue Devil Ventures, a North Carolina limited liability partnership, for a sale price of \$2,200. A gain of approximately \$1,600 was recognized on this sale.

In January 1999, Liggett purchased equipment for \$5,750 and borrowed \$4,500 to fund the purchase. The loan, which is collateralized by the equipment, is payable in 60 monthly installments of \$56 including annual interest of 7.67% with a final payment of \$2,550.

Liggett (and, in certain cases, Brooke Group Holding, Brooke's predecessor and a wholly-owned subsidiary of BGLS) and other United States cigarette manufacturers have been named as defendants in a number of direct and third-party actions (and purported class actions) predicated on the theory that they should be liable for damages from cancer and other adverse health effects alleged to have been caused by cigarette smoking or by exposure to secondary smoke from cigarettes. Brooke believes, and has been so advised by counsel handling the cases, that Brooke Group Holding and Liggett have a number of valid defenses to the claims asserted against them. Litigation is subject to many uncertainties. An unfavorable verdict has been returned in the first phase of the ENGLE smoking and health class action trial pending in Florida. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the ENGLE case. In a worst case scenario, it

is possible that a judgment for punitive damages could be entered in the ENGLE case in an amount not capable of being bonded, resulting in an execution of the judgment before it could be set aside on appeal. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation. Recently, there have been a number of adverse regulatory, political and other developments concerning cigarette smoking and the tobacco industry. These developments generally receive widespread media attention. Neither Brooke nor Liggett is able to evaluate the effect of these developing matters on pending litigation or the possible commencement of additional litigation or regulation. See Note 22 to Brooke's consolidated financial statements.

Management is not able to make a meaningful estimate of the amount or range of loss that could result from an unfavorable outcome of the cases pending against Brooke Group Holding and Liggett or the costs of defending such cases. It is possible that Brooke's consolidated financial position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any such smoking-related litigation.

BROOKE (OVERSEAS). On January 31, 1997, Brooke (Overseas) sold its 99.1% interest in BrookeMil to New Valley for \$55,000. The purchase price paid was \$21,500 in cash and a 9% promissory note of \$33,500, which was paid during 1997.

Liggett-Ducat has recently completed construction of a new cigarette factory on the outskirts of Moscow which became operational in June 1999. The new factory, which utilizes Western cigarette making technology and has a capacity in excess of 40 billion units per year, produces American and international blend cigarettes, as well as traditional Russian cigarettes. Western Realty Development has made a \$30,000 participating loan to Western Tobacco Investments, which holds Brooke (Overseas)'s interest in Liggett-Ducat and the new factory. In addition, Western Tobacco Investments has entered into note agreements for equipment purchases which have a liability of approximately \$21,800 at December 31, 1999. The remaining costs for construction and equipment for the new factory have been financed by loans from Russian banks and approximately \$12,900 of loans from Brooke (Overseas) made during the first half of 1999.

BGLS. During 1999, BGLS repurchased \$144,794 principal amount of the BGLS senior secured notes, together with accrued interest thereon, for a discounted purchase price of \$164,732. The purchases were made using primarily proceeds from the Philip Morris brand transaction which closed on May 24, 1999.

At December 31, 1999, BGLS had outstanding \$88,070 principal amount of its BGLS notes which mature on January 31, 2001. Of this amount, \$52,639 carry deferred interest. On March 2, 1998, BGLS entered into a standstill agreement with the holders of \$97,239 principal amount of its notes, who were affiliated with Apollo, under which the Apollo holders (and any transferees) agreed to the deferral of interest payments, commencing with the interest payment due July 31, 1997 through the interest payment due July 31, 2000. BGLS had deferred a total of \$25,435 of interest as of December 31, 1999. Interest on all of the notes for the six-month period ended January 31, 2000 was paid in cash.

On January 20, 2000, BGLS repurchased an additional \$5,500 principal amount of the BGLS notes, together with accrued interest, for a purchase price of \$8,456.

CONSOLIDATED. Brooke has substantial near-term consolidated debt service requirements, with aggregate required principal payments of approximately \$168,700 due in the years 2000 through 2002. Brooke believes that it will continue to meet its liquidity requirements through 2000. The Brooke senior secured notes indenture limits the amount of restricted payments BGLS is permitted to make to Brooke during the calendar year. At December 31, 1999, the remaining amount available through December 31, 2000 in the restricted payment basket related to BGLS' payment of dividends to Brooke (as defined by the BGLS notes indenture) is \$22,829. Brooke expenditures (exclusive of Liggett, Liggett-Ducat and New Valley) over the next twelve months for current operations include cash interest expense of approximately \$16,650, dividends on Brooke's

shares (currently at an annual rate of approximately \$21,990) and corporate expenses. Brooke anticipates funding its expenditures for current operations with public and/or private debt and equity financing, management fees from subsidiaries and tax sharing and other payments from Liggett or New Valley. New Valley may acquire or seek to acquire additional operating businesses through merger, purchase of assets, stock acquisition or other means, or to make other investments, which may limit its ability to make such distributions.

MARKET RISK

Brooke is exposed to market risks principally from fluctuations in interest rates, foreign currency exchange rates and equity prices. Brooke seeks to minimize these risks through its regular operating and financing activities and its long-term investment strategy.

FOREIGN MARKET RISK

EUROPE. Brooke has foreign currency exchange risk relating to its outstanding obligations under foreign currency denominated equipment purchase contracts with various European companies where costs are affected by fluctuations in the United States dollar as compared to certain European currencies. Management believes that currencies in which it presently has such exposure are relatively stable.

RUSSIA. Liggett-Ducat's, Western Tobacco Investment's, BrookeMil's and Western Realty Development's operations are conducted in Russia. The Russian Federation continues to experience economic difficulties following the financial crisis of August 1998. Consequently, the country's currency continues to devalue, there is continued volatility in the debt and equity markets, hyperinflation persists, confidence in the banking sector has yet to be restored and there continues to be a general lack of liquidity in the economy. In addition, laws and regulations affecting businesses operating within the Russian Federation continue to evolve.

The Russian Federation's return to economic stability is dependent to a large extent on the effectiveness of the measures taken by the government, decisions of international lending organizations, and other actions, including regulatory and political developments, which are beyond Brooke's control. Brooke's Russian operations of may be significantly affected by these factors for the foreseeable future.

DOMESTIC MARKET RISK

New Valley's market risk management procedures cover all market risk sensitive financial instruments.

Current and proposed underwriting, corporate finance, merchant banking and other commitments at Ladenburg are subject to due diligence reviews by Ladenburg's senior management, as well as professionals in the appropriate business and support units involved. Credit risk related to various financing activities is reduced by the industry practice of obtaining and maintaining collateral. Ladenburg monitors its exposure to counterparty risk through the use of credit exposure information, the monitoring of collateral values and the establishment of credit limits.

EQUITY PRICE RISK. Ladenburg maintained inventories of trading securities at December 31, 1999 with fair values of \$15,707 in long positions and \$7,625 in short positions. Ladenburg performed an entity-wide analysis of its financial instruments and assessed the related risk and materiality. Based on this analysis, in the opinion of management the market risk associated with the Ladenburg's financial instruments at December 31, 1999 will not have a material adverse effect on the consolidated financial position or results of operations of Brooke.

New Valley held investment securities available for sale totaling \$48,722 at December 31, 1999. Approximately 22% of these securities represent an investment in RJ Reynolds Tobacco Holdings and Nabisco Group Holdings, which are defendants in numerous tobacco products-related litigation, claims and proceedings. An adverse outcome in any of these proceedings against these companies could have a significant effect on the value of New Valley's investment.

New Valley also holds long-term investments in limited partnerships and limited liability companies. These investments are illiquid, and their ultimate realization is subject to the performance of the investee entities.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. Originally, the statement had been effective for all quarters of fiscal years beginning after June 15, 1999. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities", which postponed the adoption of SFAS No. 133 until fiscal years beginning after June 15, 2000. Brooke has not yet determined the impact that the adoption of SFAS 133 will have on its earnings or statement of financial position.

YEAR 2000 COSTS

The "Year 2000 issue" is the result of computer programs that were written using two digits rather than four digits to define the applicable year. If Brooke's or its subsidiaries' computer programs with date-sensitive functions are not Year 2000 compliant, they may recognize a date using "00" as the Year 1900 rather than the Year 2000. This could result in system failure or miscalculations causing disruption to operations, including, among other things, an inability to process transactions or engage in similar normal business activities.

BROOKE, NEW VALLEY AND LIGGETT-DUCAT. Brooke, New Valley and Liggett-Ducat use personal computers for all transactions. All such computers and related systems and software are less than three years old and are Year 2000 compliant. As a result, Brooke, New Valley and Liggett-Ducat are Year 2000 compliant.

LIGGETT. Liggett is Year 2000 compliant. The focus of Liggett's Year 2000 compliance and verification efforts were directed at the implementation of new customer service, inventory control and financial reporting systems at each of the three regional Strategic Business Units formed as part of Liggett's reorganization which began in January 1997. Liggett estimates that approximately \$138 of the expenditures for this reengineering effort related to Year 2000 compliance, validation and testing. In November 1998, Liggett completed a major conversion of factory accounting, materials management and information systems at its Durham production facility with upgrades that were successfully tested for Year 2000 compliance. Program upgrades to Liggett's payroll system were completed in July 1999 with parallel upgrades to the human resources system software completed in August 1999. Enhancements to Liggett's warehouse management finished goods inventory tracking systems were completed in October 1999.

LADENBURG. Ladenburg is Year 2000 compliant. Ladenburg's plan addressed external interfaces with third party computer systems necessary in the broker-dealer industry. It also addressed internal operations software necessary to continue operations on a daily basis. Ladenburg's Year 2000 plan cost approximately \$650. The cost was inclusive of hardware and software upgrades and replacements as well as consulting.

EXTERNAL SERVICE PROVIDERS. The modifications for Year 2000 compliance by Brooke and its subsidiaries were completed in 1999. However, the failure of Brooke's service providers, including Ladenburg's clearing agent, to resolve their own processing issues in a timely manner could result in a material financial risk. Published reports have stated that Year 2000 miscalculations could occur throughout 2000. To date, neither Brooke nor its subsidiaries have experienced any material disruption to their business operations.

It is unclear whether the Russian government and other organizations that provide significant infrastructure services in Russia have addressed the Year 2000 problem sufficiently to mitigate potential substantial disruption to these infrastructure services. The substantial disruption to these services would have an adverse effect on Brooke's operations. Furthermore, the current financial crises in Russia could affect the ability of the government and other organizations to fund Year 2000 compliance programs. To date, Brooke is not aware of any Year 2000 related issues reported in Russia.

Although Brooke and its subsidiaries have confirmed that their service providers adequately addressed Year 2000 issues, there can be no complete assurance of success, or that interaction with other service providers will not impair Brooke's or its subsidiaries' services.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Brooke and its representatives may from time to time make oral or written "forward-looking statements" within the meaning of the Private Securities Reform Act of 1995, including any statements that may be contained in the foregoing discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations", in this report and in other filings with the Securities and Exchange Commission and in its reports to stockholders, which reflect Brooke's expectations or beliefs with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties and, in connection with the "safe-harbor" provisions of the Private Securities Reform Act, Brooke has identified under "Risk Factors" in Item 1 above important factors that could cause actual results to differ materially from those contained in any forward-looking statement made by or on behalf of Brooke.

Results actually achieved may differ materially from expected results included in these forward-looking statements as a result of these or other factors. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date on which such statements are made. Brooke does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of Brooke.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations - Market Risk" is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Brooke's and BGLS' Consolidated Financial Statements and Notes thereto, together with the report thereon of PricewaterhouseCoopers LLP dated March 30, 2000, are set forth beginning on page F-1 of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

This information is contained in Brooke's definitive Proxy Statement for its 2000 Annual Meeting of Stockholders, to be filed with the SEC not later than 120 days after the end of the registrant's fiscal year covered by this report pursuant to Regulation 14A under the Securities Exchange Act of 1934, and incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

This information is contained in the Proxy Statement and incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This information is contained in the Proxy Statement and incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information is contained in the Proxy Statement and incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(A)(1) INDEX TO 1999 CONSOLIDATED FINANCIAL STATEMENTS:

Brooke's and BGLS' Consolidated Financial Statements and the Notes thereto, together with the report thereon of PricewaterhouseCoopers LLP dated March 30, 2000, appear beginning on page F-1 of this report. Financial statement schedules not included in this report have been omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or the Notes thereto.

(A)(2) FINANCIAL STATEMENT SCHEDULES:

Schedule II - Valuation and Qualifying AccountsPage F-53

(A)(3) EXHIBITS

(a) The following is a list of exhibits filed herewith as part of this Annual Report on Form 10-K:

INDEX OF EXHIBITS

EXHIBIT NO.	DESCRIPTION
* 2.1	Stock Purchase Agreement dated as of January 31, 1997 among BrookeMil Ltd. ("BrookeMil"), Brooke (Overseas) Ltd. ("Brooke (Overseas)"), BGLS Inc. ("BGLS") and New Valley Corporation ("New Valley") (incorporated by reference to Exhibit 2.1 in New Valley's Form 8-K dated January 31, 1997, Commission File No. 1-2493).
* 2.2	Agreement and Plan of Merger, dated as of September 30, 1999, by and among Brooke Group Ltd. ("Brooke"), BGL Successor Inc. and BGL Merger Inc. (incorporated by reference to Exhibit 2.1 in Brooke's Report on Form 8-K dated October 1, 1999, Commission File No. 1-5759).
* 3.1	Amended and Restated Certificate of Incorporation of Brooke (incorporated by reference to Exhibit 3.1 in Brooke's Form 10-Q for the quarter ended September 30, 1999).
* 3.2	By-Laws of Brooke (incorporated by reference to Exhibit 3.2 in Brooke's Form 10-Q for the quarter ended September 30, 1999).
* 3.3	Certificate of Incorporation of BGLS (incorporated by reference to Exhibit 3.3 in Brooke's Form 10-Q for the quarter ended September 30, 1999).
* 3.4	By-Laws of BGLS (incorporated by reference to Exhibit 3.4 in Brooke's Form 10-Q for the quarter ended September 30, 1999).

- * 4.1 Indenture, dated as of January 1, 1996, between BGLS and Fleet National Bank of Massachusetts ("Fleet"), as Trustee, relating to the "Series A Notes" and the 15.75% Series B Senior Secured Notes due 2001 (the "Series B Notes"), including the form of Series A Note and the form of Series B Note (the "Indenture") (incorporated by reference to Exhibit 4.1 in BGLS' Registration Statement on Form S-4 dated December 19, 1995).
- * 4.2 First Supplemental Indenture, dated as of September 30, 1999, to the Indenture, dated as of January 1, 1996, between BGLS, BGLS Holding Inc. and State Street Bank and Trust Company, as Trustee (incorporated by reference to Exhibit 4.1 in Brooke's Report on Form 8-K dated October 1, 1999).
- * 4.3 Pledge and Security Agreement, dated as of January 1, 1996, between BGLS and Fleet, as Trustee, under the Indenture (incorporated by reference to Exhibit 4.2 in BGLS' Registration Statement on Form S-4 dated December 19, 1995).
- * 4.4 Amendment No. 1, dated as of September 30, 1999, to the Pledge and Security Agreement, dated as of January 1, 1996, between BGLS Holding Inc., Brooke Group Holding Inc., BGLS and State Street Bank and Trust Company, as Trustee (incorporated by reference to Exhibit 4.2 in Brooke's Report on Form 8-K dated October 1, 1999).
- * 4.5 Pledge and Security Agreement, dated as of January 1, 1996, between New Valley Holdings, Inc. and Fleet, as Trustee, under the Indenture (incorporated by reference to Exhibit 4.4 in BGLS' Registration Statement on Form S-4 dated December 19, 1995).
- * 4.6 Amended and Restated Standstill Agreement, dated as of February 9, 1999, among BGLS and AIF II, L.P. ("AIF II") and Artemis America Partnership ("AAP" and collectively, with AIF and their future transferees, the "Apollo Holders") (incorporated by reference to Exhibit 4.6 in Brooke's Form 10-K for the year ended December 31, 1998).
- * 4.7 Amended and Restated Limited Recourse Guarantee Agreement, dated as of February 9, 1999, made by Brooke (Overseas) for the benefit of the Apollo Holders (incorporated by reference to Exhibit 4.7 in Brooke's Form 10-K for the year ended December 31, 1998).
- * 4.8 Amended and Restated Pledge Agreement, dated as of February 9, 1999, between Brooke (Overseas) and the Apollo Holders (incorporated by reference to Exhibit 4.8 in Brooke's Form 10-K for the year ended December 31, 1998).
- * 4.9 Collateral Agency Agreement, dated as of February 9, 1999, between the Apollo Holders, U.S. Bank Trust National Association, as Collateral Agent, and Brooke (Overseas) (incorporated by reference to Exhibit 4.9 in Brooke's Form 10-K for the year ended December 31, 1998).

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- * 4.10 Loan and Security Agreement, dated as of March 8, 1994, between Liggett and Congress Financial Corporation (incorporated by reference to Exhibit 10(xx) in Brooke's Form 10-K for the year year ended December 31, 1993).
 - * 10.1 Corporate Services Agreement, dated as of June 29, 1990, between Brooke and Liggett (incorporated by reference to Exhibit 10.10 in Liggett's Registration Statement on Form S-1, No. 33-47482).
 - * 10.2 Corporate Services Agreement, dated June 29, 1990, between Brooke and Liggett (incorporated by reference to Exhibit 10.11 in Liggett's Registration Statement on Form S-1, No. 33-47482).
 - * 10.3 Services Agreement, dated as of February 26, 1991, between Brooke Management Inc. ("BMI") and Liggett (the "Liggett Services Agreement") (incorporated by reference to Exhibit 10.5 in BGLS' Registration Statement on Form S-1, No. 33-93576).
 - * 10.4 First Amendment to Liggett Services Agreement, dated as of November 30, 1993, between Liggett and BMI (incorporated by reference to Exhibit 10.6 of BGLS' Registration Statement on Form S-1, No. 33-93576).
 - * 10.5 Second Amendment to Liggett Services Agreement, dated as of October 1, 1995, between BMI, Brooke and Liggett (incorporated by reference to Exhibit 10(c) in Brooke's Form 10-Q for the quarter ended September 30, 1995).
 - * 10.6 Corporate Services Agreement, dated January 1, 1992, between BGLS and Liggett (incorporated by reference to Exhibit 10.13 of Liggett's Registration Statement on Form S-1, No. 33-47482).
 - * 10.7 Employment Agreement, dated February 21, 1992, between Brooke and Bennett S. LeBow (incorporated by reference to Exhibit 10(xx) in Brooke's Form 10-K for the year ended December 31, 1991).
 - * 10.8 Amendment to Employment Agreement, dated as of July 20, 1998, between Brooke and Bennett S. LeBow (incorporated by reference to Exhibit 10.8 in Brooke's Form 10-K for the year ended December 31, 1998).
 - * 10.9 Tax-Sharing Agreement, dated June 29, 1990, among Brooke, Liggett and certain other entities (incorporated by reference to Exhibit 10.12 in Liggett's Registration Statement on Form S-1, No. 33-47482).
 - * 10.10 Tax Indemnity Agreement, dated as of October 6, 1993, among Brooke, Liggett and certain other entities (incorporated by reference to Exhibit 10.2 in SkyBox International Inc.'s Form 10-Q for the quarter ended September 30, 1993).

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- * 10.11 Expense Sharing Agreement, dated as of January 18, 1995, between Brooke and New Valley (incorporated by reference to Exhibit 10(d) in Brooke's Form 10-Q for the quarter ended September 30, 1995).
 - * 10.12 Stock Option Agreement, dated January 25, 1995, between Brooke and Howard M. Lorber (incorporated by reference to Exhibit 10(g) in Brooke's Form 10-K for the year ended December 31, 1994).
 - * 10.13 Amended and Restated Consulting Agreement, dated as of January 1, 1996, between Brooke and Howard M. Lorber (the "Lorber Consulting Agreement") (incorporated by reference to Exhibit 10.25 in Brooke's Form 10-K for the year ended December 31, 1995).
 - * 10.14 Amendment dated January 1, 1998 to the Lorber Consulting Agreement (incorporated by reference to Exhibit 10.23 in Brooke's Form 10-K for the year ended December 31, 1997).
 - * 10.15 Settlement Agreement, dated March 12, 1996, by and between Dianne Castano and Ernest Perry, the putative representative plaintiffs in Dianne Castano, et al. v. The American Tobacco Company, Inc. et al., Civil No. 94-1044, United States District Court for the Eastern District of Louisiana, for themselves and on behalf of the plaintiff settlement class, and Brooke Group Holding and Liggett, as supplemented by the letter agreement dated March 14, 1996 (the "Settlement Agreement") (incorporated by reference to Exhibit 13 in the Schedule 13D filed by, among others, Brooke with the SEC on March 11, 1996, as amended, with respect to the common stock of RJR Nabisco Holdings Corp. (the "Schedule 13D")).
 - * 10.16 Addendum to Settlement Agreement (incorporated by reference to Exhibit 10.30 in Brooke's Form 10-K/A No. 1 for the year ended December 31, 1996).
 - * 10.17 Settlement Agreement, dated March 15, 1996, by and among the State of West Virginia, State of Florida, State of Mississippi, Commonwealth of Massachusetts, and State of Louisiana, Brooke Group Holding and Liggett (incorporated by reference to Exhibit 15 in the Schedule 13D).
 - * 10.18 Addendum to Initial States Settlement Agreement (incorporated by reference to Exhibit 10.43 in Brooke's Form 10-Q for the quarterly period ended March 31, 1997).
 - * 10.19 Settlement Agreement, dated March 20, 1997, by and between the named and representative plaintiffs in Fletcher, et al. v. Brooke Group Ltd., et al., for themselves and on behalf of the plaintiff settlement class, and Brooke Group Holding and Liggett (incorporated by reference to Exhibit 10.41 in Brooke's Form 10-K for the year ended December 31, 1996).

- * 10.20 Settlement Agreement, dated March 12, 1998, by and among the States listed in Appendix A thereto, Brooke Group Holding and Liggett (incorporated by reference to Exhibit 10.35 in Brooke's Form 10-K for the year ended December 31, 1997).
- * 10.21 Amended Settlement Agreement, dated July 2, 1998, by and between the named representative plaintiffs in Fletcher, et al., v. Liggett Group Inc., et al., for themselves and on behalf of the plaintiff settlement class, and Brooke Group Holding and Liggett (incorporated by reference to Exhibit 10.32 in Brooke's Form 10-K for the year ended December 31, 1998).
- * 10.22 Master Settlement Agreement made by the Settling States and Participating Manufacturers signatories thereto (incorporated by reference to Exhibit 10.1 in Philip Morris Companies Inc.'s Report on Form 8-K dated November 25, 1998).
- * 10.23 General Liggett Replacement Agreement, dated as of November 23, 1998, entered into by each of the Settling States under the Master Settlement Agreement, and Brooke Group Holding and Liggett (incorporated by reference to Exhibit 10.34 in Brooke's Form 10-K for the year ended December 31, 1998).
- * 10.24 Class Settlement Agreement, dated January 14, 1999, by and between the named representative plaintiffs in Iron Workers Union No. 17 Insurance Fund, et al., v. Philip Morris Inc., et al., for themselves and on behalf of the plaintiff settlement class, and Brooke Group Holding and Liggett (incorporated by reference to Exhibit 10.35 in Brooke's Form 10-K for the year ended December 31, 1998).
- * 10.25 Stock Option Agreement, dated December 16, 1996, between Brooke and Howard M. Lorber (incorporated by reference to Exhibit 10.34 in Brooke's Form 10-K for the year ended December 31, 1996).
- * 10.26 Letter Agreement dated September 5, 1996 between Ronald S. Fulford and Liggett (incorporated by reference to Exhibit 10.23 in Liggett's Form 10-K for the year ended December 31, 1996).
- * 10.27 Stock Option Agreement, dated January 1, 1997, between Brooke and Richard J. Lampen (incorporated by reference to Exhibit 10.35 in Brooke's Form 10-K for the year ended December 31, 1996).
- * 10.28 Stock Option Agreement, dated January 1, 1997, between Brooke and Marc N. Bell (incorporated by reference to exhibit 4.3 in the Brooke's Registration Statement on Form S-8, No. 333-24217).
- * 10.29 Stock Option Agreement, dated January 1, 1998, between Brooke and Joselynn D. Van Siclen (incorporated by reference to Exhibit 10.43 in Brooke's Form 10-K for the year ended December 31, 1997).

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- * 10.30 Warrant to purchase common stock of Brooke, dated March 2, 1998, issued to AIF (incorporated by reference to Exhibit 10.2 in Brooke's Form 8-K dated March 2, 1998).
 - * 10.31 Warrant to purchase common stock of Brooke, dated March 2, 1998, issued to AAP (incorporated by reference to Exhibit 10.3 in Brooke's Form 8-K dated March 2, 1998).
 - * 10.32 Warrant to purchase common stock of Brooke, dated March 2, 1998, issued to AIF (incorporated by reference to Exhibit 10.4 in Brooke's Form 8-K dated March 2, 1998).
 - * 10.33 Warrant to purchase common stock of Brooke, dated March 2, 1998, issued to AAP (incorporated by reference to Exhibit 10.5 in Brooke's Form 8-K dated March 2, 1998).
 - * 10.34 Registration Rights Agreement, dated as of March 2, 1998, among Brooke and the Apollo Holders (incorporated by reference to Exhibit 10.6 in Brooke's Form 8-K dated March 2, 1998).
 - * 10.35 Registration Rights Agreement, dated as of March 2, 1998, among Brooke and the Apollo Holders (incorporated by reference to Exhibit 10.7 in Brooke's Form 8-K dated March 2, 1998).
 - * 10.36 Amended and Restated Stock Option Agreement, dated as of October 12, 1998, by and between Brooke and Kasowitz, Benson, Torres & Friedman LLP, Marc E. Kasowitz and Daniel R. Benson (incorporated by reference to Exhibit 10.4 in Brooke's Form 10-Q for the quarter ended September 30, 1998).
 - * 10.37 Amended and Restated Limited Liability Company Agreement (Second Restatement) dated as of February 20, 1998 by and among Western Realty Development LLC, New Valley, BrookeMil and Apollo Real Estate Investment Fund III, L.P. ("Apollo") (incorporated by reference to Exhibit 10.1 in New Valley's Form 10-Q for the quarter ended June 30, 1998).
 - * 10.38 Limited Liability Company Agreement, dated as of June 18, 1998, by and among Western Realty Repin LLC, Apollo and New Valley (incorporated by reference to Exhibit 10.3 in New Valley's Form 10-Q for the quarter ended June 30, 1998).
 - * 10.39 Participating Loan Agreement, dated as of April 28, 1998, by and among Western Realty Development LLC, Western Tobacco Investments LLC and Brooke (Overseas) (incorporated by reference to Exhibit 10.2 in New Valley's Form 10-Q for the quarter ended June 30, 1998).
 - * 10.40 Participating Loan Agreement, dated as of June 18, 1998, by and between Western Realty Repin LLC and BrookeMil (incorporated by reference to Exhibit 10.4 in New Valley's Form 10-Q for the quarter ended June 30, 1998).

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- * 10.41 Consulting Agreement, dated as of May 1, 1998, between Brooke and J. Sauter Enterprises, Inc. (incorporated by reference to Exhibit 4.1 in Brooke's Registration Statement on Form S-8, No. 333-59615).
 - * 10.42 Brooke Group Ltd. 1998 Long-Term Incentive Plan (incorporated by reference to the Appendix to Brooke's Proxy Statement dated September 15, 1998).
 - * 10.43 Stock Option Agreement, dated July 20, 1998, between Brooke and Bennett S. LeBow (incorporated by reference to Exhibit 6 in the Amendment No. 5 to the Schedule 13D filed by Bennett S. LeBow on October 16, 1998 with respect to the common stock of Brooke).
 - * 10.44 Stock Option Agreement, dated July 20, 1998, between Brooke and Howard M. Lorber (incorporated by reference to Exhibit 10.3 in Brooke's Form 10-Q for the quarter ended September 30, 1998).
 - * 10.45 Letter Agreement, dated November 20, 1998, by and among Philip Morris Incorporated ("PM"), Brooke, Liggett & Myers Inc. ("L&M") and Liggett (incorporated by reference to Exhibit 10.1 in Brooke's Report on Form 8-K dated November 25, 1998).
 - * 10.46 Amended and Restated Formation and Limited Liability Company Agreement of Trademarks LLC, dated as of May 24, 1999, among Brooke, L&M, Eve Holdings Inc. ("Eve"), Liggett and PM, including the form of Trademark License Agreement (incorporated by reference to Exhibit 10.4 in Brooke's Form 10-Q for the quarter ended June 30, 1999).
 - * 10.47 Class A Option Agreement, dated as of January 12, 1999, among Brooke, L&M, Eve, Liggett and PM (incorporated by reference to Exhibit 10.61 in Brooke's Form 10-K for the year ended December 31, 1998).
 - * 10.48 Class B Option Agreement, dated as of January 12, 1999, among Brooke, L&M, Eve, Liggett and PM (incorporated by reference to Exhibit 10.62 in Brooke's Form 10-K for the year ended December 31, 1998).
 - * 10.49 Pledge Agreement dated as of May 24, 1999 from Eve, as grantor, in favor of Citibank, N.A., as agent (incorporated by reference to Exhibit 10.5 in Brooke's Form 10-Q for the quarter ended June 30, 1999).
 - * 10.50 Guaranty dated as of June 10, 1999 from Eve, as guarantor, in favor of Citibank, N.A., as agent (incorporated by reference to Exhibit 10.6 in Brooke's Form 10-Q for the quarter ended June 30, 1999).
 - * 10.51 Purchase and Sale Agreement, dated February 17, 1999, between BGLS and U.S. Bancorp Investments, Inc. (incorporated by reference to Exhibit 10.64 in Brooke's Form 10-K for the year ended December 31, 1998).

EXHIBIT NO.	DESCRIPTION
* 10.52	Employment Agreement dated as of June 1, 1995, as amended, effective as of January 1, 1996, between New Valley and Bennett S. LeBow (incorporated by reference to Exhibit 10(b)(i) in New Valley's Form 10-K for the year ended December 31, 1995).
* 10.53	Employment Agreement dated September 22, 1995, between New Valley and Richard J. Lampen (incorporated by reference to Exhibit 10(a) in New Valley's Form 10-Q for the quarter ended September 30, 1995).
* 10.54	Employment Agreement dated April 15, 1994, between Brooke and Marc N. Bell (incorporated by reference to Exhibit 10.67 in Brooke's Form 10-K for the year ended December 31, 1998).
* 10.55	Sale-Purchase Agreement, dated as of September 2, 1998, by and between New Valley and PW/MS OP Sub I, LLC (incorporated by reference to Exhibit 2.1 in New Valley's on Form 8-K dated September 28, 1998).
* 10.56	Employment Agreement dated as of August 1, 1999, between Brooke and Joselynn D. Van Siclen (incorporated by reference to Exhibit 10.8 in Brooke's Form 10-Q for the quarter ended June 30, 1999).
* 10.57	Purchase Agreement, dated as of September 30, 1999, between BGLS Inc. and BGLS Holding Inc. (incorporated by reference to Exhibit 10.1 in Brooke's Form 8-K dated October 1, 1999).
10.58	Brooke Group Ltd. 1999 Long-Term Incentive Plan.
10.59	Stock Option Agreement, dated November 4, 1999, between Brooke and Bennett S. LeBow.
10.60	Stock Option Agreement, dated November 4, 1999, between Brooke and Richard J. Lampen.
10.61	Stock Option Agreement, dated November 4, 1999, between Brooke and Marc N. Bell.
10.62	Stock Option Agreement, dated November 4, 1999, between Brooke and Joselynn D. Van Siclen.
10.63	Stock Option Agreement, dated November 4, 1999, between Brooke and Howard M. Lorber.
10.64	Stock Option Agreement, dated November 24, 1999, between Brooke and Ronald S. Fulford.
21	Subsidiaries of Brooke.
23.1	Consent of PricewaterhouseCoopers LLP relating to Brooke's Registration Statements on Form S-8 (No. 333-24217, No. 333-50189 and No. 333-59615).

23.2	Consent of Arthur Anderson LLP relating to Brooke's Registration Statements on Form S-8 (No. 333-24217, No. 333-50189 and No. 333-59615).
27.1	Financial Data Schedule of Brooke.
27.2	Financial Data Schedule of BGLS.
99.1	Material Legal Proceedings
99.2	Liggett Group Inc.'s Consolidated Financial Statements for the fiscal year ended December 31, 1999.
* 99.3	New Valley Corporation's Consolidated Financial Statements for the fiscal year ended December 31, 1999 (incorporated by reference to New Valley's Form 10-K for the fiscal year ended December 31, 1999).
99.4	Brooke (Overseas) Ltd.'s Consolidated Financial Statements for the fiscal year ended December 31, 1999.

*Incorporated by reference

Each management contract or compensatory plan or arrangement required to be filed as an exhibit to this report pursuant to Item 14(c) is listed in exhibit nos. 10.7, 10.8, 10.26, 10.27, 10.28, 10.29, 10.42, 10.43, 10.52, 10.53, 10.54, 10.56 and 10.58 through 10.64.

(B) REPORTS ON FORM 8-K:

Brooke filed the following Report on Form 8-K during the fourth quarter of 1999:

DATE	ITEMS	FINANCIAL STATEMENTS
----	-----	-----
October 1, 1999	5, 7	None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

BROOKE GROUP LTD.
(REGISTRANT)

By: /s/ Bennett S. LeBow

Bennett S. LeBow
Chairman of the Board, Chief
Executive Officer and President

Date: March 30, 2000

BGLS INC.
(REGISTRANT)

By: /s/ Bennett S. LeBow

Bennett S. LeBow
Chairman of the Board, Chief
Executive Officer and President

Date: March 30, 2000

POWER OF ATTORNEY

The undersigned directors and officers of Brooke Group Ltd. and BGLS Inc. hereby constitute and appoint Richard J. Lampen, Joselynn D. Van Siclen and Marc N. Bell, and each of them, with full power to act without the other and with full power of substitution and resubstitutions, our true and lawful attorneys-in-fact with full power to execute in our name and behalf in the capacities indicated below, this Annual Report on Form 10-K and any and all amendments thereto and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, and hereby ratify and confirm all that such attorneys-in-fact, or any of them, or their substitutes shall lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 30, 2000.

SIGNATURE -----	TITLE -----
/s/ Bennett S. LeBow ----- Bennett S. LeBow	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
/s/ Joselynn D. Van Siclen ----- Joselynn D. Van Siclen	Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
/s/ Robert J. Eide ----- Robert J. Eide	Director
/s/ Jeffrey S. Podell ----- Jeffrey S. Podell	Director
/s/ Jean E. Sharpe ----- Jean E. Sharpe	Director

BROOKE GROUP LTD.
BGLS INC.

FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1999
ITEMS 8, 14(a) (1) AND (2), AND 14(d)

INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE

Financial Statements and Schedule of the Registrant and its subsidiaries required to be included in Items 8, 14(a) (1) and (2), and 14(d) are listed below:

	PAGE

FINANCIAL STATEMENTS:	
BROOKE GROUP LTD./BGLS INC. CONSOLIDATED FINANCIAL STATEMENTS	
Report of Independent Certified Public Accountants.....	F-2
Brooke Group Ltd. Consolidated Balance Sheets as of December 31, 1999 and 1998	F-3
BGLS Inc. Consolidated Balance Sheets as of December 31, 1999 and 1998.....	F-4
Brooke Group Ltd. Consolidated Statements of Operations for the years ended December 31, 1999, 1998 and 1997.....	F-5
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Brooke Group Ltd. Consolidated Statements of Stockholders' Equity (Deficit) for the years ended December 31, 1999, 1998 and 1997.....	F-7
BGLS Inc. Consolidated Statements of Stockholder's Equity (Deficit) for the years ended December 31, 1999, 1998 and 1997.....	F-8
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FINANCIAL STATEMENT SCHEDULE:	
Schedule II -- Valuation and Qualifying Accounts.....	F-52
Financial Statement Schedules not listed above have been omitted because they are not applicable or the required information is contained in Brooke's Consolidated Financial Statements or accompanying Notes.	
THINKING MACHINES CORPORATION	
Report of Independent Public Accountants.....	F-53
LIGGETT GROUP INC.	
The consolidated financial statements of Liggett Group Inc. are filed as exhibit 99.2 to this report and are incorporated herein by reference.	
NEW VALLEY CORPORATION	
The consolidated financial statements of New Valley Corporation are filed as exhibit 99.3 to this report and are incorporated herein by reference.	
BROOKE (OVERSEAS) LTD.	
The consolidated financial statements of Brooke (Overseas) Ltd. are filed as exhibit 99.4 to this report and are incorporated herein by reference.	

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders
of Brooke Group Ltd. and BGLS Inc.

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(1) of this Form 10-K present fairly, in all material respects, the financial position of Brooke Group Ltd. and its subsidiaries and BGLS Inc. and its subsidiaries, (collectively the "Company") at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 14 (a) (2) of this Form 10-K presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP

Miami, Florida
March 30, 2000

BROOKE GROUP LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	DECEMBER 31, 1999	DECEMBER 31, 1998
	-----	-----
ASSETS:		
Current assets:		
Cash and cash equivalents.....	\$ 20,123	\$ 7,396
Receivables from clearing brokers.....	10,903	
Investment securities available for sale.....	48,722	
Trading securities owned.....	15,707	
Accounts receivable - trade.....	19,658	15,160
Other receivables.....	1,290	924
Inventories.....	45,205	36,316
Restricted assets.....	3,239	
Deferred income taxes.....	21,374	59,613
Other current assets.....	2,511	3,151
	-----	-----
Total current assets.....	188,732	122,560
Property, plant and equipment, net.....	154,260	93,504
Investment in real estate, net.....	53,353	
Long-term investments, net.....	8,731	
Investment in joint venture.....	38,378	
Restricted assets.....	5,195	
Deferred income taxes.....	45,631	
Other assets.....	10,168	12,918
	-----	-----
Total assets.....	\$504,448	\$228,982
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT):		
Current liabilities:		
Current portion of notes payable and long-term debt.....	\$ 41,547	\$ 21,176
Margin loan payable.....	983	
Accounts payable.....	36,456	13,880
Cash overdraft.....		77
Securities sold, not yet purchased.....	7,625	
Accrued promotional expenses.....	22,473	23,760
Accrued taxes payable.....	42,408	14,854
Deferred income taxes.....	2,274	
Accrued interest.....	8,488	17,189
Proceeds received for options.....		150,000
Prepetition claims and restructuring accruals.....	12,279	
Other accrued liabilities.....	52,121	32,505
	-----	-----
Total current liabilities.....	226,654	273,441
Notes payable, long-term debt and other obligations, less current portion.....	148,349	262,665
Noncurrent employee benefits.....	23,264	21,701
Deferred income taxes.....	117,285	
Other liabilities.....	76,628	65,350
Minority interests.....	45,366	
Commitments and contingencies.....		
Stockholders' equity (deficit):		
Preferred stock, par value \$1.00 per share, authorized 10,000,000 shares.....		
Common stock, par value \$0.10 per share, authorized 100,000,000 shares, issued 27,822,779 shares, outstanding 21,989,782.....	2,199	2,094
Additional paid-in capital.....	196,695	124,120
Deficit.....	(302,155)	(512,182)
Accumulated other comprehensive income.....	1,379	24,774
Other.....	(3,743)	(5,508)
Less: 5,832,997 shares of common stock in treasury, at cost.....	(27,473)	(27,473)
	-----	-----
Total stockholders' equity (deficit).....	(133,098)	(394,175)
	-----	-----
Total liabilities and stockholders' equity (deficit).....	\$504,448	\$228,982
	=====	=====

The accompanying notes are an integral part
of the consolidated financial statements.

BGLS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	DECEMBER 31, 1999	DECEMBER 31, 1998
	-----	-----
ASSETS:		
Current assets:		
Cash and cash equivalents.....	\$ 19,590	\$ 7,396
Receivables from clearing brokers.....	10,903	
Investment securities available for sale.....	48,722	
Trading securities owned.....	15,707	
Accounts receivable - trade.....	19,658	15,160
Other receivables.....	1,237	755
Inventories.....	45,205	36,316
Restricted assets.....	3,239	
Deferred income taxes.....	21,374	59,613
Other current assets.....	2,350	2,946
	-----	-----
Total current assets.....	187,985	122,186
Property, plant and equipment, net.....	154,246	93,481
Investment in real estate, net.....	53,353	
Long-term investments, net.....	8,731	
Investment in joint venture.....	38,378	
Restricted assets.....	5,195	
Deferred income taxes.....	45,631	
Other assets.....	9,002	11,729
	-----	-----
Total assets.....	\$502,521	\$227,396
	=====	=====
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT):		
Current liabilities:		
Current portion of notes payable and long-term debt.....	\$ 41,333	\$ 20,955
Margin loan payable.....	983	
Accounts payable.....	36,236	13,746
Cash overdraft.....		63
Securities sold, not yet purchased.....	7,625	
Due to parent.....		32,394
Accrued promotional expenses.....	22,473	23,760
Accrued taxes payable.....	42,408	14,854
Deferred income taxes.....	2,274	
Accrued interest.....	8,488	17,188
Proceeds received for options.....		150,000
Pre-petition claims and restructuring accruals.....	12,279	
Other accrued liabilities.....	50,254	31,556
	-----	-----
Total current liabilities.....	224,353	304,516
Notes payable, long-term debt and other obligations, less current portion.....	148,349	262,665
Noncurrent employee benefits.....	23,264	21,701
Deferred income taxes.....	117,285	
Other liabilities.....	76,360	69,216
Minority interests.....	45,366	
Commitments and contingencies.....		
Stockholder's equity (deficit):		
Common stock, par value \$0.01 per share; 100 shares authorized, issued and outstanding.....		
Additional paid-in capital.....	161,800	69,297
Deficit.....	(295,635)	(524,773)
Accumulated other comprehensive income.....	1,379	24,774
	-----	-----
Total stockholder's equity (deficit).....	(132,456)	(430,702)
	-----	-----
Total liabilities and stockholder's equity (deficit).....	\$502,521	\$227,396
	=====	=====

The accompanying notes are an integral part
of the consolidated financial statements.

BROOKE GROUP LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Revenues:			
Tobacco*	\$ 522,807	\$ 444,566	\$ 389,615
Broker-dealer transactions	40,852		
Real estate leasing	3,386		
Total revenues	567,045	444,566	389,615
Expenses:			
Cost of goods sold*	189,865	200,996	202,121
Operating, selling, administrative and general expenses	306,228	186,904	162,938
Settlement charges	(1,051)	(14,928)	16,527
Operating income	72,003	71,594	8,029
Other income (expenses):			
Interest and dividend income	2,840	1,169	553
Interest expense	(54,378)	(79,704)	(61,778)
Equity in loss of affiliate	(11,315)	(28,717)	(26,646)
Recognition of deferred gain on sale of assets	7,050		
Loss in joint venture	(12,082)		
Gain on sale of investments, net	741		
Sale of assets	12,172	5,975	23,086
Gain on brand transaction	294,078		
Other, net	1,966	(5,711)	6,458
Income (loss) from continuing operations before provision (benefit) for income taxes and minority interests ...	313,075	(35,394)	(50,298)
Provision (benefit) for income taxes	82,458	(59,613)	1,123
Minority interests	5,467		
Income (loss) from continuing operations	236,084	24,219	(51,421)
Gain on disposal of discontinued operations	1,249	3,208	1,536
Loss on extraordinary items.....	(1,660)		
Net income (loss)	\$ 235,673	\$ 27,427	\$ (49,885)
Per basic common share:			
Income (loss) from continuing operations	\$ 10.74	\$ 1.13	\$ (2.70)
Gain from discontinued operations	\$ 0.06	\$ 0.15	\$ 0.08
Loss from extraordinary items	\$ (0.08)		
Net income (loss) applicable to common shares	\$ 10.72	\$ 1.28	\$ (2.62)
Basic weighted average common shares outstanding	21,989,782	21,446,255	19,076,745
Per diluted common share:			
Income (loss) from continuing operations	\$ 8.81	\$ 0.93	\$ (2.70)
Gain from discontinued operations	\$ 0.05	\$ 0.12	\$ 0.08
Loss from extraordinary items	\$ (0.06)		
Net income (loss) applicable to common shares	\$ 8.80	\$ 1.05	\$ (2.62)
Diluted weighted average common shares outstanding	26,811,273	26,034,912	19,076,745

* Revenues and Cost of goods sold include excise taxes of \$66,698, \$82,613 and \$87,683 for ended the years ended December 31, 1999, 1998 and 1997, respectively.

The accompanying notes are an integral part
of the consolidated financial statements.

BGLS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Revenues:			
Tobacco*	\$ 522,807	\$ 444,566	\$ 389,615
Broker dealer transactions	40,852		
Real estate leasing	3,386		
Total revenues	567,045	444,566	389,615
Expenses:			
Cost of goods sold*	189,865	200,996	202,121
Operating, selling, administrative and general expenses	304,017	183,970	162,548
Settlement charges	(1,051)	(14,928)	16,527
Operating income	74,214	74,528	8,419
Other income (expenses):			
Interest and dividend income	2,840	1,025	543
Interest expense	(57,910)	(84,194)	(65,581)
Equity in loss of affiliate	(11,315)	(28,717)	(26,646)
Recognition of deferred gain on sale of assets	8,264		
Loss in joint venture	(12,082)		
Gain on sale of investments, net	741		
Sale of assets	12,172	5,981	27,663
Gain on brand transaction	294,078		
Other, net	1,922	(5,878)	2,326
Income (loss) from continuing operations before provision (benefit) for income taxes and minority interests	312,924	(37,255)	(53,276)
Provision (benefit) for income taxes	82,458	(59,613)	1,135
Minority interests	5,467		
Income (loss) from continuing operations	235,933	22,358	(54,411)
Gain on disposal of discontinued operations	1,249	3,208	1,536
Loss on extraordinary items	(1,660)		
Net income (loss)	\$ 235,522	\$ 25,566	\$ (52,875)

* Revenues and Cost of goods sold include excise taxes of \$66,698, \$82,613 and \$87,683 for the years ended December 31, 1999, 1998 and 1997, respectively.

The accompanying notes are an integral part of the consolidated financial statements.

BROOKE GROUP LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	COMMON SHARES	STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	DEFICIT	TREASURY STOCK	OTHER	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL
Balance, December 31, 1996.....	18,497,096	\$ 1,850	\$ 94,169	\$(490,706)	\$ (32,339)	\$(5,061)	\$(22,902)	\$(454,989)
Net loss.....				(49,885)				(49,885)
Unrealized holding gain on investment in New Valley.							16,842	16,842
Effect of New Valley capital transactions.....							3,190	3,190
Pension-related minimum liability adjustment.....							1,013	1,013
Total other comprehensive income.....								21,045
Total comprehensive loss.....								(28,840)
Distributions on common stock...			(5,504)					(5,504)
Amortization of deferred compensation.....						1,311		1,311
Stock options granted to consultant.....			(375)					(375)
Settlement of loan.....	(400,000)			1,800	(1,800)			
Balance, December 31, 1997.....	18,097,096	1,850	88,290	(538,791)	(34,139)	(3,750)	(1,857)	(488,397)
Net income.....					27,427			27,427
Unrealized holding gain on investment in New Valley....							30,902	30,902
Effect of New Valley capital transactions.....							(3,383)	(3,383)
Pension-related minimum liability adjustment.....							(888)	(888)
Total other comprehensive income.....								26,631
Total comprehensive income.....								54,058
Distributions on common stock...			(6,123)					(6,123)
Effectiveness fee on debt.....	483,002	48	1,666		2,391			4,105
Issuance of options and warrants.....			28,086			(3,261)		24,825
Issuance of common stock.....	1,500,000	150	11,342					11,492
Issuance of treasury stock.....	863,632	46	319	(818)	4,275			3,822
Amortization of deferred compensation.....			540			1,503		2,043
Balance, December 31, 1998.....	20,943,730	2,094	124,120	(512,182)	(27,473)	(5,508)	24,774	(394,175)
Net income.....				235,673				235,673
Unrealized gains on investment securities.....							565	565
Other New Valley capital transactions.....							342	342
Effect of New Valley recapitalization on other comprehensive loss.....							(24,647)	(24,647)
Pension-related minimum liability adjustment.....							345	345
Total other comprehensive loss.....								(23,395)
Total comprehensive income.....								212,278
Effect of stock dividend.....	1,046,052	105	25,541	(25,646)				
Recapitalization of New Valley.			58,390					58,390
New Valley purchase of preferred stock in subsidiary.			850					850
Distributions on common stock..			(13,945)					(13,945)
Amortization of deferred compensation.....			1,739			1,765		3,504
Balance, December 31, 1999.....	21,989,782	\$ 2,199	\$196,695	\$(302,155)	\$ (27,473)	\$(3,743)	\$ 1,379	\$(133,098)

The accompanying notes are an integral part
of the consolidated financial statements.

BGLS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY (DEFICIT)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	COMMON SHARES	STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	DEFICIT	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL
Balance, December 31, 1996.....	100	\$	\$ 39,081	\$(499,264)	\$(22,902)	\$(483,085)
Net loss.....				(52,875)		(52,875)
Unrealized holding gain on investment in New Valley					16,842	16,842
Effect of New Valley capital transactions.....					3,190	3,190
Pension-related minimum liability adjustment.....					1,013	1,013
Total other comprehensive income.....						21,045
Total comprehensive loss.....						(31,830)
Settlement of loan.....				1,800		1,800
Balance, December 31, 1997.....	100		39,081	(550,339)	(1,857)	(513,115)
Net income.....				25,566		25,566
Unrealized holding gain on investment in New Valley					30,902	30,902
Effect of New Valley capital transactions.....					(3,383)	(3,383)
Pension-related minimum liability adjustment.....					(888)	(888)
Total other comprehensive income.....						26,631
Total comprehensive income.....						52,197
Issuance of options and warrants.....			24,825			24,825
Effectiveness fee on debt.....			2,442			2,442
Payment of interest by parent.....			2,531			2,531
Amortization of deferred compensation.....			418			418
Balance, December 31, 1998.....	100		69,297	(524,773)	24,774	(430,702)
Net income.....				235,522		235,522
Unrealized gain on investment securities.....					565	565
Other New Valley capital transactions.....					342	342
Effect of New Valley recapitalization on other						
comprehensive loss.....					(24,647)	(24,647)
Pension-related minimum liability adjustment.....					345	345
Total other comprehensive loss.....						(23,395)
Total comprehensive income.....						212,127
Capital contribution.....			31,323	3,252		34,575
Recapitalization of New Valley.....			58,390			58,390
Distributions to parent.....				(9,636)		(9,636)
New Valley purchase of preferred stock in subsidiary.			850			850
Amortization of deferred compensation.....			1,940			1,940
Balance, December 31, 1999.....	100	\$	\$161,800	\$(295,635)	\$ 1,379	\$(132,456)

The accompanying notes are an integral part
of the consolidated financial statements.

BROOKE GROUP LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Cash flows from operating activities:			
Net income (loss).....	\$235,673	\$ 27,427	\$ (49,885)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization.....	7,672	8,610	8,135
Non-cash stock-based expense.....	5,360	9,394	1,311
Gain on brand transaction.....	(294,078)		
Gain on sale of assets.....	(260)	(5,003)	(26,247)
Deferred income taxes.....	102,172	(59,613)	
Currency translation (gain) loss.....	(1,352)	4,294	(81)
Gain on sale of securities.....	(21,103)		
Non-cash interest expense.....	21,612	11,797	
Impact of discontinued operations.....	(1,708)	(3,208)	(1,536)
Loss in joint venture.....	12,082		
Minority interests.....	(5,467)		
Equity in loss of affiliates.....	8,981	28,717	26,646
Changes in assets and liabilities (net of effect of recapitalization and dispositions):			
Receivables.....	1,590	(3,782)	8,839
Due from clearing broker.....	5,237		
Inventories.....	(9,589)	2,997	14,379
Accounts payable and accrued liabilities.....	(11,905)	(5,496)	7,585
Securities sold but not yet purchased.....	4,671		
Deferred gain.....	(5,331)		(6,459)
Other assets and liabilities, net.....	3,836	(19,423)	(7,750)
Net cash provided by (used in) operating activities.....	58,093	(3,289)	(25,063)
Cash flows from investing activities:			
Proceeds from sale of businesses and assets, net.....	932	2,333	56,494
Proceeds from brand transaction.....	145,000	150,000	
Sale or maturity of investment securities.....	5,422		
Purchase of investment securities.....	(8,585)		(25)
Purchase of long-term investments.....	(3,606)		
Proceeds from sale of real estate, net.....	46,867		
Sale of preferred stock in subsidiary, net.....	3,434		
Payment of prepetition claims.....	(85)		
Capital expenditures.....	(61,411)	(21,006)	(20,142)
Net cash provided by investing activities.....	127,968	131,327	36,327
Cash flows from financing activities:			
Proceeds from debt.....	16,585	4,425	10,305
Repayments of debt.....	(195,354)	(146,701)	(11,516)
Borrowings under revolver.....	375,394	282,004	278,442
Repayments on revolver.....	(358,629)	(296,731)	(279,435)
Effect of New Valley recapitalization.....	8,874		
Decrease in margin loan payable.....	(5,017)		
(Decrease) increase in cash overdraft.....	(77)	(868)	938
Distributions on common stock.....	(13,945)	(6,123)	(7,266)
Proceeds from participating loan.....		30,000	
Issuance of common stock.....		9,970	
Net cash used in financing activities.....	(172,169)	(124,024)	(8,532)
Effect of exchange rate changes on cash and cash equivalents.....	(1,165)	(1,372)	81
Net increase in cash and cash equivalents.....	12,727	2,642	2,813
Cash and cash equivalents, beginning of year.....	7,396	4,754	1,941
Cash and cash equivalents, end of year.....	\$ 20,123	\$ 7,396	\$ 4,754

The accompanying notes are an integral part
of the consolidated financial statements.

BGLS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Cash flows from operating activities:			
Net income (loss).....	\$235,522	\$ 25,566	\$ (52,875)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization.....	7,663	8,524	7,993
Non-cash stock-based expense.....	4,176	8,878	
Gain on brand transaction.....	(294,078)		
Gain on sale of assets.....	(260)	(5,733)	(26,247)
Deferred income taxes.....	102,172	(59,613)	
Currency translation (gain) loss.....	(1,352)	4,294	(81)
Gain on sale of securities.....	(21,103)		
Non-cash interest expense.....	21,612	11,797	
Impact of discontinued operations.....	(1,708)	(3,208)	(1,536)
Loss in joint venture.....	12,082		
Minority interests.....	(5,467)		
Equity in loss of affiliates.....	8,981	28,717	26,646
Changes in assets and liabilities (net of effect of recapitalization and dispositions):			
Receivables.....	(165)	6,613	8,838
Due from clearing broker.....	5,237		
Inventories.....	(9,589)	2,997	14,379
Accounts payable and accrued liabilities.....	(12,122)	(6,017)	1,245
Securities sold but not yet purchased.....	4,671		
Deferred gain.....	(6,545)		(3,511)
Other assets and liabilities, net.....	2,986	(21,218)	(8,207)
Net cash provided by (used in) operating activities.....	52,713	1,597	(33,356)
Cash flows from investing activities:			
Proceeds from sale of businesses and assets, net.....	932	1,609	56,494
Proceeds from brand transaction.....	145,000	150,000	
Sale or maturity of investment securities.....	5,422		
Purchase of investment securities.....	(8,585)		(25)
Purchase of long-term investments.....	(3,606)		
Proceeds from sale of real estate, net.....	46,867		
Sale of preferred stock in subsidiary, net.....	3,434		
Payment of prepetition claims.....	(85)		
Capital expenditures.....	(61,411)	(20,980)	(20,142)
Net cash provided by investing activities.....	127,968	130,629	36,327
Cash flows from financing activities:			
Proceeds from debt.....	16,642	3,950	10,305
Repayments of debt.....	(194,887)	(146,606)	(10,436)
Borrowings under revolver.....	375,394	282,004	278,442
Repayments on revolver.....	(358,629)	(296,732)	(279,434)
Effect of New Valley recapitalization.....	8,874		
Decrease in margin loan payable.....	(5,017)		
(Decrease) increase in cash overdraft.....	(63)	(828)	885
Distributions paid to parent.....	(9,636)		
Proceeds from participating loan.....		30,000	
Net cash used in financing activities.....	(167,322)	(128,212)	(238)
Effect of exchange rate changes on cash and cash equivalents.....	(1,165)	(1,372)	81
Net increase in cash and cash equivalents.....	12,194	2,642	2,814
Cash and cash equivalents, beginning of year.....	7,396	4,754	1,940
Cash and cash equivalents, end of year.....	\$ 19,590	\$ 7,396	\$ 4,754

The accompanying notes are an integral part
of the consolidated financial statements.

BROOKE GROUP LTD.
BGLS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION:

The consolidated financial statements of Brooke Group Ltd. (the "Company" or "Brooke") include the consolidated financial statements of its wholly-owned subsidiary, BGLS Inc. ("BGLS"). The consolidated financial statements of BGLS include the accounts of Liggett Group Inc. ("Liggett"), Brooke (Overseas) Ltd. ("Brooke (Overseas)"), Liggett-Ducat Ltd. ("Liggett-Ducat") and other less significant subsidiaries. As of June 1, 1999, New Valley Corporation ("New Valley") became a consolidated subsidiary of the Company as a result of New Valley's recapitalization in which the Company's interest in New Valley's common shares increased to 55.1%. (See Note 3.) All significant intercompany balances and transactions have been eliminated. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to the current year's presentation.

Liggett is engaged primarily in the manufacture and sale of cigarettes, principally in the United States. Liggett-Ducat is engaged in the manufacture and sale of cigarettes in Russia. New Valley is engaged primarily in the investment banking and brokerage business through its ownership of Ladenburg Thalmann & Co. Inc., in the real estate development business in Russia and in investment in Internet-related businesses.

Effective October 1, 1999, the Company was reorganized into a holding company form of organizational structure. The new corporate structure was implemented by the merger of a wholly-owned indirect subsidiary of the former Brooke Group Ltd., the predecessor of the current Brooke, with the predecessor, which was the surviving corporation. As a result of this merger, each share of the common stock of the predecessor issued and outstanding or held in its treasury was converted into one share of common stock of the current Brooke (formerly known as BGL Successor Inc.). The current Brooke became the holding company for the business and operations previously conducted by the predecessor and its subsidiaries, and the predecessor became an indirect wholly-owned subsidiary of Brooke. On the effective date of the merger, the name of the current Brooke was changed to Brooke Group Ltd. and the name of the predecessor was changed to Brooke Group Holding Inc. ("Brooke Group Holding"). The holding company reorganization had no impact on these consolidated financial statements.

(b) LIQUIDITY:

The Company's anticipated sources of liquidity for 2000 include, among other things, additional debt and/or equity financing, management fees, tax sharing and other payments from Liggett and certain funds available from New Valley subject to limitations imposed by BGLS' indenture agreements. Liggett's and New Valley's ability to make such payments is subject to risks and uncertainties attendant to their businesses. (Refer to Notes 3 and 5.) New Valley may also acquire or seek to acquire additional operating businesses through merger, purchase of assets, stock acquisition or other means, or to make other investments, which may limit its ability to make such distributions. In 1999, the Company used proceeds from cash received from the Philip Morris brand transaction, primarily to repurchase \$141,794 principal amount of the BGLS 15.75% Series B Senior Secured Notes together with accrued interest thereon. The principal amount of the BGLS Notes outstanding is currently \$82,570, including \$50,100 principal amount of the BGLS Notes which were held by holders who have agreed to defer payment of interest. The BGLS Notes, together with all deferred and accrued interest, mature on January 31, 2001. (Refer to Notes 2 and 13.)

(c) RISKS AND UNCERTAINTIES:

The Russian Federation continues to experience economic difficulties following the financial crisis of August 1998. Consequently, the country's currency continues to devalue, there is continued volatility in the debt and equity market, hyperinflation persists, confidence in the banking sector has yet to be restored and there continues to be a general lack of liquidity in the economy. In addition, laws and regulations affecting businesses operating within the Russian Federation continue to evolve.

The Russian Federation's return to economic stability is dependent to a large extent on the effectiveness of the measures taken by the government, decisions of international lending organizations, and other actions, including regulatory and political developments, which are beyond the Company's control.

BROOKE GROUP LTD.
BGLS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

The Company's assets and operations could be at risk if there are any further significant adverse changes in the political and business environment. Management is unable to predict what effect those uncertainties might have on the future financial position of the Company. No adjustments related to these uncertainties have been included in the accompanying consolidated financial statements.

(d) ESTIMATES AND ASSUMPTIONS:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Significant estimates subject to material changes in the near term include deferred tax assets, allowance for doubtful accounts, promotional accruals, sales returns and allowances, actuarial assumptions of pension plans and litigation and defense costs. Actual results could differ from those estimates.

(e) CASH AND CASH EQUIVALENTS:

For purposes of the statements of cash flows, cash includes cash on hand, cash on deposit in banks and cash equivalents, comprised of short-term investments which have an original maturity of 90 days or less. Interest on short-term investments is recognized when earned.

(f) FINANCIAL INSTRUMENTS:

Investments in securities and securities sold, not yet purchased traded on a national securities exchange or listed on NASDAQ are valued at the last reported sales prices of the reporting period. Futures contracts are valued at their last reported sales price. Investments in securities, principally warrants, which have exercise or holding period restrictions, are valued at fair value as determined by management based on the intrinsic value of the warrants discounted for such restrictions. The carrying value of cash and cash equivalents, restricted assets, receivables from clearing brokers and short-term loans are reasonable estimates of their fair value.

The estimated fair value of the Company's long-term debt is as follows:

	DECEMBER 31, 1999		DECEMBER 31, 1998	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Long-term debt	\$189,896	\$184,494	\$283,841	\$267,679

The carrying amounts of short-term debt reported in the Consolidated Balance Sheets are a reasonable estimate of fair value. The fair value of long-term debt is estimated based on current market quotations, where available, or based on an evaluation of the debt in relation to market prices of the Company's publicly traded debt.

The methods and assumptions used by the Company's management in estimating fair values for financial instruments presented herein are not necessarily indicative of the amounts the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

(g) INVESTMENT SECURITIES:

The Company classifies investments in debt and marketable equity securities as either trading, available for sale, or held to maturity. Trading securities are carried at fair value, with unrealized gains and losses included in income. Investments classified as available for sale are carried at fair value, with net unrealized gains and losses included as a separate component of stockholders' equity (deficit). Debt securities classified as held to maturity are carried at amortized cost. The cost of securities sold is determined based on average cost.

(h) SIGNIFICANT CONCENTRATIONS OF CREDIT RISK:

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and trade receivables. The Company places its temporary cash in money market securities (investment grade or better) with what management believes are high credit quality financial institutions.

Liggett's customers are primarily candy and tobacco distributors, the military and large grocery, drug and convenience store chains. One customer accounted for approximately 30.7% of Liggett's net sales in 1999, 26.9% of its net sales in 1998 and 19.4% of its net sales in 1997. Sales to this customer were primarily in the private label discount segment. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers, located primarily throughout the United States, comprising Liggett's customer base. Ongoing credit evaluations of customers' financial condition are performed and, generally, no collateral is required. Liggett maintains reserves for potential credit losses and such losses, in the aggregate, have generally not exceeded management's expectations.

Liggett-Ducat sells its products primarily to companies in the wholesale distribution and retail industries in the Russian Federation. Four distributors accounted for approximately 40% of sales in 1999, three distributors accounted for approximately 54% of sales in 1998 and two distributors accounted for approximately 47% in 1997. Prepayment for goods and services is a customary business practice in Russia, and Liggett-Ducat receives payment in advance for the majority of its sales. Although Liggett-Ducat does not require collateral and, as a consequence, is exposed to credit risk, Liggett-Ducat does perform ongoing credit evaluations of its customers and believes that its trade accounts receivable risk exposure is limited.

(i) ACCOUNTS RECEIVABLE:

The allowance for doubtful accounts and cash discounts was \$1,002 and \$2,007 at December 31, 1999 and 1998, respectively.

(j) INVENTORIES:

Domestic tobacco inventories, which comprised 60.0% and 71.5% of total inventory in 1999 and 1998, respectively, are stated at the lower of cost or market and are determined primarily by the last-in, first-out (LIFO) method. All other inventories are determined primarily on a first-in,

BROOKE GROUP LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

first-out (FIFO) basis. Although portions of leaf tobacco inventories may not be used or sold within one year because of the time required for aging, they are included in current assets, which is common practice in the industry. It is not practicable to determine the amount that will not be used or sold within one year.

(k) RESTRICTED ASSETS:

Restricted assets at December 31, 1999 consisted primarily of \$5,147 pledged as collateral for a \$5,000 letter of credit which is used as collateral for a long-term lease of commercial office space.

(l) PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment are depreciated using the straight-line method over the estimated useful lives of the respective assets, which are 20 to 25 years for buildings and 3 to 10 years for machinery and equipment.

Interest costs are capitalized in connection with the construction of major facilities. Capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. In 1999, 1998 and 1997, interest costs of \$3,287, \$761 and \$693, respectively, were capitalized.

Expenditures for repairs and maintenance are charged to expense as incurred. The costs of major renewals and betterments are capitalized. The cost and related accumulated depreciation of property, plant and equipment are removed from the accounts upon retirement or other disposition and any resulting gain or loss is reflected in operations.

(m) INTANGIBLE ASSETS:

Intangible assets, consisting principally of trademarks and goodwill, are amortized using the straight-line method over 10-12 years. Amortization expense for the years ended December 31, 1999, 1998 and 1997 was \$73, \$2,473 and \$1,845, respectively. Management periodically reviews the carrying value of such assets to determine whether asset values are impaired.

(n) IMPAIRMENT OF LONG-LIVED ASSETS:

Impairment losses on long-lived assets are recognized when expected future cash flows are less than the assets' carrying value. Accordingly, when indicators of impairment are present, the Company evaluates the carrying value of property, plant and equipment and intangibles in relation to the operating performance and estimates of future cash flows of the underlying business.

(o) SECURITIES SOLD, NOT YET PURCHASED:

Securities sold, not yet purchased represent obligations of the Company to deliver a specified security at a contracted price and thereby create a liability to repurchase the security in the market at prevailing prices. Accordingly, these transactions involve, to varying degrees, elements of market risk, as the Company's ultimate obligation to satisfy the sale of securities sold, not yet purchased may exceed the amount recognized in the consolidated balance sheets.

BROOKE GROUP LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

(p) EMPLOYEE BENEFITS:

Liggett sponsors self-insured health and dental insurance plans for all eligible employees. As a result, the expense recorded for such benefits involves an estimate of unpaid claims as of December 31, 1999, 1998 and 1997 which are subject to significant fluctuations in the near term.

(q) POSTRETIREMENT BENEFITS OTHER THAN PENSIONS:

The cost of providing retiree health care and life insurance benefits is actuarially determined and accrued over the service period of the active employee group.

(r) STOCK OPTIONS:

The Company measures compensation expense for stock-based employee compensation plans using the intrinsic value method and provides pro forma disclosures of net income as if the fair value-based method had been applied in measuring compensation expense.

(s) INCOME TAXES:

Deferred taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for tax purposes as well as tax credit carryforwards and loss carryforwards. These deferred taxes are measured by applying currently enacted tax rates. A valuation allowance reduces deferred tax assets when it is deemed more likely than not that some portion or all of the deferred tax assets will not be realized.

(t) REVENUE RECOGNITION:

SALES: Revenues from sales are recognized upon the shipment of finished goods to customers. The Company provides an allowance for expected sales returns, net of related inventory cost recoveries. Since the Company's primary line of business is tobacco, the Company's financial position and its results of operations and cash flows have been and could continue to be materially adversely affected by significant unit sales volume declines, litigation and defense costs, increased tobacco costs or reductions in the selling price of cigarettes in the near term.

REAL ESTATE LEASING REVENUES: The real estate properties are being leased to tenants under operating leases. Base rental revenue is generally recognized on a straight-line basis over the term of the lease. The lease agreements for certain properties contain provisions which provide for reimbursement of real estate taxes and operating expenses over base year amounts, and in certain cases as fixed increases in rent. In addition, the lease agreements for certain tenants provide additional rentals based upon revenues in excess of base amounts, and such amounts are accrued as earned.

BROOKE GROUP LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

(u) ADVERTISING AND PROMOTIONAL COSTS:

Advertising and promotional costs are expensed as incurred. Advertising and promotional expenses were \$69,079, \$44,540 and \$40,534 for the years ended December 31, 1999, 1998 and 1997, respectively.

(v) LEGAL COSTS:

The Company's policy is to accrue legal and other costs related to contingencies as services are performed.

(w) EARNINGS PER SHARE:

Information concerning the Company's common stock has been adjusted to give effect to the 5% stock dividend paid to Company stockholders on September 30, 1999. The dividend was charged to retained earnings in the net amount of \$25,646, which was based on the fair value of the Company's common stock. In connection with the 5% dividend, the Company increased the number of warrants and stock options by 5% and reduced the exercise prices accordingly. All share amounts have been presented as if the stock dividend had occurred on January 1, 1997.

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares outstanding. Diluted net income per share includes the dilutive effect of stock options, vested restricted stock grants and warrants. Basic and diluted EPS were calculated using the following for the years ended December 31, 1999, 1998 and 1997:

	1999 ----	1998 ----	1997 ----
Weighted average shares for basic EPS.....	21,989,782	21,446,255	19,076,745
Plus incremental shares from conversions:			
Stock options and warrants.....	4,821,491 -----	4,588,657 -----	-----
Weighted average shares for diluted EPS.....	26,811,273 =====	26,034,912 =====	19,076,745 =====

In 1997, options on 2,018,100 shares of common stock were not included in the calculation of weighted average shares for diluted EPS because the effects would have been antidilutive.

(x) FOREIGN CURRENCY TRANSLATION:

The Company's Russian subsidiaries operate in a highly inflationary economy and use the U.S. dollar as the functional currency. Therefore, certain assets of this entity (principally inventories and property and equipment) are translated at historical exchange rates with all other assets and liabilities translated at year end exchange rates and all translation adjustments being reflected in the consolidated statements of operations.

BROOKE GROUP LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

(y) OTHER COMPREHENSIVE INCOME (LOSS):

Other comprehensive income is a component of stockholders' equity and includes such items as the Company's proportionate interest in New Valley's capital transactions, unrealized gains and losses on investment securities and minimum pension liability adjustments.

2. PHILIP MORRIS BRAND TRANSACTION

In November 1998, the Company and Liggett granted Philip Morris Incorporated options to purchase interests in Trademarks LLC which holds three domestic cigarette brands, L&M, CHESTERFIELD and LARK, formerly held by Liggett's subsidiary, Eve Holdings Inc.

Under the terms of the Philip Morris agreements, Eve contributed the three brands to Trademarks, a newly-formed limited liability company, in exchange for 100% of two classes of Trademarks' interests, the Class A Voting Interest and the Class B Redeemable Nonvoting Interest. Philip Morris acquired two options to purchase the interests from Eve. In December 1998, Philip Morris paid Eve a total of \$150,000 for the options, \$5,000 for the option for the Class A interest and \$145,000 for the option for the Class B interest. Liggett used the option payments to fund the redemption of Liggett's Senior Secured Notes on December 28, 1998.

The Class A option entitled Philip Morris to purchase the Class A interest for \$10,100. On March 19, 1999, Philip Morris exercised the Class A option, and the closing occurred on May 24, 1999.

The Class B option entitles Philip Morris to purchase the Class B interest for \$139,900. The Class B option will be exercisable during the 90-day period beginning on December 2, 2008, with Philip Morris being entitled to extend the 90-day period for up to an additional six months under certain circumstances. The Class B interest will also be redeemable by Trademarks for \$139,900 during the same period the Class B option may be exercised.

On May 24, 1999, Trademarks borrowed \$134,900 from a lending institution. The loan is guaranteed by Eve and collateralized by a pledge by Trademarks of the three brands and Trademarks' interest in the trademark license agreement (discussed below) and by a pledge by Eve of its Class B interest. In connection with the closing of the Class A option, Trademarks distributed the loan proceeds to Eve as the holder of the Class B interest. The cash exercise price of the Class B option and Trademarks' redemption price were reduced by the amount distributed to Eve. Upon Philip Morris' exercise of the Class B option or Trademarks' exercise of its redemption right, Philip Morris or Trademarks, as relevant, will be required to obtain Eve's release from its guaranty. The Class B interest will be entitled to a guaranteed payment of \$500 each year with the Class A interest allocated all remaining income or loss of Trademarks. The proceeds of the loan and the exercise of the Class A option were used to retire a portion of BGLS' 15.75% Senior Secured Notes. (Refer to Note 13.)

Trademarks has granted Philip Morris an exclusive license of the three brands for an 11-year term expiring May 24, 2010 at an annual royalty based on sales of cigarettes under the brands, subject to a minimum annual royalty payment equal to the annual debt service obligation on the loan plus \$1,000.

If Philip Morris fails to exercise the Class B option, Eve will have an option to put its Class B interest to Philip Morris, or Philip Morris'

BROOKE GROUP LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

designees, at a put price that is \$5,000 less than the exercise price of the Class B option (and includes Philip Morris' obtaining Eve's release from its loan guarantee). The Eve put option is exercisable at any time during the 90-day period beginning March 2, 2010.

If the Class B option, Trademarks' redemption right and the Eve put option expire unexercised, the holder of the Class B interest will be entitled to convert the Class B interest, at its election, into a Class A interest with the same rights to share in future profits and losses, the same voting power and the same claim to capital as the entire existing outstanding Class A interest, i.e., a 50% interest in Trademarks.

The \$150,000 in proceeds received from the sale of the Class A and B options was presented as a liability on the consolidated balance sheet until the closing of the exercise of the Class A option and the distribution of the loan proceeds on May 24, 1999. Upon closing, Philip Morris obtained control of Trademarks, and the Company recognized a pre-tax gain of \$294,078 in its consolidated financial statements to the extent of the total cash proceeds received from the payment of the option fees, the exercise of the Class A option and the distribution of the loan proceeds.

3. NEW VALLEY CORPORATION

Until May 31, 1999, the Company was an equity investor in New Valley. The Class A Senior Preferred Shares and the Class B Preferred Shares of New Valley that the Company owned were accounted for as debt and equity securities, respectively, pursuant to the requirements of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", and were classified as available for sale. The Common Shares were accounted for pursuant to APB No. 18, "The Equity Method of Accounting for Investments in Common Stock".

Summarized financial information for New Valley as of and for the periods ended May 31, 1999 and December 31, 1998 and 1997 when the Company was an equity investor follows:

	MAY 31, 1999	DECEMBER 31, 1998	DECEMBER 31, 1997
	-----	-----	-----
Current assets, primarily cash and marketable securities..	\$ 81,625	\$ 91,451	
Noncurrent assets.....	183,254	181,271	
Current liabilities.....	73,847	83,581	
Noncurrent liabilities.....	83,476	78,251	
Redeemable preferred stock.....	343,435	316,202	
Stockholders' equity (deficit).....	(235,879)	(205,312)	
Revenues.....	39,452	102,087	\$114,568
Costs and expenses.....	50,659	127,499	139,989
Loss from continuing operations.....	(10,668)	(23,329)	(24,260)
Income from discontinued operations.....	4,100	7,740	3,687
Net loss applicable to Common Shares(A).....	(44,327)	(96,553)	(89,048)
Company's share of discontinued operations.....	1,708	3,208	1,536

(A) Considers all preferred accrued dividends, whether or not declared.

The Company's and BGLS' investment in New Valley at May 31, 1999 and December 31, 1998 is summarized below:

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BGLS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

MAY 31, 1999 -----	NUMBER OF SHARES -----	FAIR VALUE -----	CARRYING AMOUNT -----
Class A Preferred Shares.....	618,326	\$57,504	\$ 57,504
Class B Preferred Shares.....	250,885	1,129	1,129
Common Shares.....	3,989,710	2,494	(58,633)
		-----	-----
		\$61,127	\$
		=====	=====
DECEMBER 31, 1998 -----			
Class A Preferred Shares.....	618,326	\$61,833	\$ 61,833
Class B Preferred Shares.....	250,885	1,693	1,693
Common Shares.....	3,989,710	1,870	(63,526)
		-----	-----
		\$65,396	\$
		=====	=====

RECAPITALIZATION. On June 4, 1999, following approval by New Valley's stockholders, New Valley consummated a plan of recapitalization. Pursuant to the plan of recapitalization:

- o each Class A Senior Preferred Share was reclassified into 20 Common Shares and one Warrant to purchase a Common Share at \$12.50 per share exercisable for five years,
- o each Class B Preferred Share was reclassified into 1/3 of a Common Share and five Warrants, and
- o each outstanding Common Share was reclassified into 1/10 of a Common Share and 3/10 of a Warrant.

The recapitalization had a significant effect on the Company's financial position and results of operations. The recapitalization resulted in the elimination of the existing redeemable preferred shares of New Valley and the on-going dividend accruals thereon, as well as the redemption obligation for the Series A Senior Preferred Shares in January 2003. The Company's ownership of the Common Shares of New Valley increased from 42.3% to 55.1%, and its total voting power increased from 42.3% to 55.1%. As a result of the increase in ownership, New Valley became a consolidated subsidiary of the Company as of June 1, 1999. In addition, the Company's equity in New Valley increased by \$59,263 which, presented net of tax, is \$38,331. At December 31, 1999, the Company owned 55.4% of New Valley's Common Shares.

BROOKEMIL LTD. In connection with the sale by Brooke (Overseas) of the common shares of BrookeMil to New Valley in 1997, a portion of the gain was deferred in recognition of the fact that the Company retained an interest in BrookeMil through its 42% equity ownership of New Valley prior to recapitalization and that a portion of the property sold (the site of the third phase of the Ducat Place real estate project being developed by BrookeMil, which was used by Liggett-Ducat for its cigarette factory operation) was subject to a put option held by New Valley. The option expired when Liggett-Ducat ceased factory operations at the site in March 1999. (Refer to Note 6).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

4. PRO FORMA EFFECTS OF BRAND AND NEW VALLEY TRANSACTIONS

The following table presents unaudited pro forma results of operations as if the Philip Morris brand transaction, New Valley's recapitalization and the sale of New Valley's office buildings, shopping centers and the Thinking Machines assets had occurred immediately prior to January 1, 1998. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what would have occurred had these transactions been consummated as of such date.

	YEAR ENDED DECEMBER 31, 1999	YEAR ENDED DECEMBER 31, 1998
	-----	-----
Revenues.....	\$581,490 =====	\$462,235 =====
Operating income.....	\$ 54,466 =====	\$ 24,135 =====
Income from continuing operations..	\$ 15,519 =====	\$ 7,447 =====
Net income.....	\$ 16,189 =====	\$ 11,712 =====
Net income per common share:		
Basic.....	\$ 0.74 =====	\$ 0.55 =====
Diluted.....	\$ 0.60 =====	\$ 0.45 =====

5. INVESTMENT IN WESTERN REALTY

WESTERN REALTY DEVELOPMENT LLC. In February 1998, New Valley and Apollo Real Estate Investment Fund III, L.P. ("Apollo") organized Western Realty Development LLC ("Western Realty Development") to make real estate and other investments in Russia. New Valley agreed to contribute the real estate assets of BrookeMil, including Ducat Place II and the site for Ducat Place III, to Western Realty Development and Apollo agreed to contribute up to \$65,900, including the \$25,900 investment in Western Realty Repin discussed below.

The ownership and voting interests in Western Realty Development are held equally by Apollo and New Valley. Apollo will be entitled to a preference on distributions of cash from Western Realty Development to the extent of its investment commitment of \$40,000, of which \$39,606 had been funded through December 31, 1999, together with a 15% annual rate of return. New Valley will then be entitled to a return of \$20,000 of BrookeMil-related expenses incurred and cash invested by New Valley since March 1, 1997, together with a 15% annual rate of return. Subsequent distributions will be made 70% to New Valley and 30% to Apollo. Western Realty Development is managed by a Board of Managers consisting of an equal number of representatives chosen by Apollo and New Valley. Material corporate transactions by Western Realty Development generally require the unanimous consent of the Board of Managers. Accordingly, New Valley accounts for its non-controlling interest in Western Realty Development using the equity method of accounting.

In March 2000, Apollo and New Valley each agreed to increase its capital commitment to Western Realty Development by \$3,750. Management believes that this additional funding commitment will be sufficient to support Western Realty Development's expected cash flow needs over the next 12 months.

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New Valley recorded its basis in the investment in Western Realty Development in the amount of \$60,169 based on the carrying value of assets less liabilities transferred. There was no difference between the carrying value of the investment and New Valley's proportionate interest in the underlying value of net assets of Western Realty Development. New Valley recognizes losses incurred by Western Realty Development to the extent that cumulative earnings of Western Realty Development are not sufficient to satisfy Apollo's preferred return.

Summarized financial information as of December 31, 1999 and for the year ended December 31, 1999 for Western Realty Development follows:

	DECEMBER 31, 1999
Current assets.....	\$ 3,557
Participating loan receivable.....	37,849
Real estate, net.....	77,988
Furniture and fixtures, net.....	249
Other noncurrent assets.....	320
Goodwill, net.....	722
Notes payable - current.....	6,445
Other current liabilities.....	7,067
Notes payable - long-term.....	8,211
Other long-term liabilities.....	752
Members' equity.....	98,210
YEAR ENDED	
DECEMBER 31, 1999	
Revenues.....	\$11,537
Costs and expenses.....	15,708
Real estate impairment charge.....	11,561
Other income.....	5,858
Net loss.....	(9,874)

In 1999, Western Realty Development determined a permanent impairment had occurred related to difficulties within the Russian economy following the financial crisis of August 1998. Based on an appraisal conducted by an independent third party, Western Realty Development recorded an impairment charge for the year ended December 31, 1999 of \$11,561 associated with its investment in the site for the proposed Ducat Place III office building and related goodwill. The fair market value was determined based on current market conditions and anticipated discounted future cash flows. Management has concluded that the site for the proposed Ducat Place III office building had a fair value of \$16,000 at December 31, 1999.

In 1998, Western Realty Development made a \$30,000 participating loan to, and payable out of a 30% profits interest in, Western Tobacco Investments LLC ("Western Tobacco Investments"), which holds Brooke (Overseas') interests in Liggett-Ducat and its new factory. The loan bears no fixed interest and is payable only out of 30% of distributions made by Western Tobacco Investments to Brooke (Overseas). After prior payment of debt service on loans to finance the construction of the new factory, 30% of distributions from Western Tobacco Investments to Brooke (Overseas) will

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

be applied first to pay the principal of the loan and then as contingent participating interest on the loan. In addition, Western Realty Development is entitled to receive a 15% annual rate of return on amounts advanced on the loan under certain circumstances in the event of a sale or refinancing of Western Tobacco Investments or the new factory. Any rights of repayment on the loan are subordinate to the rights of all other creditors of BrookeMil. Western Tobacco Investments has recognized net interest expense of \$5,858 in 1999, which represents a 15% cumulative adjustment to realizable value on the loan and 30% of any net expense applicable to common interests in Western Tobacco Investments. The loan is classified in other long-term liabilities on the consolidated balance sheet at December 31, 1999.

WESTERN REALTY REPIN LLC. In June 1998, New Valley and Apollo organized Western Realty Repin to make a loan to BrookeMil. The proceeds of the loan will be used by BrookeMil for the acquisition and preliminary development of the Kremlin sites, two adjoining sites totaling 10.25 acres located in Moscow across the Moscow River from the Kremlin. BrookeMil is planning the development of a hotel, office, retail and residential complex on the Kremlin sites. BrookeMil owned 95.9% of one site and 100% of the other site at December 31, 1999. Apollo will be entitled to a preference on distributions of cash from Western Realty Repin to the extent of its investment of \$25,875 together with a 20% annual rate of return, and New Valley will then be entitled to a return of its investment of \$10,525, together with a 20% annual rate of return. Subsequent distributions will be made 50% to New Valley and 50% to Apollo. Western Realty Repin is managed by a board of managers consisting of an equal number of representatives chosen by Apollo and New Valley. Material corporate transactions by Western Realty Repin will generally require the unanimous consent of the board of managers.

Through December 31, 1999, Western Realty Repin has advanced \$36,400, of which \$25,875 was funded by Apollo under the loan. The loan bears no fixed interest and is payable only out of 100% of the distributions by the entities owning the Kremlin sites to BrookeMil. Such distributions will be applied first to pay the principal of the loan and then as contingent participating interest on the loan. Any rights of payment on the loan are subordinate to the rights of all other creditors of BrookeMil. BrookeMil used a portion of the proceeds of the loan to repay New Valley for certain expenditures on the Kremlin sites previously incurred. The loan is due and payable upon the dissolution of BrookeMil and is collateralized by a pledge of New Valley's shares of BrookeMil.

As of December 31, 1999, BrookeMil had invested \$32,003 in the Kremlin sites and held approximately \$929 in cash and \$1,418 in receivables from an affiliate, both of which were restricted for future investment in the Kremlin sites. In acquiring its interest in one of the Kremlin sites, BrookeMil agreed with the City of Moscow to invest an additional \$22,000 by May 2000 in the development of the property. Failure to make the required investment could result in forfeiture of 34.8% interest in the site.

The development of Ducat Place III and the Kremlin sites will require significant amounts of debt and other financing. New Valley is considering potential financing alternatives on behalf of Western Realty Development and BrookeMil. However, in light of the recent economic turmoil in Russia, there is a risk that financing will not be available on acceptable terms. Failure to obtain sufficient capital for the projects would force Western Realty Development and BrookeMil to curtail or delay the planned development of Ducat Place III and the Kremlin sites.

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6. INVESTMENT IN BROOKE (OVERSEAS) LTD.

At December 31, 1999, Brooke (Overseas) owned approximately 99.9% of the stock of Liggett-Ducat through its subsidiary, Western Tobacco Investments. (Refer to Note 13 for information concerning pledges of interests in Western Tobacco Investments.)

Liggett-Ducat completed construction of a new cigarette factory on the outskirts of Moscow and began production in June 1999. Production at Liggett-Ducat's old factory ceased in March 1999.

On January 31, 1997, Brooke (Overseas) sold all its shares of BrookeMil to New Valley for \$21,500 in cash and a \$33,500 9% note. The note was paid in full as of December 31, 1997. The consideration received exceeded the carrying value of its investment in BrookeMil by \$43,700. The Company recognized a gain on the sale in 1997 in the amount of \$21,300. The remaining \$22,400 was deferred in recognition of the fact that the Company then retained an interest in BrookeMil through its then 42% equity ownership in New Valley and that a portion of the property sold (the site of the third phase of the Ducat Place real estate project being developed by BrookeMil) was subject to a put option held by New Valley. The option expired when Liggett-Ducat operations at the factory ceased in March 1999. The Company recognized that portion of the deferred gain, \$7,050, in March 1999.

During the second quarter 1997, BrookeMil sold one of its office buildings, Ducat Place I, to a third party. Accordingly, the Company recognized \$1,240 of its deferred gain. As discussed in Note 5, in 1998, New Valley contributed the BrookeMil real estate assets to Western Realty Development and the Company recognized a further portion of the deferred gain, \$4,246, to the extent of Apollo's interest in Western Realty Development.

7. INVESTMENT SECURITIES AVAILABLE FOR SALE

Investment securities classified as available for sale are carried at fair value, with net unrealized gains or losses included as a component of accumulated other comprehensive income. Investment securities available for sale totaling \$48,722 at December 31, 1999 are comprised of marketable equity securities and warrants of \$47,659 and notes receivable of \$1,063.

8. INVENTORIES

Inventories consist of:

	DECEMBER 31,	
	1999	1998
	----	----
Leaf tobacco.....	\$13,599	\$13,882
Other raw materials.....	6,423	4,629
Work-in-process.....	3,542	2,001
Finished goods.....	20,662	15,446
Replacement parts and supplies.....	4,795	4,130
	-----	-----
Inventories at current cost.....	49,021	40,088
LIFO adjustments.....	(3,816)	(3,772)
	-----	-----
	\$45,205	\$36,316
	=====	=====

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The Company has a leaf inventory management program whereby, among other things, it is committed to purchase certain quantities of leaf tobacco. The purchase commitments are for quantities not in excess of anticipated requirements and are at prices, including carrying costs, established at the date of the commitment. At December 31, 1999, Liggett and Liggett-Ducat had leaf tobacco purchase commitments of approximately \$3,679 and \$45,311, respectively.

9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

	DECEMBER 31,	
	1999	1998
	----	----
Land and improvements.....	\$ 415	\$ 412
Buildings.....	51,773	5,823
Machinery and equipment.....	129,693	54,144
Construction-in-progress.....	14,605	66,981
	-----	-----
	196,486	127,360
Less accumulated depreciation.....	(42,226)	(33,856)
	-----	-----
	\$154,260	\$ 93,504
	=====	=====

Depreciation expense for the years ended December 31, 1999, 1998 and 1997 was \$7,069, \$4,123 and \$4,513, respectively. Capitalized interest included in property, plant and equipment was \$3,287 and \$761 in 1999 and 1998, respectively.

10. INVESTMENT IN REAL ESTATE

The components of the Company's investment in real estate at December 31, 1999 are as follows:

	RUSSIAN REAL ESTATE	SHOPPING CENTERS	TOTAL
	-----	-----	-----
Land	\$32,003	\$ 4,542	\$36,545
Buildings.....	-----	19,053	19,053
Total.....	32,003	23,595	55,598
Less accumulated depreciation.....	-----	(2,245)	(2,245)
Net investment in real estate.....	\$32,003	\$21,350	\$53,353
	=====	=====	=====

11. SALE OF ASSETS

On December 23, 1999, New Valley completed the sale of a 19.9% interest in its subsidiary Ladenburg, Thalmann & Co. Inc. ("Ladenburg") to Berliner Effektengesellschaft AG ("Berliner"). New Valley received \$10,200 in cash and Berliner shares valued in accordance with the purchase agreement.

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(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

Pursuant to the agreement, Berliner also acquired a three-year option to purchase additional interests in Ladenburg subject to certain conditions. In connection with this transaction, New Valley recorded a gain of \$4,256 for the year ended December 31, 1999.

On August 30, 1999, New Valley completed the sale of five of its shopping centers for an aggregate purchase price of \$46,125 before closing adjustments and expenses. The shopping centers were subject to approximately \$35,023 of mortgage financing, which was assumed by the purchasers at closing. In connection with the transaction, New Valley recorded a gain of \$3,849 for the year ended December 31, 1999.

In June 1999, Thinking Machines, New Valley's 73% owned subsidiary, sold substantially all of its assets, consisting of its Darwin(R) software and services business, to Oracle Corporation. The purchase price was \$4,700 in cash at the closing of the sale and up to an additional \$20,300, payable in cash on January 31 in each of the years 2001 through 2003, based on sales by Oracle of Darwin product above specified sales targets. New Valley recorded a gain of \$3,801 in connection with the sale. The operations and related gain associated with Thinking Machines have not been classified as discontinued operations based on the fact that substantial revenues were not realized from the Darwin(R) product.

At the closing of the Oracle sale, \$4,136 of loans, including interest, were repaid by Thinking Machines to New Valley and New Valley offered to purchase all of Thinking Machines' outstanding preferred stock for \$1,950. Approximately 77% of Thinking Machines' preferred stockholders tendered their stock to New Valley in the third quarter of 1999.

On January 31, 1997, Brooke (Overseas) sold BrookeMil to New Valley for \$21,500 in cash and a promissory note of \$33,500 which was paid in 1997. (Refer to Note 6.)

On March 11, 1997, Liggett sold to Blue Devil Ventures, a North Carolina limited liability partnership, surplus realty for \$2,200. The Company recognized a gain of approximately \$1,100.

12. LONG-TERM INVESTMENTS

At December 31, 1999, long-term investments consisted primarily of investments in limited partnerships of \$8,730. The Company believes the fair value of the limited partnerships exceeds their carrying amount by approximately \$5,058 based on the indicated market values of the underlying investment portfolio provided by the partnerships. The Company's investments in limited partnerships are illiquid and the ultimate realization of these investments are subject to the performance of the underlying partnership and its management by the general partners. New Valley is not required to make additional investments in limited partnerships as of December 31, 1999.

Also included in long-term investments are various Internet-related businesses which are carried at \$5,598 at December 31, 1999. New Valley owns a 33.33% interest in AtomicPop, an online music company, and smaller interests in other Internet companies.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

13. NOTES PAYABLE, LONG-TERM DEBT AND OTHER OBLIGATIONS

Notes payable, long-term debt and other obligations consist of:

	DECEMBER 31, 1999	DECEMBER 31, 1998
	-----	-----
BGLS:		
15.75% Series B Senior Secured Notes due 2001, net of unamortized discount of \$5,468 and \$17,374...	\$ 82,602	\$215,490
Deferred interest on 15.75% Series B Senior Secured Notes due 2001.....	25,435	24,985
New Valley:		
Notes payable.....	19,813	
Liggett:		
Revolving credit facility.....		2,538
Term loan under credit facility.....	5,040	
Note payable.....	4,232	
Brooke (Overseas):		
Foreign credit facilities.....	29,470	11,600
Notes payable.....	23,090	28,057
Other	214	1,171
	-----	-----
Total notes payable, long-term debt and other obligations.	189,896	283,841
Less:		
Current maturities.....	(41,547)	(21,176)
	-----	-----
Amount due after one year.....	\$ 148,349	\$ 262,665
	=====	=====

15.75% SERIES B SENIOR SECURED NOTES DUE 2001 - BGLS:

During 1999, BGLS repurchased \$144,794 principal amount of its 15.75% Senior Secured Notes due 2001 (the "Notes"), together with accrued interest thereon. The purchases were funded primarily with proceeds from the Philip Morris brand transaction which closed on May 24, 1999. The Company recognized an extraordinary loss on early extinguishment of debt primarily due to the unamortized imputed interest associated with the repurchased Notes. At December 31, 1999, the principal amount of Notes outstanding was \$88,070, subsequently reduced to \$82,570 in January 2000. At December 31, 1999, \$55,600 principal amount of the Notes were held by the holders who have agreed to defer payment of interest as discussed below.

On March 2, 1998, the Company entered into an agreement with AIF II, L.P. and an affiliated investment manager on behalf of a managed account (together the "Apollo Holders"), who held approximately 41.8% of the \$232,864 principal amount of the Notes then outstanding. The Apollo Holders (and any transferees) agreed to defer the payment of interest on the Notes held by them, commencing with the interest payment that was due July 31, 1997, which they had previously agreed to defer, through the interest payment due July 31, 2000. The deferred interest payments are payable at final maturity of the Notes on January 31, 2001 or upon an event of default under the Indenture for the Notes. In connection with the agreement, the Company pledged 50.1% of Western Tobacco Investments to collateralize the Notes held by the Apollo Holders (and any transferees). Interest on all of the Notes for the six-month period ended January 31, 2000 was paid in cash.

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In connection with the March 2, 1998 agreement with the Apollo Holders, the Company issued to the Apollo Holders a five-year warrant to purchase 2,100,000 shares of the Company's common stock at a price of \$4.76 per share. The Apollo Holders were also issued a second warrant expiring October 31, 2004 to purchase an additional 2,257,500 shares of the Company's common stock at a price of \$0.095 per share. The second warrant became exercisable on October 31, 1999.

Based on the fair value of the equity instruments given to the holders of the debt, and the difference between the fair value of the modified debt and the carrying value of the debt held by the Apollo Holders prior to the transaction, no gain or loss was recorded on the transaction. The fair value of the equity instruments was estimated based on the Black-Scholes option pricing model and the following assumptions: volatility of 77%, risk-free interest rate of 6%, expected life of five to seven years and a dividend rate of 0%. Imputed interest of approximately \$23,000 is being accreted over the term of the modified debt based on its recorded fair value.

The Notes outstanding are collateralized by substantially all of BGLS' assets, including a pledge of BGLS' equity interests in Liggett, Brooke (Overseas) and New Valley. The Notes Indenture contains certain covenants which, among other things, limit the ability of BGLS to make distributions to the Company to \$12,000 per year (which amount increased from \$6,000 per year in May 1999 when more than 50% of the original principal amount of the Notes were retired) plus any unpaid distribution amounts from prior years. The Notes also limit additional indebtedness of BGLS to \$10,000, limit guaranties of subsidiary indebtedness by BGLS to \$50,000, and restrict certain transactions with affiliates that exceed \$2,000 in any year subject to certain exceptions which include payments to the Company not to exceed \$6,500 per year for permitted operating expenses, payment of the Chairman's salary and bonus and certain other expenses, fees and payments. In addition, the Indenture contains certain restrictions on the ability of the Chairman and certain of his affiliates to enter into certain transactions with, and receive payments above specified levels from, New Valley. The Notes may be redeemed, in whole or in part, at a price of 100% of the principal amount plus accrued interest. Interest is payable at the rate of 15.75% per annum on January 31 and July 31 of each year.

SENIOR SECURED NOTES DUE 1999 - LIGGETT:

On December 28, 1998, all of the outstanding \$144,891 principal amount of the Liggett Senior Secured Notes were redeemed at a price equal to 100% of the principal amount together with accrued interest. As discussed in Note 2, proceeds of \$150,000 from the purchase by Philip Morris of two options to purchase the Class A Interest and the Class B Interest in the Trademarks were used to fund the redemption.

On January 30, 1998, with the consent of the required majority of the holders of the Liggett Notes, Liggett entered into various amendments to the Indenture governing the Liggett Notes, which provided, among other things, for a deferral of the February 1, 1998 mandatory redemption payment of \$37,500 to the date of final maturity of the Liggett Notes on February 1, 1999. In connection with the deferral, on February 2, 1998, the Company issued 507,152 shares of the Company's common stock to the holders of record on January 15, 1998 of the Liggett Notes. As a result of this transaction, the Company recorded a deferred charge of \$4,105 during the first quarter of 1998 reflecting the fair value of the instruments issued. This deferred charge was amortized over a period of eleven months.

REVOLVING CREDIT FACILITY - LIGGETT:

Liggett has a \$35,000 credit facility, under which \$0 was outstanding at December 31, 1999. Availability under the credit facility was approximately \$26,816 based on eligible collateral at December 31, 1999. The facility is collateralized by all inventories and receivables of Liggett. Borrowings under the facility, whose interest is calculated at a rate equal to 1.0% above Philadelphia National Bank's (the indirect parent of Congress Financial Corporation, the lead lender) prime rate, bore a rate of 9.5% at December 31, 1999. The facility requires Liggett's compliance with certain financial and other covenants including a restriction on the payment of cash dividends unless Liggett's borrowing availability under the facility for the 30-day period prior to the payment of the dividend, and after giving effect to the dividend, is at least \$5,000. In addition, the facility, as amended, imposes requirements with respect to Liggett's adjusted net worth (not to fall below \$8,000 as computed in accordance with the agreement) and working capital (not to fall below a deficit of \$17,000 as computed in accordance with the agreement). At December 31, 1999, Liggett was in compliance with all covenants under the credit facility; Liggett's adjusted net worth was \$37,597 and net working capital was \$36,157, as computed in accordance with the agreement. The facility expires on March 8, 2003 subject to automatic renewal for an additional year unless a notice of termination is given by the lender at least 60 days prior to the anniversary date.

In November 1999, 100 Maple Lane LLC, a new company formed by Liggett to purchase the Mebane facility, borrowed \$5,040 from the lender under Liggett's credit facility. The loan is payable in 59 monthly installments of \$60 including annual interest at 1% above the prime rate with a final payment of \$1,500. Liggett has guaranteed the loan, and a first mortgage on the Mebane property collateralizes the Maple Lane loan and Liggett's credit facility. Liggett plans to relocate its manufacturing operations to this facility in late 2000.

EQUIPMENT LOAN - LIGGETT:

In January 1999, Liggett purchased equipment for \$5,750 and borrowed \$4,500 to fund the purchase. The loan, which is collateralized by the equipment and guaranteed by BGLS and the Company, is payable in 60 monthly installments of \$56 including annual interest of 7.67% with a final payment of \$2,550.

NOTES PAYABLE - NEW VALLEY:

During the third quarter 1999, New Valley refinanced its notes payable on its two remaining shopping centers in Florida and West Virginia for \$19,828, in the aggregate. Interest rates range from 7.5% to 9.03% per annum. The four notes are due between 2002 and 2024. Two, for \$8,459, are subject to call in 2001 under certain conditions.

FOREIGN CREDIT FACILITIES - LIGGETT-DUCAT:

At December 31, 1999, Liggett-Ducat had various credit facilities with Russian banks under which approximately \$29,500 was outstanding. Facilities denominated in dollars amount to \$23,000, bear interest at rates of 13.0% to 20.0% per annum and expire within the next twelve months. The remaining facilities, denominated in rubles (approximately \$6,500 at the December 31, 1999 exchange rate), have terms of six to twelve months with annual interest rates of 40% to 50%. The facilities are collateralized by the new factory building, factory equipment and tobacco inventory.

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NOTES PAYABLE - BROOKE (OVERSEAS):

Western Tobacco Investments has entered into several contracts for the purchase of cigarette manufacturing equipment. The equipment is being utilized at the new factory, built by Liggett-Ducat, on the outskirts of Moscow which began production in June 1999. Approximately 85% of the amount of the contracts were financed with promissory notes generally payable over a period of five years. The outstanding balance on these notes, which are denominated in various European currencies, is \$21,787 at December 31, 1999. Brooke (Overseas) also has issued a promissory note for approximately \$1,303 covering deposits for equipment being purchased for the new factory. The note is due March 31, 2000.

SCHEDULED MATURITIES:

Scheduled maturities of long-term debt are as follows:

Year ending December 31:

2000.....	\$ 41,547
2001.....	121,697
2002.....	5,454
2003.....	5,395
2004.....	4,912
Thereafter.....	10,891

Total.....	\$189,896
	=====

14. SECURITIES OWNED AND SECURITIES SOLD, NOT YET PURCHASED

The components of trading securities owned and securities sold, not yet purchased are as follows:

	DECEMBER 31, 1999	
	TRADING SECURITIES OWNED	SECURITIES SOLD, NOT YET PURCHASED
	-----	-----
Common stock.....	\$13,306	\$6,522
Equity and index options.....	1,973	1,087
Other.....	428	16
	-----	-----
	\$15,707	\$7,625
	=====	=====

15. COMMITMENTS

Certain of the Company's subsidiaries lease facilities and equipment used in operations under both month-to-month and fixed-term agreements. The aggregate minimum rentals under operating leases with noncancelable terms of one year or more are as follows:

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Year ending December 31:	
2000.....	\$6,513
2001.....	5,323
2002.....	5,062
2003.....	4,529
2004.....	4,157
Thereafter.....	49,531

Total.....	\$75,115
	=====

Lease commitments for 2004 and thereafter relate primarily to the remaining 42 years of a land lease.

The Company's rental expense for the years ended December 31, 1999, 1998 and 1997 was \$7,369, \$3,035 and \$3,625, respectively.

Future minimum rents to be received by New Valley under non-cancelable operating leases are \$2,067 in 2000, \$1,906 in 2001, \$1,627 in 2002, \$755 in 2003, \$626 in 2004 and \$590 thereafter.

16. EMPLOYEE BENEFIT PLANS

DEFINED BENEFIT RETIREMENT PLANS:

The Company sponsors several defined benefit pension plans, covering virtually all of Liggett's full-time employees. These plans provide pension benefits for eligible employees based primarily on their compensation and length of service. Contributions are made to the pension plans in amounts necessary to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974.

In a continuing effort to reduce operating expenses, all defined benefit plans were frozen between 1993 and 1995 and several early retirement windows were offered between 1995 and 1999. As a result of these actions, the Company recorded a curtailment charge (see table below).

The Company's net pension expense consists of the following components:

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
	-----	-----	-----
Service cost - benefits earned during the period	\$ 350	\$ 350	\$ 350
Interest cost on projected benefit obligation ..	10,850	11,707	12,255
Expected return on assets	(15,338)	(16,724)	(14,093)
Amortization of net gain	(894)	(3,064)	(988)
Curtailment related to plan restructuring	1,302		484
	-----	-----	-----
Net pension credit	\$ (3,730)	\$ (7,731)	\$ (1,992)
	=====	=====	=====

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	1999	1998
	----	----
Change in benefit obligation:		
Benefit obligation at January 1.....	\$(170,064)	\$(165,474)
Interest cost.....	(10,850)	(11,707)
Benefits paid.....	16,763	15,861
Termination, settlements and curtailment.....	(1,302)	
Actuarial gain (loss).....	13,945	(8,744)
	-----	-----
Benefit obligation at December 31.....	\$(151,508)	\$(170,064)
	=====	=====
Change in plan assets:		
Fair value of plan assets at January 1.....	\$184,079	\$194,732
Actual return on plan assets.....	31,130	4,866
Contributions.....	341	342
Benefits paid.....	(16,763)	(15,861)
	-----	-----
Fair value of plan assets at December 31.....	\$198,787	\$184,079
	=====	=====
Excess of plan assets versus benefit obligations at December 31.....	\$ 47,279	\$ 14,015
Unrecognized actuarial gains.....	(54,921)	(25,729)
Contributions or SERP benefits.....	85	86
	-----	-----
Net pension liability before additional minimum liability and purchase accounting valuation adjustments.....	(7,557)	(11,628)
Additional minimum liability.....	(1,556)	(1,901)
Purchase accounting valuation adjustments relating to income taxes.....	2,383	2,730
	-----	-----
Pension liability included in the December 31 balance sheet.....	\$ (6,730)	\$ (10,799)
	=====	=====

Assumptions used in the determination of net pension expense and the actuarial present value of benefit obligations for the years ended December 31, 1999 and 1998 follow:

	1999	1998
	----	----
Discount rates.....	5.50 - 6.75%	5.50 - 7.50%
Accrued rates of return on invested assets.....	8.75%	8.75 - 9.0%
Salary increase assumptions.....	N/A	N/A

Plan assets consist of commingled funds, marketable equity securities and corporate and government debt securities.

POSTRETIREMENT MEDICAL AND LIFE INSURANCE PLANS:

BGLS AND LIGGETT

Substantially all of Liggett's employees are eligible for certain postretirement benefits if they reach retirement age while working for the Company. Retirees are required to fund 100% of participant medical premiums.

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(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

The components of net periodic postretirement benefit cost for the years ended December 31, 1999, 1998 and 1997 are as follows:

	1999	1998	1997
	----	----	----
Service cost, benefits attributed to employee service during the year.....	\$ 45	\$ 43	\$ 24
Interest cost on accumulated postretirement benefit obligation.....	599	583	703
Charge for special termination benefits.....	240		47
Amortization of net gain (loss).....	582	(284)	(193)
	-----	-----	-----
Net periodic postretirement benefit expense.....	\$1,466	\$342	\$581
	=====	===	===

The following sets forth the actuarial present value of the Accumulated Postretirement Benefit Obligation ("APBO") at December 31, 1999 and 1998 applicable to each employee group for benefits:

	1999	1998
	----	----
Change in benefit obligation:		
Benefit obligation at January 1	\$ (9,116)	\$ (8,178)
Service cost	(45)	(43)
Interest cost	(599)	(583)
Benefits paid	712	934
Actuarial gain (loss)	192	(1,246)
Charge for special termination benefits	(240)	
	-----	-----
Benefit obligation at December 31	\$ (9,096)	\$ (9,116)
	=====	=====
Change in plan assets:		
Contributions	\$ 712	\$ 934
Benefits paid	(712)	(934)
	-----	-----
Fair value of plan assets at December 31	\$	\$
	=====	=====
Accumulated postretirement benefit obligation (in excess of plan assets)	\$ (9,096)	\$ (9,116)
Unrecognized net gain	(3,236)	(2,462)
Purchase accounting valuation adjustments relating to income taxes	745	854
	-----	-----
Postretirement liability included in the December 31 balance sheet	\$(11,587)	\$(10,724)
	-----	=====

The APBO at December 31, 1999 and 1998 was determined using discount rates of 6.75% and 7.5%, respectively, and a health care cost trend rate of 4% in 1999 and 1998. A 1% increase in the trend rate for health care costs would have increased the APBO and net periodic postretirement benefit cost by \$353 and \$26, respectively, for the year ended December 31, 1999. The Company does not hold any assets reserved for use in the plan.

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PROFIT SHARING PLAN:

The Company maintains 401(k) plans for substantially all U.S. employees which allow eligible employees to invest a percentage of their pre-tax compensation.

LIGGETT

The 401(k) plans at Liggett match up to a 3% employee contribution, plus additional Liggett contributions of up to 6% of salary based on the achievement of Liggett's profit objectives. Liggett contributed and expensed \$527, \$469 and \$497 to the 401(k) plans for the years ended December 31, 1999, 1998 and 1997, respectively.

NEW VALLEY:

Ladenburg has a profit sharing plan for substantially all its employees. The plan includes two features: profit sharing and a deferred compensation vehicle. Contributions to the profit sharing portion of the plan are made by Ladenburg on a discretionary basis. The deferred compensation feature of the plan enables non-salaried employees to invest up to 15% of their pre-tax annual compensation. The plan was inactive in 1999.

17. INCOME TAXES

The Company files a consolidated U.S. income tax return that includes its more than 80%-owned United States subsidiaries. The amounts provided for income taxes are as follows:

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
	----	----	----
Current:			
U.S. Federal.....	\$ 1,208	\$	
Foreign.....	429		\$1,134
State.....	5,076		(11)
	-----	-----	-----
	6,713		1,123
	-----	-----	-----
Deferred:			
U.S. Federal.....	\$66,688	\$(59,158)	\$
Foreign.....	455	(455)	
State.....	8,612		
	-----	-----	-----
Total (benefit) provision.....	75,745	(59,613)	1,123
	-----	-----	-----
	\$82,458	\$(59,613)	1,123
	=====	=====	=====

The tax effect of temporary differences which give rise to a significant portion of deferred tax assets and liabilities are as follows:

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(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

	DECEMBER 31, 1999		DECEMBER 31, 1998	
	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES
Sales and product allowances.....	\$ 2,057	\$	\$ 3,468	
Inventory.....	957	2,274	660	\$ 1,220
Coupon accruals.....	859		1,004	
Property, plant and equipment.....		4,712		4,791
Employee benefit plan accruals.....	10,555		8,429	
Debt restructuring.....	3,110		17,159	
Excess of tax basis over book basis-				
non-consolidated entities.....	23,204	9,227	9,969	
Legal Settlements.....	1,165		2,036	
Difference in basis of investments.....	8,021			
Deferral on brand transaction.....				
Restructuring accruals.....	4,936	103,346		
Russian tax loss carryforwards.....	6,632		3,354	
U.S. tax loss carryforwards-BGL.....	48,007		62,714	
U.S. tax loss carryforwards-New Valley....	65,911			
Valuation allowance.....	(108,409)		(43,169)	
Reclassifications.....			(6,011)	(6,011)
	\$ 67,005	\$119,559	\$ 59,613	\$
			=====	=====

The Company provides a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company has established a valuation allowance against deferred tax assets of \$108,409 at December 31, 1999.

The valuation allowance of \$108,409 at December 31, 1999 consisted primarily of New Valley's net operating loss carryforwards of \$65,911 and Russian tax loss carryforwards of \$6,632. In addition, a valuation allowance was established against New Valley's additional deferred tax assets of \$35,737 primarily related to differences between book and tax accounting purposes for basis in investments and subsidiaries and restructuring accruals.

At December 31, 1999, the Company and its consolidated group had U.S. tax loss carryforwards of \$135,000 which may be subject to certain restrictions and limitations and which will expire in the years 2006 to 2017.

Differences between the amounts provided for income taxes and amounts computed at the federal statutory tax rate are summarized as follows:

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
	----	----	----
Income (loss) from continuing operations before income taxes.....	\$318,542	\$(35,394)	\$(50,298)
Federal income tax provision (benefit) at statutory rate.....	111,490	(12,387)	(17,604)
Increases (decreases) resulting from:			
State income taxes, net of federal income tax benefits.....	8,897		(8)
Foreign taxes.....	873	(455)	1,134
Other, net.....	822	9,921	8,386
Changes in valuation allowance.....	(39,624)	(56,692)	9,215
Provision (benefit) for income tax.....	\$ 82,458	\$(59,613)	\$ 1,123
	=====	=====	=====

Both the Company's and New Valley's 1996 and 1997 tax years are presently under audit with the IRS. The Company believes it has adequately reserved for any potential adjustments which may occur.

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(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

18. EQUITY

On December 10, 1999, each outside director of the Company was granted an option to purchase 10,000 shares of common stock at \$16.75 per share, the fair market value on the date of grant. The options vest and become exercisable in three equal annual installments commencing on January 1, 2001, but are subject to earlier vesting upon a change of control.

During April and May 1998, the Company granted 10,500 shares of common stock to each of its three outside directors. Of these shares, 7,875 vested immediately and the remaining 23,625 shares vest in three equal annual installments. At December 31, 1999, \$200 had been expensed and the remaining amount of \$103 will be recognized over the remaining vesting period.

On January 16, 1998, the Company sold to High River Limited Partnership 1,575,000 shares of common stock for \$9,000.

In connection with the March 2, 1998 agreement with the Apollo Holders, the Company issued warrants to purchase common stock. (Refer to Note 13.)

On March 12, 1998, the Company granted an option for 1,312,500 shares of common stock to a law firm that represents the Company and Liggett originally exercisable at \$16.67 per share. The fair value of the equity instruments was estimated based on the Black-Scholes option pricing model and the following assumptions: volatility 77.6%, risk-free interest rate of 5.47%, expected life of two years and dividend rate of 0%. The Company recognized expense of \$1,495 in the second quarter of 1998. On October 12, 1998, the Company amended the option to reduce the exercise price from \$16.67 per share to \$5.71 per share. The initial exercise date on all 1,312,500 shares was extended to April 1, 2000, subject to earlier exercise under certain circumstances which were satisfied resulting in the option becoming exercisable in full. The expense at the initial grant date was \$3,063, and the incremental expense incurred due to the modifications of the grant was \$2,050. At December 31, 1999, all such amounts had been expensed.

On August 28, 1998, the Company granted 493,500 shares of common stock as part of a performance fee to members of a law firm which represents the Company and Liggett. The Company expensed \$1,687 for the year ended December 31, 1998.

On March 7, 1997, a partnership controlled by the Company's Chairman, President and Chief Executive Officer and controlling stockholder (the "Chairman"), transferred 420,000 shares of common stock to the Company in satisfaction of an obligation. (Refer to Note 23.)

19. STOCK PLANS

On November 4, 1999, the Company adopted its 1999 Long-Term Incentive Plan (the "1999 Plan") subject to approval by the stockholders of the Company at the 2000 annual meeting. The 1999 Plan authorizes the granting of up to 5,000,000 shares of common stock through awards of stock options (which may include incentive stock options and/or nonqualified stock options), stock appreciation rights and shares of restricted Company common stock. All officers, employees and consultants of the Company and its subsidiaries are eligible to receive awards under the 1999 Plan.

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(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

On November 4, 1999, the Company granted non-qualified stock options to six executive officers of the Company or its subsidiaries pursuant to the 1999 Plan. The grant of the options to the option holders is conditioned upon the approval of the 1999 Plan by the Company's stockholders. Under the options, the option holders have the right to purchase an aggregate of 2,100,000 shares of common stock at an exercise price of \$15 7/16 per share (the fair market value of a share of common stock on the date of grant), subject to increase under certain circumstances. Common stock dividend equivalents will be paid currently with respect to each share underlying the unexercised portion of the options. The options have a ten-year term and become exercisable on the fourth anniversary of the date of grant. However, the options will earlier vest and become immediately exercisable upon (i) the occurrence of a "Change in Control" or (ii) the termination of the option holder's employment with the Company due to death or disability.

On October 15, 1998, stockholders of the Company approved the adoption of the 1998 Long-Term Incentive Plan (the "1998 Plan"). The 1998 Plan, adopted on May 8, 1998, authorizes the granting of up to 5,250,000 shares of common stock through awards of stock options (which may include incentive stock options and/or nonqualified stock options), stock appreciation rights and shares of restricted Company common stock. All officers, employees and consultants of the Company and its subsidiaries are eligible to receive awards under the 1998 Plan.

On July 20, 1998, the Company granted a non-qualified stock option to each of the Chairman and a consultant to the Company who serves as President and a director of New Valley (the "Consultant"), pursuant to the 1998 Plan. Under the options, the Chairman and the Consultant have the right to purchase 2,625,000 shares and 525,000 shares, respectively, of common stock at an exercise price of \$9.29 per share (the fair market value of a share of common stock on the date of grant). The options have a ten-year term and become exercisable as to one-fourth of the shares on each of the first four anniversaries of the date of grant. However, any then unexercisable portion of the option will immediately vest and become exercisable upon (i) the occurrence of a "Change in Control," or (ii) the termination of the option holder's employment or consulting arrangement with the Company due to death or disability.

The fair value of the equity instruments issued to the Consultant was estimated based on the Black-Scholes option pricing model and the following assumptions: volatility of 82.18%, risk-free interest rate of 5.47%, expected option life of 10 years and dividend rate of 0%. The Company is recognizing \$3,260 over the vesting period.

On November 24, 1999, the Company granted non-qualified stock options to purchase 920,000 shares of common stock to key employees of Liggett under the 1998 Plan. Under the options, the 27 Liggett option holders have the right to purchase shares at \$15 7/16 per share except for the grant of 250,000 options to the chairman of Liggett whose options have an exercise price of \$18.00 per share, the fair market value on the date of grant. The options become exercisable as to 25% of the shares on December 31, 2001 and as to an additional 37.5% of the shares on each of December 31, 2002 and December 31, 2003, assuming the continued employment of the option holder. Vesting is accelerated upon death or disability. The Company will recognize compensation expense of \$1,717 over the vesting period.

As of January 1, 1998 and 1997, the Company granted to employees of the Company non-qualified stock options to purchase 45,150 and 443,100, respectively, shares of the Company's common stock

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at an exercise price of \$4.76 per share. The options have a ten-year term and vest in six equal annual installments. The Company will recognize compensation expense of \$154 over the vesting period.

A summary of stock options granted to employees follows:

	NUMBER OF SHARES -----	EXERCISE PRICE -----	WEIGHTED AVERAGE FAIR VALUE -----
Outstanding on December 31, 1996.....	0		
Granted.....	443,100	\$4.76	\$4.10
Exercised.....	0		
Cancelled.....	0		
Outstanding on December 31, 1997.....	443,100	\$4.76	\$4.10
Granted.....	2,670,150	\$4.76-\$9.29	\$7.28
Exercised.....	98,838	\$4.76	
Cancelled.....	0		
Outstanding on December 31, 1998.....	3,014,412	\$4.76-\$9.29	\$7.38
Granted.....	950,000	\$15.44-\$18.00	7.61
Exercised.....	0		
Cancelled.....	0		
Outstanding on December 31, 1999.....	3,964,412	\$4.76-\$18.00	\$7.64
Options exercisable at:			
December 31, 1997.....	93,623		
December 31, 1998.....	73,884		
December 31, 1999.....	737,659		

The Company will continue to account for stock options granted employees at their intrinsic value. Had the fair value method of accounting been applied to the Company's stock options granted to employees, the pro forma effect would be as follows:

	1999 -----	1998 -----	1997 -----
Net income (loss) as reported.....	\$235,673	\$27,427	\$(49,885)
Estimated fair value of the year's option grants.....	5,605	2,549	383
Net income (loss) adjusted.....	230,068	24,878	(50,268)
Adjusted net income (loss) per share - basic.....	10.46	1.16	(2.64)
Adjusted net income (loss) per share - diluted.....	8.58	0.96	(2.64)

The fair value of option grants to employees is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions for options granted. The dividend yield ranges from 0%-5%.

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(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

DATE -----	RISK-FREE INTEREST RATE -----	EXPECTED LIFE IN YEARS -----	EXPECTED VOLATILITY -----	WEIGHTED AVERAGE FAIR VALUE -----
December 10, 1999	6.07%	10	47.36%	\$5.08
November 24, 1999	6.08%	10	68.27%	\$7.75
July 20, 1998	5.54%	10	79.14%	\$8.21
January 1, 1998	5.74%	10	76.56%	\$7.58
January 1, 1997	6.44%	10	81.46%	\$4.30

On December 16, 1996, the Company entered into a stock option agreement with the Consultant. The agreement granted the Consultant non-qualified stock options to purchase 1,050,000 shares of the Company's common stock at an exercise price of \$0.95 per share. The options, which have a ten-year term, vest and become exercisable in six equal annual installments beginning on July 1, 1997. Under the agreement, common stock dividend equivalents are paid on each vested and unexercised option. The Company estimated the fair value of such grant on the date of grant using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 6.4%, expected option life of 10 years, volatility of 81.4% and no expected dividends or forfeiture. Under this model, the fair value of stock options granted in 1996 was \$4,750. The Company recognized expense of \$792, \$792 and \$1,127 in 1999, 1998 and 1997, respectively. In 1999, 1998 and 1997, the Company also recorded charges to income of \$444, \$330 and \$149, respectively, for dividend equivalent rights.

As of January 1, 1994, the Company had granted 525,000 shares of restricted common stock to the Consultant. Of the total number of shares granted, 262,500 were immediately vested and issued during the third quarter. The remaining 262,500 shares were issued in 1995 and vested in 1997. In addition, on January 25, 1995, the Company entered into a non-qualified stock option agreement with the Consultant. Under the agreement, options to purchase 525,000 shares were granted at \$1.90 per share. The options are exercisable over a ten-year period and were fully vested in January 1999. The grant provides for dividend equivalent rights on all the shares underlying the unexercised options. During 1999, 1998 and 1997, the Company recorded charges to income of \$16, \$188 and \$205, respectively, for compensation based on estimates of the fair market value for the shares and options granted. In 1999, 1998 and 1997, the Company also recorded charges to income of \$166, \$155 and \$188, respectively, for the dividend equivalent rights.

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20. OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of the following:

	DECEMBER 31,	
	1999	1998
	----	----
Western Realty Repin participating loan.....	\$32,091	\$
Western Realty Development participating loan.....	37,849	31,991
Deferred gain.....		20,392
Other long-term liabilities.....	6,688	12,967
	-----	-----
Total.....	\$76,628	\$65,350
	=====	=====

21. SUPPLEMENTAL CASH FLOW INFORMATION

	Year Ended December 31,		
	1999	1998	1997
	----	----	----
I. Cash paid during the period for:			
Interest.....	\$48,030	\$62,339	\$43,028
Income taxes, net of refunds.....	2,942	2,751	462
II. Non-cash investing and financing activities:			
Issuance of stock to Liggett noteholders.....		4,105	
Issuance of stock to consultants and law firms..		3,705	
Issuance of warrants.....		22,421	
Promissory note from New Valley.....			33,500
Issuance of stock dividend.....	25,646		

22. CONTINGENCIES

SMOKING-RELATED LITIGATION:

OVERVIEW. Since 1954, Liggett and other United States cigarette manufacturers have been named as defendants in numerous direct and third-party actions predicated on the theory that cigarette manufacturers should be liable for damages alleged to have been caused by cigarette smoking or by exposure to secondary smoke from cigarettes. These cases are reported here as though having been commenced against Liggett (without regard to whether such cases were actually commenced against Brooke Group Holding, the Company's predecessor and a wholly-owned subsidiary of BGLS, or Liggett). There has been a noteworthy increase in the number of cases commenced against Liggett and the other cigarette manufacturers in recent

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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years. The cases generally fall into the following categories: (i) smoking and health cases alleging injury brought on behalf of individual plaintiffs ("Individual Actions"); (ii) smoking and health cases alleging injury and purporting to be brought on behalf of a class of individual plaintiffs ("Class Actions"); (iii) health care cost recovery actions brought by various governmental entities ("Governmental Actions"); and (iv) health care cost recovery actions brought by third-party payors including insurance companies, union health and welfare trust funds, asbestos manufacturers and others ("Third-Party Payor Actions"). As new cases are commenced, defense costs and the risks attendant to the inherent unpredictability of litigation continue to increase. The future financial impact of the risks and expenses of litigation and the effects of the tobacco litigation settlements discussed below is not quantifiable at this time. In 1999, Liggett incurred counsel fees and costs totaling approximately \$5,733 compared to \$7,828 in 1998.

INDIVIDUAL ACTIONS. As of December 31, 1999, there were approximately 300 cases pending against Liggett, and in most cases the other tobacco companies, where individual plaintiffs allege injury resulting from cigarette smoking, addiction to cigarette smoking or exposure to secondary smoke and seek compensatory and, in some cases, punitive damages. Of these, 85 were pending in Florida, 91 in New York, 30 in Massachusetts and 17 in Texas. The balance of the individual cases were pending in 22 states. There are five individual cases pending where Liggett is the only named defendant.

The plaintiffs' allegations of liability in those cases in which individuals seek recovery for injuries allegedly caused by cigarette smoking are based on various theories of recovery, including negligence, gross negligence, breach of special duty, strict liability, fraud, misrepresentation, design defect, failure to warn, breach of express and implied warranties, conspiracy, aiding and abetting, concert of action, unjust enrichment, common law public nuisance, property damage, invasion of privacy, mental anguish, emotional distress, disability, shock, indemnity and violations of deceptive trade practice laws, the Federal Racketeer Influenced and Corrupt Organization Act ("RICO"), state RICO statutes and antitrust statutes. In many of these cases, in addition to compensatory damages, plaintiffs also seek other forms of relief including, treble/multiple damages, disgorgement of profits and punitive damages. Defenses raised by defendants in these cases include lack of proximate cause, assumption of the risk, comparative fault and/or contributory negligence, lack of design defect, statute of limitations, equitable defenses such as "unclean hands" and lack of benefit, failure to state a claim and federal preemption.

In February 1999, a California jury awarded \$51,500 in damages to a woman who claimed lung cancer from smoking Marlboro cigarettes made by Philip Morris. The award includes \$1,500 in compensatory damages and \$50,000 in punitive damages. The court subsequently reduced the punitive damages award to \$25,000. In March 1999, an Oregon jury awarded \$80,311 in damages to the family of a deceased smoker who smoked Marlboro cigarettes made by Philip Morris. The award includes \$79,500 in punitive damages. The court subsequently reduced the punitive damages award to \$32,000. Philip Morris has appealed both the verdict and damage awards.

CLASS ACTIONS. As of December 31, 1999, there were approximately 50 actions pending, for which either a class has been certified or plaintiffs are seeking class certification, where Liggett, among others, was a named defendant. Many of these actions purport to constitute statewide class actions and were filed after May 1996 when the Fifth Circuit Court of Appeals, in the CASTANO case (discussed below), reversed a Federal district court's certification of a purported nationwide class action on behalf of persons who were allegedly "addicted" to tobacco products.

In March 1994, an action entitled CASTANO, ET AL. V. THE AMERICAN TOBACCO COMPANY INC., ET AL., United States District Court, Eastern District of Louisiana, was filed against Liggett and others. The class action complaint sought relief for a nationwide class of smokers based on their alleged addiction to nicotine. In February 1995, the District Court granted plaintiffs' motion for class certification (the "Class Certification Order").

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

In May 1996, the Court of Appeals for the Fifth Circuit reversed the Class Certification Order and instructed the District Court to dismiss the class complaint. The Fifth Circuit ruled that the District Court erred in its analysis of the class certification issues by failing to consider how variations in state law affect predominance of common questions and the superiority of the class action mechanism. The appeals panel also held that the District Court's predominance inquiry did not include consideration of how a trial on the merits in CASTANO would be conducted. The Fifth Circuit further ruled that the "addiction-as-injury" tort is immature and, accordingly, the District Court could not know whether common issues would be a "significant" portion of the individual trials. According to the Fifth Circuit's decision, any savings in judicial resources that class certification may bring about were speculative and would likely be overwhelmed by the procedural problems certification brings. Finally, the Fifth Circuit held that in order to make the class action manageable, the District Court would be forced to bifurcate issues in violation of the Seventh Amendment.

The extent of the impact of the CASTANO decision on smoking-related class action litigation is still uncertain, although the decertification of the CASTANO class by the Fifth Circuit may preclude other federal courts from certifying a nationwide class action for trial purposes with respect to smoking-related claims. The CASTANO decision has had to date, however, only limited effect with respect to courts' decisions regarding narrower smoking-related classes or class actions brought in state rather than federal court. For example, since the Fifth Circuit's ruling, courts in Louisiana (Liggett is not a defendant in this proceeding) and Maryland have certified "addiction-as-injury" class actions that covered only citizens in those states. Two class actions, BROIN and ENGLE, were certified in state court in Florida prior to the Fifth Circuit's decision. The CASTANO decision has had no measurable impact on litigation brought by or on behalf of single individual claimants.

In May 1994, an action entitled ENGLE, ET AL. V. R.J. REYNOLDS TOBACCO COMPANY, ET AL., Circuit Court Eleventh Judicial Circuit, Dade County, Florida, was filed against Liggett and others. The class consists of all Florida residents and citizens, and their survivors, who have suffered, presently suffer or have died from diseases and medical conditions caused by their addiction to cigarettes that contain nicotine. In July 1998, Phase I of the trial in this action commenced. On July 7, 1999, the jury returned the Phase I verdict. The Phase I verdict concerned certain issues determined by the trial court to be "common" to the causes of action of the plaintiff class. Among other things, the jury found that smoking cigarettes causes 20 diseases or medical conditions, that cigarettes are addictive or dependence producing, defective and unreasonably dangerous, that defendants made materially false statements with the intention of misleading smokers, that defendants concealed or omitted material information concerning the health effects and/or the addictive nature of smoking cigarettes and agreed to misrepresent and conceal the health effects and/or the addictive nature of smoking cigarettes, and that defendants were negligent and engaged in extreme and outrageous conduct or acted with reckless disregard with the intent to inflict emotional distress. The jury also found that defendants' conduct "rose to a level that would permit a potential award or entitlement to punitive damages." The court has decided that Phase II of the trial, which commenced November 1, 1999, will be a causation and damages trial for three of the class representatives and a punitive damages trial on a class-wide basis, before the same jury that returned the verdict in Phase I. Phase III of the trial will be conducted before separate juries to address absent class members' claims, including issues of specific causation and other individual issues regarding entitlement to compensatory damages. The defendants' motion to order the trial court to assess punitive damages on an individual basis was denied and the petition for review was also denied, without prejudice to raise the same issue on subsequent appeals.

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It is unclear how the trial court's order will be implemented. The order provides that the punitive damage amount, if any, should be standard as to each class member and acknowledges that the actual size of the class will not be known until the last case has withstood appeal. The order does not address whether defendants would be required to pay the punitive damage award, if any, prior to a determination of claims of all class members, a process that could take years to conclude. In a worst case scenario, it is possible that a judgment for punitive damages could be entered in the ENGLE case in an amount not capable of being bonded, resulting in an execution of the judgment before it could be set aside on appeal. The Company believes that such a result would be unconstitutional and would also violate Florida laws.

Class certification motions are pending in a number of putative class actions. Classes remain certified against Liggett in Florida (ENGLE) and Maryland (RICHARDSON). A number of class certification denials are on appeal.

GOVERNMENTAL ACTIONS. As of December 31, 1999, there were approximately 20 Governmental Actions pending against Liggett. In these proceedings, both foreign and domestic governmental entities seek reimbursement for Medicaid and other health care expenditures. The claims asserted in these health care cost recovery actions vary. In most of these cases, plaintiffs assert the equitable claim that the tobacco industry was "unjustly enriched" by plaintiffs' payment of health care costs allegedly attributable to smoking and seek reimbursement of those costs. Other claims made by some but not all plaintiffs include the equitable claim of indemnity, common law claims of negligence, strict liability, breach of express and implied warranty, breach of special duty, fraud, negligent misrepresentation, conspiracy, public nuisance, claims under state and federal statutes governing consumer fraud, antitrust, deceptive trade practices and false advertising, and claims under RICO.

THIRD-PARTY PAYOR ACTIONS. As of December 31, 1999, there were approximately 70 Third-Party Payor Actions pending against Liggett. The claims in these cases are similar to those in the Governmental Actions but have been commenced by insurance companies, union health and welfare trust funds, asbestos manufacturers and others. As of December 31, 1999, five United States Circuit Courts of Appeal had ruled that Third-Party Payors did not have standing to bring lawsuits against the tobacco companies. The United States Supreme Court recently denied a petition for writ of certiorari filed by several of the union health and welfare trust funds. However, a number of Third-Party Payor Actions, including an action brought by 24 Blue Cross/Blue Shield Plans, remain pending.

In other Third-Party Payor Actions claimants have set forth several additional theories of relief sought: funding of corrective public education campaigns relating to issues of smoking and health; funding for clinical smoking cessation programs; disgorgement of profits from sales of cigarettes; restitution; treble damages; and attorneys' fees. Nevertheless, no specific amounts are provided. It is understood that requested damages against the tobacco company defendants in these cases might be in the billions of dollars.

FEDERAL GOVERNMENT ACTION. In September 1999, the United States government commenced litigation against Liggett and the other tobacco companies in the United States District Court for the District of Columbia. The action seeks to recover an unspecified amount of healthcare costs paid for and furnished, and to be paid for and furnished, by the Federal Government for lung cancer, heart disease, emphysema and other smoking-related illnesses allegedly caused by the fraudulent and tortious conduct of defendants, and to restrain defendants and co-conspirators from engaging in fraud and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

other unlawful conduct in the future, and to compel defendants to disgorge the proceeds of their unlawful conduct. The complaint alleges that such costs total more than \$20,000,000 annually. The action asserts claims under three federal statutes, the Medical Care Recovery Act, the Medicare Secondary Payer provisions of the Social Security Act and RICO. In December 1999, Liggett filed a motion to dismiss the lawsuit on numerous grounds, including that the statutes invoked by the government do not provide the basis for the relief sought.

SETTLEMENTS. In March 1996, Brooke Group Holding and Liggett entered into an agreement, subject to court approval, to settle the CASTANO class action tobacco litigation. The CASTANO class was subsequently decertified by the court.

In March 1996, March 1997 and March 1998, Brooke Group Holding and Liggett entered into settlements of smoking-related litigation with the Attorneys General of 45 states and territories. The settlements released both Brooke Group Holding and Liggett from all smoking-related claims, including claims for health care cost reimbursement and claims concerning sales of cigarettes to minors.

In November 1998, Philip Morris, Brown & Williamson Tobacco Corporation, R.J. Reynolds Tobacco Company and Lorillard Tobacco Company (collectively, the "Original Participating Manufacturers" or "OPMs") and Liggett (together with the OPMs and any other tobacco product manufacturer that becomes a signatory, the "Participating Manufacturers") entered into the Master Settlement Agreement (the "MSA") with 46 states, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Marianas (collectively, the "Settling States") to settle the asserted and unasserted health care cost recovery and certain other claims of those Settling States.

The MSA has been initially approved by trial courts in all Settling States. The MSA is subject to final judicial approval in each of the Settling States, which approval has been obtained, as of December 31, 1999, in 47 jurisdictions. If final judicial approval is not obtained in a jurisdiction by December 31, 2001, then, unless the settling defendants and the relevant jurisdiction agree otherwise, the MSA will be terminated with respect to such jurisdiction.

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(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

The MSA restricts tobacco product advertising and marketing within the Settling States and otherwise restricts the activities of Participating Manufacturers. Among other things, the MSA prohibits the targeting of youth in the advertising, promotion or marketing of tobacco products; bans the use of cartoon characters in all tobacco advertising and promotion; limits each Participating Manufacturer to one tobacco brand name sponsorship during any 12-month period; bans all outdoor advertising, with the exception of signs 14 square feet or less in dimension at retail establishments that sell tobacco products; prohibits payments for tobacco product placement in various media; bans gift offers based on the purchase of tobacco products without sufficient proof that the intended recipient is an adult; prohibits Participating Manufacturers from licensing third parties to advertise tobacco brand names in any manner prohibited under the MSA; prohibits Participating Manufacturers from using as a tobacco product brand name any nationally recognized non-tobacco brand or trade name or the names of sports teams, entertainment groups or individual celebrities; and prohibits Participating Manufacturers from selling packs containing fewer than twenty cigarettes.

The MSA also requires Participating Manufacturers to affirm corporate principles to comply with the MSA and to reduce underage usage of tobacco products and imposes requirements applicable to lobbying activities conducted on behalf of Participating Manufacturers.

Liggett has no payment obligations under the MSA unless its market share exceeds a base share of 125% of its 1997 market share, or 1.67% of total cigarettes sold in the United States. Liggett believes, based on published industry services, that its domestic shipments accounted for 1.2% of the total cigarettes shipped in the United States during 1999. In the year following any year in which Liggett's market share does exceed the base share, Liggett will pay on each excess unit an amount equal (on a per-unit basis) to that paid during such following year by the OPMS under the annual and strategic contribution payment provisions of the MSA, subject to applicable adjustments, offsets and reductions. Under the annual and strategic contribution payment provisions of the MSA, the OPMS (and Liggett to the extent its market share exceeds the base share) will pay the following annual amounts (subject to certain adjustments):

YEAR ----	AMOUNT -----
2000	\$4,500,000
2001	\$5,000,000
2002 - 2003	\$6,500,000
2004 - 2007	\$8,000,000
2008 - 2017	\$8,139,000
2018 and each year thereafter	\$9,000,000

These annual payments will be allocated based on relative unit volume of domestic cigarette shipments. The payment obligations under the MSA are the several, and not joint, obligations of each Participating Manufacturer and are not the responsibility of any parent or affiliate of a Participating Manufacturer.

The MSA replaces Liggett's prior settlements with all states and territories except for Florida, Mississippi, Texas and Minnesota. In the event the MSA does not receive final judicial approval in any state or territory, Liggett's prior settlement with that state or territory, if any, will be revived.

The states of Florida, Mississippi, Texas and Minnesota, prior to the effective date of the MSA, negotiated and executed settlement agreements with each of the other major tobacco companies separate from those settlements reached previously with Liggett. Because these states' settlement agreements with Liggett provided for "most favored nation" protection for both Brooke Group Holding and Liggett, the payments due these states by Liggett (with certain possible exceptions) have been eliminated. With respect to all non-economic obligations under the previous settlements, both Brooke Group Holding and Liggett are entitled to the most favorable provisions as between the MSA and each state's respective settlement with the other major tobacco companies. Therefore, Liggett's non-economic obligations to all states and territories are now defined by the MSA.

In April 1999, a putative class action was filed on behalf of all firms that directly buy cigarettes in the United States from defendant tobacco manufacturers. The complaint alleges violation of antitrust law, based in part on the MSA. Plaintiffs seek treble damages computed as three times the difference between current prices and the price plaintiffs would have paid for cigarettes in the absence of an alleged conspiracy to restrain and monopolize trade in the domestic cigarette market, together with attorneys' fees. Plaintiffs also seek injunctive relief against certain aspects of the MSA.

In March 1997, Liggett, Brooke Group Holding and a nationwide class of individuals that allege smoking-related claims filed a mandatory class settlement agreement in an action entitled FLETCHER, ET AL. V. BROOKE GROUP LTD., ET AL., Circuit Court of Mobile County, Alabama, where the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

court granted preliminary approval and preliminary certification of the class. In July 1998, Liggett, Brooke Group Holding and plaintiffs filed an amended class action settlement agreement in FLETCHER which agreement was preliminarily approved by the court in December 1998. In July 1999, the court denied approval of the FLETCHER class action settlement. The parties' motion for reconsideration is still pending.

The Company accrued \$16,902 for the present value of the fixed payments under the March 1998 Attorneys General settlements. As a result of the Company's treatment under the MSA, \$14,928 of net charges accrued for the prior settlements were reversed in 1998 and \$1,051 were reversed in 1999.

Copies of the various settlement agreements are filed as exhibits to the Company's Form 10-K and the discussion herein is qualified in its entirety by reference thereto.

TRIALS. In addition to the ENGLE case, cases currently scheduled for trial in 2000 include Third-Party Payor Actions brought by several Blue Cross/Blue Shield plans in federal court in New York (June), asbestos companies in Mississippi (September) and New York (April) and certain unions in New York (July). Also, two Individual Actions and an adequacy of warning case are currently scheduled for trial during the first six months of 2000. Trial dates, however, are subject to change.

Management is not able to predict the outcome of the litigation pending against Brooke Group Holding or Liggett. Litigation is subject to many uncertainties. An unfavorable verdict has been returned in the first phase of the ENGLE smoking and health class action trial pending in Florida. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the ENGLE case. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation. Management is unable to make a meaningful estimate with respect to the amount of loss that could result from an unfavorable outcome of many of the cases pending against Brooke Group Holding or Liggett, because the complaints filed in these cases rarely detail alleged damages. Typically, the claims set forth in an individual's complaint against the tobacco industry pray for money damages in an amount to be determined by a jury, plus punitive damages and costs. These damage claims are typically stated as being for the minimum necessary to invoke the jurisdiction of the court.

It is possible that the Company's consolidated financial position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any such smoking-related litigation.

Liggett's management is unaware of any material environmental conditions affecting its existing facilities. Liggett's management believes that current operations are conducted in material compliance with all environmental laws and regulations and other laws and regulations governing cigarette manufacturers. Compliance with federal, state and local provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had a material effect on the capital expenditures, earnings or competitive position of Liggett.

There are several other proceedings, lawsuits and claims pending against the Company and certain of its consolidated subsidiaries unrelated to smoking or tobacco product liability. Management is of the opinion that the liabilities, if any, ultimately resulting from such other proceedings, lawsuits and claims should not materially affect the Company's financial position, results of operations or cash flows.

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(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

LEGISLATION AND REGULATION:

In 1993, the Environmental Protection Agency ("EPA") released a report on the respiratory effect of secondary smoke which concludes that secondary smoke is a known human lung carcinogen in adults and in children, causes increased respiratory tract disease and middle ear disorders and increases the severity and frequency of asthma. In June 1993, the two largest of the major domestic cigarette manufacturers, together with other segments of the tobacco and distribution industries, commenced a lawsuit against the EPA seeking a determination that the EPA did not have the statutory authority to regulate secondary smoke, and that given the current body of scientific evidence and the EPA's failure to follow its own guidelines in making the determination, the EPA's classification of secondary smoke was arbitrary and capricious. Whatever the outcome of this litigation, issuance of the report may encourage efforts to limit smoking in public areas. In July 1998, a federal district court vacated those sections of the report relating to lung cancer, finding that the EPA may have reached different conclusions had it complied with relevant statutory requirements. The federal government has appealed the court's ruling.

In February 1996, the United States Trade representative issued an "advance notice of rule making" concerning how tobaccos imported under a previously established tobacco rate quota ("TRQ") should be allocated. Currently, tobacco imported under the TRQ is allocated on a "first-come, first-served" basis, meaning that entry is allowed on an open basis to those first requesting entry in the quota year. Others in the cigarette industry have suggested an "end-user licensing" system under which the right to import tobacco under the quota would be initially assigned based on domestic market share. Such an approach, if adopted, could have a material adverse effect on the Company and Liggett.

In August 1996, the Food and Drug Administration (the "FDA") filed in the Federal Register a Final Rule classifying tobacco as a "drug" or "medical device", asserting jurisdiction over the manufacture and marketing of tobacco products and imposing restrictions on the sale, advertising and promotion of tobacco products. Litigation was commenced in the United States District Court for the Middle District of North Carolina challenging the legal authority of the FDA to assert such jurisdiction, as well as challenging the constitutionality of the rules. The court, after argument, granted plaintiffs' motion for summary judgment prohibiting the FDA from regulating or restricting the promotion and advertising of tobacco products and denied plaintiffs' motion for summary judgment on the issue of whether the FDA has the authority to regulate access to, and labeling of, tobacco products. The Fourth Circuit reversed the district court on appeal and in August 1998 held that the FDA cannot regulate tobacco products because Congress had not given them the authority to do so. Liggett supported the FDA Rule and began to phase in compliance with certain of the proposed FDA regulations. (See Subsequent Events.)

In August 1996, Massachusetts enacted legislation requiring tobacco companies to publish information regarding the ingredients in cigarettes and other tobacco products sold in that state. In December 1997, the United States District Court for the District of Massachusetts enjoined this legislation from going into effect on the grounds that it is preempted by federal law. In November 1999, the first Circuit affirmed this ruling. Notwithstanding the foregoing, in December 1997, Liggett began complying with this legislation by providing ingredient information to the Massachusetts Department of Public Health. Several other states have enacted, or are considering, legislation similar to that enacted in Massachusetts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

As part of the 1997 budget agreement approved by Congress, federal excise taxes on a pack of cigarettes, which are currently 34 cents, were increased at the beginning of 2000 and will rise 5 cents more in the year 2002. In general, excise taxes and other taxes on cigarettes have been increasing. These taxes vary considerably and, when combined with sales taxes and the current federal excise tax, may be as high as \$1.66 per pack in a given locality in the United States. Congress has been considering significant increases in the federal excise tax or other payments from tobacco manufacturers, and the Clinton Administration's fiscal year 2001 budget proposal includes an additional increase of \$.25 per pack in the federal excise tax, as well as a contingent special assessment related to youth smoking rates. Increases in other cigarette-related taxes have been proposed at the state and local level.

In addition to the foregoing, there have been a number of other restrictive regulatory actions, adverse legislative and political decisions and other unfavorable developments concerning cigarette smoking and the tobacco industry, the effects of which, at this time, management is not able to evaluate. These developments may negatively affect the perception of potential triers of fact with respect to the tobacco industry, possibly to the detriment of certain pending litigation, and may prompt the commencement of additional similar litigation.

OTHER MATTERS:

In March 1997, a stockholder derivative suit was filed in Delaware Chancery Court against New Valley, as a nominal defendant, its directors and Brooke Group Holding by a stockholder of New Valley. The suit alleges that New Valley's purchase in January 1997 of the BrookeMil shares from Brooke (Overseas) constituted a self-dealing transaction which involved the payment of excessive consideration by New Valley. The plaintiff seeks (i) a declaration that New Valley's directors breached their fiduciary duties, Brooke Group Holding aided and abetted such breaches and such parties are therefore liable to New Valley, and (ii) unspecified damages to be awarded to New Valley. In December 1999, another stockholder of New Valley commenced an action in Delaware Chancery Court substantially similar to the March 1997 action. This stockholder alleges, among other things, that the consideration paid by New Valley for the BrookeMil shares was excessive, unfair and wasteful, that the special committee of New Valley's board lacked independence, and that the appraisal by the independent appraisal firm and the fairness opinion by the independent investment bank were flawed. Brooke Group Holding and New Valley believe that the allegations in both cases are without merit. By order of the court, both actions were consolidated. Brooke Group Holding and New Valley recently filed a motion to dismiss the consolidated action. Although there can be no assurances, Brooke Group Holding and New Valley believe, after consultation with counsel, that the ultimate resolution of this matter will not have a material adverse effect on the Company's or New Valley's consolidated financial position, results of operations or cash flows.

In July 1999, a purported class action was commenced on behalf of New Valley's former Class B preferred shareholders against New Valley, Brooke Group Holding and certain directors and officers of New Valley in Delaware Chancery Court. The complaint alleges that the recapitalization, approved by a majority of each class of New Valley's stockholders in May 1999, was fundamentally unfair to the Class B preferred shareholders, the proxy statement relating to the recapitalization was materially deficient and the defendants breached their fiduciary duties to the Class B preferred shareholders in approving the transaction. The plaintiffs seek class certification of the action and an award of unspecified compensatory

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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damages as well as all costs and fees. Brooke Group Holding and New Valley believe that the allegations are without merit. Although there can be no assurances, Brooke Group Holding and New Valley believe, after consultation with counsel, that the ultimate resolution of this matter will not have a material adverse effect on the Company's or New Valley's consolidated financial position, results of operations or cash flows.

On October 18, 1999, an action was commenced against a subsidiary of Brooke Group Holding in the Supreme Court of the State of New York, County of New York. The complaint alleges that under the terms of a 1993 Put Agreement, Brooke Group Holding's subsidiary was obligated to purchase certain shares of plaintiff's stock for \$7,500. In addition, the complaint seeks prejudgment interest in the amount of approximately \$3,000. Brooke Group Holding believes, and has been so advised by counsel, that it has a number of valid defenses to this matter.

As of December 31, 1999, New Valley had \$12,279 of prepetition claims and restructuring accruals. The remaining prepetition claims may be subject to future adjustments depending on pending discussions with the various parties and the decisions of the bankruptcy court.

New Valley is a defendant in various lawsuits and may be subject to unasserted claims primarily concerning its activities as a securities broker-dealer and its participation in public underwritings. These lawsuits involve claims for substantial or indeterminate amounts and are in varying stages of legal proceedings. In the opinion of management, after consultation with counsel, the ultimate resolution of these matters will not have a material adverse effect on the Company's or New Valley's consolidated financial position, results of operations or cash flows.

RECENT DEVELOPMENTS:

Approximately 20 purported state class action complaints have been filed on behalf of various consumers of cigarette products against the tobacco manufacturers. The complaints allege that cigarette manufacturers engaged in illegal and unethical activities since the 1940's, many conspiratorial in nature, designed to increase profits at the financial and physical expense of customers. These alleged activities include knowingly increasing the addictiveness of cigarettes through crop manipulation; downplaying the detrimental health effects of cigarette smoking; conspiring to refrain from researching and introducing "safer" cigarettes; creating false and misleading scientific research design to combat the growing scientific consensus about the lethal health effects associated with cigarettes; aggressively marketing products to children and minors in an effort to addict them to cigarettes at a young age; and systematically covering up activities to avoid regulation of products by governmental agencies. The purported class actions are brought pursuant to various state laws.

In February 2000, Liggett and plaintiffs sent correspondence to the court, in *SIMON V. PHILIP MORRIS, ET al.*, a putative nationwide smokers class action, indicating that Liggett and the plaintiffs are engaged in preliminary settlement discussions. There are no assurances that any settlement will be reached or that the class will ultimately be certified.

In March 2000, a California jury awarded \$1,700 in compensatory damages and \$20,000 in Punitive damages to a former smoker and her husband. The jury found Philip Morris and R.J. Reynolds Tobacco misrepresented the health dangers of cigarettes and that they acted with malice. The defendants have stated that they intend to appeal the verdict and the damage awards.

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On March 21, 2000, the United States Supreme Court ruled that the FDA does not have the power to regulate tobacco.

23. RELATED PARTY TRANSACTIONS

The Company and New Valley have an expense sharing agreement whereby certain lease, legal and administrative expenses are allocated to the entity incurring the expense. Expense reimbursements amounted to \$307, \$502 and \$375 for the years ended December 31, 1999, 1998 and 1997, respectively.

An outside director of the Company is a stockholder of and serves as the chairman and treasurer of a registered broker-dealer that has performed services for the Company and its affiliates since before December 31, 1997. The broker-dealer received brokerage commissions and other income of approximately \$59, \$128 and \$522 from the Company and/or its affiliates during 1999, 1998 and 1997, respectively. The broker-dealer, in the ordinary course of its business, engages in brokerage activities with New Valley's broker-dealer subsidiary on customary terms.

Effective May 1, 1998, a former officer of the Company entered into a consulting agreement in which the Company will pay him a total of \$2,254 in stock or cash in quarterly installments over a period of six years. The Company recognized the expense during the second quarter of 1998.

In September 1998, New Valley made a one-year, \$950 loan to BGLS which bore interest at 14% per annum. The loan and accrued interest thereon were repaid on September 30, 1999.

On March 7, 1997, a partnership controlled by the Chairman transferred to the Company the remaining 420,000 pledged shares of the Company's common stock with a market value of \$1,800 in final satisfaction of an obligation to make certain payments to the Company on account of a former executive's outstanding indebtedness of \$5,477 (deducted from equity).

On December 16, 1996, the Company entered into a stock option agreement relating to 1,050,000 shares of the Company's common stock with the Consultant. In addition, the Company granted the Consultant options to purchase 525,000 shares in 1998 and 500,000 in 1999. (Refer to Notes 18 and 19.) During 1999, 1998 and 1997, the Consultant received consulting fees of \$480 per year from the Company and a subsidiary.

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(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

24. SEGMENT INFORMATION

Financial information for the Company's continuing operations before taxes and minority interest for the years ended December 31, 1999, 1998 and 1997 follows:

	UNITED STATES TOBACCO -----	RUSSIA TOBACCO -----	BROKER- DEALER -----	REAL ESTATE -----	CORPORATE AND OTHER -----	TOTAL -----
1999						
Net sales.....	\$422,748	\$100,059	\$40,852	\$ 3,386	\$	\$567,045
Operating income.....	76,700	5,215	369	(776)	(9,505)	72,003
Identifiable assets.....	112,900	160,526	47,480	57,920	125,622	504,448
Depreciation and amortization..	2,878	3,323	269	888	312	7,670
Capital expenditures.....	17,432	43,875	104			61,411
1998						
Net sales.....	\$347,129	\$ 97,437			\$	\$444,566
Operating income.....	54,422	13,234			3,938	71,594
Identifiable assets.....	74,743	104,090			50,149	228,982
Depreciation and amortization..	6,678	1,708			224	8,610
Capital expenditures.....	1,859	17,784			1,363	21,006
1997						
Net sales.....	\$312,268	\$ 77,347				\$389,615
Operating income.....	3,688	8,642			(4,301)	8,029
Identifiable assets.....	68,475	46,222			11,760	126,457
Depreciation and amortization..	7,025	783			327	8,135
Capital expenditures.....	2,462	17,680				20,142

* New Valley became a consolidated subsidiary of Brooke on June 4, 1999. Broker-Dealer, Real Estate and New Valley's portion of Corporate and Other are included for the seven months ended December 31, 1999.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)

25. QUARTERLY FINANCIAL RESULTS (UNAUDITED)

Quarterly data for the year ended December 31, 1999 are as follows:

	DECEMBER 31, 1999	SEPTEMBER 30, 1999	JUNE 30, 1999	MARCH 31, 1999
Revenues.....	\$192,522	\$150,219	\$115,895	\$108,409
Operating income.....	16,898	19,362	13,598	22,145
Income from continuing operations...	6,486	6,230	215,814	7,554
Income from discontinued operations.....				1,249
Loss from extraordinary items.....	(250)	(354)	(1,056)	
Net income applicable to common shares.....	<u>\$ 6,236</u>	<u>\$ 5,876</u>	<u>\$214,758</u>	<u>\$ 8,803</u>
*Per basic common share:				
Income from continuing operations.....	\$0.29	\$ 0.28	\$ 9.81	\$0.34
Income from discontinued operations.....				0.06
Loss from extraordinary items.....	(0.01)	(0.02)	(0.05)	
Net income applicable to common shares.....	<u>\$0.28</u>	<u>\$ 0.26</u>	<u>\$ 9.76</u>	<u>\$0.40</u>
*Per diluted common share:				
Income from continuing operations.....	\$0.24	\$ 0.23	\$ 8.01	\$0.28
Income from discontinued operations.....				
Loss from extraordinary items.....	(0.01)	(0.01)	(0.04)	0.05
Net income applicable to common shares.....	<u>\$0.23</u>	<u>\$ 0.22</u>	<u>\$ 7.97</u>	<u>\$0.33</u>

* Per share computations include the impact of a 5% stock dividend on September 30, 1999. Quarterly basic and diluted net income or loss per common share were computed independently for each quarter and do not necessarily total to the year to date basic and diluted net income (loss) per common share.

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SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

(DOLLARS IN THOUSANDS)

DESCRIPTION	ADDITIONS			DEDUCTIONS	BALANCE AT END OF PERIOD
	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS		
YEAR ENDED DECEMBER 31, 1999					
Allowances for:					
Doubtful accounts.....	\$1,096	\$ 217		\$ 622	\$ 691
Cash discounts.....	911	14,957		15,557	311
Sales returns.....	7,100			2,910	4,190
Total.....	\$9,107	\$15,174		\$19,089	\$5,192
Provision for inventory obsolescence.....	\$1,965	\$ 1,124		\$ 679	\$2,410
YEAR ENDED DECEMBER 31, 1998					
Allowances for:					
Doubtful accounts.....	\$ 820	\$ 613		\$ 337	\$1,096
Cash discounts.....	563	12,583		12,235	911
Sales returns.....	4,750		\$2,350		7,100
Total.....	\$6,133	\$13,196	\$2,350	\$12,572	\$9,107
Provision for inventory obsolescence.....	\$1,157	\$ 1,303	\$	\$ 495	\$1,965
YEAR ENDED DECEMBER 31, 1997					
Allowances for:					
Doubtful accounts.....	\$ 750	\$ 226		\$ 156	\$ 820
Cash discounts.....	530	11,319		11,286	563
Sales returns.....	5,000			250	4,750
Total.....	\$6,280	\$11,545	\$	\$11,692	\$6,133
Provision for inventory obsolescence.....	\$3,218	\$ 221	\$	\$ 2,282	\$1,157

(a) Charged to net sales.

(b) Amounts include impact of consolidating Liggett-Ducat.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Thinking Machines Corporation:

We have audited the consolidated statements of operations, stockholders' investment and cash flows of Thinking Machines Corporation and subsidiaries for the year ended December 31, 1997. These financial statements are the responsibility of Thinking Machines Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the result of operations and cash flows of Thinking Machines Corporation and subsidiaries for the year ended December 31, 1997 in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that Thinking Machines Corporation will continue as a going concern. As discussed in Note 1 to the financial statements, Thinking Machines Corporation has been unable to generate significant revenue and has incurred recurring losses from its operations. These factors, among others, as described in Note 1, create substantial doubt about Thinking Machines Corporation's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

ARTHUR ANDERSEN LLP

Boston, Massachusetts
January 23, 1998

BROOKE GROUP LTD.

1999 LONG-TERM INCENTIVE PLAN

* * * * *

1. PURPOSE. The purpose of the 1999 Long-Term Incentive Plan (the "Plan") is to further and promote the interests of Brooke Group Ltd. (the "Company"), its Subsidiaries and its shareholders by enabling the Company and its Subsidiaries to attract, retain and motivate officers, employees and consultants or those who will become officers, employees or consultants, and to align the interests of those individuals and the Company's shareholders. To do this, the Plan offers equity-based opportunities providing such officers, employees and consultants with a proprietary interest in maximizing the growth, profitability and overall success of the Company and its Subsidiaries.

2. DEFINITIONS. For purposes of the Plan, the following terms shall have the meanings set forth below:

2.1 "AWARD" means an award or grant made to a Participant under Sections 6, 7 and/or 8 of the Plan.

2.2 "AWARD AGREEMENT" means the agreement executed by a Participant pursuant to Sections 3.2 and 15.6 of the Plan in connection with the granting of an Award.

2.3 "BOARD" means the Board of Directors of the Company, as constituted from time to time.

2.4 "CODE" means the Internal Revenue Code of 1986, as in effect and as amended from time to time, or any successor statute thereto, together with any rules, regulations and interpretations promulgated thereunder or with respect thereto.

2.5 "COMMITTEE" means the committee of the Board established to administer the Plan, as described in Section 3 of the Plan.

2.6 "COMMON STOCK" means the Common Stock, par value \$.10 per share, of the Company or any security of the Company issued by the Company in substitution or exchange therefor.

2.7 "COMPANY" means Brooke Group Ltd., a Delaware corporation, or any successor corporation to Brooke Group Ltd.

2.8 "DISABILITY" means disability as defined in the Participant's Award Agreement or then effective employment agreement, or if the Participant's Award Agreement does not define disability, or if the Participant is not then a party to an effective employment agreement with the Company which defines disability, "Disability" means disability as determined by the Committee in accordance with standards and procedures similar to those under the Company's long-term disability plan, if any. Subject to the first sentence of this Section 2.8, at any time that the Company does not maintain a long-term disability plan, "Disability" shall mean any physical or mental disability which is determined to be total and permanent by a physician selected in good faith by the Company.

2.9 "EXCHANGE ACT" means the Securities Exchange Act of 1934, as in effect and as amended from time to time, or any successor statute thereto, together with any rules, regulations and interpretations promulgated thereunder or with respect thereto.

2.10 "FAIR MARKET VALUE" means on, or with respect to, any given date(s), the closing price of the Common Stock, as reported on the consolidated transaction reporting system for the New York Stock Exchange for such date(s) or, if the Common Stock was not traded on such date(s), on the next preceding day or days on which the Common Stock was traded. If at any time the Common Stock is not traded on such exchange, the Fair Market Value of a share of the Common Stock shall be determined in good faith by the Board.

2.11 "INCENTIVE STOCK OPTION" means any stock option granted pursuant to the provisions of Section 6 of the Plan (and the relevant Award Agreement) that is intended to be (and is specifically designated as) an "incentive stock option" within the meaning of Section 422 of the Code.

2.12 "NON-QUALIFIED STOCK OPTION" means any stock option granted pursuant to the provisions of Section 6 of the Plan (and the relevant Award Agreement) that is not (and is specifically designated as not being) an Incentive Stock Option.

2.13 "PARTICIPANT" means any individual who is selected from time to time under Section 5 to receive an Award under the Plan.

2.14 "PLAN" means the Brooke Group Ltd. 1999 Long-Term Incentive Plan, as set forth herein and as in effect and as amended from time to time (together with any rules and regulations promulgated by the Committee with respect thereto).

2.15 "RESTRICTED SHARES" means the restricted shares of Common Stock granted pursuant to the provisions of Section 8 of the Plan and the relevant Award Agreement.

2.16 "RETIREMENT" means the voluntary retirement by the Participant from active employment with the Company and its Subsidiaries on or after the attainment of (i) age 65, or (ii) 60, with the consent of the Board.

2.17 "STOCK APPRECIATION RIGHT" means an Award described in Section 7.2 of the Plan and granted pursuant to the provisions of Section 7 of the Plan.

2.18 "SUBSIDIARY(IES)" means any corporation (other than the Company) in an unbroken chain of corporations, including and beginning with the Company, if each of such corporations, other than the last corporation in the unbroken chain, owns, directly or indirectly, more than fifty percent (50%) of the voting stock in one of the other corporations in such chain, or any "subsidiary" of the Company as defined in Rule 405 under the Securities Act of 1933, as amended.

3. ADMINISTRATION.

3.1 THE COMMITTEE. The Plan shall be administered by the Committee. The Committee shall be appointed from time to time by the Board and shall be comprised of not less than two (2) of the then members of the Board who are Outside Directors (within the meaning of Code Section 162(m) and the regulations promulgated thereunder) of the Company. No member of the Committee shall be eligible to receive awards under the Plan. Consistent with the Bylaws of the Company, members of the Committee shall serve at the pleasure of the Board and the Board, subject to the immediately preceding sentence, may at any time and from time to time remove members from, or add members to, the Committee.

3.2 PLAN ADMINISTRATION AND PLAN RULES. The Committee is authorized to construe and interpret the Plan and to promulgate, amend and rescind rules and regulations relating to the implementation, administration and maintenance of the Plan. Subject to the terms and conditions of the Plan, the Committee shall make all determinations necessary or advisable for the implementation, administration and maintenance of the Plan including, without limitation, (a) selecting the Plan's Participants, (b) making Awards in such amounts and form as the Committee shall determine, (c) imposing such restrictions, terms and conditions upon such Awards as the Committee shall deem appropriate, and (d) correcting any technical defect(s) or technical omission(s), or reconciling any technical inconsistency(ies), in the Plan and/or any Award Agreement. The Committee may designate persons other than members of the Committee to carry out the day-to-day ministerial administration of the Plan under such conditions and limitations as it may prescribe, except that the Committee shall not delegate its authority with regard to the selection for participation in the Plan and/or the granting of any Awards to Participants. The Committee's determinations under the Plan need not be uniform and may be made selectively among Participants, whether or not such Participants are similarly situated. Any determination, decision or action of the Committee in connection with the construction, interpretation, administration, implementation or maintenance of the Plan shall be

final, conclusive and binding upon all Participants and any person(s) claiming under or through any Participants. The Company shall effect the granting of Awards under the Plan, in accordance with the determinations made by the Committee, by execution of written agreements and/or other instruments in such form as is approved by the Committee.

3.3 LIABILITY LIMITATION. Neither the Board nor the Committee, nor any member of either, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with the Plan (or any Award Agreement), and the members of the Board and the Committee shall be entitled to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including, without limitation, attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under any directors and officers liability insurance coverage which may be in effect from time to time.

4. TERM OF PLAN/Common Stock SUBJECT TO PLAN.

4.1 TERM. The Plan shall terminate on December 31, 2008, except with respect to Awards then outstanding. After such date no further Awards shall be granted under the Plan.

4.2 COMMON STOCK. The maximum number of shares of Common Stock in respect of which Awards may be granted or paid out under the Plan, subject to adjustment as provided in Section 13.2 of the Plan, shall not exceed 5,000,000 shares. In the event of a change in the Common Stock of the Company that is limited to a change in the designation thereof to "Capital Stock" or other similar designation, or to a change in the par value thereof, or from par value to no par value, without increase or decrease in the number of issued shares, the shares resulting from any such change shall be deemed to be the Common Stock for purposes of the Plan. Common Stock which may be issued under the Plan may be either authorized and unissued shares or issued shares which have been reacquired by the Company (in the open-market or in private transactions) and which are being held as treasury shares. No fractional shares of Common Stock shall be issued under the Plan.

4.3 COMPUTATION OF AVAILABLE SHARES. For the purpose of computing the total number of shares of Common Stock available for Awards under the Plan, there shall be counted against the limitations set forth in Section 4.2 of the Plan the maximum number of shares of Common Stock potentially subject to issuance upon exercise or settlement of Awards granted under Sections 6 and 7 of the Plan, and the number of shares of Common Stock issued under grants of Restricted Shares pursuant to Section 8 of the Plan, in each case determined as of the date on which such Awards are granted. If any Awards expire unexercised or are forfeited, surrendered, cancelled, terminated or settled in cash in lieu of Common Stock, the shares of Common Stock which were theretofore subject (or potentially subject) to such Awards shall again be available for Awards under the Plan to the extent of such expiration, forfeiture, surrender, cancellation, termination or settlement of such Awards.

5. ELIGIBILITY. Individuals eligible for Awards under the Plan shall consist of all officers, employees and consultants, or those who will become such officers, employees or consultants, of the Company and/or its Subsidiaries who are responsible for the management, growth and protection of the business of the Company and/or its Subsidiaries or whose performance or contribution, in the sole discretion of the Committee, benefits or will benefit the Company.

6. STOCK OPTIONS.

6.1 TERMS AND CONDITIONS. Stock options granted under the Plan shall be in respect of Common Stock and may be in the form of Incentive Stock Options, or Non-Qualified Stock Options (sometimes referred to collectively herein as the "Stock Option(s)"). Such Stock Options shall be subject to the terms and conditions set forth in this Section 6 and any additional terms and conditions, not inconsistent with the express terms and provisions of the Plan, as the Committee shall set forth in the relevant Award Agreement.

6.2 GRANT. Stock Options may be granted under the Plan in such form as the Committee may from time to time approve. Stock Options may be granted alone or in addition to other Awards under the Plan or in tandem with Stock Appreciation Rights. Special provisions shall apply to Incentive Stock Options granted to any employee who owns (within the meaning of Section 422(b)(6) of the Code) more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or its parent corporation or any subsidiary of the Company, within the meaning of Sections 424(e) and (f) of the Code (a "10% Shareholder").

6.3 EXERCISE PRICE. The exercise price per share of Common Stock subject to a Stock Option shall be determined by the Committee, including, without limitation, a determination based on a formula determined by the Committee; PROVIDED, HOWEVER, that the exercise price of an Incentive Stock Option shall not be less than one hundred percent (100%) of the Fair Market Value of the Common Stock on the date of the grant of such Incentive Stock Option; PROVIDED, FURTHER, HOWEVER, that, in the case of a 10% Shareholder, the exercise price of an Incentive Stock Option shall not be less than one hundred ten percent (110%) of the Fair Market Value of the Common Stock on the date of grant.

6.4 TERM. The term of each Stock Option shall be such period of time as is fixed by the Committee; PROVIDED, HOWEVER, that the term of any Incentive Stock Option shall not exceed ten (10) years (five (5) years, in the case of a 10% Shareholder) after the date immediately preceding the date on which the Incentive Stock Option is granted.

6.5 METHOD OF EXERCISE. A Stock Option may be exercised, in whole or in part, by giving written notice of exercise to the Secretary of the Company, or the Secretary's designee, specifying the number of shares to be purchased. Such notice shall be accompanied by payment in full of the exercise price in cash, by certified check, bank draft or money order payable to the order of the Company or, if permitted by the Committee (in its sole discretion) and applicable law, by delivery of, alone or in conjunction with a partial cash or instrument payment, (a) a fully-secured promissory note or notes, (b) shares of Common Stock already owned by the Participant for at least six (6) months, or (c) some other form of payment acceptable to the Committee. The Committee may also permit Participants (either on a selective or group basis) to simultaneously exercise Stock Options and sell the shares of Common Stock thereby acquired, pursuant to a "cashless exercise" arrangement or program, selected by and approved of in all respects in advance by the Committee. Payment instruments shall be received by the Company subject to collection. The proceeds received by the Company upon exercise of any Stock Option may be used by the Company for general corporate purposes. Any portion of a Stock Option that is exercised may not be exercised again.

6.6 EXERCISABILITY. In respect of any Stock Option granted under the Plan, unless otherwise provided in the Award Agreement or in the Participant's employment agreement in respect of any such Stock Option, such Stock Option shall become exercisable as to the aggregate number of shares of Common Stock underlying such Stock Option, as determined on the date of grant, as follows:

- o 33%, on the first anniversary of the date of grant of the Stock Option, provided the Participant is then employed by the Company and/or one of its Subsidiaries;
- o 66%, on the second anniversary of the date of grant of the Stock Option, provided the Participant is then employed by the Company and/or one of its Subsidiaries; and
- o 100%, on the third anniversary of the date of grant of the Stock Option, provided the Participant is then employed by the Company and/or one of its Subsidiaries.

6.7 TANDEM GRANTS. If Non-Qualified Stock Options and Stock Appreciation Rights are granted in tandem, as designated in the relevant Award Agreements, the right of a Participant to exercise any such tandem Stock Option shall terminate to the extent that the shares of Common Stock subject to such Stock Option are used to calculate amounts or shares receivable upon the exercise of the related tandem Stock Appreciation Right.

7. STOCK APPRECIATION RIGHTS.

7.1 TERMS AND CONDITIONS. The grant of Stock Appreciation Rights under the Plan shall be subject to the terms and conditions set forth in this Section 7 and any additional terms and conditions, not inconsistent with the express terms and provisions of the Plan, as the Committee shall set forth in the relevant Award Agreement.

7.2 STOCK APPRECIATION RIGHTS. A Stock Appreciation Right is an Award granted with respect to a specified number of shares of Common Stock entitling a Participant to receive an amount equal to the excess of the Fair Market Value of a share of Common Stock on the date of exercise over the Fair Market Value of a share of Common Stock on the date of grant of the Stock Appreciation Right, multiplied by the number of shares of Common Stock with respect to which the Stock Appreciation Right shall have been exercised.

7.3 GRANT. A Stock Appreciation Right may be granted in addition to any other Award under the Plan or in tandem with or independent of a Non-Qualified Stock Option.

7.4 DATE OF EXERCISABILITY. Unless otherwise provided in the Participant's employment agreement or the Award Agreement in respect of any Stock Appreciation Right, a Stock Appreciation Right may be exercised by a Participant, in accordance with and subject to all of the procedures established by the Committee, in whole or in part at any time and from time to time during its specified term. Notwithstanding the preceding sentence, in no event shall a Stock Appreciation Right be exercisable prior to the date which is six (6) months after the date on which the Stock Appreciation Right was granted or prior to the exercisability of any Non-Qualified Stock Option with which it is granted in tandem. The Committee may also provide, as set forth in the relevant Award Agreement and without limitation, that some Stock Appreciation Rights shall be automatically exercised and settled on one or more fixed dates specified therein by the Committee.

7.5 FORM OF PAYMENT. Upon exercise of a Stock Appreciation Right, payment may be made in cash, in Restricted Shares or in shares of unrestricted Common Stock, or in any combination thereof, as the Committee, in its sole discretion, shall determine and provide in the relevant Award Agreement.

7.6 TANDEM GRANT. The right of a Participant to exercise a tandem Stock Appreciation Right shall terminate to the extent such Participant exercises the Non-Qualified Stock Option to which such Stock Appreciation Right is related.

8. RESTRICTED SHARES.

8.1 TERMS AND CONDITIONS. Grants of Restricted Shares shall be subject to the terms and conditions set forth in this Section 8 and any additional terms and conditions, not inconsistent with the express terms and provisions of the Plan, as the Committee shall set forth in the relevant Award Agreement. Restricted Shares may be granted alone or in addition to any other Awards under the Plan. Subject to the terms of the Plan, the Committee shall determine the number of Restricted Shares to be granted to a Participant and the Committee may provide or impose different terms and conditions on any particular Restricted Share grant made to any Participant. With respect to each Participant receiving an Award of Restricted Shares, there shall be issued a stock certificate (or certificates) in respect of such Restricted Shares. Such stock certificate(s) shall be registered in the name of such Participant, shall be accompanied by a stock power duly executed by such Participant, and shall bear, among other required legends, the following legend:

"The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including, without limitation, forfeiture events) contained in the Brooke Group Ltd. 1999 Long-Term Incentive Plan and an Award Agreement entered into between the registered owner hereof and Brooke Group Ltd. Copies of such Plan and Award Agreement are on file in the office of the Secretary of Brooke Group Ltd., 100 S.E. Second Street, Miami Florida 33131. Brooke Group Ltd. will furnish to the recordholder of the certificate, without charge and upon written request at its principal place of business, a copy of such Plan and Award Agreement. Brooke Group Ltd. reserves the right to refuse to record the transfer of this certificate until all such restrictions are satisfied, all such terms are complied with and all such conditions are satisfied."

Such stock certificate evidencing such shares shall, in the sole discretion of the Committee, be deposited with and held in custody by the Company until the restrictions thereon shall have lapsed and all of the terms and conditions applicable to such grant shall have been satisfied.

8.2 RESTRICTED SHARE GRANTS. A grant of Restricted Shares is an Award of shares of Common Stock granted to a Participant, subject to such restrictions, terms and conditions as the Committee deems appropriate, including, without limitation, (a) restrictions on the sale, assignment, transfer, hypothecation or other disposition of such shares, (b) the requirement that the Participant deposit such shares with the Company while such shares are subject to such restrictions, and (c) the requirement that such shares be forfeited upon termination of employment for specified reasons within a specified period of time or for other reasons (including, without limitation, the failure to achieve designated performance goals).

8.3 RESTRICTION PERIOD. In accordance with Sections 8.1 and 8.2 of the Plan and unless otherwise determined by the Committee (in its sole discretion) at any time and from time to time, Restricted Shares shall only become unrestricted and vested in the Participant in accordance with such vesting schedule relating to such Restricted Shares, if any, as the Committee may establish in the relevant Award Agreement (the "Restriction Period"). Notwithstanding the preceding sentence, in no event shall the Restriction Period be less than six (6) months after the date of grant. During the Restriction Period, such stock shall be and remain unvested and a Participant may not sell, assign, transfer, pledge, encumber or otherwise dispose of or hypothecate such Award. Upon satisfaction of the vesting schedule and any other applicable restrictions, terms and conditions, the Participant shall be entitled to receive payment of the Restricted Shares or a portion thereof, as the case may be, as provided in Section 8.4 of the Plan.

8.4 PAYMENT OF RESTRICTED SHARE GRANTS. After the satisfaction and/or lapse of the restrictions, terms and conditions established by the Committee in respect of a grant of Restricted Shares, a new certificate, without the legend set forth in Section 8.1 of the Plan, for the number of shares of Common Stock which are no longer subject to such restrictions, terms and conditions shall, as soon as practicable thereafter, be delivered to the Participant.

8.5 SHAREHOLDER RIGHTS. A Participant shall have, with respect to the shares of Common Stock underlying a grant of Restricted Shares, all of the rights of a shareholder of such stock (except as such rights are limited or restricted under the Plan or in the relevant Award Agreement). Any stock dividends paid in respect of unvested Restricted Shares shall be treated as additional Restricted Shares and shall be subject to the same restrictions and other terms and conditions that apply to the unvested Restricted Shares in respect of which such stock dividends are issued.

9. DEFERRAL ELECTIONS/TAX REIMBURSEMENTS/OTHER PROVISIONS.

9.1 DEFERRALS. The Committee may permit a Participant to elect to defer receipt of any payment of cash or any delivery of shares of Common Stock that would otherwise be due to such Participant by virtue of the exercise, earn out or settlement of any Award made under the Plan. If any such election is permitted, the Committee shall establish rules and procedures for such deferrals, including, without limitation, the payment or crediting of reasonable interest on such deferred amounts credited in cash, and the payment or crediting of dividend equivalents in respect of deferrals credited in units of Common Stock. The Committee may also provide in the relevant Award Agreement for a tax reimbursement cash payment to be made by the Company in favor of any Participant in connection with the tax consequences resulting from the grant, exercise, settlement, or earn out of any Award made under the Plan.

9.2 MAXIMUM YEARLY AWARDS. The maximum annual Common Stock amounts in this Section 9.2 are subject to adjustment under Section 13.2 and are subject to the Plan maximum under Section 4.2. Each individual Participant may not receive in any calendar year Awards of Options or Stock Appreciation Rights exceeding 1,500,000 underlying shares of Common Stock. In addition, during the Term of the Plan, each individual Participant may not receive Awards of Options, Stock Appreciation Rights and/or Restricted Shares exceeding one-half of the maximum number of shares of Common Stock in respect of which Awards may be granted or paid out under the Plan as provided in Section 4.2.

10. DIVIDEND EQUIVALENTS. In addition to the provisions of Section 8.5 of the Plan, Awards of Stock Options, and/or Stock Appreciation Rights, may, in the sole discretion of the Committee and if provided for in the relevant Award Agreement, earn dividend equivalents. In respect of any such Award which is outstanding on a dividend record date for Common Stock, the Participant shall be credited with an amount equal to the amount of cash or stock dividends that would have been paid on the shares of Common Stock covered by such Award had such covered shares been issued and outstanding on such dividend record date. The Committee shall establish such rules and procedures governing the crediting of such dividend equivalents, including, without limitation, the amount, the timing, form of payment and payment contingencies and/or restrictions of such dividend equivalents, as it deems appropriate or necessary.

11. TERMINATION OF EMPLOYMENT.

11.1 GENERAL. Except as is otherwise provided (a) in the relevant Award Agreement as determined by the Committee (in its sole discretion), or (b) in the Participant's then effective employment agreement, if any, the following terms and conditions shall apply as appropriate and as not inconsistent with the terms and conditions, if any, contained in such Award Agreement and/or such employment agreement:

11.1.1 OPTIONS/SARS. If a Participant's employment with the Company terminates for any reason any then unexercisable Stock Options and/or Stock Appreciation Rights shall be forfeited and cancelled by the Company. Except as otherwise provided in this Section 11.1.1, if a Participant's employment with the Company and its Subsidiaries terminates for any reason, such Participant's rights, if any, to exercise any then exercisable Stock Options and/or Stock Appreciation Rights, if any, shall terminate ninety (90) days after the date of such termination (but not beyond the stated term of any such Stock Option and/or Stock Appreciation Right as determined under Sections 6.4 and 7.4) and thereafter such Stock Options or Stock Appreciation Rights shall be forfeited and cancelled by the Company. The Committee, in its sole discretion, may determine that any such Participant's Stock Options and/or Stock Appreciation Rights, if any, to the extent exercisable immediately prior to any termination of employment (other than a termination due to death, Retirement or

Disability), may remain exercisable for an additional specified time period after such ninety (90) day period expires (subject to any other applicable terms and provisions of the Plan and the relevant Award Agreement), but not beyond the stated term of any such Stock Option and/or Stock Appreciation Right. If any termination of employment is due to death, Retirement or Disability, a Participant (and such Participant's estate, designated beneficiary or other legal representative, as the case may be and as determined by the Committee) shall have the right, to the extent exercisable immediately prior to any such termination, to exercise such Stock Options and/or Stock Appreciation Rights, if any, at any time within the one (1) year period following such termination due to death, Retirement or Disability (but not beyond the term of any such Stock Option and/or Stock Appreciation Right as determined under Sections 6.4 and 7.4).

11.1.2 RESTRICTED SHARES. If a Participant's employment with the Company and its Subsidiaries terminates for any reason (other than due to Disability, Retirement or death) prior to the satisfaction and/or lapse of the restrictions, terms and conditions applicable to a grant of Restricted Shares, such Restricted Shares shall immediately be cancelled and the Participant (and such Participant's estate, designated beneficiary or other legal representative) shall forfeit any rights or interests in and with respect to any such Restricted Shares. Notwithstanding anything to the contrary in this Section 11, the Committee, in its sole discretion, may determine, prior to or within ninety (90) days after the date of such termination, that all or a portion of any such Participant's Restricted Shares shall not be so cancelled and forfeited. If the Participant's employment terminates due to death, Disability or Retirement, the Participant shall become 100% vested in any such Participant's restricted Shares as of the date of any such termination.

12. NON-TRANSFERABILITY OF AWARDS. Unless otherwise provided in the Award Agreement, no Award under the Plan or any Award Agreement, and no rights or interests herein or therein, shall or may be assigned, transferred, sold, exchanged, encumbered, pledged, or otherwise hypothecated or disposed of by a Participant or any beneficiary(ies) of any Participant, except by testamentary disposition by the Participant or the laws of intestate succession. No such interest shall be subject to execution, attachment or similar legal process, including, without limitation, seizure for the payment of the Participant's debts, judgements, alimony, or separate maintenance. Unless otherwise provided in the Award Agreement, during the lifetime of a Participant, Stock Options and Stock Appreciation Rights are exercisable only by the Participant.

13. CHANGES IN CAPITALIZATION AND OTHER MATTERS.

13.1 NO CORPORATE ACTION RESTRICTION. The existence of the Plan, any Award Agreement and/or the Awards granted hereunder shall not limit, affect or restrict in any way the right or power of the Board or the shareholders of the Company to make or authorize (a) any adjustment, recapitalization, reorganization or other change in the Company's or any Subsidiary's capital structure or its business, (b) any merger, consolidation or change in the ownership of the Company or any Subsidiary, (c) any issue of bonds, debentures, capital, preferred or prior preference stocks ahead of or affecting the Company's or any Subsidiary's capital stock or the rights thereof, (d) any dissolution or liquidation of the Company or any Subsidiary, (e) any sale or transfer of all or any part of the Company's or any Subsidiary's assets or business, or (f) any other corporate act or proceeding by the Company or any Subsidiary. No Participant, beneficiary or any other person shall have any claim against any member of the Board or the Committee, the Company or any Subsidiary, or any employees, officers or agents of the Company or any subsidiary, as a result of any such action.

13.2 RECAPITALIZATION ADJUSTMENTS. In the event of any change in capitalization affecting the Common Stock of the Company, including, without limitation, a stock dividend or other distribution, stock split, reverse stock split, recapitalization, consolidation, subdivision, split-up, spin-off, split-off, combination or exchange of shares or other form of reorganization or recapitalization, or any other change affecting the Common Stock, the Board shall authorize and make such proportionate adjustments, if any, as the Board deems appropriate to reflect such change, including, without limitation, with respect to the aggregate number of shares of the Common Stock for which Awards in respect thereof may be granted under the Plan, the maximum number of shares of the Common Stock which may be granted or awarded to any Participant, the number of shares of the Common Stock covered by each outstanding Award, and the exercise price or other price per share of Common Stock in respect of outstanding Awards.

13.3 CERTAIN MERGERS.

13.3.1 If the Company enters into or is involved in any merger, reorganization or other business combination with any person or entity (such merger, reorganization or other business combination to be referred to herein as a "Merger Event") and as a result of any such Merger Event the Company will be or is the surviving corporation, a Participant shall be entitled, as of the date of the execution of the agreement evidencing the Merger Event (the "Execution Date") and with respect to both exercisable and unexercisable Stock Options and/or Stock Appreciation Rights (but only to the extent not previously exercised), to receive substitute stock options and/or stock appreciation rights in respect of the shares of the surviving corporation on such terms and conditions, as to the number of shares, pricing and otherwise, which shall substantially preserve the value, rights and benefits of any affected Stock Options or Stock

Appreciation Rights granted hereunder as of the date of the consummation of the Merger Event. Notwithstanding anything to the contrary in this Section 13.3, if any Merger Event occurs, the Company shall have the right, but not the obligation, to pay to each affected Participant an amount in cash or certified check equal to the excess of the Fair Market Value of the Common Stock underlying any affected unexercised Stock Options or Stock Appreciation Rights as of the Execution Date (whether then exercisable or not) over the aggregate exercise price of such unexercised Stock Options and/or Stock Appreciation Rights, as the case may be.

13.3.2 If, in the case of a Merger Event in which the Company will not be, or is not, the surviving corporation, and the Company determines not to make the cash or certified check payment described in Section 13.3.1 of the Plan, the Company shall compel and obligate, as a condition of the consummation of the Merger Event, the surviving or resulting corporation and/or the other party to the Merger Event, as necessary, or any parent, subsidiary or acquiring corporation thereof, to grant, with respect to both exercisable and unexercisable Stock Options and/or Stock Appreciation Rights (but only to the extent not previously exercised), substitute stock options or stock appreciation rights in respect of the shares of common or other capital stock of such surviving or resulting corporation on such terms and conditions, as to the number of shares, pricing and otherwise, which shall substantially preserve the value, rights and benefits of any affected Stock Options and/or Stock Appreciation Rights previously granted hereunder as of the date of the consummation of the Merger Event.

13.3.3 Upon receipt by any affected Participant of any such cash, certified check, or substitute stock options or stock appreciation rights as a result of any such Merger Event, such Participant's affected Stock Options and/or Stock Appreciation Rights for which such cash, certified check or substitute awards was received shall be thereupon cancelled without the need for obtaining the consent of any such affected Participant.

13.3.4 The foregoing adjustments and the manner of application of the foregoing provisions, including, without limitation, the issuance of any substitute stock options and/or stock appreciation rights, shall be determined in good faith by the Committee in its sole discretion. Any such adjustment may provide for the elimination of fractional shares.

14. AMENDMENT, SUSPENSION AND TERMINATION.

14.1 IN GENERAL. The Board may suspend or terminate the Plan (or any portion thereof) at any time and may amend the Plan at any time and from time to time in such respects as the Board may deem advisable to insure that any and all Awards conform to or otherwise reflect any change in applicable laws or regulations, or to permit the Company or the Participants

to benefit from any change in applicable laws or regulations, or in any other respect the Board may deem to be in the best interests of the Company or any Subsidiary. No such amendment, suspension or termination shall (x) materially adversely effect the rights of any Participant under any outstanding Stock Options, Stock Appreciation Rights, or Restricted Share grants, without the consent of such Participant, or (y) make any change that would disqualify the Plan, or any other plan of the Company or any Subsidiary intended to be so qualified, from the benefits provided under Section 422 of the Code, or any successor provisions thereto.

14.2 AWARD AGREEMENT MODIFICATIONS. The Committee may (in its sole discretion) amend or modify at any time and from time to time the terms and provisions of any outstanding Stock Options, Stock Appreciation Rights, or Restricted Share grants, in any manner to the extent that the Committee under the Plan or any Award Agreement could have initially determined the restrictions, terms and provisions of such Stock Options, Stock Appreciation Rights, and/or Restricted Share grants, including, without limitation, changing or accelerating (a) the date or dates as of which such Stock Options or Stock Appreciation Rights shall become exercisable, or (b) the date or dates as of which such Restricted Share grants shall become vested. No such amendment or modification shall, however, materially adversely affect the rights of any Participant under any such Award without the consent of such Participant.

15. MISCELLANEOUS.

15.1 TAX WITHHOLDING. The Company shall have the right to deduct from any payment or settlement under the Plan, including, without limitation, the exercise of any Stock Option or Stock Appreciation Right, or the delivery, transfer or vesting of any Common Stock or Restricted Shares, any federal, state, local or other taxes of any kind which the Committee, in its sole discretion, deems necessary to be withheld to comply with the Code and/or any other applicable law, rule or regulation. If the Committee, in its sole discretion, permits shares of Common Stock to be used to satisfy any such tax withholding, such Common Stock shall be valued based on the Fair Market Value of such stock as of the date the tax withholding is required to be made, such date to be determined by the Committee. The Committee may establish rules limiting the use of Common Stock to meet withholding requirements by Participants who are subject to Section 16 of the Exchange Act.

15.2 NO RIGHT TO EMPLOYMENT. Neither the adoption of the Plan, the granting of any Award, nor the execution of any Award Agreement, shall confer upon any employee of the Company or any Subsidiary any right to continued employment with the Company or any Subsidiary, as the case may be, nor shall it interfere in any way with the right, if any, of the Company or any Subsidiary to terminate the employment of any employee at any time for any reason.

15.3 UNFUNDED PLAN. The Plan shall be unfunded and the Company shall not be required to segregate any assets in connection with any Awards under the Plan. Any liability of the Company to any person with respect to any Award under the Plan or any Award Agreement shall be based solely upon the contractual obligations that may be created as a result of the Plan or any such Award or Award Agreement. No such obligation of the Company shall be deemed to be secured by any pledge of, encumbrance on, or other interest in, any property or asset of the Company or any Subsidiary. Nothing contained in the Plan or any Award Agreement shall be construed as creating in respect of any Participant (or beneficiary thereof or any other person) any equity or other interest of any kind in any assets of the Company or any Subsidiary or creating a trust of any kind or a fiduciary relationship of any kind between the Company, any Subsidiary and/or any such Participant, any beneficiary thereof or any other person.

15.4 OTHER COMPANY BENEFIT AND COMPENSATION PROGRAMS. Payments and other benefits received by a Participant under an Award made pursuant to the Plan shall not be deemed a part of a Participant's compensation for purposes of the determination of benefits under any other employee welfare or benefit plans or arrangements, if any, provided by the Company or any Subsidiary unless expressly provided in such other plans or arrangements, or except where the Board expressly determines in writing that inclusion of an Award or portion of an Award should be included to accurately reflect competitive compensation practices or to recognize that an Award has been made in lieu of a portion of competitive annual base salary or other cash compensation. Awards under the Plan may be made in addition to, in combination with, or as alternatives to, grants, awards or payments under any other plans or arrangements of the Company or its Subsidiaries. The existence of the Plan notwithstanding, the Company or any Subsidiary may adopt such other compensation plans or programs and additional compensation arrangements as it deems necessary to attract, retain and motivate employees.

15.5 LISTING, REGISTRATION AND OTHER LEGAL COMPLIANCE. No Awards or shares of the Common Stock shall be required to be issued or granted under the Plan unless legal counsel for the Company shall be satisfied that such issuance or grant will be in compliance with all applicable federal and state securities laws and regulations and any other applicable laws or regulations. The Committee may require, as a condition of any payment or share issuance, that certain agreements, undertakings, representations, certificates, and/or information, as the Committee may deem necessary or advisable, be executed or provided to the Company to assure compliance with all such applicable laws or regulations. Certificates for shares of the Restricted Shares and/or Common Stock delivered under the Plan may be subject to such stock-transfer orders and such other restrictions as the Committee may deem advisable under the rules, regulations, or other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed, and any applicable federal or state securities law. In addition, if, at any time specified herein (or in any Award Agreement or otherwise) for (a) the making of any Award, or the making of any determination, (b) the issuance or other distribution of Restricted Shares and/or Common Stock, or (c) the payment of amounts

to or through a Participant with respect to any Award, any law, rule, regulation or other requirement of any governmental authority or agency shall require either the Company, any Subsidiary or any Participant (or any estate, designated beneficiary or other legal representative thereof) to take any action in connection with any such determination, any such shares to be issued or distributed, any such payment, or the making of any such determination, as the case may be, shall be deferred until such required action is taken. With respect to persons subject to Section 16 of the Exchange Act, transactions under the Plan are intended to comply with all applicable conditions of SEC Rule 16b-3. To the extent any provision of the Plan or any action by the administrators of the Plan fails to so comply with such rule, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

15.6 AWARD AGREEMENTS. Each Participant receiving an Award under the Plan shall enter into an Award Agreement with the Company in a form specified by the Committee. Each such Participant shall agree to the restrictions, terms and conditions of the Award set forth therein and in the Plan.

15.7 DESIGNATION OF BENEFICIARY. Each Participant to whom an Award has been made under the Plan may designate a beneficiary or beneficiaries to exercise any option or to receive any payment which under the terms of the Plan and the relevant Award Agreement may become exercisable or payable on or after the Participant's death. At any time, and from time to time, any such designation may be changed or cancelled by the Participant without the consent of any such beneficiary. Any such designation, change or cancellation must be on a form provided for that purpose by the Committee and shall not be effective until received by the Committee. If no beneficiary has been designated by a deceased Participant, or if the designated beneficiaries have predeceased the Participant, the beneficiary shall be the Participant's estate. If the Participant designates more than one beneficiary, any payments under the Plan to such beneficiaries shall be made in equal shares unless the Participant has expressly designated otherwise, in which case the payments shall be made in the shares designated by the Participant.

15.8 LEAVES OF ABSENCE/TRANSFERS. The Committee shall have the power to promulgate rules and regulations and to make determinations, as it deems appropriate, under the Plan in respect of any leave of absence from the Company or any Subsidiary granted to a Participant. Without limiting the generality of the foregoing, the Committee may determine whether any such leave of absence shall be treated as if the Participant has terminated employment with the Company or any such Subsidiary. If a Participant transfers within the Company, or to or from any Subsidiary, such Participant shall not be deemed to have terminated employment as a result of such transfers.

15.9 LOANS. Subject to applicable law, the Committee may provide, pursuant to Plan rules, for the Company or any Subsidiary to make loans to Participants to finance the exercise price of any Stock Options, as well as the withholding obligation under Section 15.1 of the Plan and/or the estimated or actual taxes payable by the Participant as a result of the exercise of such Stock Option and the Committee may prescribe the terms and conditions of any such loan.

15.10 GOVERNING LAW. The Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to the principles of conflict of laws thereof. Any titles and headings herein are for reference purposes only, and shall in no way limit, define or otherwise affect the meaning, construction or interpretation of any provisions of the Plan.

15.11 EFFECTIVE DATE. The Plan shall be effective upon its approval by the Board and adoption by the Company, subject to the approval of the Plan by the Company's shareholders in accordance with Sections 162(m) and 422 of the Code.

BROOKE GROUP LTD.
100 S.E. SECOND STREET, 32ND FLOOR
MIAMI, FLORIDA 33131

November 4, 1999

Mr. Bennett S. LeBow
100 S.E. Second Street
Miami, Florida 33131

Dear Mr. LeBow:

We are pleased to inform you that Brooke Group Ltd. (the "Company") has granted you a nonqualified option (the "Option") to purchase 1,500,000 shares of the Company's common stock, par value \$.10 per share (the "Common Stock"), at a purchase price of \$15 7/16 per share, subject to adjustment (any of the underlying shares of Common Stock to be issued upon exercise of the Option are referred to hereinafter as the "Shares"), pursuant to Section 12 hereof and pursuant to the Company's 1999 Long-Term Incentive Plan, as may be and is in effect and as amended from time to time (the "Plan"). This agreement is conditioned upon the approval of the Plan by the Company's stockholders and is subject in all respects to the terms and provisions of the Plan, all of which terms and provisions are made a part of and incorporated in this agreement as if they were each expressly set forth herein. In the event of any conflict between the terms of this agreement and the terms of the Plan, the terms of the Plan shall control.

1. The Option may be exercised on or prior to the tenth anniversary of the date of grant (after which date the Option will, to the extent not previously exercised, expire), provided the Option shall only vest and become exercisable as to all of the aggregate shares covered thereby on the fourth anniversary of the date of this agreement. However, the Option shall earlier vest and become immediately exercisable upon (i) the occurrence of a "Change in Control" as defined in Section 6(f) of the Employment Agreement dated as of June 1, 1995, as amended as of January 1, 1996, by and between you and New Valley Corporation, regardless of whether the Employment Agreement is then in effect (the "Employment Agreement"), or (ii) the termination of your employment with the Company due to death or Disability (as defined in Section 2.8 of the Plan).

2. The Option, from and after the date it vests and becomes exercisable pursuant to Section 1 hereof, may be exercised in whole or in part by delivering to the Company a written notice of exercise in the form attached hereto as Exhibit A, specifying the number of the Shares

Mr. Bennett S. LeBow
November 4, 1999
Page 2

to be purchased and the purchase price therefor, together with payment of the purchase price of the Shares to be purchased. The purchase price is to be paid in cash or by delivering shares of Common Stock already owned by you for at least six months and having a fair market value on the date of exercise equal to the purchase price of the Option being exercised, or a combination of such shares and cash.

In addition, payment of the purchase price of the Shares to be purchased may also be made by delivering a properly executed notice to the Company, together with a copy of the irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds necessary to pay the purchase price, and, if required, the amount of any federal, state or local withholding taxes.

No Shares shall be issued until full payment therefor has been made. You shall have all of the rights of a stockholder of the Company holding the Common Stock that is subject to the Option (including, if applicable, the right to vote the Shares and the right to receive dividends thereon), when you have given written notice of exercise, have paid in full for such Shares and, if requested, have given the certificate described in Section 9 hereof.

3. In the event your employment with the Company is terminated for any reason, the Option shall forthwith terminate, provided that you may exercise any then unexercised portion of the Option then vested and exercisable pursuant to Section 1 hereof at any time prior to the earlier of nine months after the termination of your employment (one year in the event of death or Disability), or the expiration of the Option.

4. The Option is not transferable except (i) by will or the applicable laws of descent and distribution, (ii) as a gift to a foundation, charity or other not-for-profit organization, or (iii) for transfers to your family members or trusts or other entities whose beneficiaries are your family members, provided that such transfer is being made for estate, tax and/or personal planning purposes.

5. In the event of your death or Disability, the Option may be exercised by your personal representative or representatives, or by the person or persons to whom your rights under the Option shall pass by will or by the applicable laws of descent and distribution, within the one year period following termination due to death or Disability.

6. In the event of any change in capitalization affecting the Common Stock of the Company, including, without limitation, a stock dividend or other distribution, stock split, reverse stock split, recapitalization, consolidation, subdivision, split-up, spin-off, split-off, combination or exchange of shares or other form of reorganization or recapitalization, or any other change affecting the Common Stock, the aggregate number of shares of Common Stock

covered by the Option and the exercise price per share of Common Stock subject to the Option shall be proportionately adjusted by the Company.

7. The grant of the Option does not confer on you any right to continue in the employ of the Company or any of its subsidiaries or affiliates or interfere in any way with the right of the Company or its subsidiaries or affiliates to terminate the term of your employment.

8. The Company shall require as a condition to the exercise of any portion of the Option that you pay to the Company, or make other arrangements regarding the payment of, any federal state or local taxes required by law to be withheld as a result of such exercise.

9. Unless at the time of the exercise of any portion of the Option a registration statement under the Securities Act of 1933, as amended (the "Act"), is in effect as to the Shares, the Shares shall be acquired for investment and not for sale or distribution, and if the Company so requests, upon any exercise of the Option, in whole or in part, you agree to execute and deliver to the Company a reasonable certificate to such effect.

10. You understand and acknowledge that: (i) any Shares purchased by you upon exercise of the Option may be required to be held indefinitely unless such Shares are subsequently registered under the Act or an exemption from such registration is available; (ii) any sales of such Shares made in reliance upon Rule 144 promulgated under the Act may be made only in accordance with the terms and conditions of that Rule (which, under certain circumstances, restrict the number of shares which may be sold and the manner in which shares may be sold); (iii) certificates for Shares to be issued to you hereunder shall bear a legend to the effect that the Shares have not been registered under the Act and that the Shares may not be sold, hypothecated or otherwise transferred in the absence of an effective registration statement under the Act relating thereto or an opinion of counsel satisfactory to the Company that such registration is not required; and (iv) the Company shall place an appropriate "stop transfer" order with its transfer agent with respect to such Shares.

11. In the event of the payment of any dividends or other distributions in respect of the Common Stock on or after the date hereof, through and including the tenth anniversary of the date of grant, you shall receive, within ten days of the payment of such dividend or distribution, a payment equal to the amount of any such dividends or other distributions that would have been paid to you had you been at the record date for such dividends or other distributions a shareholder of the Shares issuable upon exercise of any then unexercised portion of the Option, whether vested or unvested. Notwithstanding the prior sentence, dividends or distributions in respect of Shares that are paid to you prior to the date of approval of the Plan by the Company's stockholders shall be promptly repaid by you to the Company, with interest at Citibank N.A.'s prime interest rate, if such approval is not obtained.

12. The Committee administering the Plan shall have the right, on or prior to the date of the approval of the Plan by the Company's stockholders, to increase the exercise price of the Option based on current market conditions or other factors deemed relevant by the Committee, provided that the exercise price shall not exceed the Fair Market Value (as defined in the Plan) of the Shares on the date of approval of the Plan by the Company's stockholders.

13. The Company represents and warrants to you as follows: (i) this agreement and the grant of the Option hereunder have been authorized by all necessary corporate action by the Company and this letter agreement is a valid and binding agreement of the Company enforceable against the Company in accordance with its terms; (ii) the grant of the Option to you on the terms set forth herein will be exempt from the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended, pursuant to Rule 16b-3(d) thereunder; (iii) the Company will obtain, at its expense, any regulatory approvals necessary or advisable in connection with the grant of the Option or the issuance of the Shares; and (iv) the Company currently has reserved and available, and will continue to have reserved and available during the term of the Option, sufficient authorized and issued shares of its Common Stock for issuance upon exercise of the Option.

14. Promptly following the date hereof, the Company shall use its best efforts to file and keep in effect a Registration Statement on Form S-8, Form S-3 or other applicable form to register under the Act the Shares issuable to you upon exercise of the Option and the resale thereof by you.

15. This letter agreement contains all the understandings between the Company and you pertaining to the matters referred to herein, and supercedes all undertakings and agreements, whether oral or in writing, previously entered into by the Company and you with respect hereto. No provision of this letter agreement may be amended or waived unless such amendment or waiver is agreed to in writing signed by you and a duly authorized officer of the Company. No waiver by the Company or you of any breach by the other party hereto of any condition or provision of this letter agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar condition or provision at the same time, any prior time or any subsequent time. If any provision of this letter agreement or the application of any such provision to any party or circumstances shall be determined by any court of competent jurisdiction to be invalid and unenforceable to any extent, the remainder of this letter agreement or the application of such provision to such person or circumstances other than those to which it is so determined to be invalid and unenforceable, shall not be affected thereby, and each provision hereof shall be validated and shall be enforced to the fullest extent permitted by law. This letter agreement will be governed by and construed in accordance with the laws of the State of Delaware, without regard to its conflicts of laws principles. This letter agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Would you kindly evidence your acceptance of the Option and your agreement to comply with the provisions hereof by executing this letter agreement in the space provided below.

Very truly yours,

BROOKE GROUP LTD.

By: /s/ Richard J. Lampen

Richard J. Lampen
Executive Vice President

AGREED TO AND ACCEPTED:

/s/ Bennett S. LeBow

Bennett S. LeBow

Brooke Group Ltd.
100 S.E. Second Street, 32nd Floor
Miami, Florida 33131

Gentlemen:

Notice is hereby given of my election to purchase _____ shares of Common Stock, \$.10 par value (the "Shares"), of Brooke Group Ltd., at a price of \$_____ per Share, pursuant to the provisions of the stock option granted to me on November 4, 1999. Enclosed in payment for the Shares is:

[] my check in the amount of \$_____.

[] _____ Shares having a total value of \$_____, such value being based on the closing price(s) of the Shares on the date hereof.

The following information is supplied for use in issuing and registering the Shares purchased hereby:

Number of Certificates and Denominations	-----
Name	-----
Address	-----
Social Security No.	-----

Dated:

Very truly yours,

Bennett S. LeBow

BROOKE GROUP LTD.
100 S.E. SECOND STREET, 32ND FLOOR
MIAMI, FLORIDA 33131

November 4, 1999

Mr. Richard J. Lampen
350 Costa Brava Court
Coral Gables, Florida 33143

Dear Mr. Lampen:

We are pleased to inform you that Brooke Group Ltd. (the "Company") has granted you a nonqualified option (the "Option") to purchase 100,000 shares of the Company's common stock, par value \$.10 per share (the "Common Stock"), at a purchase price of \$15 7/16 per share, subject to adjustment (any of the underlying shares of Common Stock to be issued upon exercise of the Option are referred to hereinafter as the "Shares"), pursuant to Section 12 hereof and pursuant to the Company's 1999 Long-Term Incentive Plan, as may be and is in effect and as amended from time to time (the "Plan"). This agreement is conditioned upon the approval of the Plan by the Company's stockholders and is subject in all respects to the terms and provisions of the Plan, all of which terms and provisions are made a part of and incorporated in this agreement as if they were each expressly set forth herein. In the event of any conflict between the terms of this agreement and the terms of the Plan, the terms of the Plan shall control.

1. The Option may be exercised on or prior to the tenth anniversary of the date of grant (after which date the Option will, to the extent not previously exercised, expire), provided the Option shall only vest and become exercisable as to all of the aggregate shares covered thereby on the fourth anniversary of the date of this agreement. However, the Option shall earlier vest and become immediately exercisable upon (i) the occurrence of a "Change in Control" as defined in Section 6(f) of the Employment Agreement dated as of June 1, 1995, as amended as of January 1, 1996, by and between Howard M. Lorber and New Valley Corporation, regardless of whether the Employment Agreement is then in effect (the "Employment Agreement"), other than any Change in Control arising by reason of a testamentary bequest by Bennett S. LeBow to or for the benefit of his surviving spouse of any or all securities of the Company or of New Valley Corporation beneficially owned by him as of the date of death, so long as, following the bequest, the event referenced in Section 6(f)(ii) of the Employment Agreement shall not have occurred, or (ii) the termination of your employment with the Company due to death or Disability (as defined in Section 2.8 of the Plan).

2. The Option, from and after the date it vests and becomes exercisable pursuant to Section 1 hereof, may be exercised in whole or in part by delivering to the Company a written notice of exercise in the form attached hereto as Exhibit A, specifying the number of the Shares to be purchased and the purchase price therefor, together with payment of the purchase price of the Shares to be purchased. The purchase price is to be paid in cash or by delivering shares of Common Stock already owned by you for at least six months and having a fair market value on the date of exercise equal to the purchase price of the Option being exercised, or a combination of such shares and cash.

In addition, payment of the purchase price of the Shares to be purchased may also be made by delivering a properly executed notice to the Company, together with a copy of the irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds necessary to pay the purchase price, and, if required, the amount of any federal, state or local withholding taxes.

No Shares shall be issued until full payment therefor has been made. You shall have all of the rights of a stockholder of the Company holding the Common Stock that is subject to the Option (including, if applicable, the right to vote the Shares and the right to receive dividends thereon), when you have given written notice of exercise, have paid in full for such Shares and, if requested, have given the certificate described in Section 9 hereof.

3. In the event your employment with the Company is terminated for any reason, the Option shall forthwith terminate, provided that you may exercise any then unexercised portion of the Option then vested and exercisable pursuant to Section 1 hereof at any time prior to the earlier of nine months after the termination of your employment (one year in the event of death or Disability), or the expiration of the Option.

4. The Option is not transferable except (i) by will or the applicable laws of descent and distribution, (ii) as a gift to a foundation, charity or other not-for-profit organization, or (iii) for transfers to your family members or trusts or other entities whose beneficiaries are your family members, provided that such transfer is being made for estate, tax and/or personal planning purposes.

5. In the event of your death or Disability, the Option may be exercised by your personal representative or representatives, or by the person or persons to whom your rights under the Option shall pass by will or by the applicable laws of descent and distribution, within the one year period following termination due to death or Disability.

6. In the event of any change in capitalization affecting the Common Stock of the Company, including, without limitation, a stock dividend or other distribution, stock split, reverse stock split, recapitalization, consolidation, subdivision, split-up, spin-off, split-off, combination or exchange of shares or other form of reorganization or recapitalization, or any other change affecting the Common Stock, the aggregate number of shares of Common Stock covered by the Option and the exercise price per share of Common Stock subject to the Option shall be proportionately adjusted by the Company.

7. The grant of the Option does not confer on you any right to continue in the employ of the Company or any of its subsidiaries or affiliates or interfere in any way with the right of the Company or its subsidiaries or affiliates to terminate the term of your employment.

8. The Company shall require as a condition to the exercise of any portion of the Option that you pay to the Company, or make other arrangements regarding the payment of, any federal state or local taxes required by law to be withheld as a result of such exercise.

9. Unless at the time of the exercise of any portion of the Option a registration statement under the Securities Act of 1933, as amended (the "Act"), is in effect as to the Shares, the Shares shall be acquired for investment and not for sale or distribution, and if the Company so requests, upon any exercise of the Option, in whole or in part, you agree to execute and deliver to the Company a reasonable certificate to such effect.

10. You understand and acknowledge that: (i) any Shares purchased by you upon exercise of the Option may be required to be held indefinitely unless such Shares are subsequently registered under the Act or an exemption from such registration is available; (ii) any sales of such Shares made in reliance upon Rule 144 promulgated under the Act may be made only in accordance with the terms and conditions of that Rule (which, under certain circumstances, restrict the number of shares which may be sold and the manner in which shares may be sold); (iii) certificates for Shares to be issued to you hereunder shall bear a legend to the effect that the Shares have not been registered under the Act and that the Shares may not be sold, hypothecated or otherwise transferred in the absence of an effective registration statement under the Act relating thereto or an opinion of counsel satisfactory to the Company that such registration is not required; and (iv) the Company shall place an appropriate "stop transfer" order with its transfer agent with respect to such Shares.

11. In the event of the payment of any dividends or other distributions in respect of the Common Stock on or after the date hereof, through and including the tenth anniversary of the date of grant, you shall receive, within ten days of the payment of such dividend or distribution, a payment equal to the amount of any such dividends or other distributions that would have been paid to you had you been at the record date for such dividends or other distributions a

shareholder of the Shares issuable upon exercise of any then unexercised portion of the Option, whether vested or unvested. Notwithstanding the prior sentence, dividends or distributions in respect of Shares that are paid to you prior to the date of approval of the Plan by the Company's stockholders shall be promptly repaid by you to the Company, with interest at Citibank N.A.'s prime interest rate, if such approval is not obtained.

12. The Committee administering the Plan shall have the right, on or prior to the date of the approval of the Plan by the Company's stockholders, to increase the exercise price of the Option based on current market conditions or other factors deemed relevant by the Committee, provided that the exercise price shall not exceed the Fair Market Value (as defined in the Plan) of the Shares on the date of approval of the Plan by the Company's stockholders.

13. The Company represents and warrants to you as follows: (i) this agreement and the grant of the Option hereunder have been authorized by all necessary corporate action by the Company and this letter agreement is a valid and binding agreement of the Company enforceable against the Company in accordance with its terms; (ii) the grant of the Option to you on the terms set forth herein will be exempt from the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended, pursuant to Rule 16b-3(d) thereunder; (iii) the Company will obtain, at its expense, any regulatory approvals necessary or advisable in connection with the grant of the Option or the issuance of the Shares; and (iv) the Company currently has reserved and available, and will continue to have reserved and available during the term of the Option, sufficient authorized and issued shares of its Common Stock for issuance upon exercise of the Option.

14. Promptly following the date hereof, the Company shall use its best efforts to file and keep in effect a Registration Statement on Form S-8, Form S-3 or other applicable form to register under the Act the Shares issuable to you upon exercise of the Option and the resale thereof by you.

15. This letter agreement contains all the understandings between the Company and you pertaining to the matters referred to herein, and supercedes all undertakings and agreements, whether oral or in writing, previously entered into by the Company and you with respect hereto. No provision of this letter agreement may be amended or waived unless such amendment or waiver is agreed to in writing signed by you and a duly authorized officer of the Company. No waiver by the Company or you of any breach by the other party hereto of any condition or provision of this letter agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar condition or provision at the same time, any prior time or any subsequent time. If any provision of this letter agreement or the application of any such provision to any party or circumstances shall be determined by any court of competent jurisdiction to be invalid and unenforceable to any extent, the remainder of this letter agreement or the application of such provision to such person or circumstances other than those to which it

is so determined to be invalid and unenforceable, shall not be affected thereby, and each provision hereof shall be validated and shall be enforced to the fullest extent permitted by law. This letter agreement will be governed by and construed in accordance with the laws of the State of Delaware, without regard to its conflicts of laws principles. This letter agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Mr. Richard J. Lampen
November 4, 1999
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Would you kindly evidence your acceptance of the Option and your agreement to comply with the provisions hereof by executing this letter agreement in the space provided below.

Very truly yours,

BROOKE GROUP LTD.

By: /s/ Bennett S. LeBow

Bennett S. LeBow
Chairman, President and
Chief Executive Officer

AGREED TO AND ACCEPTED:

/s/ Richard J. Lampen

Richard J. Lampen

Brooke Group Ltd.
100 S.E. Second Street, 32nd Floor
Miami, Florida 33131

Gentlemen:

Notice is hereby given of my election to purchase _____ shares of Common Stock, \$.10 par value (the "Shares"), of Brooke Group Ltd., at a price of \$_____ per Share, pursuant to the provisions of the stock option granted to me on November 4, 1999. Enclosed in payment for the Shares is:

- my check in the amount of \$_____.
- _____ Shares having a total value of \$_____, such value being based on the closing price(s) of the Shares on the date hereof.

The following information is supplied for use in issuing and registering the Shares purchased hereby:

Number of Certificates and Denominations	-----
Name	-----
Address	----- -----
Social Security No.	-----

Dated:

Very truly yours,

Richard J. Lampen

BROOKE GROUP LTD.
100 S.E. SECOND STREET, 32ND FLOOR
MIAMI, FLORIDA 33131

November 4, 1999

Mr. Marc N. Bell
2537 Royal Palm Way
Weston, Florida 33327

Dear Mr. Bell:

We are pleased to inform you that Brooke Group Ltd. (the "Company") has granted you a nonqualified option (the "Option") to purchase 50,000 shares of the Company's common stock, par value \$.10 per share (the "Common Stock"), at a purchase price of \$15 7/16 per share, subject to adjustment (any of the underlying shares of Common Stock to be issued upon exercise of the Option are referred to hereinafter as the "Shares"), pursuant to Section 12 hereof and pursuant to the Company's 1999 Long-Term Incentive Plan, as may be and is in effect and as amended from time to time (the "Plan"). This agreement is conditioned upon the approval of the Plan by the Company's stockholders and is subject in all respects to the terms and provisions of the Plan, all of which terms and provisions are made a part of and incorporated in this agreement as if they were each expressly set forth herein. In the event of any conflict between the terms of this agreement and the terms of the Plan, the terms of the Plan shall control.

1. The Option may be exercised on or prior to the tenth anniversary of the date of grant (after which date the Option will, to the extent not previously exercised, expire), provided the Option shall only vest and become exercisable as to all of the aggregate shares covered thereby on the fourth anniversary of the date of this agreement. However, the Option shall earlier vest and become immediately exercisable upon (i) the occurrence of a "Change in Control" as defined in Section 6(f) of the Employment Agreement dated as of June 1, 1995, as amended as of January 1, 1996, by and between Howard M. Lorber and New Valley Corporation, regardless of whether the Employment Agreement is then in effect (the "Employment Agreement"), other than any Change in Control arising by reason of a testamentary bequest by Bennett S. LeBow to or for the benefit of his surviving spouse of any or all securities of the Company or of New Valley Corporation beneficially owned by him as of the date of death, so long as, following the bequest, the event referenced in Section 6(f)(ii) of the Employment Agreement shall not have occurred, or (ii) the termination of your employment with the Company due to death or Disability (as defined in Section 2.8 of the Plan).

Mr. Marc N. Bell
November 4, 1999
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2. The Option, from and after the date it vests and becomes exercisable pursuant to Section 1 hereof, may be exercised in whole or in part by delivering to the Company a written notice of exercise in the form attached hereto as Exhibit A, specifying the number of the Shares to be purchased and the purchase price therefor, together with payment of the purchase price of the Shares to be purchased. The purchase price is to be paid in cash or by delivering shares of Common Stock already owned by you for at least six months and having a fair market value on the date of exercise equal to the purchase price of the Option being exercised, or a combination of such shares and cash.

In addition, payment of the purchase price of the Shares to be purchased may also be made by delivering a properly executed notice to the Company, together with a copy of the irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds necessary to pay the purchase price, and, if required, the amount of any federal, state or local withholding taxes.

No Shares shall be issued until full payment therefor has been made. You shall have all of the rights of a stockholder of the Company holding the Common Stock that is subject to the Option (including, if applicable, the right to vote the Shares and the right to receive dividends thereon), when you have given written notice of exercise, have paid in full for such Shares and, if requested, have given the certificate described in Section 9 hereof.

3. In the event your employment with the Company is terminated for any reason, the Option shall forthwith terminate, provided that you may exercise any then unexercised portion of the Option then vested and exercisable pursuant to Section 1 hereof at any time prior to the earlier of nine months after the termination of your employment (one year in the event of death or Disability), or the expiration of the Option.

4. The Option is not transferable except (i) by will or the applicable laws of descent and distribution, (ii) as a gift to a foundation, charity or other not-for-profit organization, or (iii) for transfers to your family members or trusts or other entities whose beneficiaries are your family members, provided that such transfer is being made for estate, tax and/or personal planning purposes.

5. In the event of your death or Disability, the Option may be exercised by your personal representative or representatives, or by the person or persons to whom your rights under the Option shall pass by will or by the applicable laws of descent and distribution, within the one year period following termination due to death or Disability.

6. In the event of any change in capitalization affecting the Common Stock of the Company, including, without limitation, a stock dividend or other distribution, stock split, reverse stock split, recapitalization, consolidation, subdivision, split-up, spin-off, split-off, combination or exchange of shares or other form of reorganization or recapitalization, or any other change affecting the Common Stock, the aggregate number of shares of Common Stock covered by the Option and the exercise price per share of Common Stock subject to the Option shall be proportionately adjusted by the Company.

7. The grant of the Option does not confer on you any right to continue in the employ of the Company or any of its subsidiaries or affiliates or interfere in any way with the right of the Company or its subsidiaries or affiliates to terminate the term of your employment.

8. The Company shall require as a condition to the exercise of any portion of the Option that you pay to the Company, or make other arrangements regarding the payment of, any federal state or local taxes required by law to be withheld as a result of such exercise.

9. Unless at the time of the exercise of any portion of the Option a registration statement under the Securities Act of 1933, as amended (the "Act"), is in effect as to the Shares, the Shares shall be acquired for investment and not for sale or distribution, and if the Company so requests, upon any exercise of the Option, in whole or in part, you agree to execute and deliver to the Company a reasonable certificate to such effect.

10. You understand and acknowledge that: (i) any Shares purchased by you upon exercise of the Option may be required to be held indefinitely unless such Shares are subsequently registered under the Act or an exemption from such registration is available; (ii) any sales of such Shares made in reliance upon Rule 144 promulgated under the Act may be made only in accordance with the terms and conditions of that Rule (which, under certain circumstances, restrict the number of shares which may be sold and the manner in which shares may be sold); (iii) certificates for Shares to be issued to you hereunder shall bear a legend to the effect that the Shares have not been registered under the Act and that the Shares may not be sold, hypothecated or otherwise transferred in the absence of an effective registration statement under the Act relating thereto or an opinion of counsel satisfactory to the Company that such registration is not required; and (iv) the Company shall place an appropriate "stop transfer" order with its transfer agent with respect to such Shares.

11. In the event of the payment of any dividends or other distributions in respect of the Common Stock on or after the date hereof, through and including the tenth anniversary of the date of grant, you shall receive, within ten days of the payment of such dividend or distribution, a payment equal to the amount of any such dividends or other distributions that would have been paid to you had you been at the record date for such dividends or other distributions a

shareholder of the Shares issuable upon exercise of any then unexercised portion of the Option, whether vested or unvested. Notwithstanding the prior sentence, dividends or distributions in respect of Shares that are paid to you prior to the date of approval of the Plan by the Company's stockholders shall be promptly repaid by you to the Company, with interest at Citibank N.A.'s prime interest rate, if such approval is not obtained.

12. The Committee administering the Plan shall have the right, on or prior to the date of the approval of the Plan by the Company's stockholders, to increase the exercise price of the Option based on current market conditions or other factors deemed relevant by the Committee, provided that the exercise price shall not exceed the Fair Market Value (as defined in the Plan) of the Shares on the date of approval of the Plan by the Company's stockholders.

13. The Company represents and warrants to you as follows: (i) this agreement and the grant of the Option hereunder have been authorized by all necessary corporate action by the Company and this letter agreement is a valid and binding agreement of the Company enforceable against the Company in accordance with its terms; (ii) the grant of the Option to you on the terms set forth herein will be exempt from the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended, pursuant to Rule 16b-3(d) thereunder; (iii) the Company will obtain, at its expense, any regulatory approvals necessary or advisable in connection with the grant of the Option or the issuance of the Shares; and (iv) the Company currently has reserved and available, and will continue to have reserved and available during the term of the Option, sufficient authorized and issued shares of its Common Stock for issuance upon exercise of the Option.

14. Promptly following the date hereof, the Company shall use its best efforts to file and keep in effect a Registration Statement on Form S-8, Form S-3 or other applicable form to register under the Act the Shares issuable to you upon exercise of the Option and the resale thereof by you.

15. This letter agreement contains all the understandings between the Company and you pertaining to the matters referred to herein, and supercedes all undertakings and agreements, whether oral or in writing, previously entered into by the Company and you with respect hereto. No provision of this letter agreement may be amended or waived unless such amendment or waiver is agreed to in writing signed by you and a duly authorized officer of the Company. No waiver by the Company or you of any breach by the other party hereto of any condition or provision of this letter agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar condition or provision at the same time, any prior time or any subsequent time. If any provision of this letter agreement or the application of any such provision to any party or circumstances shall be determined by any court of competent jurisdiction to be invalid and unenforceable to any extent, the remainder of this letter agreement or the application of such provision to such person or circumstances other than those to which it

Mr. Marc N. Bell
November 4, 1999
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is so determined to be invalid and unenforceable, shall not be affected thereby, and each provision hereof shall be validated and shall be enforced to the fullest extent permitted by law. This letter agreement will be governed by and construed in accordance with the laws of the State of Delaware, without regard to its conflicts of laws principles. This letter agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Mr. Marc N. Bell
November 4, 1999
Page 6

Would you kindly evidence your acceptance of the Option and your agreement to comply with the provisions hereof by executing this letter agreement in the space provided below.

Very truly yours,

BROOKE GROUP LTD.

By: /s/ Bennett S. LeBow

Bennett S. LeBow
Chairman, President and
Chief Executive Officer

AGREED TO AND ACCEPTED:

/s/ Marc N. Bell

Marc N. Bell

Brooke Group Ltd.
100 S.E. Second Street, 32nd Floor
Miami, Florida 33131

Gentlemen:

Notice is hereby given of my election to purchase _____ shares of Common Stock, \$.10 par value (the "Shares"), of Brooke Group Ltd., at a price of \$_____ per Share, pursuant to the provisions of the stock option granted to me on November 4, 1999. Enclosed in payment for the Shares is:

[] my check in the amount of \$_____.

[] _____ Shares having a total value of \$_____, such value being based on the closing price(s) of the Shares on the date hereof.

The following information is supplied for use in issuing and registering the Shares purchased hereby:

Number of Certificates and Denominations	-----
Name	-----
Address	----- -----
Social Security No.	-----

Dated:

Very truly yours,

Marc N. Bell

BROOKE GROUP LTD.
100 S.E. SECOND STREET, 32ND FLOOR
MIAMI, FLORIDA 33131

November 4, 1999

Ms. Joselynn D. Van Siclen
1643 Brickell Avenue, Unit # 2405
Miami, Florida 33129

Dear Ms. Van Siclen:

We are pleased to inform you that Brooke Group Ltd. (the "Company") has granted you a nonqualified option (the "Option") to purchase 15,000 shares of the Company's common stock, par value \$.10 per share (the "Common Stock"), at a purchase price of \$15 7/16 per share, subject to adjustment (any of the underlying shares of Common Stock to be issued upon exercise of the Option are referred to hereinafter as the "Shares"), pursuant to Section 12 hereof and pursuant to the Company's 1999 Long-Term Incentive Plan, as may be and is in effect and as amended from time to time (the "Plan"). This agreement is conditioned upon the approval of the Plan by the Company's stockholders and is subject in all respects to the terms and provisions of the Plan, all of which terms and provisions are made a part of and incorporated in this agreement as if they were each expressly set forth herein. In the event of any conflict between the terms of this agreement and the terms of the Plan, the terms of the Plan shall control.

1. The Option may be exercised on or prior to the tenth anniversary of the date of grant (after which date the Option will, to the extent not previously exercised, expire), provided the Option shall only vest and become exercisable as to all of the aggregate shares covered thereby on the fourth anniversary of the date of this agreement. However, the Option shall earlier vest and become immediately exercisable upon (i) the occurrence of a "Change in Control" as defined in Section 6(f) of the Employment Agreement dated as of June 1, 1995, as amended as of January 1, 1996, by and between Howard M. Lorber and New Valley Corporation, regardless of whether the Employment Agreement is then in effect (the "Employment Agreement"), other than any Change in Control arising by reason of a testamentary bequest by Bennett S. LeBow to or for the benefit of his surviving spouse of any or all securities of the Company or of New Valley Corporation beneficially owned by him as of the date of death, so long as, following the bequest, the event referenced in Section 6(f)(ii) of the Employment Agreement shall not have occurred, or (ii) the termination of your employment with the Company due to death or Disability (as defined in Section 2.8 of the Plan).

2. The Option, from and after the date it vests and becomes exercisable pursuant to Section 1 hereof, may be exercised in whole or in part by delivering to the Company a written notice of exercise in the form attached hereto as Exhibit A, specifying the number of the Shares to be purchased and the purchase price therefor, together with payment of the purchase price of the Shares to be purchased. The purchase price is to be paid in cash or by delivering shares of Common Stock already owned by you for at least six months and having a fair market value on the date of exercise equal to the purchase price of the Option being exercised, or a combination of such shares and cash.

In addition, payment of the purchase price of the Shares to be purchased may also be made by delivering a properly executed notice to the Company, together with a copy of the irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds necessary to pay the purchase price, and, if required, the amount of any federal, state or local withholding taxes.

No Shares shall be issued until full payment therefor has been made. You shall have all of the rights of a stockholder of the Company holding the Common Stock that is subject to the Option (including, if applicable, the right to vote the Shares and the right to receive dividends thereon), when you have given written notice of exercise, have paid in full for such Shares and, if requested, have given the certificate described in Section 9 hereof.

3. In the event your employment with the Company is terminated for any reason, the Option shall forthwith terminate, provided that you may exercise any then unexercised portion of the Option then vested and exercisable pursuant to Section 1 hereof at any time prior to the earlier of nine months after the termination of your employment (one year in the event of death or Disability), or the expiration of the Option.

4. The Option is not transferable except (i) by will or the applicable laws of descent and distribution, (ii) as a gift to a foundation, charity or other not-for-profit organization, or (iii) for transfers to your family members or trusts or other entities whose beneficiaries are your family members, provided that such transfer is being made for estate, tax and/or personal planning purposes.

5. In the event of your death or Disability, the Option may be exercised by your personal representative or representatives, or by the person or persons to whom your rights under the Option shall pass by will or by the applicable laws of descent and distribution, within the one year period following termination due to death or Disability.

6. In the event of any change in capitalization affecting the Common Stock of the Company, including, without limitation, a stock dividend or other distribution, stock split, reverse stock split, recapitalization, consolidation, subdivision, split-up, spin-off, split-off, combination or exchange of shares or other form of reorganization or recapitalization, or any other change affecting the Common Stock, the aggregate number of shares of Common Stock covered by the Option and the exercise price per share of Common Stock subject to the Option shall be proportionately adjusted by the Company.

7. The grant of the Option does not confer on you any right to continue in the employ of the Company or any of its subsidiaries or affiliates or interfere in any way with the right of the Company or its subsidiaries or affiliates to terminate the term of your employment.

8. The Company shall require as a condition to the exercise of any portion of the Option that you pay to the Company, or make other arrangements regarding the payment of, any federal state or local taxes required by law to be withheld as a result of such exercise.

9. Unless at the time of the exercise of any portion of the Option a registration statement under the Securities Act of 1933, as amended (the "Act"), is in effect as to the Shares, the Shares shall be acquired for investment and not for sale or distribution, and if the Company so requests, upon any exercise of the Option, in whole or in part, you agree to execute and deliver to the Company a reasonable certificate to such effect.

10. You understand and acknowledge that: (i) any Shares purchased by you upon exercise of the Option may be required to be held indefinitely unless such Shares are subsequently registered under the Act or an exemption from such registration is available; (ii) any sales of such Shares made in reliance upon Rule 144 promulgated under the Act may be made only in accordance with the terms and conditions of that Rule (which, under certain circumstances, restrict the number of shares which may be sold and the manner in which shares may be sold); (iii) certificates for Shares to be issued to you hereunder shall bear a legend to the effect that the Shares have not been registered under the Act and that the Shares may not be sold, hypothecated or otherwise transferred in the absence of an effective registration statement under the Act relating thereto or an opinion of counsel satisfactory to the Company that such registration is not required; and (iv) the Company shall place an appropriate "stop transfer" order with its transfer agent with respect to such Shares.

11. In the event of the payment of any dividends or other distributions in respect of the Common Stock on or after the date hereof, through and including the tenth anniversary of the date of grant, you shall receive, within ten days of the payment of such dividend or distribution, a payment equal to the amount of any such dividends or other distributions that would have been paid to you had you been at the record date for such dividends or other distributions a

shareholder of the Shares issuable upon exercise of any then unexercised portion of the Option, whether vested or unvested. Notwithstanding the prior sentence, dividends or distributions in respect of Shares that are paid to you prior to the date of approval of the Plan by the Company's stockholders shall be promptly repaid by you to the Company, with interest at Citibank N.A.'s prime interest rate, if such approval is not obtained.

12. The Committee administering the Plan shall have the right, on or prior to the date of the approval of the Plan by the Company's stockholders, to increase the exercise price of the Option based on current market conditions or other factors deemed relevant by the Committee, provided that the exercise price shall not exceed the Fair Market Value (as defined in the Plan) of the Shares on the date of approval of the Plan by the Company's stockholders.

13. The Company represents and warrants to you as follows: (i) this agreement and the grant of the Option hereunder have been authorized by all necessary corporate action by the Company and this letter agreement is a valid and binding agreement of the Company enforceable against the Company in accordance with its terms; (ii) the grant of the Option to you on the terms set forth herein will be exempt from the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended, pursuant to Rule 16b-3(d) thereunder; (iii) the Company will obtain, at its expense, any regulatory approvals necessary or advisable in connection with the grant of the Option or the issuance of the Shares; and (iv) the Company currently has reserved and available, and will continue to have reserved and available during the term of the Option, sufficient authorized and issued shares of its Common Stock for issuance upon exercise of the Option.

14. Promptly following the date hereof, the Company shall use its best efforts to file and keep in effect a Registration Statement on Form S-8, Form S-3 or other applicable form to register under the Act the Shares issuable to you upon exercise of the Option and the resale thereof by you.

15. This letter agreement contains all the understandings between the Company and you pertaining to the matters referred to herein, and supercedes all undertakings and agreements, whether oral or in writing, previously entered into by the Company and you with respect hereto. No provision of this letter agreement may be amended or waived unless such amendment or waiver is agreed to in writing signed by you and a duly authorized officer of the Company. No waiver by the Company or you of any breach by the other party hereto of any condition or provision of this letter agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar condition or provision at the same time, any prior time or any subsequent time. If any provision of this letter agreement or the application of any such provision to any party or circumstances shall be determined by any court of competent jurisdiction to be invalid and unenforceable to any extent, the remainder of this letter agreement or the application of such provision to such person or circumstances other than those to which it

is so determined to be invalid and unenforceable, shall not be affected thereby, and each provision hereof shall be validated and shall be enforced to the fullest extent permitted by law. This letter agreement will be governed by and construed in accordance with the laws of the State of Delaware, without regard to its conflicts of laws principles. This letter agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Ms. Joselynn D. Van Siclen
November 4, 1999
Page 6

Would you kindly evidence your acceptance of the Option and your agreement to comply with the provisions hereof by executing this letter agreement in the space provided below.

Very truly yours,
BROOKE GROUP LTD.

By: /s/ Bennett S. LeBow

Bennett S. LeBow
Chairman, President and
Chief Executive Officer

AGREED TO AND ACCEPTED:

/s/ Joselynn D. Van Siclen

Joselynn D. Van Siclen

Brooke Group Ltd.
100 S.E. Second Street, 32nd Floor
Miami, Florida 33131

Gentlemen:

Notice is hereby given of my election to purchase _____ shares of Common Stock, \$.10 par value (the "Shares"), of Brooke Group Ltd., at a price of \$_____ per Share, pursuant to the provisions of the stock option granted to me on November 4, 1999. Enclosed in payment for the Shares is:

[] my check in the amount of \$_____.

[] _____ Shares having a total value of \$_____, such value being based on the closing price(s) of the Shares on the date hereof.

The following information is supplied for use in issuing and registering the Shares purchased hereby:

Number of Certificates and Denominations	-----
Name	-----
Address	----- -----
Social Security No.	-----

Dated:

Very truly yours,

Joselynn D. Van Siclen

BROOKE GROUP LTD.
100 S.E. SECOND STREET, 32ND FLOOR
MIAMI, FLORIDA 33131

November 4, 1999

Mr. Howard M. Lorber
70 East Sunrise Highway, Suite 411
Valley Stream, New York 11581

Dear Mr. Lorber:

We are pleased to inform you that Brooke Group Ltd. (the "Company") has granted you a nonqualified option (the "Option") to purchase 500,000 shares of the Company's common stock, par value \$.10 per share (the "Common Stock"), at a purchase price of \$15 7/16 per share, subject to adjustment (any of the underlying shares of Common Stock to be issued upon exercise of the Option are referred to hereinafter as the "Shares"), pursuant to Section 12 hereof and pursuant to the Company's 1999 Long-Term Incentive Plan, as may be and is in effect and as amended from time to time (the "Plan"). This agreement is conditioned upon the approval of the Plan by the Company's stockholders and is subject in all respects to the terms and provisions of the Plan, all of which terms and provisions are made a part of and incorporated in this agreement as if they were each expressly set forth herein. In the event of any conflict between the terms of this agreement and the terms of the Plan, the terms of the Plan shall control.

1. The Option may be exercised on or prior to the tenth anniversary of the date of grant (after which date the Option will, to the extent not previously exercised, expire), provided the Option shall only vest and become exercisable as to all of the aggregate shares covered thereby on the fourth anniversary of the date of this agreement. However, the Option shall earlier vest and become immediately exercisable upon (i) the occurrence of a "Change in Control" as defined in Section 6(f) of the Employment Agreement dated as of June 1, 1995, as amended as of January 1, 1996, by and between you and New Valley Corporation ("New Valley"), a Subsidiary (as defined in Section 2.18 of the Plan) of the Company, regardless of whether the Employment Agreement is then in effect (the "Employment Agreement"), other than any Change in Control arising by reason of a testamentary bequest by Bennett S. LeBow to or for the benefit of his surviving spouse of any or all securities of the Company or of New Valley beneficially owned by him as of the date of death, so long as, following the bequest, the event referenced in Section 6(f)(ii) of the Employment Agreement shall not have occurred, or (ii) the

termination of your employment with New Valley due to death or Disability (as defined in Section 2.8 of the Plan).

2. The Option, from and after the date it vests and becomes exercisable pursuant to Section 1 hereof, may be exercised in whole or in part by delivering to the Company a written notice of exercise in the form attached hereto as Exhibit A, specifying the number of the Shares to be purchased and the purchase price therefor, together with payment of the purchase price of the Shares to be purchased. The purchase price is to be paid in cash or by delivering shares of Common Stock already owned by you for at least six months and having a fair market value on the date of exercise equal to the purchase price of the Option being exercised, or a combination of such shares and cash.

In addition, payment of the purchase price of the Shares to be purchased may also be made by delivering a properly executed notice to the Company, together with a copy of the irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds necessary to pay the purchase price, and, if required, the amount of any federal, state or local withholding taxes.

No Shares shall be issued until full payment therefor has been made. You shall have all of the rights of a stockholder of the Company holding the Common Stock that is subject to the Option (including, if applicable, the right to vote the Shares and the right to receive dividends thereon), when you have given written notice of exercise, have paid in full for such Shares and, if requested, have given the certificate described in Section 9 hereof.

3. In the event your employment with New Valley is terminated for any reason, the Option shall forthwith terminate, provided that you may exercise any then unexercised portion of the Option then vested and exercisable pursuant to Section 1 hereof at any time prior to the earlier of nine months after the termination of your employment (one year in the event of death or Disability), or the expiration of the Option.

4. The Option is not transferable except (i) by will or the applicable laws of descent and distribution, (ii) as a gift to a foundation, charity or other not-for-profit organization, or (iii) for transfers to your family members or trusts or other entities whose beneficiaries are your family members, provided that such transfer is being made for estate, tax and/or personal planning purposes.

5. In the event of your death or Disability, the Option may be exercised by your personal representative or representatives, or by the person or persons to whom your rights under the Option shall pass by will or by the applicable laws of descent and distribution, within the one year period following termination due to death or Disability.

6. In the event of any change in capitalization affecting the Common Stock of the Company, including, without limitation, a stock dividend or other distribution, stock split, reverse stock split, recapitalization, consolidation, subdivision, split-up, spin-off, split-off, combination or exchange of shares or other form of reorganization or recapitalization, or any other change affecting the Common Stock, the aggregate number of shares of Common Stock covered by the Option and the exercise price per share of Common Stock subject to the Option shall be proportionately adjusted by the Company.

7. The grant of the Option does not confer on you any right to continue in the employ of New Valley or any of its subsidiaries or affiliates or interfere in any way with the right of the Company or its subsidiaries or affiliates to terminate the term of your employment.

8. The Company shall require as a condition to the exercise of any portion of the Option that you pay to the Company, or make other arrangements regarding the payment of, any federal state or local taxes required by law to be withheld as a result of such exercise.

9. Unless at the time of the exercise of any portion of the Option a registration statement under the Securities Act of 1933, as amended (the "Act"), is in effect as to the Shares, the Shares shall be acquired for investment and not for sale or distribution, and if the Company so requests, upon any exercise of the Option, in whole or in part, you agree to execute and deliver to the Company a reasonable certificate to such effect.

10. You understand and acknowledge that: (i) any Shares purchased by you upon exercise of the Option may be required to be held indefinitely unless such Shares are subsequently registered under the Act or an exemption from such registration is available; (ii) any sales of such Shares made in reliance upon Rule 144 promulgated under the Act may be made only in accordance with the terms and conditions of that Rule (which, under certain circumstances, restrict the number of shares which may be sold and the manner in which shares may be sold); (iii) certificates for Shares to be issued to you hereunder shall bear a legend to the effect that the Shares have not been registered under the Act and that the Shares may not be sold, hypothecated or otherwise transferred in the absence of an effective registration statement under the Act relating thereto or an opinion of counsel satisfactory to the Company that such registration is not required; and (iv) the Company shall place an appropriate "stop transfer" order with its transfer agent with respect to such Shares.

11. In the event of the payment of any dividends or other distributions in respect of the Common Stock on or after the date hereof, through and including the tenth anniversary of the date of grant, you shall receive, within ten days of the payment of such dividend or distribution, a payment equal to the amount of any such dividends or other distributions that would have been paid to you had you been at the record date for such dividends or other distributions a

shareholder of the Shares issuable upon exercise of any then unexercised portion of the Option, whether vested or unvested. Notwithstanding the prior sentence, dividends or distributions in respect of Shares that are paid to you prior to the date of approval of the Plan by the Company's stockholders shall be promptly repaid by you to the Company, with interest at Citibank N.A.'s prime interest rate, if such approval is not obtained.

12. The Committee administering the Plan shall have the right, on or prior to the date of the approval of the Plan by the Company's stockholders, to increase the exercise price of the Option based on current market conditions or other factors deemed relevant by the Committee, provided that the exercise price shall not exceed the Fair Market Value (as defined in the Plan) of the Shares on the date of approval of the Plan by the Company's stockholders.

13. The Company represents and warrants to you as follows: (i) this agreement and the grant of the Option hereunder have been authorized by all necessary corporate action by the Company and this letter agreement is a valid and binding agreement of the Company enforceable against the Company in accordance with its terms; (ii) the grant of the Option to you on the terms set forth herein will be exempt from the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended, pursuant to Rule 16b-3(d) thereunder; (iii) the Company will obtain, at its expense, any regulatory approvals necessary or advisable in connection with the grant of the Option or the issuance of the Shares; and (iv) the Company currently has reserved and available, and will continue to have reserved and available during the term of the Option, sufficient authorized and issued shares of its Common Stock for issuance upon exercise of the Option.

14. Promptly following the date hereof, the Company shall use its best efforts to file and keep in effect a Registration Statement on Form S-8, Form S-3 or other applicable form to register under the Act the Shares issuable to you upon exercise of the Option and the resale thereof by you.

15. This letter agreement contains all the understandings between the Company and you pertaining to the matters referred to herein, and supercedes all undertakings and agreements, whether oral or in writing, previously entered into by the Company and you with respect hereto. No provision of this letter agreement may be amended or waived unless such amendment or waiver is agreed to in writing signed by you and a duly authorized officer of the Company. No waiver by the Company or you of any breach by the other party hereto of any condition or provision of this letter agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar condition or provision at the same time, any prior time or any subsequent time. If any provision of this letter agreement or the application of any such provision to any party or circumstances shall be determined by any court of competent jurisdiction to be invalid and unenforceable to any extent, the remainder of this letter agreement or the application of such provision to such person or circumstances other than those to which it

is so determined to be invalid and unenforceable, shall not be affected thereby, and each provision hereof shall be validated and shall be enforced to the fullest extent permitted by law. This letter agreement will be governed by and construed in accordance with the laws of the State of Delaware, without regard to its conflicts of laws principles. This letter agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Mr. Howard M. Lorber
November 4, 1999
Page 6

Would you kindly evidence your acceptance of the Option and your agreement to comply with the provisions hereof by executing this letter agreement in the space provided below.

Very truly yours,

BROOKE GROUP LTD.

By: /s/ Bennett S. LeBow

Bennett S. LeBow
Chairman, President and
Chief Executive Officer

AGREED TO AND ACCEPTED:

/s/ Howard M. Lorber

Howard M. Lorber

Brooke Group Ltd.
100 S.E. Second Street, 32nd Floor
Miami, Florida 33131

Gentlemen:

Notice is hereby given of my election to purchase _____ shares of Common Stock, \$.10 par value (the "Shares"), of Brooke Group Ltd., at a price of \$_____ per Share, pursuant to the provisions of the stock option granted to me on November 4, 1999. Enclosed in payment for the Shares is:

[] my check in the amount of \$_____.

[] _____ Shares having a total value of \$_____, such value being based on the closing price(s) of the Shares on the date hereof.

The following information is supplied for use in issuing and registering the Shares purchased hereby:

Number of Certificates and Denominations	-----
Name	-----
Address	-----

Social Security No.	-----

Dated:

Very truly yours,

Howard M. Lorber

NON-QUALIFIED STOCK OPTION AGREEMENT

PURSUANT TO THE

BROOKE GROUP LTD.
1998 LONG-TERM INCENTIVE PLAN

* * * * *

OPTIONEE: Ronald S. Fulford

GRANT DATE: November 24, 1999

PER SHARE EXERCISE PRICE: \$18.00

NUMBER OF OPTION SHARES SUBJECT TO THIS OPTION: 250,000

* * * * *

THIS NON-QUALIFIED STOCK OPTION AGREEMENT (this "Agreement"), dated as of the Grant Date specified above, is entered into by and between Brooke Group Ltd., a Delaware corporation (the "Company"), and the Optionee specified above, pursuant to the Brooke Group Ltd. 1998 Long-Term Incentive Plan, as in effect and as amended from time to time (the "Plan"); and

WHEREAS, it has been determined under the Plan that it would be in the best interests of the Company to grant the non-qualified stock option provided for herein to the Optionee (i) as an inducement to remain in the employment of the Company (and/or one of its Subsidiaries), and (ii) as an incentive for increased effort during such service;

NOW, THEREFORE, in consideration of the mutual covenants and premises hereinafter set forth and for other good and valuable consideration, the parties hereto hereby mutually covenant and agree as follows:

1. INCORPORATION BY REFERENCE; PLAN DOCUMENT RECEIPT. This Agreement is subject in all respects to the terms and provisions of the Plan (including, without limitation, any amendments thereto adopted at any time and from time to time if such amendments are expressly intended to apply to the grant of the option hereunder), all of which terms and provisions are made a part of and incorporated in this Agreement as if they were each expressly set forth herein.

Any capitalized term not defined in this Agreement shall have the same meaning as is ascribed thereto under the Plan. The Optionee hereby acknowledges receipt of a true copy of the Plan and that the Optionee has read the Plan carefully and fully understands its content. In the event of any conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall control.

2. GRANT OF OPTION. The Company hereby grants to the Optionee, as of the Grant Date specified above, a non-qualified stock option (this "Option") to acquire from the Company at the Per Share Exercise Price specified above the aggregate number of shares of the Common Stock specified above (the "Option Shares"). This Option is not to be treated as (and is not intended to qualify as) an incentive stock option within the meaning of Section 422 of the Code.

3. CASH PAYMENTS EQUIVALENT TO DIVIDENDS. The Optionee shall not be entitled to receive a cash payment in respect of the Option Shares underlying this Option on any dividend payment date for the Common Stock.

4. EXERCISE OF THIS OPTION.

4.1 Notwithstanding the provisions of Section 6.6 of the Plan, unless otherwise determined by the Committee, this Option shall become exercisable as to the aggregate number of shares of Common Stock underlying this Option, as determined on the Date of Grant, as follows:

- o 25%, on December 31, 2001, provided the Optionee is then employed by the Company and/or one of its Subsidiaries;
- o 62.5%, on December 31, 2002, provided the Optionee is then employed by the Company and/or one of its Subsidiaries; and
- o 100%, on December 31, 2003, provided the Optionee is then employed by the Company and/or one of its Subsidiaries.

However, any then unexercised portion of this Option shall immediately become exercisable upon the termination of the Optionee's employment with the Company and/or one of its Subsidiaries due to death or Disability.

4.2 Unless earlier terminated in accordance with the terms and provisions of the Plan and/or this Agreement, this Option shall expire and shall no longer be exercisable after the expiration of ten years from the Date of Grant (the "Option Period").

4.3 In no event shall this Option be exercisable for a fractional share of Common Stock.

5. METHOD OF EXERCISE AND PAYMENT. This Option shall be exercised by the Optionee by delivering to the Secretary of the Company or his designated agent on any business day (the "Exercise Date") a written notice, in such manner and form as may be required by the Company, specifying the number of the Option Shares the Optionee then desires to acquire (the "Exercise Notice"). The Exercise Notice shall be accompanied by payment of the aggregate Per Share Exercise Price for such number of the Option Shares to be acquired upon such exercise. Such payment shall be made in the manner set forth in Section 6.5 of the Plan.

6. TERMINATION. Unless otherwise determined by the Committee, this Option shall terminate and be of no force or effect in accordance with and to the extent provided by the terms and provisions of Section 11 of the Plan. In any event, this Option shall terminate upon the expiration of the Option Period.

7. NON-TRANSFERABILITY. This Option, and any rights or interests therein, shall not be sold, exchanged, transferred, assigned or otherwise disposed of in any way at any time by the Optionee (or any beneficiary(ies) of the Optionee), other than by testamentary disposition by the Optionee or the laws of descent and distribution. This Option shall not be pledged, encumbered or otherwise hypothecated in any way at any time by the Optionee (or any beneficiary(ies) of the Optionee) and shall not be subject to execution, attachment or similar legal process. Any attempt to sell, exchange, pledge, transfer, assign, encumber or otherwise dispose of or hypothecate this Option, or the levy of any execution, attachment or similar legal process upon this Option, contrary to the terms of this Agreement and/or the Plan shall be null and void and without legal force or effect. This Option shall be exercisable during the Optionee's lifetime only by the Optionee.

8. ENTIRE AGREEMENT; AMENDMENT. This Agreement contains the entire agreement between the parties hereto with respect to the subject matter contained herein, and supersedes all prior agreements or prior understandings, whether written or oral, between the parties relating to such subject matter. The Board or the Committee shall have the right, in its sole discretion, to modify or amend this Agreement from time to time in accordance with and as provided in the Plan; PROVIDED, HOWEVER, that no such modification or amendment shall materially adversely affect the rights of the Optionee under this Option without the consent of the Optionee. The Company shall give written notice to the Optionee of any such modification or amendment of this Agreement as soon as practicable after the adoption thereof. This Agreement may also be modified or amended by a writing signed by both the Company and the Optionee.

9. NOTICES. Any Exercise Notice or other notice which may be required or permitted under this Agreement shall be in writing, and shall be delivered in person or via facsimile transmission, overnight courier service or certified mail, return receipt requested, postage prepaid, properly addressed as follows.

9.1 If such notice is to the Company, to the attention of the Secretary of Brooke Group Ltd., 100 S.E. Second Street, 32nd Floor, Miami, Florida 33131 or at such other address as the Company, by notice to the Optionee, shall designate in writing from time to time.

9.2 If such notice is to the Optionee, at his or her address as shown on the Company's records, or at such other address as the Optionee, by notice to the Company, shall designate in writing from time to time.

10. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to the principles of conflict of laws thereof.

11. COMPLIANCE WITH LAWS. The issuance of this Option (and the Option Shares upon exercise of this Option) pursuant to this Agreement shall be subject to, and shall comply with, any applicable requirements of any federal and state securities laws, rules and regulations (including, without limitation, the provisions of the Securities Act of 1933, the Exchange Act and the respective rules and regulations promulgated thereunder) and any other law or regulation applicable thereto. The Company shall not be obligated to issue this Option or any of the Option Shares pursuant to this Agreement if any such issuance would violate any such requirements.

12. BINDING AGREEMENT; ASSIGNMENT. This Agreement shall inure to the benefit of, be binding upon, and be enforceable by the Company and its successors and assigns. The Optionee shall not assign any part of this Agreement without the prior express written consent of the Company.

13. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same instrument.

14. HEADINGS. The titles and headings of the various sections of this Agreement have been inserted for convenience of reference only and shall not be deemed to be a part of this Agreement.

15. FURTHER ASSURANCES. Each party hereto shall do and perform (or shall cause to be done and performed) all such further acts and shall execute and deliver all such other agreements, certificates, instruments and documents as any party hereto reasonably may request in order to carry out the intent and accomplish the purposes of this Agreement and the Plan and the consummation of the transactions contemplated thereunder.

16. SEVERABILITY. The invalidity or unenforceability of any provisions of this Agreement in any jurisdiction shall not affect the validity, legality or enforceability of the remainder of this Agreement in such jurisdiction or the validity, legality or enforceability of any provision of this Agreement in any other jurisdiction, it being intended that all rights and obligations of the parties hereunder shall be enforceable to the fullest extent permitted by law.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer, and the Optionee has hereunto set his hand, all as of the Date of Grant specified above.

BROOKE GROUP LTD.

By: /s/ Richard J. Lampen

Richard J. Lampen
Executive Vice President

OPTIONEE:

/s/ Ronald S. Fulford

Ronald S. Fulford

SUBSIDIARIES OF THE COMPANY

The following is a list of the active subsidiaries of the Company as of December 31, 1999, indicating the jurisdiction of incorporation of each and the names under which such subsidiaries conduct business. In the case of each subsidiary which is indented, its immediate parent owns beneficially all of the voting securities, except New Valley Corporation, of which BGLS Inc. and New Valley Holdings, Inc. collectively own approximately 55% of such voting securities.

NAME OF SUBSIDIARY -----	JURISDICTION OF INCORPORATION -----
BGLS Inc.	Delaware
Brooke Group Holding Inc.	Delaware
Liggett Group Inc.	Delaware
Brooke (Overseas) Ltd.	Delaware
New Valley Holdings, Inc.	Delaware
New Valley Corporation	Delaware

Not included above are other subsidiaries which, if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary, as such term is defined by Rule 1-02(w) of Regulation S-X.

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (Nos. 333-24217, 333-50189 and 333-59615) of Brooke Group Ltd. of: (i) our report dated March 30, 2000 relating to the financial statements and financial statement schedule, which appears in this Form 10-K (ii) our report dated March 30, 2000 relating to the financial statements of Liggett Group Inc., which appears in Exhibit 99.2 in this Form 10-K (iii) our report dated March 20, 2000 relating to the financial statements and financial statement schedule of New Valley Corporation incorporated by reference as Exhibit 99.3 in this Form 10-K and (iv) our report dated March 2, 2000 relating to the financial statements of Brooke (Overseas) Ltd., which appears in Exhibit 99.4 in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Miami, Florida
March 30, 2000

CONSENT OF INDEPENDENT ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report dated January 23, 1998 in the registration statements on Form S-8 (No. 333-24217, No. 333-50189, and No. 333-59615) of Brooke Group Ltd., relating to the consolidated statements of operations, stockholders' investment and cash flows of Thinking Machines Corporation and subsidiaries for the year ended December 31, 1997, which report appears in the December 31, 1999 annual report on Form 10-K of New Valley Corporation.

/s/ Arthur Andersen LLP

Boston, Massachusetts
March 30, 2000

YEAR	
DEC-31-1999	
JAN-01-1999	
DEC-31-1999	20,123
	64,429
	27,900
	0
	45,205
	188,732
	197,384
	(43,124)
	504,448
226,654	
	148,349
0	
	0
	2,199
	(133,098)
504,448	
	567,045
	567,045
	189,865
	305,177
	295,450
	0
	(54,378)
	313,075
	82,458
236,084	
	1,249
	(1,660)
	0
	235,673
	10.72
	8.80

5
0000927388
BGLS, INC.
1,000

YEAR	
DEC-31-1999	
JAN-01-1999	
DEC-31-1999	19,590
	64,429
	31,798
	0
	45,205
	187,985
	197,357
	(43,111)
	502,521
224,353	
	148,349
0	
	0
	0
	(132,456)
502,521	
	567,045
	567,045
	189,865
	302,966
	296,620
	0
	(57,910)
	312,924
	82,458
235,933	
	1,249
	(1,660)
	0
	235,522
	0
	0

I. GOVERNMENTAL HEALTH CARE RECOVERY ACTIONS

PEOPLE OF THE STATE OF CALIFORNIA, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. BC194217, Superior Court of California, County of Los Angeles (case filed 7/14/98). People seek injunctive relief and economic reimbursement with respect to damages allegedly caused by second-hand smoke.

PEOPLE OF THE STATE OF CALIFORNIA, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 980-864, Superior Court of California, County of San Francisco (case filed 8/5/98). People seek injunctive relief and economic reimbursement with respect to damages allegedly caused by second-hand smoke.

UNITED STATES OF AMERICA V. PHILIP MORRIS, INC., ET AL., Case No. 1:99CV02496, USDC, District of Columbia (case filed 9/22/99). The United States of America seeks to recover health care costs paid for and furnished, and to be paid for and furnished, by the federal government through Medicare and otherwise, for lung cancer, heart disease, emphysema and other smoking-related illnesses

REPUBLIC OF VENEZUELA V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 99-01943-CA-01, Circuit Court of the 11th Judicial Circuit, State of Florida, Miami-Dade County (case filed 1/27/99). The Republic of Venezuela seeks compensatory and injunctive relief for damages incurred by the Republic in paying for the Medicaid expenses of indigent smokers.

THE STATE OF GOIAS, BRAZIL V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 99-24202-CA 02, Circuit Court of the 11th Judicial Circuit, State of Florida-Dade County (case filed 10/19/99). The State of Goias, Brazil seeks compensatory and injunctive relief for damages for personal injuries and misrepresentation of risk regarding the use of tobacco products manufactured by defendants.

COUNTY OF COOK V. PHILIP MORRIS, ET AL., Case No. 97L04550, Circuit Court, State of Illinois, Cook County (case filed 7/21/97). County of Cook seeks to obtain declaratory and equitable relief and restitution as well as to recover money damages resulting from payment by the County for smoking-related medical treatment for its citizens and health insurance for its employees.

COUNTY OF WAYNE V. PHILIP MORRIS INCORPORATED, ET AL., USDC, Eastern District, Michigan. County of Wayne seeks to obtain damages, remediation through tobacco education and anti-addiction programs, injunctive relief, attorneys' fees and costs.

CITY OF ST. LOUIS, ET AL. V. AMERICAN TOBACCO COMPANY, INC., ET AL., Case No. CV-982-09652, Circuit Court, State of Missouri, City of St. Louis, (case filed 12/4/98). City of St. Louis and area hospitals seek to recover past and future costs expended to provide healthcare to Medicaid, medically indigent, and non-paying patients suffering from smoking-related illnesses.

COUNTY OF ST. LOUIS, MISSOURI V. AMERICAN TOBACCO COMPANY, INC., ET AL., Case No. 982-09705, Circuit Court, State of Missouri, City of St. Louis, (case filed 12/10/98). County seeks to recover costs from providing healthcare services to Medicaid and indigent patients, as part of the State of Missouri's terms as a party to the Master Settlement Agreement.

ALLEGHENY GENERAL HOSPITAL, ET AL. V. PHILIP MORRIS, ET AL., Case No. 98-18956, Court of Common Pleas, State of Pennsylvania, Allegheny County (case filed 10/10/98). Hospitals seek to recover past and future costs expended to provide healthcare to Medicaid, medically indigent, and non-paying patients suffering from smoking-related illnesses.

COUNTY OF ALLEGHENY V. THE AMERICAN TOBACCO COMPANY, ET AL; Case No. 99-365, USDC, Western District of Pennsylvania (case filed 3/12/99). County seeks equitable relief and economic reimbursement for moneys expended on payments for healthcare for smokers resident in the County.

THE CROW CREEK SIOUX TRIBE V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. CV 97-09-082, Tribal Court of The Crow Creek Sioux Tribe, State of South Dakota (case filed 9/26/97). Indian tribe seeks equitable and injunctive relief for damages incurred by the tribe in paying for the expenses of indigent smokers.

THE SISSETON-WAHPETON SIOUX TRIBE V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 030399, Tribal Court of the Sisseton-Wahpeton Sioux Tribe, State of North Dakota (case filed 2/3/99). Indian tribe seeks equitable and injunctive relief for damages incurred by the tribe in paying for the expenses of indigent smokers.

REPUBLIC OF BOLIVIA V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 6949*JG99, District Court, State of Texas, Brazoria County, State of Texas (case filed 1/20/99). The Republic of Bolivia seeks compensatory and injunctive relief for damages incurred by the Republic in paying for the Medicaid expenses of indigent smokers.

REPUBLIC OF GUATEMALA V. THE TOBACCO INSTITUTE, INC., ET AL., Case No. 1:98CV01185, USDC, District of Columbia (case filed 5/18/98). The Republic of Guatemala seeks compensatory and injunctive relief for damages incurred by the Republic in paying for the Medicaid expenses of indigent smokers.

REPUBLIC OF NICARAGUA V. LIGGETT GROUP INC., ET AL., Case No. 98-2380 RLA, USDC, District of Puerto Rico (case filed 12/10/98). The Republic of Nicaragua seeks compensatory and injunctive relief for damages incurred by the Republic in paying for the Medicaid expenses of indigent smokers.

REPUBLIC OF PANAMA V. THE AMERICAN TOBACCO COMPANY, INC., ET AL., Case No. 98-17752, Civil District Court, State of Louisiana, Orleans Parish (case filed 10/20/98). The Republic of Panama seeks compensatory and injunctive relief for damages incurred by the Republic in paying for the Medicaid expenses of indigent smokers.

THE KINGDOM OF THAILAND V. THE TOBACCO INSTITUTE, INC., ET AL, Case No. H-99-0320, USDC, Southern District Texas (case filed 3/11/99). The Kingdom of Thailand seeks compensatory and injunctive relief for damages incurred by the Kingdom in paying for the Medicaid expenses of indigent smokers.

THE STATE OF RIO DE JANEIRO OF THE FEDERATED REPUBLIC OF BRAZIL V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. CV-32198, District of Angelina County, State of Texas (case filed 7/12/99). The State of Rio de Janeiro of The Federated Republic of Brazil seeks compensatory and injunctive relief for damages incurred by the Republic in paying for the Medicaid expenses of indigent smokers.

THE STATE OF SAO PAULO V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 20 00-02058, Civil District Court, Louisiana, Parish of Orleans (case filed 2/9/00). The State of Sao Paulo seeks reimbursement of the funds expended on behalf of those injured by and addicted to Defendants' tobacco products.

UKRAINE V. AMERICAN BRANDS, ET AL., Case No. 1:99CV03080, USDC, District of Columbia (case filed 11/19/99). Ukraine seeks compensatory and injunctive relief for damages incurred by the country in paying for the healthcare expenses of resident smokers.

II. THIRD-PARTY PAYOR ACTIONS

UNITED FOOD AND COMMERCIAL WORKERS UNIONS, ET AL. V. PHILIP MORRIS, ET AL., Case No. CV-97-1340, Circuit Court of Tuscaloosa, Alabama (case filed 11/13/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

LABORERS' AND OPERATING ENGINEERS UTILITY AGREEMENT V. PHILIP MORRIS, ET AL., Case No. CIV97-1406 PHX, USDC, District of Arizona (case filed 7/29/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

ARKANSAS CARPENTERS HEALTH & WELFARE FUND V. PHILIP MORRIS, ET AL., Case No. LR-C-97-0754, USDC, Eastern District of Arkansas (case filed 9/4/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

BAY AREA AUTOMOTIVE GROUP WELFARE FUND, ET AL. V. PHILIP MORRIS, INC. ET AL., Case No. 994380, Superior Court of California, County of San Francisco (case filed 4/16/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

FIBREBOARD CORPORATION, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 791919-8, Superior Court of California, County of Alameda (case filed 11/10/97). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

NEWSPAPER PERIODICAL DRIVERS LOCAL 921 SAN FRANCISCO NEWSPAPER AGENCY HEALTH & WELFARE TRUST FUND V. PHILIP MORRIS, ET AL., Case No. 404469, Superior Court of California, County of San Mateo, (case filed 4/15/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

NORTHERN CALIFORNIA GENERAL TEAMSTERS SECURITY FUND, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. 798492-9, Superior Court of California, County of Alameda (case filed 5/22/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

NORTHERN CALIFORNIA TILE INDUSTRY HEALTH & WELFARE TRUST FUND V. PHILIP MORRIS, INC., ET AL., Case No. 996822, Superior Court of California, County of San Francisco (case filed 5/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

OPERATING ENGINEERS LOCAL 12 HEALTH AND WELFARE TRUST V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. CV-97-7620 TJH, USDC, Central District of California (case filed 11/6/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its

participants and beneficiaries suffering from smoking-related illnesses.

PIPE TRADES DISTRICT COUNCIL NO. 36 HEALTH AND WELFARE TRUST FUND V. PHILIP MORRIS, INC., ET AL., Case No. 797130-1, Superior Court of California, County of Alameda (case filed 4/16/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

SAN FRANCISCO NEWSPAPER PUBLISHERS AND NORTHERN CALIFORNIA NEWSPAPER GUILD HEALTH & WELFARE TRUST V. PHILIP MORRIS, INC., ET AL., Case No. 994409, Superior Court of California, County of San Francisco (case filed 4/17/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

SCREEN ACTORS GUILD - PRODUCERS HEALTH PLAN, ET AL. V. PHILIP MORRIS, ET AL., Case No. DC181603, Superior Court of California, County of Los Angeles (case filed 11/20/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

THE SEIBELS BRUCE GROUP, INC. V. R.J. REYNOLDS, ET AL, Case No. 300235, Superior Court of California, County of San Francisco (case filed 12/30/98). Insurance company seeks to recover equitable contribution from the tobacco industry defendants for the amount that has been, and will be paid by plaintiff for past and future defense and indemnification costs.

SIGN, PICTORIAL AND DISPLAY INDUSTRY WELFARE FUND V. PHILIP MORRIS, INC., ET AL., Case No. 994403, Superior Court of California, County of San Francisco (case filed 4/16/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

STATIONARY ENGINEERS LOCAL 39 HEALTH & WELFARE TRUST FUND V. PHILIP MORRIS, ET AL., Case No. C-97-1519-DLJ, USDC, Northern District of California (case filed 4/25/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

TEAMSTERS BENEFIT TRUST V. PHILIP MORRIS, ET AL., Case No. 796931-5, Superior Court of California, County of Alameda (case filed 4/20/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

UA LOCAL NO. 159 HEALTH AND WELFARE TRUST FUND V. PHILIP MORRIS, INC., ET AL., Case No. 796938-8, Superior Court of California, County of Alameda (case filed 4/15/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

UA LOCAL NO. 343 HEALTH AND WELFARE TRUST FUND V. PHILIP MORRIS, INC., ET AL., Case No. 796956-4, Superior Court of California, County of Alameda. Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

UA LOCAL NO. 393 HEALTH AND WELFARE TRUST FUND V. PHILIP MORRIS, INC., ET AL., Case No. 798474-3, Superior Court of California, County of Alameda (case filed 5/21/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

UA LOCAL NO. 467 HEALTH AND WELFARE TRUST FUND V. PHILIP MORRIS, INC., ET AL., Case No. 404308, Superior Court of California, County of San Mateo. Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

CONNECTICUT PIPE TRADES HEALTH FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. 397CV01305CT, USDC, District of Connecticut (case filed 7/17/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

HOLLAND, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. 1:98CV01716, USDC, District of Columbia (case filed 7/9/98). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

S.E.I.U. LOCAL 74 WELFARE FUND, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. 1:98CV01569, USDC, District of Columbia (case filed 6/22/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

SERVICE EMPLOYEES INTERNATIONAL UNION HEALTH AND WELFARE TRUST FUND, ET AL. V. PHILIP MORRIS, INC. ET AL., Case No. 1:98CV00704, USDC, District of Columbia (case filed 3/19/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

SHEET METAL WORKERS TRUST FUND, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. 1:99CV02326, USDC, District of Columbia (case filed 8/31/99). Sheet Metal Workers Trust Fund seeks to obtain injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to their participants and beneficiaries suffering from smoking-related illnesses.

RAYMARK INDUSTRIES, INC. V. BROWN & WILLIAMSON, ET AL., Case No. 1:97-CV-2711-RCF, USDC, Northern District of Georgia (case filed 11/5/97). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

ARKANSAS BLUE CROSS AND BLUE SHIELD, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 98 C 2612, USDC, Northern District of Illinois (case filed 5/22/98). Seven Blue Cross/Blue Shield plans seek injunctive relief and economic reimbursement to recover moneys expended by healthcare plans to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

CENTRAL ILLINOIS LABORERS HEALTH & WELFARE TRUST FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. 97-L516, USDC, Southern District of Illinois (case filed 5/22/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

CENTRAL STATES JOINT BOARD HEALTH & WELFARE FUND V. PHILIP MORRIS, ET AL., Case No. 97L12855, USDC, Northern District of Illinois (case filed 10/30/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

INTERNATIONAL BROTHERHOOD OF TEAMSTERS, LOCAL 734 HEALTH & WELFARE TRUST FUND V. PHILIP MORRIS, ET AL., Case No. 97L12852, USDC, Northern District of Illinois (case filed 10/30/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

TEAMSTERS UNION NO. 142, ET AL. V. PHILIP MORRIS, ET AL., Case No. 71C019709CP01281, USDC, Northern District of Indiana (case filed 9/15/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Union Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

KENTUCKY LABORERS DISTRICT COUNCIL HEALTH & WELFARE TRUST FUND V. PHILIP MORRIS, ET AL., Case No.3-97-394, USDC, Western District of Kentucky (case filed 6/20/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Trust Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

ARK-LA-MISS LABORERS WELFARE FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. 97-1944, USDC, Eastern District of Louisiana (case filed 6/20/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

MASSACHUSETTS LABORERS' HEALTH & WELFARE FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. C.A. 97-2892G, Superior Court of Massachusetts, Suffolk County (case filed 6/2/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

CARPENTERS & JOINERS WELFARE FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. 60,633-001, USDC, District of Minnesota (case filed 12/31/97). Health and Welfare Trust Plan seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

CONWED CORPORATION, ET AL. V. R.J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. C1-98-3620, District Court, Ramsey County, State of Minnesota (case filed 4/30/98). Plaintiffs operate several industrial plants in the state of Minnesota, and seek reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

GROUP HEALTH PLAN, INC., ET AL. V. PHILIP MORRIS, ET AL., Case No. 98-1036 DSD/JMM, USDC, Second Judicial District, Ramsey County, State of Minnesota (case filed 3/13/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

THOMAS, EZELL, ET AL. V. R.J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 96-0065, Circuit Court of Mississippi, Jefferson County (case filed 10/9/98). Plaintiffs in this putative personal injury class

action seek a judgment against both tobacco companies and asbestos companies, and represent all similarly situated adult smokers resident in the state of Mississippi. Owens Corning Fiberglass is also a plaintiff in this action and seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

CONSTRUCTION LABORERS OF GREATER ST. LOUIS WELFARE FUND, Case No. 4:97CV02030ERW, USDC, Eastern District of Missouri (case filed 12/1/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

CONTRACTORS, LABORERS, TEAMSTERS & ENGINEERS HEALTH & WELFARE PLAN V. PHILIP MORRIS, INC. ET AL., Case No. 8:98CV364, USDC, District of Nebraska (case filed 8/17/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

NEW JERSEY CARPENTERS HEALTH FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. 97-3421, USDC, District of New Jersey (case filed 10/7/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

BLUE CROSS AND BLUE SHIELD OF NEW JERSEY, ET AL. V. PHILIP MORRIS, INCORPORATED, ET AL., Case No. CV-98-3287(JBW), USDC, Eastern District of New York (case filed 4/29/98). Twenty-five health plans seek to recover moneys expended on healthcare costs purportedly attributed to smoking-related diseases caused by Defendants.

DAY CARE COUNCIL-LOCAL 205 D.C. 1707 WELFARE FUND V. PHILIP MORRIS, ET AL., Case No. 606240/97, Supreme Court of New York, New York County (case filed 12/4/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

EASTERN STATES HEALTH AND WELFARE FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. 603869/97, Supreme Court of New York, New York County (case filed 7/28/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

FALISE V. THE AMERICAN TOBACCO CO., ET AL., Case No. CV 97-7640(JBW), USDC, Eastern District of New York (case filed 11/31/97). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

H.K. PORTER COMPANY, INC. V. B.A.T. INDUSTRIES, P.L.C., ET AL., Case No. 97-7658(JBW), USDC, Eastern District of New York (case filed 6/19/98). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

IBEW LOCAL 25 HEALTH AND BENEFIT FUND V. PHILIP MORRIS, ET AL., Case No. 122255/97, Supreme Court of New York, New York County (case filed 11/25/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

IBEW LOCAL 363 WELFARE FUND V. PHILIP MORRIS, ET AL., Case No. 122254/97, Supreme Court of New York, New York County (case filed 11/25/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

KEENE CREDITORS TRUST V. BROWN & WILLIAMSON TOBACCO CORP., ET AL., Case No. 606479/97, Supreme Court of New York, New York County (case filed 12/19/97). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

LABORERS' LOCAL 17 HEALTH BENEFIT FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. 98-7944, 2nd Circuit Court of Appeals, State of New York (case filed 7/17/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and benefactors suffering from smoking-related illnesses.

LOCAL 1199 HOME CARE INDUSTRY BENEFIT FUND V. PHILIP MORRIS, ET AL., Case No. 606249/97, Supreme Court of New York, New York County (case filed 12/4/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

LOCAL 1199 NATIONAL BENEFIT FUND FOR HEALTH & HUMAN SERVICES EMPLOYEES V. PHILIP MORRIS, ET AL., Case No. 606241/97, Supreme Court of New York, New York County (case filed 12/4/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

LOCAL 138, 138A & 138B INTERNATIONAL UNION OF OPERATING ENGINEERS WELFARE FUND V. PHILIP MORRIS, ET AL., Case No. 122257/97, Supreme Court of New York, New York County (case filed 11/25/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

LOCAL 840 INTERNATIONAL BROTHERHOOD OF TEAMSTERS HEALTH & INSURANCE FUND V. PHILIP MORRIS, ET AL., Case No. 122256/97, Supreme Court of New York, New York County (case filed 11/25/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

LONG ISLAND REGIONAL COUNCIL OF CARPENTERS WELFARE LOCAL 840 INTERNATIONAL BROTHERHOOD OF TEAMSTERS HEALTH & INSURANCE FUND V. PHILIP MORRIS, ET AL., Case No. 122258/97, Supreme Court of New York, New York County (case filed 11/25/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

NATIONAL ASBESTOS WORKERS MEDICAL FUND, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 98-1492, USDC, Eastern District of New York (case filed 3/23/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

PUERTO RICAN ILGWU HEALTH & WELFARE FUND V. PHILIP MORRIS, ET AL., Case No. 604785-97, Supreme Court of New York, New York County (case filed 11/25/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

RAYMARK INDUSTRIES, INC. V. BROWN & WILLIAMSON, ET AL., Case No. 98-CV-675, USDC, Eastern District of New York (case filed 5/21/98). Asbestos company seeks reimbursement for damages paid to asbestos victims for medical and other relief, which damages allegedly are attributable to the tobacco companies.

UNITED FEDERATION OF TEACHERS WELFARE FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. 97-CIV-4676, USDC, Southern District of New York (case filed 7/17/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

UNR ASBESTOS-DISEASE CLAIMS TRUST V. BROWN & WILLIAMSON, ET AL., Case No. 105152/99, Supreme Court of the State of New York, New York County (case filed 3/15/99). The Trust brings this action to recover contribution, indemnity and/or reimbursement from the tobacco defendants.

STEAMFITTERS LOCAL UNION NO. 420 WELFARE FUND, ET AL. V. PHILIP MORRIS, INC, ET AL., Case No. 97-CV-5344, USDC, Eastern District of Pennsylvania (case filed 10/7/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

RHODE ISLAND LABORERS' HEALTH & WELFARE FUND V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 97-500L, USDC, District of Rhode Island (case filed 10/24/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

STEAMFITTERS LOCAL UNION NO. 614 HEALTH AND WELFARE FUND V. PHILIP MORRIS, ET AL., Case No. 92260-2, Circuit Court for the 30th Judicial District at Memphis, State of Tennessee (case filed 1/7/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

TEXAS CARPENTERS HEALTH BENEFIT FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. 1:97C0625, USDC, Eastern District of Texas (case filed 11/7/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

UTAH LABORERS' HEALTH AND WELFARE TRUST FUND, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 2:98CV403C, USDC, District of Utah, Central Division (case filed 6/11/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

ASSOCIATION OF WASHINGTON PUBLIC HOSPITAL DISTRICTS, ET AL V. PHILIP MORRIS INCORPORATED, ET AL, Case No. C98-1675, USDC, Western District of Washington (case filed 3/17/99). Public Hospital Districts seek injunctive relief and economic reimbursement to recover moneys expended in providing medical treatment to its patients suffering from smoking-related illnesses.

NORTHWEST LABORERS-EMPLOYERS HEALTH & SECURITY TRUST FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. C97-849-WD, USDC, Western District of Washington (case filed 6/26/97). Health and Welfare Trust Fund seeks economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

REGENCE BLUESHIELD, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. C98-559R, USDC, Western District of Washington (case filed 4/29/98). Blue Cross/Blue Shield plans seek injunctive relief and economic reimbursement to recover moneys expended by healthcare plans to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

WEST VIRGINIA LABORERS' PENSION TRUST FUND V. PHILIP MORRIS, ET AL., Case No. 397-0708, USDC, Southern District of West Virginia (case filed 8/27/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

WEST VIRGINIA - OHIO VALLEY AREA I.B.E.W., ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 97-C-2135, USDC, Southern District of West Virginia (case filed 9/19/97). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

MILWAUKEE CARPENTERS? DISTRICT COUNCIL HEALTH FUND, ET AL. V. PHILIP MORRIS, ET AL., Case No. 98CV002394, Circuit Court of Wisconsin, Milwaukee County (case filed 3/30/98). Health and Welfare Trust Fund seeks injunctive relief and economic reimbursement to recover moneys expended by Fund to provide medical treatment to its participants and beneficiaries suffering from smoking-related illnesses.

III. CLASS ACTION CASES

CROZIER, ET AL. V. AMERICAN TOBACCO COMPANY, ET AL., Case No. CV 96-1508 PR, Circuit Court of Montgomery County, Alabama (case filed 8/2/96). This taxpayer class action seeks reimbursement of Medicaid expenses made by the government of the State of Alabama for smokers resident in Alabama allegedly injured by tobacco products.

THE NAVAJO NATION V. PHILIP MORRIS, INCORPORATED, ET AL., Case No. WR-CV-449-99, District Court of the Navajo Nation, Judicial District of Window Rock, Arizona (case filed 8/11/99). The Navajo nation seeks civil penalties, damages, remediation through tobacco education and anti-addiction programs, injunctive relief, attorney's fees and cost.

HANSEN, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. LR-C-96-881, USDC, Eastern District of Arkansas (case filed 4/4/97). This "addiction-as-injury" class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in Arkansas.

BROWN, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 711400, Superior Court of California, County of San Diego (case filed 10/1/97). This class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in California.

DANIELS, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 719446, Superior Court of California, County of San Diego (case filed 8/13/98). This class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in California.

PECHANGA BAND OF LUISENO MISSION INDIANS, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. 725419, Superior Court of California, County of San Diego (case filed 10/30/98). This class action is brought on behalf of plaintiff tribe and all similarly situated American Indian smokers resident in California.

SMOKERS FOR FAIRNESS, LLC, ET AL. V. THE STATE OF CALIFORNIA, ET AL., Case No. 7076751, Superior Court of California, County of San Diego (case filed 9/25/98). Plaintiffs bring this class action on behalf of all similarly situated adult smokers resident in the State of California.

HARRIS, ET AL. V. BILL OWENS, ET AL., Case No. 99-S-953, USDC, District of Colorado (case filed 5/19/99). This class action is brought on behalf of all persons, including the estates of those deceased persons who received medical assistance paid for by Medicaid in Colorado for a smoking-related disease or illness whose claim for past and future medical expenses were assigned to the State of Colorado and whose claims were released by the State of Colorado in the Master Settlement Agreement entered between the State of Colorado and the Tobacco Company Defendants.

REED, ET AL. V. PHILIP MORRIS, ET AL., Case No. 96-05070, Superior Court of the District of Columbia (case filed 6/21/96). This "addiction-as-injury" class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in the District of Columbia.

ENGLE, ET AL. V. R.J. REYNOLDS, ET AL., Case No. 94-08273 CA 20, Circuit Court, State of Florida, Dade County (case filed 5/5/94). This class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Florida. The case was certified as a class action on October 31, 1994. Trial commenced in July 1998. In July 1999, the jury returned a verdict with respect to Phase I of the trial finding the companies liable on various tort, warranty and conspiracy theories, and determined a possible cause for punitive damages. Phase II of the trial, which is to include a compensatory damages trial as to three of the class representatives and a punitive damages trial as to the class, commenced on November 1, 1999.

PETERSON, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 97-0490-02, First Circuit Court of the First Circuit, State of Hawaii (case filed 2/6/97). This "addiction-as-injury" class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in Hawaii.

CLAY, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 97-4167-JPG, USDC, Southern District of Illinois (case filed 5/22/97). This "addiction-as-injury" class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in 34 states.

CLEARY, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. 98 L06427, Circuit Court of the State of Illinois, Cook County (case filed 6/11/98). This class action is brought on behalf of plaintiff and all similarly situated smokers resident in Illinois.

NORTON, ET AL. V. R.J. REYNOLDS, ET AL., Case No. 48-D01-9605-CP-0271, Superior Court of Indiana, Madison County (case filed 5/3/96). This class action is brought on behalf of plaintiff and all similarly situated injured smokers resident in Indiana.

BRAMMER, ET AL. V. R.J. REYNOLDS, ET AL., Case No. 4-97-CV-10461, USDC, Southern District of Iowa (case filed 6/30/97). This "addiction-as-injury" class action is brought on behalf of plaintiffs and all similarly situated allegedly addicted smokers resident in Iowa.

CASTANO, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 95-30725, USDC, Eastern District of Louisiana (case filed 3/29/94). This case was settled by Liggett and Brooke on March 12, 1996. Nationwide "addiction-as-injury" class action was decertified by the Fifth Circuit in May 1996.

GRANIER, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., USDC, Eastern District of Louisiana (case filed 9/29/94). This case currently is stayed pursuant to a decision in CASTANO.

YOUNG, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 2:97-CV-03851, Civil District Court, State of Louisiana, Orleans Parish (case filed 11/12/97). This class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Louisiana.

RICHARDSON, ET AL. V. PHILIP MORRIS, ET AL., Case No. 96145050/CL212596, Circuit Court, Baltimore City, Maryland (case filed on 5/29/96). This "addiction-as-injury" class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in Maryland.

BAKER, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 97-703444-NP, Circuit Court of Michigan, Wayne County (case filed 2/4/97). This class action is brought on behalf of plaintiff and all similarly situated allegedly injured adult smokers resident in Michigan.

TAYLOR, TERRY, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 97-715975, Circuit Court of Michigan, Wayne County (case filed 7/28/97). This class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Michigan.

COLLIER, ET AL. V. PHILIP MORRIS, ET AL., Case No. 1:98 cv 246RG, USDC, Southern District of Mississippi (case filed 6/5/98). This class action is brought on behalf of all non-smoking policemen and seamen employed in the United States who allegedly have been injured by exposure to second hand smoke.

JACKSON, ET AL. V. R. J. REYNOLDS, ET AL., Case No., Circuit Court, State of Mississippi, Jefferson County. This class action seeks judgment from both the Tobacco Defendants and the Asbestos Defendants for joint and several liability.

WHITE, HENRY LEE, ET AL. V. PHILIP MORRIS, ET AL., Case No. 5:97-CV-91BRS, Chancery Court of Mississippi, Jefferson County (case filed 4/24/97). This class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Mississippi.

BADILLO, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. CV-N-97-573-HDM (RAM), USDC, District of Nevada (case filed 11/4/97). This action is brought on behalf of all Nevada casino workers that allegedly have been injured by exposure to second-hand smoke.

DIENNO, VITO AND MARTIN N. HALLNAN, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. CV-S-98-489-DWH (RLH), District Court, Clark County, Nevada (case filed 12/22/97). This class action is brought on behalf of all Nevada casino workers that allegedly have been injured by exposure to second-hand smoke.

SELCER, ET AL. V. R.J. REYNOLDS, ET AL., Case No. CV-S-97-00334-PMP (RLH), USDC, District of Nevada (case filed 9/3/97). This class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Nevada.

AVALLONE, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. MID-L-4883-98, Superior Court of New Jersey, Middlesex County (case filed 5/5/98). This class action is brought on behalf of plaintiff and

all similarly situated non-smokers allegedly injured from exposure to second hand smoke resident in New Jersey.

CONSENTINO, ET AL. V. PHILIP MORRIS, ET AL., Case No. L-5135-97, Superior Court of New Jersey, Law Division, Middlesex County (case filed 5/21/97). This "addiction-as-injury" class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in New Jersey.

PISCITELLO, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. 98-CIV-4613, Superior Court of New Jersey, Middlesex County (case filed 3/6/98). This "addiction-as-injury" class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in New Jersey.

TEPPER AND WATKINS, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. BER-L-4983-97-E, Superior Court of New Jersey, Middlesex County (case filed 5/28/97). This class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in New Jersey.

BERGERON, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. CV 99 6142, USDC, State of New York, Eastern District (case filed 10/8/99). This class action seeks is brought on behalf of the trustees and fiduciaries of the Massachusetts State Carpenters Health and Benefits Funds on behalf of themselves and other similarly situated trustees of Taft Hartley Health & Welfare funds.

GEIGER, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Index No. 10657/97, Supreme Court of New York, Queens County (case filed 1/12/97). This class action is brought on behalf of plaintiff and all similarly situated injured smokers resident in New York.

NWANZE, ET AL. V. PHILIP MORRIS, ET AL., Case No. 97-CIV-7344, USDC, Southern District of New York (case filed 10/17/97). This class action is brought on behalf of all prisoners nationwide that have allegedly been injured by exposure to second-hand smoke.

STURGEON, ET AL. V. PHILIP MORRIS INC, ET AL., Case No CV 99 1998, USDC, Eastern District of New York (case filed 4/9/99), This class action is brought on behalf of plaintiffs seeking certification of a nationwide class under the applicable provisions of Rule 23 of the Federal Rules of Civil Procedure, on behalf of persons who have smoked defendant's cigarettes and who presently have a claim for injuries or damages, or wrongful death, arising from the smoking of defendants' cigarettes.

CREEKMORE, ESTATE OF, ET AL. V. BROWN & WILLIAMSON TOBACCO CORPORATION, ET AL., Case No. 98 CV 03403, Superior Court of North Carolina, Buncombe County (case filed 11/19/98). This class action is brought on behalf of plaintiffs and all similarly situated allegedly injured smokers resident in North Carolina.

NORTH CAROLINA REPUBLIC, ET AL. V. LIGGETT & MYERS, This class action demands compensation and seeks recovery of treble damages for injuries resulting from defendant(s) being found guilty of various crimes and/or misdemeanors pertaining to public health, including antitrust laws of the United States.

STATE OF NORTH CAROLINA, EX REL. V, PHILIP MORRIS INCORPORATED, ET AL., Case No. 98 CVS 14377, General Court of Justice, Superior Court Division (case filed 11/5/99). Plaintiffs bring this class action for themselves and all others similarly situated constitute classes of citizens having direct and substantial interests and in the settlements between the State of North Carolina and the defendants.

CHAMBERLAIN, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 1:96CV2005, USDC, Northern District of Ohio (case filed 8/20/97). This "addiction-as-injury" class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in Ohio.

BARNES, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 96-5903, USDC, Eastern District of Pennsylvania (case filed 8/8/96). This "addiction-as-injury" class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in Pennsylvania.

BROWN, REV. JESSE, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. 98-CV-5518, USDC, Eastern District of Pennsylvania (case filed 10/22/98). This civil rights class action is brought by several national African-American organizations, on behalf of all African-Americans resident in the United States who have smoked menthol cigarettes.

SWEENEY, ET AL. V. AMERICAN TOBACCO COMPANY, ET AL., Case No. GD98-16226, Court of Common Pleas, State of Pennsylvania, Allegheny County (case filed 10/15/98). This class action is brought on behalf of all current smokers who began smoking prior to the age of eighteen resident in the State of Pennsylvania.

AKSAMIT, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 6:97-3636-21, USDC, District of South Carolina, Greenville Division (case filed 11/24/97). This class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in South Carolina.

NEWBORN, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-2938 GV, USDC, Western District of Tennessee (case filed 10/1/97). This class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Tennessee.

MASON, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 7-97CV-293-X, USDC, Northern District of Texas (case filed 12/23/97). This nationwide taxpayer class action seeks reimbursement of Medicare expenses made by the United States government.

HERRERA, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 2:98-CV-00126, USDC, District of Utah (case filed 1/28/98). This class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers under the age of nineteen (at time of original filing) resident in Utah.

JACKSON, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. 980901634PI, 3rd Judicial Court of Utah, Salt Lake County (case filed 3/10/98). This "addiction-as-injury" class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Utah.

INGLE, ET AL. V. PHILIP MORRIS, ET AL., Case No. 97-C-21-S, Circuit Court, State of West Virginia, McDowell County (case filed 2/4/97). This class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in West Virginia.

MCCUNE V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 97-C-204, Circuit Court, State of West Virginia, Kanawha County (case filed 1/31/97). This "addiction-as-injury" class action is brought on behalf of plaintiff and all similarly situated allegedly addicted smokers resident in West Virginia.

PARSONS, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 98-C-388, Circuit Court, State of West Virginia, Kanawha County (case filed 4/9/98). This class action is brought on behalf of all West Virginia residents having claims for injury arising from exposure to both cigarette smoke and asbestos fibers.

WALKER, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 2:97-0102, USDC, Southern District of West Virginia (case filed 2/12/97). Nationwide class certified and limited fund class action settlement preliminarily approved with respect to Liggett and Brooke Group on May 15, 1997. Class decertified and preliminary approval of settlement withdrawn by order of district court on August 5, 1997, which order currently is on appeal to the Fourth Circuit.

INSOLIA, ET AL. V. PHILIP MORRIS, ET AL., Case No. 97-CV-230-J, Circuit Court of Wisconsin, Rock County (case filed 4/4/97). This class action is brought on behalf of plaintiff and all similarly situated allegedly injured smokers resident in Wisconsin.

BOWDEN, ET AL. V. R.J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 98-0068-L, USDC, Western District of Virginia (case filed 1/6/99). This class action is brought on behalf of plaintiff and all similarly situated injured smokers resident in Virginia.

FLETCHER, ET AL. V. BROOKE GROUP LTD., Civil Action No. 97-913, Circuit Court of Mobile County, Alabama (Case filed 3/19/97). Nationwide class of individuals alleging smoking-related claims. The limited fund settlement was preliminarily approved by the court in December 1998. Final approval of the limited fund settlement was denied on July 22, 1999. A motion for reconsideration of that order presently is pending.

IV. INDIVIDUAL SMOKER CASES

SPRINGER V. LIGGETT GROUP INC. AND LIGGETT & MYERS, INC., Case No. LR-C-98-428, USDC, Eastern District of Arkansas (case filed 7/19/98). Two individuals suing. Liggett only defendant.

BAKER, ET AL V. SAFEWAY, INC., ET AL., Case No. 304532, Superior Court of California, County of San Francisco(case filed 6/28/99). Two individuals suing.

COLFIELD, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. CIV S-98-1695, USDC, Eastern District of California (case filed 9/3/98). Eleven individuals suing.

COOK, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. CIV. S-98-1698, USDC, Eastern District of California (case filed 9/2/98). Eight individuals suing.

CRAYTON V. SAFEWAY, INC., ET AL., Case No. RDC 820871-0, Superior Court, Alameda County, California (case filed 1/18/00). One individual suing.

DONALDSON, ET AL. V. RAYBESTOS MANHATTAN, INC., ET AL., Case No.998147, Superior Court of California, County of San Francisco (case filed 9/25/98). Two individuals suing.

ELLIS V. THE AMERICAN TOBACCO CO., ET AL., Case No. 804002, Superior Court of California, County of Orange (case filed 1/13/99). One individual suing.

GUZMAN, ET AL. V. PHILIP MORRIS TOBACCO COMPANY, ET AL., Case No. 300200, Superior Court of California, County of San Francisco (case filed 12/29/98). Four individuals suing.

HELT, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. CIV S-98-1697, USDC, Eastern District of California (case filed 9/3/98). Eight individuals suing.

JONES V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 812307, Superior Court, State of California, County of Orange (case filed 7/26/99). One individual suing.

MAGGARD, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. CV779940, Superior Court, State of California, Santa Clara County (case filed 2/16/99). Two individuals suing.

REIN V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 807453-1, Superior Court of California, County of Alameda (case filed 5/5/99). One individual suing.

REYNOLDS, ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. SC024107, Superior Court of California, County of Ventura (case filed 10/04/99) . Two individuals suing.

ROBINSON, ET AL. V. RAYBESTOS-MANHATTAN, INC., ET AL., Case No. 996378, Superior Court of California, County of San Francisco (case filed 7/23/98). Two individuals suing.

ROVAI V. RAYBESTOS-MANHATTAN, ET AL., Case No. 996380, Superior Court of California, County of San Francisco (case filed 7/23/98). One individual suing.

SELLERS, ET AL. V. RAYBESTOS-MANHATTAN, ET AL., Case No. 996382, Superior Court of California, County of San Francisco (case filed 7/23/98). Two individuals suing.

SHAFFER V. THE AMERICAN TOBACCO COMPANY, INC., ET AL., Case No. 99AD06057, Superior Court, Sacramento County, California (case filed 10/29/99). One individual suing.

STERN, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. M37696, Superior Court of California, County of Monterey (case filed 4/28/97). Two individuals suing.

ADAMS V. R.J. REYNOLDS, ET AL., Case No. 97 05442, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 4/10/97). Two individuals suing.

ALLMAN V. LIGGETT GROUP INC., ET AL., Case No. 97-91348 CICI, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 6/2/97). Two individuals suing.

ALTIERI V. PHILIP MORRIS, ET AL., Case No. CI 97-4289, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 8/12/97). One individual suing.

ARMAND V. PHILIP MORRIS, ET AL., Case No. 97-31179-CICI, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 7/9/97). Two individuals suing.

ATCHESON V. R.J. REYNOLDS, ET AL., Case No. 97-31148-CICU, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 7/29/97). One individual suing.

ATKINS V. R.J. REYNOLDS, ET AL., Case No. CI97-6597, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 9/16/97). One individual suing.

BAILEY, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 97-18056 CA15, Circuit Court of the 11th Judicial Circuit, State of Florida, Duval County (case filed 8/18/97). Two individuals suing.

BARTLEY, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-11153, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 6/21/97). Two individuals suing.

BLAIR V. R.J. REYNOLDS, ET AL., Case No. 97-31177, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 7/29/97). One individual suing.

BLANK V. PHILIP MORRIS, ET AL., Case No. 97-05443, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 4/10/97). Two individuals suing.

BOUCHARD V. PHILIP MORRIS, ET AL., Case No. 97-31347, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 6/2/97). Two individuals suing.

BRONSTEIN, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-008769, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 6/10/97). Two individuals suing.

BROWN V. BROWN & WILLIAMSON, ET AL., Case No. CI-97-5050, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 9/16/97). Two individuals suing.

BURNS, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 97-11175-27, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 4/3/98). One individual suing.

CLARK V. LIGGETT GROUP INC., Case No. 95-3333-CA, Circuit Court of the 4th Judicial Circuit, State of Florida, Dade County (case filed 8/18/95). One individual suing. Liggett only defendant.

COWART V. LIGGETT GROUP INC, ET AL., Case No.98-01483CA, Circuit Court of the 11th Judicial Circuit, State of Florida, Duval County (case filed 3/16/98). One individual suing.

DAVIS, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 97-11145, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 7/21/97). One individual suing.

DAVISON, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97008776, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 6/10/97). Two individuals suing.

DE LA TORRE, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-11161, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 7/21/97). One individual suing.

DELL V. PHILIP MORRIS, ET AL., Case No.97 1023-CA-10-A, Circuit Court of the 18th Judicial Circuit, State of Florida, Seminole County (case filed 7/29/97). One individual suing.

DICK V. LIGGETT GROUP INC., ET AL., Case No. CI 97-4544, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 8/21/97). Two individuals suing.

DILL V. PHILIP MORRIS, ET AL., Case No. 97-05446, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 4/10/97). One individual suing.

DOUGHERTY V. PHILIP MORRIS INC., ET AL., Case No. 1999 32074 CICI, Circuit Court, State of Florida, Volusia County (case filed 11/17/99). One individual suing.

DOYLE, ET AL. V. PHILIP MORRIS, ET AL., Case No. 97-627-CA, Circuit Court of the 7th Judicial Circuit, State of Florida, Flagler County (case filed 9/16/97). Two individuals suing.

DRISCOLL V. R.J. REYNOLDS, ET AL., Case No. 97 1049-CA-10, Circuit Court of the 18th Judicial Circuit, State of Florida, Seminole County (case filed 7/29/97). Two individuals suing.

DUECKER V. LIGGETT GROUP INC., Case No. 98-03093 CA, Circuit Court of the 4th Judicial Circuit, State of Florida, Duval County (case filed 7/5/98). One individual suing. Liggett only defendant.

EASTMAN V. BROWN & WILLIAMSON TOBACCO CORP., ET AL., Case No. 01-98-1348, Circuit Court of the 13th Judicial Circuit, State of Florida, Hillsborough County (case filed 3/11/98). One individual suing.

FISCHETTI V. R.J. REYNOLDS, ET AL., Case No. CI 97-9792, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 11/17/97). One individual suing.

FLAKS, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-008750, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 6/10/97). Two individuals suing.

GARRETSON, ET UX. V. R.J. REYNOLDS, ET AL., Case No. 97-32441 CICI, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 10/22/96). One individual suing.

GOLDBERG, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 97-008780, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 6/10/97). Two individuals suing.

GRAY, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 97-21657 CA 42, Circuit Court of the 11th Judicial Circuit, State of Florida, Putnam County (case filed 10/15/97). Two individuals suing.

HABIB V. R.J. REYNOLDS, ET AL., Case No. 97-30960 CICI, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 7/10/97). One individual suing.

HALEN V. R.J. REYNOLDS, ET AL., Case No. CL 96005308, Circuit Court of the 15th Judicial Circuit, State of Florida, Palm Beach County (case filed 6/19/96). One individual suing.

HARRIS, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-1151, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 7/21/97). Two individuals suing.

HART, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 9708781, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 6/10/97). One individual suing.

HAYES, ET AL. V. R.J. REYNOLDS, ET AL., Case No. 97-31007, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 6/30/97). Two individuals suing.

HENIN V. PHILIP MORRIS, ET AL., Case No. 97-29320 CA 05, Circuit Court of the 11th Judicial Circuit, State of Florida, Dade County (case filed 12/26/97). One individual suing.

HENNING. ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-11159, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 7/21/97). Two individuals suing.

HITCHENS, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97008783, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 6/10/97).

HUMPAL, ET AL. V. R.J. REYNOLDS, ET AL., Case No. 97-10456 CIDL, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 6/30/97). Two individuals suing.

KATZ V. BROWN & WILLIAMSON, ET AL., Case No. 95-15307-CA-01, USDC, Southern District of Florida (case filed 8/3/95). One individual suing. Plaintiff has dismissed all defendants except Liggett Group Inc.

KALOUSTIAN V. LIGGETT GROUP INC., ET AL., Case No. 95-5498, Circuit Court for the 13th Judicial Circuit, State of Florida, Hillsborough County (case filed 8/28/95). Two individuals suing.

KRUEGER, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 96-1692-CIV-T-24A, USDC, Middle District of Florida (case filed 8/30/96). Two individuals suing.

LAPPIN V. R.J. REYNOLDS, ET AL., Case No. 97-31371 CICI, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 6/2/97). One individual suing.

LASCHKE, ET AL. V. R.J. REYNOLDS, ET AL., Case No. 96-8131-CI-008, Circuit Court of the 6th Judicial Circuit, State of Florida, Pinellas County (case filed 12/20/96). Two individuals suing.

LASS V. R.J. REYNOLDS, ET AL., Case No. 96-04469, Circuit Court of the 4th Judicial Circuit, State of Florida, Duval County (case filed 12/23/96). Two individuals suing.

LEOMBRUNO, ET AL. V. PHILIP MORRIS, ET AL., Case No. CI 97-4540, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 9/16/97). Two individuals suing.

LEVINE V. R.J. REYNOLDS, ET AL., Case No. CL 95-98769 (AH), Circuit Court of the 15th Judicial Circuit, State of Florida, Palm Beach County (case filed 7/24/96). One individual suing.

LOBLEY V. PHILIP MORRIS, ET AL., Case No. 97-1033-CA-10-L, Circuit Court of the 18th Judicial Circuit, State of Florida, Seminole County (case filed 7/29/97). Two individuals suing.

LUSTIG, ET AL. V. BROWN & WILLIAMSON TOBACCO CO., ET AL., Case No. 97 11168, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 7/21/97). One individual suing.

MAGLIARISI, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97008895, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 6/11/97). One individual suing.

MANLEY, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 97-11173-27, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 4/3/98). Two individuals suing.

MCPAHON V. R.J. REYNOLDS, ET AL., Case No. G-97-1391, Circuit Court of the 10th Judicial Circuit, State of Florida, Polk County (case filed 4/29/97). Two individuals suing.

MEAGHER V. PHILIP MORRIS, ET AL., Case No. CI 97-4543, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 5/22/97). Two individuals suing.

MECKLER, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-03949-CA, Circuit Court of the 4th Judicial Circuit, State of Florida, Duval County (case filed 7/10/97). One individual suing.

MULLIN V. PHILIP MORRIS, ET AL., Case No. 95-15287 CA 15, Circuit Court of the 11th Judicial Circuit, State of Florida, Dade County (case filed 11/7/95). One individual suing.

MULLINS V. PHILIP MORRIS, ET AL., Case No. 97-4749-37, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 9/16/97). Two individuals suing.

O'ROURKE V. LIGGETT GROUP INC., ET AL., Case No. 97-31345-CICI, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 6/2/97). One individual suing.

PEREZ, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 96-1721-CIV-T-24B, USDC, Middle District of Florida (case filed 8/20/96). One individual suing.

PHILLIPS V. R.J. REYNOLDS, ET AL., Case No. 97-31278, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 5/27/97). One individual suing.

PIPOLO V. PHILIP MORRIS, ET AL., Case No. 97-05448, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 4/10/97). Two individuals suing.

POYTHRESS V. R.J. REYNOLDS, ET AL., Case No. 97-30844, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 5/5/97). One individual suing.

RAUCH, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-11144, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 7/21/97). Two individuals suing.

RAWLS, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 97-01354 CA, Circuit Court of the 4th Judicial Circuit, State of Florida, Duval County (case filed 3/6/97). One individual suing.

REBANE, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. CI0-00-0000750, Circuit Court, Orange County, Florida (case filed 2/1/00). Two individuals suing.

REILLY, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-2468-CA, Circuit Court of the 5th Judicial Circuit, State of Florida, Lake County (case filed 10/22/97). Two individuals suing.

RIX V. R.J. REYNOLDS, ET AL., Case No. 96-1778 CA, Circuit Court of the 4th Judicial Circuit, State of Florida, Duval County (case filed 4/29/96). One individual suing.

SCHULTZ V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 99019898, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 11/24/99). One individual suing.

SHAW, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-008755, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 6/10/97). Two individuals suing.

SHIRA V. PHILIP MORRIS, ET AL., Case No. CI 97-4576, Circuit Court of the 9th Judicial Circuit, State of Florida, Orange County (case filed 5/30/97). Two individuals suing.

SPOTTS V. R.J. REYNOLDS, ET AL., Case No. 97-31373 CICI, Circuit Court of the 4th Judicial Circuit, State of Florida, Volusia County (case filed 9/16/97). One individual suing.

STAFFORD V. BROWN & WILLIAMSON, ET AL., Case No. 97-7732-CI-019, Circuit Court of the 6th Judicial Circuit, State of Florida, Pinellas County (case filed 11/14/97). One individual suing.

STEWART V. R.J. REYNOLDS, ET AL., Case No. 97 2025 CA, Circuit Court of the 5th Judicial Circuit, State of Florida, Lake County (case filed 9/16/97). Two individuals suing.

STRICKLAND, ET AL. V. THE AMERICAN TOBACCO COMPANY, ET AL., Case No. 98-00764, Circuit Court of the 11th Judicial Circuit, State of Florida, Dade County (case filed 1/8/98). Two individuals suing.

STROHMETZ V. PHILIP MORRIS, ET AL., Case No. 98-03787 CA, Circuit Court of the 4th Judicial Circuit, State of Florida, Duval County (case filed 7/16/98). One individual suing.

SWANK-REICH V. BROWN & WILLIAMSON, ET AL., Case No. 97008782, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 6/10/97). One individual suing.

THOMSON, BARRY, V. R.J. REYNOLDS, ET AL., Case No. 97-400-CA, Circuit Court of the 7th Judicial Circuit, State of Florida, Flagler County (case filed 9/2/97). One individual suing.

THOMSON, EILEEN, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-11170, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 7/21/97). One individual suing.

UFFNER V. PHILIP MORRIS, ET AL., Case No. 18142, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 12/31/96). Two individuals suing.

VENTURA V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 97-27024 CA (09), Circuit Court of the 11th Judicial Circuit, State of Florida, Dade County (case filed 11/26/97). One individual suing.

WASHINGTON, ET AL. V. PHILIP MORRIS, ET AL., Case No. 97-10575 CIDL, Circuit Court of the 7th Judicial Circuit, State of Florida, Volusia County (case filed 9/16/97). Two individuals suing.

WEIFFENBACH, ET UX. V. PHILIP MORRIS, ET AL., Case No. 96-1690-CIV-T-24C, USDC, Middle District of Florida (case filed 8/30/96). Two individuals suing.

WISCH V. LIGGETT GROUP INC., ET AL., Case No. 97-008759, Circuit Court of the 17th Judicial Circuit, State of Florida, Broward County (case filed 6/10/97). One individual suing.

YOUNG V. BROWN & WILLIAMSON, ET AL., Case No. 96-03566, Circuit Court of the 4th Judicial Circuit, State of Florida, Duval County (case filed 11/30/95). One individual suing.

BROWN-JONES V. THE AMERICAN TOBACCO CO., ET AL., Case No. 98-RCCV-28, Superior Court of Georgia, Richmond County (case filed 1/13/98). Two individuals suing.

POLSTON, ET AL. V. PHILIP MORRIS, INC., ET AL., Case No. !:99-CV-2958, USDC, Northern District, State of Georgia (case filed 11/15/99).Two individuals suing.

DENBERG, ET AL. V. AMERICAN BRANDS, INC., ET AL., Case No.97L07963, USDC, Northern District of Illinois (case filed 8/13/97). Four individuals suing. (Formerly Daley).

ROGERS V. R.J. REYNOLDS, ET AL., Case No. 49 D 02-9301-CT-0008, Superior Court of Indiana, Marion County (case filed 3/7/97). Two individuals suing.

SUMPTER V. THE AMERICAN TOBACCO CO., ET AL., Case No. IP98-0401-C-M/G, USDC, District of Indiana, Marion County (case filed 2/26/98). 15 individuals suing.

GRONBERG, ET AL. V. LIGGETT & MYERS, ET AL., Case No. LA-CV-080487, District Court, State of Iowa, Black Hawk County (case filed 3/30/98). Two individuals suing.

KOBOLD, ET AL. V. BAT INDUSTRIES, ET AL., Case No. CL-77551, District Court, State of Iowa, Polk County (case filed 9/15/98). Two individuals suing.

MASON V. AMERICAN BRANDS, INC., ET AL., Case No. CL7922, District Court, State of Iowa, Polk County (case filed 4/13/99). One individual suing.

WRIGHT, ET AL. V. BROOKE GROUP LIMITED, ET AL., Case No. LA CV 05867, District Court, State of Iowa, Cerro Gordo County (case filed 11/10/99). Two individuals suing.

ALEXANDER, ET UX V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 99-C-3975-A, 27th Judicial District Court, St. Landry Parish (case filed 9/27/99). Two individuals suing.

BADON, ET UX. V. RJR NABISCO INC., ET AL., Case No. 10-13653, USDC, Western District of Louisiana (case filed 5/24/94). Six individuals suing.

BIRD, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 507-532, 24th Judicial District Court, State of Louisiana, Jefferson Parish (case filed 4/10/97). Four individuals suing.

BRAKEL, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 96-13672-D, USDC, Eastern District of Louisiana (case filed 8/30/96). Seven individuals suing.

HEBERT, ET AL. V. UNITED STATES TOBACCO, ET AL., Case No. 96-2281, 14th Judicial District Court, State of Louisiana, Calcasieu Parish (case filed 5/8/96). Two individuals suing.

HIGGINS, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 96-2205, USDC, Eastern District of Louisiana (case filed 6/1/96). One individual suing.

JACKSON V. BROWN & WILLIAMSON TOBACCO CORP., ET AL., Case No. 97-441-C-MI, USDC, Middle District of Louisiana (case filed 7/3/97). One individual suing.

KENNON V. BROWN & WILLIAMSON, ET AL., Case No. 98-586, USDC, Middle District of Louisiana (case filed 12/5/97). One individual suing.

OSER V. THE AMERICAN TOBACCO CO., ET AL., Case No. 97-9293, Civil District of the Judicial District Court, State of Louisiana, Orleans Parish (case filed 5/27/97). One individual suing.

PITRE, ET AL. V. R.J. REYNOLDS , ET AL., Case No. 97 CA 0059, 19th Judicial District Court, State of Louisiana, East Baton Rouge Parish (case filed 8/7/92). Five individuals suing.

RACCA, ET AL. V. R.H. REYNOLDS, ET AL., Case No. 10-14999, 38th Judicial District Court, State of Louisiana, Cameron Parish (case filed 7/16/98). Eleven individuals suing.

ADAMS V. THE TOBACCO INSTITUTE, INC., ET AL., Massachusetts, Demand Letter. One individual suing.

ANDERSON V. R.J. REYNOLDS TOBACCO COMPANY, Case No. 99-2915, Superior Court of Massachusetts, Middlesex County (case filed 6/8/99). One individual suing.

BAKOIAN, ESTATE OF MYDA V. R.J. REYNOLDS, ET AL., Case No. 98-3737, Superior Court of Massachusetts, Middlesex County (case filed 6/22/98). One individual suing.

BOHL V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 98-6195, Superior Court of Massachusetts, Middlesex County (case filed 12/18/98). One individual suing.

BRANDANO V. THE TOBACCO INSTITUTE, INC., ET AL., Superior Court of Massachusetts, Middlesex County (case filed 8/25/98). One individual suing.

CAMERON V. THE TOBACCO INSTITUTE, INC., ET AL., Case No. 98-4960, Superior Court of Massachusetts, Middlesex County (case filed 8/3/98). One individual suing.

CARMICHAEL-FOLEY V. LOWNEY, ET AL., Case No. 98-3694, Superior Court of Massachusetts, Middlesex County (case filed 7/17/98). One individual suing.

CURTIS V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 98-4488, Superior Court of Massachusetts, Middlesex County (case filed 8/27/98). One individual suing.

FEENEY V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 98-4241, Superior Court of Massachusetts, Middlesex County (case filed 7/15/98). One individual suing.

FRANCIS, ESTATE OF RALPH V. THE TOBACCO INSTITUTE, INC., ET AL., Case No. 98-4963, Superior Court of Massachusetts, Middlesex County (case filed 8/25/98). One individual suing.

GORDON V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 98-5417, Superior Court of Massachusetts, Middlesex County (case filed 8/10/98). One individual suing.

GREBAUSKI V. R.J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 99-1063B, Superior Court of Massachusetts, Middlesex County (case filed 1/25/99). One individual suing.

HARB V. THE TOBACCO INSTITUTE, INC., ET AL., Case No. 98-597, Superior Court of Massachusetts, Middlesex County (case filed 9/10/98). One individual suing.

HISCOCK V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 98-446, Superior Court of Massachusetts, Middlesex County (case filed 7/15/98). One individual suing.

JONES V. THE TOBACCO INSTITUTE, INC., ET AL., Case No. 98-4940, Superior Court of Massachusetts, Middlesex County (case filed 8/1/98). One individual suing.

MAIENZA V. THE TOBACCO INSTITUTE, INC., ET AL., Case No. 98-4888, Superior Court of Massachusetts, Middlesex County (case filed 8/25/98). Two individuals suing.

MCKENNEY, ET AL. V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 98-3910, Superior Court of Massachusetts, Middlesex County (case filed 7/27/98). One individual suing.

MONTY V. HARVARD PILGRIM HEALTH CARE, ET AL., Demand Letter. Superior Court, Massachusetts.

MULCAHY V. THE TOBACCO INSTITUTE, INC., ET AL., Case No. 98-5208, Superior Court of Massachusetts, Middlesex County (case filed 9/5/98). One individual suing.

ESTATE OF ETTA NYSKO, ET AL. V. R.J. REYNOLDS TOBACCO COMPANY, ET AL., Demand letter and draft complaint, Superior Court of Massachusetts, Middlesex County. Three individual suing.

PISCIONE V. R.J. REYNOLDS TOBACCO COMPANY, ET AL., Demand letter and draft complaint, Superior Court of Massachusetts, Middlesex County. One individual suing.

REEDY, ESTATE OF MARIE, ET AL. V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 98-5056, Superior Court of Massachusetts, Middlesex County (case filed 8/13/98). One individual suing.

SATCHELL V. THE TOBACCO INSTITUTE, INC., ET AL., Demand Letter. Superior Court, Massachusetts.

SEMPRUCCI V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 98-6268, Superior Court of Massachusetts, Middlesex County (case filed 12/21/98). One individual suing.

TENERILLO V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 98-4214, Superior Court of Massachusetts, Middlesex County (case filed 7/14/98). One individual suing.

WEST V. THE TOBACCO INSTITUTE, INC., ET AL., Massachusetts. Demand letter. One individual suing.

WOLF V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 99-01260, Superior Court of Massachusetts, Norfolk County (case filed 9/1/99). One individual suing.

VARGHESSE V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 98-6124, Superior Court of Massachusetts, Middlesex County (case filed 12/17/98). One individual suing.

VARNEY V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 98-5835, Superior Court of Massachusetts, Middlesex County (case filed 10/27/98). One individual suing.

WAJDA V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 98-4959, Superior Court of Massachusetts, Middlesex County (case filed 7/17/98). One individual suing.

WALECKI V. R. J. REYNOLDS, ET AL., Case No. 00-081, Superior Court of Massachusetts, Middlesex County. One individual suing.

WATT V. LIGGETT GROUP INC., ET AL., Case No. 98-5499, USDC, District of Massachusetts (case filed 8/18/98). One individual suing.

WHITING V. LIGGETT GROUP, INC., ET AL., Case No. 98-5026, Superior Court of Massachusetts, Middlesex County (case filed 9/4/98). One individual suing.

WOODS, ESTATE OF HELEN V. THE TOBACCO INSTITUTE, INC., ET AL., Case No. 98-5721, Superior Court of Massachusetts, Middlesex County (case filed 11/18/98). One individual suing.

WOODS, JOSEPH V. THE TOBACCO INSTITUTE, INC., ET AL., Case No. 98-5723, Superior Court of Massachusetts, Middlesex County (case filed 11/18/98). One individual suing.

BLYTHE V. RAPID AMERICAN CORPORATION, ET AL., Case No. CI 96-0080-AS, Circuit Court, State of Mississippi, Jackson County (case filed 9/23/96). One individual suing.

BUTLER, ESTATE OF BURL V. PHILIP MORRIS, ET AL., Case No. 94-5-53, Circuit Court of the 2nd Judicial District, State of Mississippi, Jones County (case filed 5/12/94). One individual suing.

ESTATE OF ED DOSS, ET AL. V. R.J. REYNOLDS, ET AL., Case No. 99-0108, Circuit Court, State of Mississippi, Jefferson County (case filed 8/17/99). Nine individuals suing. Liggett has not been served .

EVANS V. PHILIP MORRIS, ET AL., Case No. 97-0027, Circuit Court of the 1st Judicial District, State of Mississippi, Jasper County (case filed 6/10/97). One individual suing.

ROSE V. R.J. REYNOLDS, ET AL., Case No. 2:98 CV 132, USDC, Northern District of Mississippi (case filed 7/30/98). One individual suing.

GATLIN V. THE AMERICAN TOBACCO CO., ET AL., Case No. 982-10021, Circuit Court, State of Missouri, City of St. Louis (case filed 1/19/99). One individual suing.

MUMIN V, PHILIP MORRIS, ET AL., Case No. 4:99CV-03005, USDC, District Court of Nebraska (case filed 7/5/99). Eleven individuals suing.

MURPHY V. THE AMERICAN TOBACCO CO., ET AL., Case No. CV-S-98-00021-HDM (RJJ), USDC, Southern District of Nevada (case filed 1/6/98). One individual suing. Liggett has not yet been served.

HAINES (ETC.) V. LIGGETT GROUP INC., ET AL., Case No. C 6568-96B, USDC, District of New Jersey (case filed 2/2/94). One individual suing.

ALTMAN, ET AL. V. FORTUNE BRANDS, INC., ET AL., Case No. 97-123521, Supreme Court of New York, New York County (case filed 12/16/97). Seven individuals suing.

ANDERSON, ET AL. V. FORTUNE BRANDS, INC., ET AL., Case No. 42821-97, Supreme Court of New York, Kings County (case filed 11/13/97). Six individuals suing.

ARNETT, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 109416/98, Supreme Court of New York, New York County (case filed 5/29/98). Nine individuals suing.

BELLOWS, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 122518/97, Supreme Court of New York, New York County (case filed 11/26/97). Five individuals suing.

BRAND, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. 29017/98, Supreme Court of New York, Kings County (case filed 12/21/98). Two individuals suing.

CAIAZZO, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 13213/97, Supreme Court of New York, Richmond County (case filed 10/27/97). Six individuals suing.

CAMERON V. THE AMERICAN TOBACCO CO., ET AL., Case No. 019125/97, Supreme Court of New York, Nassau County (case filed 7/18/97). Five individuals suing.

CANAAN V. PHILIP MORRIS INC., ET AL., Case No. 105250/98, Supreme Court of New York, New York County (case filed 3/24/98). One individual suing.

CARLL, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 112444/97, Supreme Court of New York, New York County (case filed 8/12/97). Five individuals suing.

CAVANAGH, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 11533/97, Supreme Court of New York, Richmond County (case filed 4/23/97). Two individuals suing.

COLLINS, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 08322/97, Supreme Court of New York, Westchester County (case filed 7/2/97). Nine individuals suing.

CONDON, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 108902/97, Supreme Court of New York, New York County (case filed 2/4/97). Seven individuals suing.

CRANE, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 106202-97, USDC, Southern District of New York (case filed 4/4/97). Four individuals suing.

CREECH, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 106202-97, Supreme Court of New York, Richmond County (case filed 1/14/97). Four individuals suing.

RESSER, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 36009/96, Supreme Court of New York, Kings County (case filed 10/4/96). Two individuals suing.

DA SILVA, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 106095/97, Supreme Court of New York, New York County (case filed 1/14/97). Six individuals suing.

DOMERACKI V. PHILIP MORRIS, ET AL., Case No. 98/6859, Supreme Court of New York, Erie County (case filed 8/3/98). One individual suing.

DOUGHERTY, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 97-09768, Supreme Court of New York, Suffolk County (case filed 4/18/97). Two individuals suing.

DZAK, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 26283/96, Supreme Court of New York, Queens County (case filed 12/2/96). Five individuals suing.

EVANS, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 28926/96, Supreme Court of New York, Kings County (case filed 8/23/96). Two individuals suing.

FINK, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 110336/97 Supreme Court of New York, New York County (case filed 4/25/97). Six individuals suing.

GOLDEN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 112445/97, Supreme Court of New York, New York County (case filed 8/11/97). Six individuals suing.

GRECO, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 15514-97, Supreme Court of New York, Queens County (case filed 7/18/97). Three individuals suing.

GRUDER , ET AL. V. FORTUNE BRANDS, INC., ET AL., Case No.48487/97, Supreme Court of New York, New York County (case filed 12/8/97). Four individuals.

GUILLOTEAU, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 46398/97, Supreme Court of New York, Kings County (case filed 11/26/97). Four individuals suing.

HANSEN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No.97-26291, Supreme Court of New York, Suffolk County (case filed 4/12/97). Six individuals suing.

HELLEN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 28927/96, Supreme Court of New York, Kings County (case filed 8/23/96). Two individuals suing.

INZERILLA, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 11754/96, Supreme Court of New York, Queens County (case filed 7/16/96). Two individuals suing.

JAUST, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 116249/97, Supreme Court of New York, New York County (case filed 10/14/97). Ten individuals suing.

JULIANO, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 12470/97, Supreme Court of New York, Richmond County (case filed 8/12/96). Four individuals suing.

KEENAN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 116545-97, Supreme Court of New York, New York County (case filed 10/6/97). Eight individuals suing.

KESTENBAUM, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 109350/97, Supreme Court of New York, New York County (case filed 6/4/97). Eight individuals suing.

KNUTSEN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 36860/96, Supreme Court of New York, Kings County (case filed 4/25/97). Two individuals suing.

KOTLYAR, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 28103/97, Supreme Court of New York, Queens County (case filed 11/26/97). Five individuals suing.

KRISTICH, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 96-29078, Supreme Court of New York, Suffolk County (case filed 10/12/97). Two individuals suing.

KROCHTENGEL V. THE AMERICAN TOBACCO CO., ET AL., Case No. 24663/98, Supreme Court of New York, Kings County (case filed 7/15/98). One individual suing.

LABROILA, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 97-12855, Supreme Court of New York, Suffolk County (case filed 7/20/97). Four individuals suing.

LEHMAN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 112446/97, Supreme Court of New York, New York County (case filed 8/11/97). One individual suing.

LEIBSTEIN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 97-019145, Supreme Court of New York, Nassau County (case filed 7/25/97). Six individuals suing.

LEIDERMAN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 22691/97, Supreme Court of New York, Kings County (case filed 7/23/97). Three individuals suing.

LENNON, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 120503/97, Supreme Court of New York, New York County (case filed 11/19/97). Seven individuals suing.

LE PAW V. B.A.T. INDUSTRIES, ET AL., Case No. 17695-96, USDC, Southern District of New York (case filed 8/14/96). Four individuals suing.

LEVINSON, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 13162/97, Supreme Court of New York, Kings County (case filed 4/17/97). Seven individuals suing.

LIEN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 97-9309, Supreme Court of New York, Suffolk County (case filed 4/28/97). Two individuals suing.

LITKE, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 15739/97, Supreme Court of New York, Kings County (case filed 5/1/97). Five individuals suing.

LOHN V. LIGGETT GROUP INC., ET AL., Case No. 105249/98, Supreme Court of New York, New York County (case filed 3/26/98). One individual suing.

LOMBARDO, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 16765/97, Supreme Court of New York, Nassau County (case filed 6/6/97). Five individuals suing.

LONG, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 22574-97, Supreme Court of New York, Bronx County (case filed 10/22/97). Four individuals suing.

LOPARDO, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 027182/97, Supreme Court of New York, Nassau County (case filed 10/27/97). Six individuals suing.

LUCCA, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 3583/97, Supreme Court of New York, Kings County (case filed 1/27/97). Two individuals suing.

LYNCH, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 117244/97, Supreme Court of New York, New York County (case filed 10/22/97). Five individuals suing.

MAGNUS V. FORTUNE BRANDS, INC., ET AL., Case No. CV-98-3441, USDC, Eastern District of New York (case filed 5/6/98). Three individuals suing.

MAISONET, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 17289/97, Supreme Court of New York, Kings County (case filed 5/20/97). Three individuals suing.

MARGOLIN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 120762/96, Supreme Court of New York, New York County (case filed 11/22/96). One individual suing.

MARTIN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 15982-97, Supreme Court of New York, Queens County (case filed 7/18/97). Three individuals suing.

MCGUINNESS, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 112447/97, Supreme Court of New York, New York County (case filed 7/28/97). Six individuals suing.

MCLANE, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 11620/97, Supreme Court of New York, Richmond County (case filed 5/13/97). Four individuals suing.

MEDNICK, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 29140/1997, Supreme Court of New York, Kings County (case filed 9/19/97). Eight individuals suing.

MISHK, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 108036/97, Supreme Court of New York, New York County (case filed May 1, 1997). Five individuals suing.

MOREY V. PHILIP MORRIS, ET AL., Case No. I1998/9921, Supreme Court of New York, Erie County (case filed 10/30/98). Two individuals suing.

NEWELL, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 97-25155, Supreme Court of New York, New York County (case filed 10/3/97). Six individuals suing.

NOCIFORO, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 96-16324, Supreme Court of New York, Suffolk County (case filed 7/12/96). One individual suing.

O'HARA, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 103095/98, Supreme Court of New York, New York County (case filed 2/23/98). Two individuals suing.

ORNSTEIN V. PHILIP MORRIS, ET AL., Case No. 117548/97, Supreme Court of New York, New York County (case filed 9/29/97). One individual suing.

PEREZ, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 26347/97, Supreme Court of New York, Kings County (case filed 8/26/97). Seven individuals suing.

PERRI, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 029554/97, Supreme Court of New York, Nassau County (case filed 11/24/97). Six individuals suing.

PICCIONE, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 34371/97, Supreme Court of New York, Kings County (case filed 10/27/97). Five individuals suing.

PORTNOY, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 16323/96, Supreme Court of New York, Suffolk County (case filed 7/16/96). Two individuals suing.

REITANO, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 28930/96, Supreme Court of New York, Kings County (case filed 8/22/96). One individual suing.

RICO, ET AL. V. THE AMERICAN TOBACCO COMPANY STATE OF NEW YORK, ET AL., Case No. 120693/98, Supreme Court of New York, New York County (case filed 11/16/98). Nine individuals suing.

RINALDI, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 48021/96, Supreme Court of New York, Kings County (case filed 12/11/96). Five individuals suing.

ROSE, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 122131/96, Supreme Court of New York, New York County (case filed 12/18/96). Eight individuals suing.

ROSEFF V. THE AMERICAN TOBACCO CO., ET AL., Case No. 123143/97, Supreme Court of New York, New York County (case filed 12/10/97). One individual suing.

RUBINOBITZ, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 15717/97, Supreme Court of New York, Nassau County (case filed 5/28/97). Five individuals suing.

SCHULHOFF, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 23737-97, Supreme Court of New York, Queens County (case filed 11/21/97). Six individuals suing.

SCHWARTZ, IRWIN V. THE AMERICAN TOBACCO CO., ET AL., Case No.14841/97, Supreme Court of New York, Nassau County (case filed 5/19/97). One individual suing.

SCHWARTZ, PEARL V. THE AMERICAN TOBACCO CO., ET AL., Case No.47239/96, Supreme Court of New York, Kings County (case filed 12/2/96). One individual suing.

SENZER, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 11609/97, Supreme Court of New York, Queens County (case filed 5/13/97). Eight individuals suing.

SHAPIRO, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 111179/97, Supreme Court of New York, New York County (case filed 7/21/96). Four individuals suing.

SIEGEL, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No.36857/96, Supreme Court of New York, Kings County (case filed 10/8/96). Two individuals suing.

SILVERMAN, ET AL. V. LORILLARD TOBACCO COMPANY., ET AL., Case No. 11328/99, Supreme Court of New York, Kings County (case filed 7/9/99) Five individuals suing.

SMITH, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 020525/97, Supreme Court of New York, Queens County (case filed 9/19/97). Eight individuals suing.

SOLA, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 18205/96, Supreme Court of New York, Bronx County (case filed 7/16/96). Two individuals suing.

SPRUNG, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 16654/97, Supreme Court of New York, Kings County (case filed 5/14/97). Ten individuals suing.

STANDISH, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 18418-97, Supreme Court of New York, Bronx County (case filed 7/28/97). Five individuals suing.

VALENTIN, ET AL. V. FORTUNE BRANDS, INC., ET AL., Case No. 019539/97, Supreme Court of New York, Queens County (case filed 9/16/97). Seven individuals suing.

WALGREEN, ET AL. V. THE AMERICAN TOBACCO, ET AL., Case No. 109351/97, Supreme Court of New York, New York County (case filed 5/23/97). Eight individuals suing.

WERNER, ET AL. V. FORTUNE BRANDS, INC., ET AL., Case No. 029071-97, Supreme Court of New York, Queens County (case filed 12/12/97). Four individuals suing.

ZARUDSKY, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 15773-97, Supreme Court of New York, New York County (case filed 5/28/97). Six individuals suing.

ZIMMERMAN, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Supreme Court of New York, Queens County (case filed 1997).

ZUZALSKI, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 001378/97, Supreme Court of New York, Queens County (case filed 4/3/97). Seven individuals suing.

WILSON, ET AL. V. LIGGETT & MYERS, ET AL., USDC, Middle District Court, North Carolina. One individual suing.

TOMPKIN, ET AL. V. AMERICAN BRANDS, ET AL., Case No. 5:94 CV 1302, USDC, Northern District of Ohio (case filed 7/25/94). One individual suing.

BUSCEMI V. BROWN & WILLIAMSON, ET AL., Case No. 002007, Court of Common Pleas, Philadelphia County (case filed 9/21/99). Two individuals suing.

CAMPANELLA, ET AL. V. LORILLARD TOBACCO COMPANY, ET AL., Case No. 003575, Court of Common Pleas, Philadelphia County, PA (case filed 1/31/00). Two individuals suing.

HALL V. R.J. REYNOLDS TOBACCO CO., ET AL., Case No. 4:97-CV-01723, USDC, Middle District of Pennsylvania (case filed 2/18/98). One individual suing.

TANTUM V. AMERICAN TOBACCO CO., ET AL., Case No. 3762, Court of Common Pleas, Philadelphia County (case filed 1/26/99). Two individuals suing.

TAYLOR V. BROWN & WILLIAMSON TOBACCO CORPORATION, ET AL., Case No. 004378, Court of Common Pleas, Philadelphia County (case filed 12/13/99). One individual suing.

BROWN V. BROWN & WILLIAMSON TOBACCO CORP., ET AL., Case No. 98-5447, Superior Court of Rhode Island (case filed 10/30/98). One individual suing.

NICOLO V. PHILIP MORRIS, ET AL., Case No. 96-528 B, USDC, District of Rhode Island (case filed 9/24/96). One individual suing.

LABELLE V. BROWN & WILLIAMSON TOBACCO CORP., ET AL., Case No. 2-98-1879-23, USDC, District of South Carolina (case filed 11/4/98). One individual suing.

LITTLE V. BROWN & WILLIAMSON, ET AL., Case No. 98-CD-10-2156, USDC, District of South Carolina (case filed 6/26/98). Two individuals suing.

PERRY, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 2-473-95, Circuit Court, State of Tennessee, Knox County (case filed 7/20/95). One individual suing.

ADAMS V. BROWN & WILLIAMSON, ET AL., Case No. 96-17502, District Court of the 164th Judicial District, State of Texas, Harris County (case filed 4/30/96). One individual suing.

BURLESON ET AL. V. LIGGETT GROUP, INC., ET AL., Case No. 9:99CV233, USDC, Eastern District (case filed 9/10/99). Two individuals suing.

BUSH, ET AL. V. PHILIP MORRIS, ET AL., Case No. 597CV180, USDC, Eastern District of Texas (case filed 9/22/97). Two individuals suing. This case currently is stayed.

COLE, ET AL. V. THE TOBACCO INSTITUTE, ET AL., Case No. 1:97CV0256, USDC, Eastern District of Texas (case filed 5/12/97). Two individuals suing.

COLUNGA V. AMERICAN BRANDS, INC., ET AL., Case No. C-97-265, USDC, Southern District of Texas (case filed 4/17/97). One individual suing.

DIESTE V. PHILIP MORRIS, ET AL., Case No. 597CV117, USDC, Eastern District of Texas (case filed 11/3/97). Two individuals suing.

HALE, ET AL. V. AMERICAN BRANDS, INC., ET AL., Case No. C-6568-96B, District Court of the 93rd Judicial District, State of Texas, Hidalgo County (case filed 1/30/97). One individual suing.

HAMILTON, ET AL. V. BGLS, INC., ET AL., Case No. C 70609 6 D, USDC, Southern District of Texas (case filed 2/26/97). Five individuals suing.

HARRIS, ET AL. V. KOCH REFINING CO., ET AL., Case No. 98-03426-00-0-G, District Court of Texas, 319th Judicial District (case Filed 6/10/99). Three individuals suing.

HODGES, ET VIR V. LIGGETT GROUP, INC., ET AL., Case No. 8000*JG99, District Court of Texas, Brazoria County, Texas 239th Judicial District (case filed 5/5/99). Two individuals suing.

LUNA V. AMERICAN BRANDS, ET AL., Case No. 96-5654-H, USDC, Southern District of Texas (case filed 2/18/97). One individual suing.

MCLEAN, ET AL. V. PHILIP MORRIS, ET AL., Case No. 2-96-CV-167, USDC, Eastern District of Texas (case filed 8/30/96). Three individuals suing.

MIRELES V. AMERICAN BRANDS, INC., ET AL., Case No. 966143A, District Court of the 28th Judicial District, State of Texas, Nueces County (case filed 2/14/97). One individual suing.

MISELL, ET AL. V. AMERICAN BRANDS, ET AL., Case No. 96-6287-H, District Court of the 347th Judicial District, State of Texas, Nueces County (case filed 1/3/97). Four individuals suing.

RAMIREZ V. AMERICAN BRANDS, INC., ET AL., Case No. M-97-050, USDC, Southern District of Texas (case filed 12/23/96). One individual suing.

SANCHEZ V. AMERICAN BRANDS, ET AL., Case No. 97-04-35562, USDC, Southern District of Texas (case filed 7/22/97). Two individuals suing.

THOMPSON, ET AL. V. BROWN & WILLIAMSON, ET AL., Case No. 97-2981-D, District Court of the 105th Judicial District, State of Texas, Nueces County (case filed 12/15/97). Two individuals suing.

WEINGARTEN V. THE LIGGETT GROUP INC., Case No. 98-1541, USDC, Western District of Vermont (case filed 7/19/97). One individual suing. Liggett only defendant.

VAUGHAN V. MARK L. EARLEY, ET AL., Case No. 760 CH 99 K 00011-00, Circuit Court, State of Virginia, Richmond (case filed 1/8/99). One individual suing.

ALLEN, ET AL. V. PHILIP MORRIS INC., ET AL., Case No. 98-C-2337 through 2401, Circuit Court, State of West Virginia, Kanawha County (case filed 10/1/98). 118 individuals suing.

ANDERSON, ET AL. V. PHILIP MORRIS, ET AL., Case No. 98-C-1773 through 1799, Circuit Court, State of West Virginia, Kanawha County (case filed 7/31/98). 50 individuals suing.

BALL V. LIGGETT & MYERS INC., ET AL., Case No. 2:97-0867, USDC, Southern District of West Virginia (case filed 5/1/98). One individual suing.

BISHOP, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 97-C-2696 through 2713, Circuit Court, State of West Virginia, Kanawha County (case filed 10/28/98). One individual suing.

HISSOM, ET AL. V. THE AMERICAN TOBACCO CO., ET AL., Case No. 97-C-1479, Circuit Court, State of West Virginia, Kanawha County (case filed 9/13/97). Two individuals suing.

HUFFMAN V. THE AMERICAN TOBACCO CO., ET AL., Case No. 98-C-276, Circuit Court, State of West Virginia, Kanawha County (case filed 2/13/98). Two individuals suing.

JIVIDEN V. THE AMERICAN TOBACCO CO., ET AL., Case No. 98-C-278, Circuit Court, State of West Virginia, Mason County (case filed 1/19/99). Two individuals suing.

NEWKIRK, ET AL. V. LIGGETT GROUP INC., ET AL., Case No. 98-C-1699, Circuit Court, State of West Virginia, Kanawha County (case filed 7/22/98). One individual suing.

FLOYD V. STATE OF WISCONSIN, ET AL., Case No. 99 CV 001125, Circuit Court, State of Wisconsin, Milwaukee County (case filed 2/10/99). One individual suing.

HEREK, ET AL. V. STATE OF WISCONSIN, ET AL., Case No. 99CV2644, Circuit Court, State of Wisconsin, Dane County (case filed 11/5/99). Three individuals suing.

V. ACTIONS CHALLENGING MSA

PTI, INC., ET AL. V. PHILIP MORRIS INCORPORATED, ET AL., Case No. 99-08235 NM, USDC, Central District of California (case filed 8/13/99). Plaintiffs seek damages, declaratory, equitable, injunctive relief and to invalidate the Master Settlement Agreement between the largest manufacturers of cigarettes in the United States and the Attorneys General of forty-six states and the settlement entered into by the State of Texas settlement.

HISE, ET AL. V. PHILIP MORRIS, ET AL., Case No. 98 CV 947 C (E), USDC, Northern District of Oklahoma (case filed 12/15/98). Two individuals suing. Price-fixing action concerning price increases resulting from the M.S.A.

VI. PRICE FIXING CASES

GRAY, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. C2000 0781, Superior Court, Pima County, Arizona (case filed 2/11/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Arizona.

GREER, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 309826, Superior Court, San Francisco (case filed 3/9/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

MUNOZ, ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Case No. 309834, Superior Court, San Francisco City and County, California (case filed 2/9/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

PEIRONA, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 310283, Superior Court, San Francisco City and County, California (case filed 2/28/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of California.

AMSTERDAM TOBACCO CORP., ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No.1: 00CV0460, USDC, District of Columbia (case filed 3/6/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the United States and elsewhere in the world

BARNES, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 00-0000954, Superior Court, District of Columbia (case filed 2/10/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the District of Columbia.

BUFFALO TOBACCO PRODUCTS, INC., ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 1:00CV00224, USDC, District of Columbia (case filed 2/8/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the United States.

FAHERTY, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Superior Court, Maine (case filed 2/16/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Maine.

DEL SERRONE, ET AL. V. PHILIP MORRIS COMPANIES, INC., Case No. 00-004035 CZ, Circuit Court, Wayne County, Michigan (case filed 2/8/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Michigan.

LUDKE, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. MC 00-001954 District Court, Hennepin County, Minnesota (case filed 2/15/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Minnesota.

ROWLEN, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 3:00CV119WS, USDC, Southern District, Mississippi. In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Mississippi.

ROMERO, ET AL. V. PHILIP MORRIS COMPANIES, INC. ET AL., Case No. D0117 CV-00000462 District Court, Rio Arriba County, New Mexico (case filed 2/11/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of New Mexico.

ROG-GLO, LTD., ET AL. V. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Index No. 00CIV 1255, USDC, Southern District, New York (case filed 2/22/00). In this class action plaintiff alleges that the defendants conspired to fix, raise, stabilize or maintain prices for cigarettes in the United States and elsewhere in the world.

LENNON, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Index No. 102396, Supreme Court of New York, New York County, New York (case filed 2/9/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of New York.

SHAFER, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 00-C-1107, District Court, Morton County, North Dakota (case filed 2/16/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of North Dakota.

BRENDA VETTER, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Circuit Court, Hughes County, South Dakota (case filed 2/16/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of South Dakota.

WITHERS, ET AL. V. PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 17, 194-I, Circuit Court, Jefferson County, Tennessee (case filed 2/9/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Tennessee.

QUICKLE, ET, AL. V. PHILIP MORRIS, ET AL., Case No. 90-C-28-RI, Circuit Court, State of West Virginia, Brooke County. In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of West Virginia.

CUSATIS V, PHILIP MORRIS COMPANIES, INC., ET AL., Case No. 00CV001359, Circuit Court, Milwaukee County, Wisconsin (case filed 2/28/00). In this class action plaintiffs allege that defendants conspired to fix, raise, stabilize, or maintain prices for cigarettes in the State of Wisconsin.

LIGGETT GROUP INC.
CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1999

LIGGETT GROUP INC.
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FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and the
Stockholder of Liggett Group Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholder's equity (deficit) and cash flows present fairly, in all material respects, the financial position of Liggett Group Inc. (the "Company") at December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Miami, Florida
March 30, 2000

LIGGETT GROUP INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	December 31,	
	1999	1998
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,959	\$ --
Accounts receivable:		
Trade, less allowances of \$1,002 and \$1,686, respectively	7,228	14,510
Other	1,568	821
Inventories	27,119	25,974
Other current assets	42,656	10,561
	81,530	51,866
Property, plant and equipment, at cost, less accumulated depreciation of \$33,924 and \$30,893, respectively	29,668	16,195
Other assets	1,702	6,662
	\$112,900	\$74,723
	\$112,900	\$74,723

(continued)

LIGGETT GROUP INC.
CONSOLIDATED BALANCE SHEETS (Continued)
(Dollars in thousands)

	December 31,	
	1999	1998
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)		
Current liabilities:		
Current maturities of long-term debt	\$ 1,074	\$ -
Cash overdraft	-	63
Accounts payable, principally trade	2,575	3,206
Accrued expenses:		
Promotional	22,473	23,760
Income taxes	-	115
Other taxes, principally excise taxes	225	3,397
Estimated allowance for sales returns	4,190	7,100
Settlement accruals	2,005	1,120
Proceeds received for options	-	150,000
Other	16,675	10,709
	49,217	199,470
Long-term debt, less current maturities	8,198	2,538
Non-current employee benefits	11,966	10,902
Other long-term liabilities	9,738	6,999
Commitments and contingencies (Note 12)		
Stockholder's equity (deficit):		
Redeemable preferred stock (par value \$1.00 per share; authorized 1,000 shares; no shares issued and out-standing)		
Common stock (par value \$0.10 per share; authorized 2,000 shares; issued and outstanding 1,000 shares) and contributed capital	60,002	57,380
Accumulated deficit	(26,221)	(202,566)
	33,781	(145,186)
Total liabilities and stockholder's equity (deficit)	\$112,900	\$ 74,723

The accompanying notes are an integral part
of these financial statements.

LIGGETT GROUP INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands)

	1999 ----	Year Ended December 31, -----	
		1998 ----	1997 ----
Net sales*	\$422,748	\$347,129	\$312,268
Cost of sales*	111,784	129,287	139,310
	-----	-----	-----
Gross profit	310,964	217,842	172,958
Selling, general and administrative expenses excluding non-cash stock-based expense	232,393	177,900	151,186
Settlement charges	(1,051)	(14,928)	16,527
Non-cash stock-based expense	2,622	488	-
Restructuring	300	-	1,557
	-----	-----	-----
Operating income	76,700	54,422	3,688
Other income (expense):			
Interest income	348	449	60
Interest expense	(1,444)	(26,342)	(23,755)
Equity in income of affiliates	-	-	498
Sale of assets	260	764	1,017
Gain on brand transaction	294,078	-	-
Miscellaneous, net	28	3	1,735
	-----	-----	-----
Income (loss) before income taxes	369,970	29,296	(16,757)
Income tax provision (benefit)	139,225	(11,213)	-
	-----	-----	-----
Net income (loss)	\$230,745	\$ 40,509	\$(16,757)
	=====	=====	=====

*Net sales and cost of sales include federal excise taxes of \$59,013, \$69,200 and \$75,316 respectively.

The accompanying notes are an integral part
of these financial statements.

LIGGETT GROUP INC.
 STATEMENTS OF STOCKHOLDER'S EQUITY (DEFICIT)
 (Dollars in thousands)

	Common Stock and Contributed Capital -----	Accumulated Deficit -----	Total Stockholder's Equity (Deficit) -----
Balance at December 31, 1996	\$49,840	\$(226,318)	\$(176,478)
Net loss.	-	(16,757)	(16,757)
Sale of equipment to affiliate.	2,578	-	2,578
Excess of investment over cost basis of net assets acquired from indirect parent. .	(2,200)	-	(2,200)
	-----	-----	-----
Balance at December 31, 1997.	50,218	(243,075)	(192,857)
Net income.	-	40,509	40,509
Capital contribution received.	4,224	-	4,224
Effectiveness fee on debt.	4,105	-	4,105
Transfer of ownership interest in an affiliate.	(1,167)	-	(1,167)
	-----	-----	-----
Balance at December 31, 1998	57,380	(202,566)	(145,186)
Net income	-	230,745	230,745
Accretion of capital contribution	2,622	-	2,622
Distribution and other payments	-	(54,400)	(54,400)
	-----	-----	-----
Balance at December 31, 1999.	\$60,002 =====	\$ (26,221) =====	\$ 33,781 =====

The accompanying notes are an integral part
of these financial statements.

LIGGETT GROUP INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Year Ended December 31,		
	1999	1998	1997
	----	----	----
Cash flows from operating activities:			
Net income (loss)	\$ 230,745	\$ 40,509	\$ (16,757)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Gain on brand transaction	(294,078)	--	--
Depreciation and amortization	2,878	6,678	7,025
Deferred income taxes	2,879	(11,587)	-
Gain on sale of property, plant and equipment	(260)	(757)	(1,017)
Gain on retirement of notes	-	-	(2,963)
Effectiveness fee on debt	-	4,105	-
Non-cash stock-based expense	2,622	4,224	-
Deferred finance charges and debt discount written off	-	558	130
Equity in income of affiliate	-	-	(498)
Changes in assets and liabilities:			
Accounts receivable	6,535	(5,016)	9,745
Inventories	(1,145)	9,083	15,065
Accounts payable	1,237	(5,335)	(12,092)
Accrued expenses	(23,987)	(9,213)	(5,442)
Non-current employee benefits	1,065	(508)	(172)
Other, net	(6,274)	(15,405)	11,878
	-----	-----	-----
Net cash (used in) provided by operating activities	(77,783)	17,336	4,902
	-----	-----	-----
Cash flows from investing activities:			
Proceeds received for options	-	150,000	-
Proceeds from brand transaction	145,000	-	-
Proceeds from sale of property, plant and equipment	903	1,159	1,494
Proceeds from sale of equipment to an affiliate	-	-	3,000
Capital expenditures	(17,432)	(1,859)	(2,462)
Investment in affiliates	-	-	(2,200)
	-----	-----	-----
Net cash provided by (used in) investing activities	128,471	149,300	(168)
	-----	-----	-----
Cash flows from financing activities:			
Repayments of note payable	(268)	(144,919)	(4,775)
Issuance of note payable	9,540	-	-
Borrowings under revolving credit facility	329,228	266,404	278,442
Repayments under revolving credit facility	(331,766)	(287,293)	(279,286)
Distributions and other payments	(54,400)	-	-
(Decrease) increase in cash overdraft	(63)	(828)	885
	-----	-----	-----
Net cash used in financing activities	(47,729)	(166,636)	(4,734)
	-----	-----	-----
Net change in cash and cash equivalents	2,959	-	-
Cash and cash equivalents:			
Beginning of period	-	-	-
	-----	-----	-----
End of period	\$ 2,959	\$ -	\$ -
	=====	=====	=====
Supplemental cash flow information: Cash payments during the period for:			
Interest	\$ 796	\$ 29,528	\$ 23,491
Income taxes	\$ 1,049	\$ 163	\$ 162

The accompanying notes are an integral part
of these financial statements.

LIGGETT GROUP INC.

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share amounts)

1. Basis of Presentation

Liggett Group Inc. ("Liggett" or the "Company") is a wholly-owned subsidiary of Brooke Group Holding Inc. ("Brooke Group Holding"). Brooke Group Holding is a wholly-owned subsidiary of BGLS Inc. ("BGLS"), all of whose capital is owned by Brooke Group Ltd. ("Brooke"). Liggett is engaged primarily in the manufacture and sale of cigarettes, principally in the United States. Certain management and administrative functions are performed by affiliates (see Note 13).

2. Summary of Significant Accounting Policies

a. Principles of Consolidation

The consolidated financial statements include the accounts of Liggett and its wholly-owned subsidiaries, Eve Holdings Inc. ("Eve"), Epic Holdings Inc. ("Epic"), 100 Maple Lane LLC ("Maple Lane"), Cigarette Exporting Company of America Ltd. ("CECOA") and Carolina Tobacco Express Company ("CTEC"). Intercompany accounts and transactions have been eliminated. Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation.

b. Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at December 31, 1999 and 1998 and the reported amounts of revenues and expenses during the three year period ended December 31, 1999. Significant estimates subject to material changes in the near term include deferred tax assets, allowance for doubtful accounts, promotional accruals, sales returns and allowances, actuarial assumptions of pension plans and litigation and defense costs. Actual results could differ from those estimates.

Changes in Accounting Estimates. As a consequence of litigation settlements, Liggett charged approximately \$16,421 to operations in the fourth quarter of 1997. As a result of Liggett's participation in the Master Settlement Agreement (see Note 12), net charges accrued for the prior settlements were reversed in 1999 and 1998.

c. Per Share Data

All of the Company's common shares (1,000 shares, issued and outstanding for all periods presented herein) are owned by Brooke Group Holding. Accordingly, earnings and dividends per share data are not presented in these consolidated financial statements.

d. Inventories

Inventories are valued at the lower of cost (LIFO) or market. Although portions of leaf tobacco inventories may not be used or sold within one year because of the time required for aging, they are included in current assets, which is common practice in the industry. It is not practicable to determine the amount that will not be used or sold within one year.

e. Property, Plant and Equipment

Property, plant and equipment are depreciated using the straight-line method over the estimated useful lives of the respective assets which are twenty years for buildings and four to ten years for machinery and equipment.

Expenditures for repairs and maintenance are charged to expense as incurred. The costs of major renewals and betterments are capitalized. The cost and related accumulated depreciation of property, plant and equipment are removed from the accounts upon retirement or other disposition and any resulting gain or loss is reflected in operations.

The Company is required to review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Accordingly, when indicators of impairment are present, the Company evaluates the carrying value of property, plant and equipment and intangibles in relation to the operating performance and estimates of future discounted cash flows of the underlying business.

f. Trademarks

Trademarks are amortized using the straight-line method over twelve years. Amortization expense for the years ended December 31, 1999, 1998 and 1997 amounted to \$30, \$1,419 and \$1,723, respectively. Management periodically reviews the carrying value of trademarks to determine whether asset values are impaired.

g. Revenue Recognition

Revenue from sales is recognized upon the shipment of finished goods to customers. The Company provides for expected sales returns, net of related inventory cost recoveries. As Liggett does not have any other lines of business, the Company's financial position and its results of operations could be materially adversely affected by significant unit sales volume declines, litigation and defense costs, increased tobacco costs or reductions in the selling price of cigarettes.

h. Advertising and Promotional Costs

Advertising and promotional costs are expensed as incurred. Advertising and promotional expenses were \$67,011, \$44,540 and \$40,534 for the years ended December 31, 1999, 1998 and 1997, respectively.

i. Employee Benefits

The Company sponsors self-insured health and dental insurance plans for all eligible employees. As a result, the expense recorded for such benefits involves an estimate of unpaid claims as of December 31, 1999 and 1998 which are subject to significant fluctuations in the near term.

BGLS maintains defined benefit retirement plans for substantially all of the Company's employees. The Company records as an expense the portion of BGLS' annual funding requirements applicable to the Company.

The Company sponsors a postretirement benefit plan and records an actuarially determined liability and charges operations for the estimated cost of postretirement benefits for current employees and retirees.

j. Income Taxes

Deferred taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for tax purposes as well as tax credit carryforwards and loss carryforwards. These deferred taxes are measured by applying currently

enacted tax rates. A valuation allowance reduces deferred tax assets when it is deemed more likely than not that future taxable income will be insufficient to realize some portion or all of the deferred tax assets.

k. Legal Costs

The Company's accounting policy is to accrue legal and other costs related to contingencies as services are performed.

l. Fair Value of Financial Instruments

The carrying amount of borrowings outstanding under the revolving credit facility and other long-term debt is a reasonable estimate of fair value, based upon estimated current borrowing rates for loans with similar terms and maturities. The estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

3. Philip Morris Brand Transactions

In November 1998, Liggett and Brooke granted Philip Morris Incorporated options to purchase interests in Trademarks LLC which holds three cigarette brands, L&M, Chesterfield and Lark, formerly held by Liggett's subsidiary, Eve.

Under the terms of the Philip Morris agreements, Eve contributed the three brands to Trademarks, a newly-formed limited liability company, in exchange for 100% of two classes of Trademarks' interests, the Class A Voting Interest and the Class B Redeemable Nonvoting Interest. Philip Morris acquired two options to purchase the interests from Eve. In December 1998, Philip Morris paid Eve a total of \$150,000 for the options, \$5,000 for the option for the Class A interest and \$145,000 for the option for the Class B interest. Liggett used the payments to fund the redemption of Liggett's Senior Secured Notes on December 28, 1998.

The Class A option entitled Philip Morris to purchase the Class A interest for \$10,100. On March 19, 1999, Philip Morris exercised the Class A option, and the closing occurred on May 24, 1999.

The Class B option entitles Philip Morris to purchase the Class B interest for \$139,900. The Class B option will be exercisable during the 90-day period beginning on December 2, 2008, with Philip Morris being entitled to extend the 90-day period for up to an additional six months under certain circumstances. The Class B interest will also be redeemable by Trademarks for \$139,900 during the same period the Class B option may be exercised.

On May 24, 1999, Trademarks borrowed \$134,900 from a lending institution. The loan is guaranteed by Eve and collateralized by a pledge by Trademarks of the three brands and Trademarks' interest in the trademark license agreement (discussed below) and by a pledge by Eve of its Class B interest. In connection with the closing of the Class A option, Trademarks distributed the loan proceeds to Eve as the holder of the Class B interest. The cash exercise price of the Class B option and Trademarks' redemption price were reduced by the amount distributed to Eve. Upon Philip Morris' exercise of the Class B option or Trademarks' exercise of its redemption right, Philip Morris or Trademarks, as relevant, will be required to obtain Eve's release from its guaranty. The Class B interest will be entitled to a guaranteed payment of \$500 each year with the Class A interest allocated all remaining income or loss of Trademarks.

Trademarks has granted Philip Morris an exclusive license of the three brands for an 11-year term expiring May 24, 2010 at an annual royalty based on sales of cigarettes under the brands, subject to a minimum annual royalty payment equal to the annual debt service obligation on the loan plus \$1,000.

If Philip Morris fails to exercise the Class B option, Eve will have an option to put its Class B interest to Philip Morris, or Philip Morris' designees, at a put price that is \$5,000 less than the exercise price of the

Class B option (and includes Philip Morris' obtaining Eve's release from its loan guarantee). The Eve put option is exercisable at any time during the 90-day period beginning March 2, 2010.

If the Class B option, Trademarks' redemption right and the Eve put option expire unexercised, the holder of the Class B interest will be entitled to convert the Class B interest, at its election, into a Class A interest with the same rights to share in future profits and losses, the same voting power and the same claim to capital as the entire existing outstanding Class A interest, i.e., a 50% interest in Trademarks.

The \$150,000 in proceeds received from the sale of the Class A and B options was presented as a liability on the consolidated balance sheet until the closing of the exercise of the Class A option and the distribution of the loan proceeds on May 24, 1999. Upon closing, Philip Morris obtained control of Trademarks and the Company recognized a gain of \$294,078 in its consolidated financial statements to the extent of the total cash proceeds received from the payment of the option fees, the exercise of the Class A option and the distribution of the loan proceeds.

4. Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of trade receivables.

Liggett's customers are primarily candy and tobacco distributors, the military and large grocery, drug and convenience store chains. Liggett's largest single customer accounted for approximately 30.7% in 1999, 26.9% in 1998 and approximately 19.4% of net sales in 1997. Sales to this customer were primarily in the private label discount market segment. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the remainder of the Company's customer base. Ongoing credit evaluations of customers' financial condition are performed and, generally, no collateral is required. The Company maintains reserves for potential credit losses and such losses, in the aggregate, have not exceeded management's estimates.

5. Inventories

Inventories consist of the following:

	December 31, 1999	December 31, 1998
	-----	-----
Leaf tobacco	\$ 6,871	\$10,796
Other raw materials	1,841	1,741
Work-in-process	2,583	1,828
Finished goods	17,461	12,231
Replacement parts and supplies	2,179	3,150
	-----	-----
Inventories at current cost	30,935	29,746
LIFO adjustment	(3,816)	(3,772)
	-----	-----
Inventories at LIFO cost	\$27,119	\$25,974
	=====	=====

The Company has a leaf inventory management program whereby, among other things, it is committed to purchase certain quantities of leaf tobacco. The purchase commitments are for quantities not in excess of anticipated requirements and are at prices, including carrying costs, established at the date of the commitment. Liggett had leaf tobacco purchase commitments of approximately \$3,679 at December 31, 1999.

6. Sale of Assets

In November 1998 Liggett and Brooke sold options to Philip Morris to purchase interests in Trademarks. (See Note 3.)

In March 1997 the Company sold to Blue Devil Ventures, a North Carolina limited liability partnership, surplus realty for \$2,200. The Company recognized a gain of \$1,147 net of costs required to prepare the properties for sale and selling costs. (See Note 13 for sales to affiliates.)

7. Property, Plant and Equipment

Property, plant and equipment consists of the following:

	December 31, 1999	December 31, 1998
	-----	-----
Land and improvements	\$ 415	\$ 412
Buildings	5,852	5,823
Construction in progress	10,342	926
Machinery and equipment	46,983	39,927
	-----	-----
Property, plant and equipment	63,592	47,088
Less accumulated depreciation	(33,924)	(30,893)
	-----	-----
Property, plant and equipment, net	\$29,668	\$ 16,195
	=====	=====

In January 1999, Liggett purchased equipment for \$5,750 and borrowed \$4,500 to fund the purchase from a third party. The loan, which is collateralized by the equipment, is payable in 60 monthly installments of \$56 including annual interest of 7.67% with a final payment of \$2,550.

In November 1999, Maple Lane, a newly formed entity owned by Liggett, purchased an industrial facility in Mebane, North Carolina for \$8,400. Liggett plans to relocate its manufacturing operations to this facility in late 2000. At December 31, 1999 approximately \$9,100 of the balance of construction-in-progress related to the Mebane facility.

8. Employee Benefits Plans

Defined Benefit Retirement Plans

Prior to 1994, substantially all of Liggett's employees participated in two noncontributory defined benefit retirement plans sponsored by BGLS. The Company records as an expense the portion of BGLS' annual funding requirements applicable to the Company. There was no pension expense recorded in 1999, 1998 or 1997.

Future Pension Benefits to be Funded by BGLS

Actuarial estimates of the total future minimum pension benefits to be funded by BGLS, prior to the effect of unamortized purchase accounting adjustments, are as follows:

2000.	\$ 200
2001.	200
2002.	200
2003.	200
2004.	200
Thereafter	2,000

Total	\$3,000
	=====

Postretirement Medical and Life Insurance Plans

Substantially all of Liggett's employees are eligible for certain postretirement benefits if they reach retirement age while working for the Company. Effective January 1, 1995, retirees are required to fund 100% of participant medical premiums.

The components of net periodic postretirement benefit cost for the years ended December 31, 1999, 1998 and 1997 are as follows:

	1999	1998	1997
	----	----	----
Service cost, benefits attributed to employee service during the year.....	\$ 45	\$ 43	\$ 24
Interest cost on accumulated postretirement benefit obligation.....	599	583	703
Charge for special termination benefits.....	240	-	47
Amortization of net gains (losses).....	582	(284)	(193)
	-----		----
Net periodic postretirement benefit expense.....	\$1,466	\$342	\$581
	=====	=====	=====

The following sets forth the actuarial present value of the Accumulated Postretirement Benefit Obligation ("APBO") at December 31, 1999 and 1998 applicable to each employee group for benefits:

	1999	1998
	----	----
Change in benefit obligation:		
Benefit obligation at January 1.....	\$ (9,116)	\$ (8,178)
Service cost.....	(45)	(43)
Interest cost.....	(599)	(583)
Benefits paid.....	712	934
Special termination benefits.....	(240)	-
Actuarial gains (losses).....	192	(1,246)
	-----	-----
Benefit obligation at December 31.....	\$ (9,096)	\$ (9,116)
	=====	=====
Change in plan assets:		
Contributions.....	\$ 712	\$ 934
Benefits paid.....	(712)	(934)
	-----	-----
Fair value of plan assets at December 31.....	\$ -	\$ -
	=====	=====
Deficit of plan assets versus benefit obligations at December 31.....	\$ (9,096)	\$ (9,116)
Unrecognized actuarial gains.....	(3,236)	(2,462)
Purchase accounting valuation adjustments relating to income taxes.....	745	854
	-----	-----
Postretirement liability included in the December 31 Balance sheet.....	\$(11,587)	\$(10,724)
	=====	=====

The APBO at December 31, 1999 and 1998 was determined using discount rates of 6.75% and 7.5%, respectively, and a health care cost trend rate of 4% in 1999 and 1998. A 1% increase in the trend rate for health care costs would have increased the APBO and net periodic postretirement benefit cost by \$353 and \$26, respectively, for the year ended December 31, 1999. The Company does not hold any assets reserved for use in the plan.

Profit Sharing Plans

Liggett's 401(k) plans match up to a 3% employee contribution, plus additional Company contributions of up to 6% of salary based on the achievement of Company profit objectives. The Company contributed and expensed \$527, \$469 and \$497 to the 401(k) plans for the years ended December 31, 1999, 1998 and 1997, respectively.

9. Income Taxes

Liggett's operations are included in the consolidated federal income tax return of its indirect parent, Brooke. Pursuant to a tax allocation agreement amended in 1999, the amounts provided as currently payable for federal and consolidated state income taxes are based on the Company's pre-tax income for financial reporting purposes. Accordingly, federal and consolidated state deferred income taxes which would normally be reflected in the accompanying financial statements are presented by Brooke.

The amounts provided for income taxes are as follows:

	Year Ended December 31,		
	1999	1998	1997
Current:			
Federal	\$115,236	\$ 374	\$ -
State	5,075	-	-
Deferred:			
Federal	10,284	(11,587)	-
State	8,630	-	-
Total tax provision (benefit)	<u>\$139,225</u>	<u>\$(11,213)</u>	<u>\$ -</u>

Temporary differences which give rise to a significant portion of deferred tax assets and liabilities are as follows:

	1999		1998	
	Asset	Deferred Tax Liability	Asset	Deferred Tax Liability
Sales and product allowances	\$ 365	\$ --	\$ 3,465	\$ -
Inventory	162	404	560	1,220
Coupon accruals	153	--	1,004	-
Property, plant and equipment	--	673	-	3,695
Employee benefit plan accruals	1,149	--	4,289	-
USDA marketing assessment	93	--	471	-
Tobacco litigation settlements	172	--	1,565	-
Brand transaction	--	8,391	-	-
Net operating loss carryforward	51	--	5,148	-
Valuation allowance	--	--	-	-
Reclassifications	--	--	-	-
Total deferred taxes	<u>\$2,145</u>	<u>\$9,468</u>	<u>\$16,502</u>	<u>\$4,915</u>

The Company reversed its valuation allowance against deferred tax assets in 1998, based on the weight of available evidence that it is more likely than not that its deferred tax assets will be realized.

Differences between the amounts provided for income taxes and amounts computed at the federal statutory tax rates are summarized as follows:

	Year Ended December 31,		
	1999	1998	1997
Income (loss) before income taxes.	\$369,970	\$29,296	\$(16,757)
Federal income tax at statutory rates.	129,490	\$10,253	\$ (5,865)
Increases (decreases) resulting from:			
State income tax expense (benefit) net of			
federal income tax expense (benefit).	8,908	-	-
Other, net	827	5,008	(596)
Change in valuation allowance.	--	(26,474)	6,461
Total tax provision (benefit).	\$139,225	\$(11,213)	\$ -

As of December 31, 1999, the Company had net operating loss carryforwards in various states of approximately \$1,000, which expire in the years 2000 through 2012.

10. Long-Term Debt

Long-term debt consists of the following:

	December 31,			
	1999		1998	
	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value
Borrowings outstanding under revolving credit facility	\$ -	\$ -	\$2,538	\$2,538
Other	9,272	9,272	-	-
	9,272	9,272	2,538	2,538
Current portion	(1,074)	(1,074)	-	-
Amount due after one year	\$ 8,198	\$8,198	\$2,538	\$2,538

Senior Secured Notes

Liggett's \$144,891 principal amount of Series B and Series C Senior Secured Notes were redeemed on December 28, 1998 at a price equal to 100% of the principal amount together with accrued interest. As discussed in Note 3, proceeds of \$150,000 from the purchase by Philip Morris of the two options to purchase the Class A Interest and the Class B Interest in Trademarks were used to fund the redemption.

In January 1998, with the consent of the required majority of the holders of the Liggett notes, Liggett entered into various amendments to the Indenture governing the notes, which provided, among other

things, for a deferral of the February 1998 mandatory redemption payment of \$37,500 to the date of final maturity of the notes on February 1, 1999. In connection with the deferral, in February 1998, Brooke issued 483,002 shares of its common stock to the holders of record on January 15, 1998 of the notes. As a result of this transaction, Liggett recorded a deferred charge of \$4,105 during the first quarter of 1998 reflecting the fair value of the instruments issued. This deferred charge was amortized over a period of eleven months.

Revolving Credit Facility

Liggett has a \$35,000 revolving credit facility under which \$0 was outstanding at December 31, 1999. The facility is collateralized by all inventories and receivables of the Company. Availability under the facility was approximately \$26,816 based upon eligible collateral at December 31, 1999. Borrowings under the facility bear interest equal to 1.0% above Philadelphia National Bank's (the indirect parent of Congress Financial Corporation, the lead lender) prime rate. At December 31, 1999, Liggett's interest rate was 9.5%. The facility requires Liggett's compliance with certain financial and other covenants including a restriction on the payment of cash dividends unless Liggett's borrowing availability under the facility for the 30-day period prior to the payment of the dividend, and after giving effect to the dividend, is at least \$5,000. In addition, the facility, as amended, imposes requirements with respect to Liggett's adjusted net worth (not to fall below \$8,000 as computed in accordance with the agreement) and working capital (not to fall below a deficit of \$17,000 as computed in accordance with the agreement). At December 31, 1999, Liggett was in compliance with all covenants under the credit facility; Liggett's adjusted net worth was \$37,597 and net working capital was \$36,157 as computed in accordance with the agreement. The facility expires on March 8, 2003 subject to automatic renewal for an additional year unless a notice of termination is given by the lender at least 60 days prior to the anniversary date.

In November 1999, Maple Lane, a new company formed by Liggett to purchase the Mebane facility, borrowed \$5,040 from the lender under Liggett's credit facility. The loan is payable in 59 monthly installments of \$60 with a final payment of \$1,500. Interest is charged at the same rate as applicable to the facility. Liggett has guaranteed the loan, and a first mortgage on the Mebane property collateralizes the Maple Lane loan and Liggett's credit facility.

Equipment Loan

In January 1999, Liggett purchased equipment for \$5,750 and borrowed \$4,500 to fund the purchase from a third party. The loan, which is collateralized by the equipment and guaranteed by BGLS and Brooke, is payable in 60 monthly installments of \$56 including annual interest of 7.67% with a final payment of \$2,550.

11. Operating Leases

At December 31, 1999, the Company has operating leases for building space, vehicles and computer equipment. The future minimum lease payments are as follows:

2000.	\$ 787
2001.	399
2002.	312
2003.	300
2004.	232
Thereafter	348

Total	\$2,378
	=====

Rental expense for the years ended December 31, 1999, 1998 and 1997 amounted to approximately \$1,497, \$2,068 and \$2,919, respectively.

Rental income from leasing of office space to unrelated parties for the years ended December 31, 1999, 1998 and 1997 amounted to approximately, \$557, \$525, and \$239, respectively.

12. Commitments and Contingencies

SMOKING-RELATED LITIGATION:

Overview. Since 1954, Liggett and other United States cigarette manufacturers have been named as defendants in numerous direct and third-party actions predicated on the theory that cigarette manufacturers should be liable for damages alleged to have been caused by cigarette smoking or by exposure to secondary smoke from cigarettes. These cases are reported here as though having been commenced against Liggett (without regard to whether such cases were actually commenced against Brooke Group Holding, the Company's parent or Liggett). There has been a noteworthy increase in the number of cases commenced against Liggett and the other cigarette manufacturers in recent years. The cases generally fall into the following categories: (i) smoking and health cases alleging injury brought on behalf of individual plaintiffs ("Individual Actions"); (ii) smoking and health cases alleging injury and purporting to be brought on behalf of a class of individual plaintiffs ("Class Actions"); (iii) health care cost recovery actions brought by various governmental entities ("Governmental Actions"); and (iv) health care cost recovery actions brought by third-party payors including insurance companies, union health and welfare trust funds, asbestos manufacturers and others ("Third-Party Payor Actions"). As new cases are commenced, defense costs and the risks attendant to the inherent unpredictability of litigation continue to increase. The future financial impact of the risks and expenses of litigation and the effects of the tobacco litigation settlements discussed below is not quantifiable at this time. In 1999, Liggett incurred counsel fees and costs totaling approximately \$5,733, compared to \$7,828 in 1998.

Individual Actions. As of December 31, 1999, there were approximately 300 cases pending against Liggett, and in most cases the other tobacco companies, where individual plaintiffs allege injury resulting from cigarette smoking, addiction to cigarette smoking or exposure to secondary smoke and seek compensatory and, in some cases, punitive damages. Of these, 85 were pending in Florida, 91 in New York, 30 in Massachusetts and 17 in Texas. The balance of the individual cases were pending in 22 states. There are five individual cases pending where Liggett is the only named defendant.

The plaintiffs' allegations of liability in those cases in which individuals seek recovery for injuries allegedly caused by cigarette smoking are based on various theories of recovery, including negligence, gross negligence, breach of special duty, strict liability, fraud, misrepresentation, design defect, failure to warn, breach of express and implied warranties, conspiracy, aiding and abetting, concert of action, unjust enrichment, common law public nuisance, property damage, invasion of privacy, mental anguish, emotional distress, disability, shock, indemnity and violations of deceptive trade practice laws, the Federal Racketeer Influenced and Corrupt Organization Act ("RICO"), state RICO statutes and antitrust statutes. In many of these cases, in addition to compensatory damages, plaintiffs also seek other forms of relief including, treble/multiple damages, disgorgement of profits and punitive damages. Defenses raised by defendants in these cases include lack of proximate cause, assumption of the risk, comparative fault and/or contributory negligence, lack of design defect, statute of limitations, equitable defenses such as "unclean hands" and lack of benefit, failure to state a claim and federal preemption.

In February 1999, a California jury awarded \$51,500 in damages to a woman who claimed lung cancer from smoking Marlboro cigarettes made by Philip Morris. The award includes \$1,500 in compensatory damages and \$50,000 in punitive damages. The court subsequently reduced the punitive damages award to \$25,000. In March 1999, an Oregon jury awarded \$80,311 in damages to the family of a deceased smoker who smoked Marlboro cigarettes made by Philip Morris. The award includes \$79,500 in punitive damages. The court subsequently reduced the punitive damages award to \$32,000. Philip Morris has appealed both the verdict and damage awards.

Class Actions. As of December 31, 1999, there were approximately 50 actions pending, for which either a class has been certified or plaintiffs are seeking class certification, where Liggett, among others, was a named defendant. Many of these actions purport to constitute statewide class actions and were filed after May 1996 when the Fifth Circuit Court of Appeals, in the Castano case (discussed below), reversed a Federal district court's certification of a purported nationwide class action on behalf of persons who were allegedly "addicted" to tobacco products.

In March 1994, an action entitled *Castano, et al. v. The American Tobacco Company Inc., et al.*, United States District Court, Eastern District of Louisiana, was filed against Liggett and others. The class action complaint sought relief for a nationwide class of smokers based on their alleged addiction to nicotine. In February 1995, the District Court granted plaintiffs' motion for class certification (the "Class Certification Order").

In May 1996, the Court of Appeals for the Fifth Circuit reversed the Class Certification Order and instructed the District Court to dismiss the class complaint. The Fifth Circuit ruled that the District Court erred in its analysis of the class certification issues by failing to consider how variations in state law affect predominance of common questions and the superiority of the class action mechanism. The appeals panel also held that the District Court's predominance inquiry did not include consideration of how a trial on the merits in Castano would be conducted. The Fifth Circuit further ruled that the "addiction-as-injury" tort is immature and, accordingly, the District Court could not know whether common issues would be a "significant" portion of the individual trials. According to the Fifth Circuit's decision, any savings in judicial resources that class certification may bring about were speculative and would likely be overwhelmed by the procedural problems certification brings. Finally, the Fifth Circuit held that in order to make the class action manageable, the District Court would be forced to bifurcate issues in violation of the Seventh Amendment.

The extent of the impact of the Castano decision on smoking-related class action litigation is still uncertain, although the decertification of the Castano class by the Fifth Circuit may preclude other federal courts from certifying a nationwide class action for trial purposes with respect to smoking-related claims. The Castano decision has had to date, however, only limited effect with respect to courts' decisions regarding narrower smoking-related classes or class actions brought in state rather than federal court. For example, since the Fifth Circuit's ruling, courts in Louisiana (Liggett is not a defendant in this proceeding) and Maryland have certified "addiction-as-injury" class actions that covered only citizens in those states. Two class actions, Broin and Engle, were certified in state court in Florida prior to the Fifth Circuit's decision. The Castano decision has had no measurable impact on litigation brought by or on behalf of single individual claimants.

In May 1994, an action entitled *Engle, et al. v. R.J. Reynolds Tobacco Company, et al.*, Circuit Court Eleventh Judicial Circuit, Dade County, Florida, was filed against Liggett and others. The class consists of all Florida residents and citizens, and their survivors, who have suffered, presently suffer or have died from diseases and medical conditions caused by their addiction to cigarettes that contain nicotine. In July 1998, Phase I of the trial in this action commenced. On July 7, 1999, the jury returned the Phase I verdict. The Phase I verdict concerned certain issues determined by the trial court to be "common" to the causes of action of the plaintiff class. Among other things, the jury found that smoking cigarettes causes 20 diseases or medical conditions, that cigarettes are addictive or dependence producing, defective and unreasonably dangerous, that defendants made materially false statements with the intention of misleading smokers, that defendants concealed or omitted material information concerning the health effects and/or the addictive nature of smoking cigarettes and agreed to misrepresent and conceal the health effects and/or the addictive nature of smoking cigarettes, and that defendants were negligent and engaged in extreme and outrageous conduct or acted with reckless disregard with the intent to inflict emotional distress. The jury also found that defendants' conduct "rose to a level that would permit a potential award or entitlement to punitive damages." The court decided that Phase II of the trial, which commenced November 1, 1999, will be a causation and damages trial for three of the class representatives and a punitive damages trial on a class-wide basis, before the same jury that returned the verdict in Phase I. Phase III of the trial will be conducted

before separate juries to address absent class members' claims, including issues of specific causation and other individual issues regarding entitlement to compensatory damages. The defendants' motion to order the trial court to assess punitive damages on an individual basis was denied and the petition for review was also denied, without prejudice to raise the same issue on subsequent appeals.

It is unclear how the trial court's order will be implemented. The order provides that the punitive damage amount, if any, should be standard as to each class member and acknowledges that the actual size of the class will not be known until the last case has withstood appeal. The order does not address whether defendants would be required to pay the punitive damage award, if any, prior to a determination of claims of all class members, a process that could take years to conclude. In a worst case scenario, it is possible that a judgment for punitive damages could be entered in the Engle case in an amount not capable of being bonded, resulting in an execution of the judgment before it could be set aside on appeal. The Company believes that such a result would be unconstitutional and would also violate Florida laws.

Class certification motions are pending in a number of putative class actions. Classes remain certified against Liggett in Florida (Engle) and Maryland (Richardson). A number of class certification denials are on appeal.

Governmental Actions. As of December 31, 1999, there were approximately 20 Governmental Actions pending against Liggett. In these proceedings, both foreign and domestic governmental entities seek reimbursement for Medicaid and other health care expenditures. The claims asserted in these health care cost recovery actions vary. In most of these cases, plaintiffs assert the equitable claim that the tobacco industry was "unjustly enriched" by plaintiffs' payment of health care costs allegedly attributable to smoking and seek reimbursement of those costs. Other claims made by some but not all plaintiffs include the equitable claim of indemnity, common law claims of negligence, strict liability, breach of express and implied warranty, breach of special duty, fraud, negligent misrepresentation, conspiracy, public nuisance, claims under state and federal statutes governing consumer fraud, antitrust, deceptive trade practices and false advertising, and claims under RICO.

Third-Party Payor Actions. As of December 31, 1999, there were approximately 70 Third-Party Payor Actions pending against Liggett. The claims in these cases are similar to those in the Governmental Actions but have been commenced by insurance companies, union health and welfare trust funds, asbestos manufacturers and others. As of December 31, 1999, five United States Circuit Courts of Appeal had ruled that Third-Party Payors did not have standing to bring lawsuits against the tobacco companies. The United States Supreme Court recently denied a petition for writ of certiorari filed by several of the union health and welfare trust funds. However, a number of Third-Party Payor Actions, including an action brought by 24 Blue Cross/Blue Shield Plans, remain pending.

In other Third-Party Payor Actions claimants have set forth several additional theories of relief sought: funding of corrective public education campaigns relating to issues of smoking and health; funding for clinical smoking cessation programs; disgorgement of profits from sales of cigarettes; restitution; treble damages; and attorneys' fees. Nevertheless, no specific amounts are provided. It is understood that requested damages against the tobacco company defendants in these cases might be in the billions of dollars.

Federal Government Action. In September 1999, the United States government commenced litigation against Liggett and the other tobacco companies in the United States District Court for the District of Columbia. The action seeks to recover an unspecified amount of healthcare costs paid for and furnished, and to be paid for and furnished, by the Federal Government for lung cancer, heart disease, emphysema and other smoking-related illnesses allegedly caused by the fraudulent and tortious conduct of defendants, and to restrain defendants and co-conspirators from engaging in fraud and other unlawful conduct in the future, and to compel defendants to disgorge the proceeds of their unlawful conduct. The complaint alleges that such costs total more than \$20,000,000 annually. The action asserts claims under three federal statutes, the Medical Care Recovery Act, the Medicare Secondary Payer provisions of the Social Security

Act and RICO. In December 1999, Liggett filed a motion to dismiss the lawsuit on numerous grounds, including that the statutes invoked by the government do not provide the basis for the relief sought.

Settlements. In March 1996, Brooke Group Holding and Liggett entered into an agreement, subject to court approval, to settle the Castano class action tobacco litigation. The Castano class was subsequently decertified by the court.

In March 1996, March 1997 and March 1998, Brooke Group Holding and Liggett entered into settlements of smoking-related litigation with the Attorneys General of 45 states and territories. The settlements released both Brooke Group Holding and Liggett from all smoking-related claims, including claims for health care cost reimbursement and claims concerning sales of cigarettes to minors.

In November 1998, Philip Morris, Brown & Williamson Tobacco Corporation, R.J. Reynolds Tobacco Company and Lorillard Tobacco Company (collectively, the "Original Participating Manufacturers" or "OPMs") and Liggett (together with the OPMs and any other tobacco product manufacturer that becomes a signatory, the "Participating Manufacturers") entered into the Master Settlement Agreement (the "MSA") with 46 states, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Marianas (collectively, the "Settling States") to settle the asserted and unasserted health care cost recovery and certain other claims of those Settling States.

The MSA has been initially approved by trial courts in all Settling States. The MSA is subject to final judicial approval in each of the Settling States, which approval has been obtained, as of December 31, 1999, in 47 jurisdictions. If final judicial approval is not obtained in a jurisdiction by December 31, 2001, then, unless the settling defendants and the relevant jurisdiction agree otherwise, the MSA will be terminated with respect to such jurisdiction.

The MSA restricts tobacco product advertising and marketing within the Settling States and otherwise restricts the activities of Participating Manufacturers. Among other things, the MSA prohibits the targeting of youth in the advertising, promotion or marketing of tobacco products; bans the use of cartoon characters in all tobacco advertising and promotion; limits each Participating Manufacturer to one tobacco brand name sponsorship during any 12-month period; bans all outdoor advertising, with the exception of signs 14 square feet or less in dimension at retail establishments that sell tobacco products; prohibits payments for tobacco product placement in various media; bans gift offers based on the purchase of tobacco products without sufficient proof that the intended recipient is an adult; prohibits Participating Manufacturers from licensing third parties to advertise tobacco brand names in any manner prohibited under the MSA; prohibits Participating Manufacturers from using as a tobacco product brand name any nationally recognized non-tobacco brand or trade name or the names of sports teams, entertainment groups or individual celebrities; and prohibits Participating Manufacturers from selling packs containing fewer than twenty cigarettes.

The MSA also requires Participating Manufacturers to affirm corporate principles to comply with the MSA and to reduce underage usage of tobacco products and imposes requirements applicable to lobbying activities conducted on behalf of Participating Manufacturers.

Liggett has no payment obligations under the MSA unless its market share exceeds a base share of 125% of its 1997 market share, or 1.67% of total cigarettes sold in the United States. Liggett believes, based on published industry sources, that its domestic shipments accounted for 1.2% of the total cigarettes shipped in the United States during 1999. In the year following any year in which Liggett's market share does exceed the base share, Liggett will pay on each excess unit an amount equal (on a per-unit basis) to that paid during such following year by the OPMs under the annual and strategic contribution payment provisions of the MSA, subject to applicable adjustments, offsets and reductions. Under the annual and

strategic contribution payment provisions of the MSA, the OPMS (and Liggett to the extent its market share exceeds the base share) will pay the following annual amounts (subject to certain adjustments):

Year ----	Amount -----
2000	\$4,500,000
2001	\$5,000,000
2002 - 2003	\$6,500,000
2004 - 2007	\$8,000,000
2008 - 2017	\$8,139,000
2018 and each year thereafter	\$9,000,000

These annual payments will be allocated based on relative unit volume of domestic cigarette shipments. The payment obligations under the MSA are the several, and not joint, obligations of each Participating Manufacturer and are not the responsibility of any parent or affiliate of a Participating Manufacturer.

The MSA replaces Liggett's prior settlements with all states and territories except for Florida, Mississippi, Texas and Minnesota. In the event the MSA does not receive final judicial approval in any state or territory, Liggett's prior settlement with that state or territory, if any, will be revived.

The states of Florida, Mississippi, Texas and Minnesota, prior to the effective date of the MSA, negotiated and executed settlement agreements with each of the other major tobacco companies separate from those settlements reached previously with Liggett. Because these states' settlement agreements with Liggett provided for "most favored nation" protection for both Brooke Group Holding and Liggett, the payments due these states by Liggett (with certain possible exceptions) have been eliminated. With respect to all non-economic obligations under the previous settlements, both Brooke Group Holding and Liggett are entitled to the most favorable provisions as between the MSA and each state's respective settlement with the other major tobacco companies. Therefore, Liggett's non-economic obligations to all states and territories are now defined by the MSA.

In April 1999, a putative class action was filed on behalf of all firms that directly buy cigarettes in the United States from defendant tobacco manufacturers. The complaint alleges violation of antitrust law, based in part on the MSA. Plaintiffs seek treble damages computed as three times the difference between current prices and the price plaintiffs would have paid for cigarettes in the absence of an alleged conspiracy to restrain and monopolize trade in the domestic cigarette market, together with attorneys' fees. Plaintiffs also seek injunctive relief against certain aspects of the MSA.

In March 1997, Liggett, Brooke Group Holding and a nationwide class of individuals that allege smoking-related claims filed a mandatory class settlement agreement in an action entitled Fletcher, et al. v. Brooke Group Ltd., et al., Circuit Court of Mobile County, Alabama, where the court granted preliminary approval and preliminary certification of the class. In July 1998, Liggett, Brooke Group Holding and plaintiffs filed an amended class action settlement agreement in Fletcher which agreement was preliminarily approved by the court in December 1998. In July 1999, the court denied approval of the Fletcher class action settlement. The parties' motion for reconsideration is still pending.

The Company accrued \$16,902 for the present value of the fixed payments under the March 1998 Attorneys General settlements. As a result of the Company's treatment under the MSA, \$14,928 of net charges accrued for the prior settlements were reversed in 1998 and \$1,051 were reversed in 1999.

Copies of the various settlement agreements are filed as exhibits to Brooke's Form 10-K and the discussion herein is qualified in its entirety by reference thereto.

Trials. In addition to the Engle case, cases currently scheduled for trial in 2000 include Third-Party Payor Actions brought by several Blue Cross/Blue Shield plans in federal court in New York (June), asbestos companies in Mississippi (September) and New York (April) and certain unions in New York (July). Also, two Individual Actions and an adequacy of warning case are currently scheduled for trial during the first six months of 2000. Trial dates, however, are subject to change.

Other Related Matters.

Management is not able to predict the outcome of the litigation pending against Liggett. Litigation is subject to many uncertainties. An unfavorable verdict has been returned in the first phase of the Engle smoking and health class action trial pending in Florida. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the Engle case. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation. Management is unable to make a meaningful estimate with respect to the amount of loss that could result from an unfavorable outcome of many of the cases pending against Liggett, because the complaints filed in these cases rarely detail alleged damages. Typically, the claims set forth in an individual's complaint against the tobacco industry pray for money damages in an amount to be determined by a jury, plus punitive damages and costs. These damage claims are typically stated as being for the minimum necessary to invoke the jurisdiction of the court. It is possible that Liggett's consolidated financial position, results of operations or cash flow could be materially adversely affected by an unfavorable outcome in any such smoking-related litigation.

Management is unaware of any material environmental conditions affecting its existing facilities. Management believes that current operations are conducted in material compliance with all environmental laws and regulations and other laws and regulations governing cigarette manufacturers. Compliance with federal, state and local provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had a material effect on the capital expenditures, earnings or competitive position of Liggett.

There are several other proceedings, lawsuits and claims pending against Liggett unrelated to smoking or tobacco product liability. Management is of the opinion that the liabilities, if any, ultimately resulting from such other proceedings, lawsuits and claims should not materially affect Liggett's financial position, results of operations or cash flows.

LEGISLATION AND REGULATION:

In 1993, the United States Environmental Protection Agency ("EPA") released a report on the respiratory effect of secondary smoke which concludes that secondary smoke is a known human lung carcinogen in adults and in children, causes increased respiratory tract disease and middle ear disorders and increases the severity and frequency of asthma. In June 1993, the two largest domestic cigarette manufacturers, together with other segments of the tobacco and distribution industries, commenced a lawsuit against the EPA seeking a determination that the EPA did not have the statutory authority to regulate secondary smoke, and that given the current body of scientific evidence and the EPA's failure to follow its own guidelines in making the determination, the EPA's classification of secondary smoke was arbitrary and capricious. Whatever the outcome of this litigation, issuance of the report may encourage efforts to limit smoking in public areas. In July 1998, a federal district court vacated those sections of the report relating to lung cancer, finding that the EPA may have reached different conclusions had it complied with relevant statutory requirements. The federal government has appealed the court's ruling.

In February 1996, the United States Trade representative issued an "advance notice of rule making" concerning how tobaccos imported under a previously established tobacco rate quota ("TRQ") should be allocated. Currently, tobacco imported under the TRQ is allocated on a "first-come, first-served" basis, meaning that entry is allowed on an open basis to those first requesting entry in the quota year. Others in

the cigarette industry have suggested an "end-user licensing" system under which the right to import tobacco under the quota would be initially assigned based on domestic market share. Such an approach, if adopted, could have a material adverse effect on Liggett.

In August 1996, the Food and Drug Administration (the "FDA") filed in the Federal Register a Final Rule classifying tobacco as a "drug" or "medical device", asserting jurisdiction over the manufacture and marketing of tobacco products and imposing restrictions on the sale, advertising and promotion of tobacco products. Litigation was commenced in the United States District Court for the Middle District of North Carolina challenging the legal authority of the FDA to assert such jurisdiction, as well as challenging the constitutionality of the rules. The court, after argument, granted plaintiffs' motion for summary judgment prohibiting the FDA from regulating or restricting the promotion and advertising of tobacco products and denied plaintiffs' motion for summary judgment on the issue of whether the FDA has the authority to regulate access to, and labeling of, tobacco products. The Fourth Circuit reversed the district court on appeal and in August 1998 held that the FDA cannot regulate tobacco products because Congress had not given them the authority to do so. Liggett supported the FDA Rule and began to phase in compliance with certain of the proposed FDA regulations. (See Subsequent Events.)

In August 1996, Massachusetts enacted legislation requiring tobacco companies to publish information regarding the ingredients in cigarettes and other tobacco products sold in that state. In December 1997, the United States District Court for the District of Massachusetts enjoined this legislation from going into effect on the grounds that it is preempted by federal law. In November 1999, the First Circuit affirmed this ruling. Notwithstanding the foregoing, in December 1997, Liggett began complying with this legislation by providing ingredient information to the Massachusetts Department of Public Health. Several other states have enacted, or are considering, legislation similar to that enacted in Massachusetts.

As part of the 1997 budget agreement approved by Congress, federal excise taxes on a pack of cigarettes, which are currently 34 cents, were increased at the beginning of 2000 and will rise 5 cents more in the year 2002. In general, excise taxes and other taxes on cigarettes have been increasing. These taxes vary considerably and, when combined with sales taxes and the current federal excise tax, may be as high as \$1.66 per pack in a given locality in the United States. Congress has been considering significant increases in the federal excise tax or other payments from tobacco manufacturers, and the Clinton Administration's fiscal year 2001 budget proposal includes an additional increase of \$.25 per pack in the federal excise tax, as well as a contingent special assessment related to youth smoking rates. Increases in other cigarette-related taxes have been proposed at the state and local level.

In addition to the foregoing, there have been a number of other restrictive regulatory actions, adverse legislative and political decisions and other unfavorable developments concerning cigarette smoking and the tobacco industry, the effects of which, at this time, Management is not able to evaluate. These developments may negatively affect the perception of potential triers of fact with respect to the tobacco industry, possibly to the detriment of certain pending litigation, and may prompt the commencement of additional similar litigation.

RECENT DEVELOPMENTS:

Approximately 20 purported state class action complaints have been filed on behalf of various consumers of cigarette products against the tobacco manufacturers. The complaints allege that cigarette manufacturers engaged in illegal and unethical activities since the 1940's, many conspiratorial in nature, designed to increase profits at the financial and physical expense of customers. These alleged activities include knowingly increasing the addictiveness of cigarettes through crop manipulation; downplaying the detrimental health effects of cigarette smoking; conspiring to refrain from researching and introducing "safer" cigarettes; creating false and misleading scientific research design to combat the growing scientific consensus about the lethal health effects associated with cigarettes; aggressively marketing products to children and minors in an effort to addict them to cigarettes at a young age; and systematically covering up

activities to avoid regulation of products by governmental agencies. The purported class actions are brought pursuant to various state laws.

In February 2000, Liggett and plaintiffs sent correspondence to the court, in *Simon v. Philip Morris et al.*, a putative nationwide smokers class action, indicating that Liggett and the plaintiffs are engaged in preliminary settlement discussions. There are no assurances that any settlement will be reached or that the class will ultimately be certified.

In March 2000, a California jury awarded \$1,700 in compensatory damages and \$20,000 in punitive damages to a former smoker and her husband. The jury found Philip Morris and R.J. Reynolds Tobacco misrepresented the health dangers of cigarettes and that they acted with malice. The defendants have stated that they intend to appeal the verdict and the damage awards.

On March 21, 2000, the United States Supreme Court ruled that the FDA does not have the power to regulate tobacco.

13. Related Party Transactions

During the third quarter of 1998, Brooke contributed 470,000 shares of its common stock to Liggett. On August 28, 1998, Liggett transferred the 470,000 shares of Brooke common stock to members of a law firm which represents the Company and Brooke. The Company recognized charges of \$1,686 related to this transaction.

On March 12, 1998, Brooke granted an option for 1,312,500 shares of Brooke's common stock to a law firm that represents Brooke and Liggett originally exercisable at \$16.67 per share. The fair value of the equity instruments was estimated based on the Black-Scholes option pricing model and the following assumptions: volatility 77.6%, risk-free interest rate of 5.47%, expected life of two years and dividend rate of 0%. The Company recognized expense of \$1,495 in the second quarter of 1998. On October 12, 1998, Brooke amended the option to reduce the exercise price from \$16.67 per share to \$5.71 per share. The initial exercise date on all 1,312,500 shares was extended to April 1, 2000, subject to earlier exercise under certain circumstances which were satisfied resulting in the option becoming exercisable in full. The expense at the initial grant date was \$3,063, and the incremental expense incurred due to the modifications of grant was \$2,050. At December 31, 1999, all such amounts had been expensed.

On January 30, 1998, in connection with the restructuring of its long-term debt, Liggett agreed to transfer to Brooke (Overseas) Ltd. all of its shares of Liggett-Ducat Ltd. which were purchased from Brooke Overseas in 1996 and to cancel its option agreements to acquire additional shares of Liggett-Ducat.

On April 28, 1997, Brooke Overseas purchased excess production equipment from Liggett for \$3,000. The difference of \$2,578 between the sale price and the carrying value is accounted for as a credit to contributed capital.

Liggett is a party to an agreement dated February 26, 1991, as amended October 1, 1995, with Brooke to provide various management and administrative services to the Company in consideration for an annual management fee of \$900 paid in monthly installments and annual overhead reimbursements of \$864 paid in quarterly installments.

In addition, Liggett has entered into an annually renewable Corporate Services Agreement with BGLS wherein BGLS agreed to provide corporate services to the Company at an annual fee paid in monthly installments. Corporate services provided by BGLS under this agreement include the provision of administrative services related to Liggett's participation in its parent company's multi-employer benefit plan, external publication of financial results, preparation of consolidated financial statements and tax returns and such other administrative and managerial services as may be reasonably requested by Liggett. The charges for services rendered under the agreement amounted to \$3,658 in 1999, \$3,484 in 1998 and \$3,318 in 1997.

Since before January, 1997, the Company has leased equipment from BGLS for \$50 per month.

Liggett is party to a tax sharing agreement with BGLS and certain other entities pursuant to which Liggett will pay taxes at least quarterly on an estimated basis to BGLS as if it were filing a separate company tax return, except that the agreement effectively limits the ability of Liggett to carry back losses for refunds. Liggett is entitled to recoup overpayments in a given year out of future payments due under the agreement. At December 31, 1999, other current assets included \$41,399 of non-interest bearing advances to parent which amounts are expected to be applied through future tax-sharing payments.

14. Restructuring Charges

During 1997, the Company reduced its headcount by 108 full-time positions and recorded a \$1,964 restructuring charge to operations (\$407 of which was included in cost of sales) for severance programs, primarily salary continuation and related benefits for terminated employees. The Company expects to continue its cost reduction programs. Of the total restructuring recorded during 1997, \$1,671 was funded during 1997, and \$293 during 1998.

During 1999, the Company recorded a \$300 restructuring charge for estimated costs associated with the relocation of its manufacturing operations to the new Mebane facility (see Note 7).

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1999

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and the Stockholder of Brooke (Overseas) Ltd.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholder's equity (deficit) and cash flows present fairly, in all material respects, the financial position of Brooke (Overseas) Ltd. and subsidiaries (the "Company") at December 31, 1999 and 1998 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 14 to the consolidated financial statements, the operations of the Company, and those of similar enterprises operating in the Russian Federation, have been affected, and may continue to be affected for the foreseeable future, by the continuing regulatory, political and economic uncertainties existing for enterprises operating in the Russian Federation.

/s/ PricewaterhouseCoppers LLP

Miami, Florida
March 2, 2000

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Per Share Amounts)

	December 31, 1999	December 31, 1998
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,078	\$ 2,722
Accounts receivable - trade	11,648	650
Inventories	18,086	10,342
Other current assets	1,066	2,928
	-----	-----
Total current assets	33,878	16,642
Property, plant and equipment, at cost, less accumulated depreciation of \$5,376 and \$2,959	116,169	77,286
Other assets	3,272	5,782
	-----	-----
Total assets	\$ 153,319	\$ 99,710
	=====	=====
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)		
Current liabilities:		
Credit facilities and current portion of notes payable	\$ 39,982	\$ 20,005
Accounts payable - trade	32,412	10,415
Due to affiliates	394	51,533
Accrued taxes	9,483	7,658
Accrued interest	474	228
Other accrued liabilities	3,401	3,628
	-----	-----
Total current liabilities	86,146	93,467
Long-term portion of notes payable	12,578	19,652
Deferred gain	4,736	20,392
Participating loan	37,849	31,991
Other liabilities	700	4,252
Commitments and contingencies		
Stockholder's equity (deficit):		
Common stock, par value \$1 per share, 701,000 shares authorized, authorized, issued and outstanding	701	701
Additional paid-in-capital	103,115	17,104
Deficit	(92,506)	(87,849)
	-----	-----
Total stockholder's equity (deficit)	11,310	(70,044)
	-----	-----
Total liabilities and stockholder's equity (deficit)	\$ 153,319	\$ 99,710
	=====	=====

The accompanying notes are an integral part
of the consolidated financial statements.

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in Thousands, Except Per Share Amounts)

	December 31, 1999	December 31, 1998	December 31, 1997
	-----	-----	-----
Net sales*	\$ 100,181	\$ 97,437	\$ 77,349
Cost of sales*	78,702	72,309	63,819
	-----	-----	-----
Gross profit	21,479	25,128	13,530
Operating, selling, administrative and general expenses	16,265	11,894	9,293
	-----	-----	-----
Operating income.....	5,214	13,234	4,237
Other income (expense):			
Interest income	33	1,508	
Interest expense	(18,991)	(13,400)	(10,187)
Gain on sale of assets	8,448	4,897	27,055
Gain (loss) on foreign currency exchange ...	1,179	(4,293)	80
Other, net	(249)	(1,379)	(126)
	-----	-----	-----
(Loss) income before income taxes	(4,366)	(941)	22,567
Provision (Benefit) for income taxes	291	(4,756)	11,868
	-----	-----	-----
Net (loss) income	\$ (4,657)	\$ 3,815	\$ 10,699
	=====	=====	=====

*Net sales and Cost of sales include excise taxes of \$7,685, \$13,413 and \$12,367 for the years ended December 31, 1999, 1998 and 1997, respectively.

The accompanying notes are an integral part
of the consolidated financial statements.

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY (DEFICIT)
 (Dollars in Thousands, Except Per Share Amounts)

=====

	Common Stock		Additional Paid-In Capital	Deficit	Total
	Shares	Amount			
Balance, December 31, 1996	701,000	\$701	\$ 3,400	\$ (45,533)	\$ (41,432)
Net income				10,699	10,699
Distributions to parent				(55,555)	(55,555)
Capital contribution			2,200		2,200
Balance, December 31, 1997	701,000	701	5,600	(90,389)	(84,088)
Net income				3,815	3,815
Distributions to parent				(1,275)	(1,275)
Capital contribution			11,504		11,504
Balance, December 31, 1998	701,000	701	17,104	(87,849)	(70,044)
Net income				(4,657)	(4,657)
Capital contribution			74,098		74,098
Effect of New Valley recapitalization			11,913		11,913
Balance, December 31, 1999	<u>701,000</u>	<u>\$701</u>	<u>\$ 103,115</u>	<u>\$ (92,506)</u>	<u>\$ 11,310</u>

The accompanying notes are an integral part
of the consolidated financial statements.

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands, Except Per Share Amounts)

	December 31, 1999	December 31, 1998	December 31, 1997
Cash flows from operating activities:			
Net (loss) income	\$ (4,657)	\$ 3,815	\$ 10,699
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,730	1,708	783
Gain on sale of assets	(8,448)	(5,106)	(27,055)
Non-cash interest expense	5,858	1,991	
Currency translation (gain) loss	(1,179)	4,293	(80)
Changes in assets and liabilities (net of effect of dispositions):			
Accounts receivable	(12,078)	785	(1,419)
Inventories	(7,999)	(6,086)	(686)
Accounts payable and accrued liabilities	25,469	(6,838)	5,463
Deferred gain			(2,985)
Due to affiliates	23,075	(16,978)	30,404
Other assets and liabilities, net	3,509	(1,775)	(2,012)
Net cash provided by (used in) operating activities	28,280	(24,191)	13,112
Cash flows from investing activities:			
Capital expenditures	(43,875)	(19,121)	(20,680)
Proceeds from sale of assets, net			55,000
Purchase of stock in Liggett-Ducat			(25)
Proceeds from sale of option to purchase stock in Liggett-Ducat			2,200
Net cash (used in) provided by investing activities	(43,875)	(19,121)	36,495
Cash flows from financing activities:			
Proceeds from participating loan		30,000	
Proceeds from debt		3,000	10,305
Repayments of debt	(2,113)	(887)	(5,190)
Borrowings under credit facilities	46,166	15,600	
Repayments on credit facilities	(26,937)	(9,000)	(155)
Distributions paid to parent		(1,275)	(55,555)
Capital contributions		9,000	
Net cash provided by (used in) financing activities	17,116	46,438	(50,595)
Effect of currency rate translation on cash	(1,165)	(1,372)	81
Net increase (decrease) in cash and cash equivalents	356	1,754	(907)
Cash and cash equivalents, beginning of period	2,722	968	1,875
Cash and cash equivalents, end of period	\$ 3,078	\$ 2,722	\$ 968
Supplemental cash flow information: Cash payments during the period for:			
Interest	\$ 8,186	\$ 2,883	\$ 1,919
Income taxes		2,588	1,280

The accompanying notes are an integral part
of the consolidated financial statements.

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Dollars in Thousands, Except Per Share Amounts)

1. ORGANIZATION

Brooke (Overseas) Ltd. (the "Company"), a Delaware corporation, is a wholly-owned subsidiary of BGLS Inc. ("BGLS") and an indirect subsidiary of Brooke Group Ltd. ("Brooke"). The consolidated financial statements of the Company include Western Tobacco Investments LLC ("Western Tobacco Investments"), a Delaware limited liability company. Western Tobacco Investments is a company which was formed to hold the Company's interest in Liggett-Ducat Ltd. ("Liggett-Ducat"), a Russian closed joint stock company engaged in the manufacture and sale of cigarettes in Russia, and Liggett-Ducat Tobacco ("LDT"), a wholly-owned subsidiary of Liggett-Ducat which recently completed construction of a new cigarette factory. Prior to January 31, 1997, BrookeMil Ltd. ("BrookeMil") was a wholly-owned subsidiary engaged in construction of office buildings and property management in Moscow, Russia. On January 31, 1997, the Company sold its shares (which represented 99.1% of all shares outstanding) in BrookeMil to New Valley Corporation ("New Valley"). (Refer to Note 4.)

On January 30, 1998, in connection with the restructuring of the long-term debt of Liggett Group Inc. ("Liggett"), a wholly-owned subsidiary of BGLS, Liggett agreed to transfer to the Company all of its shares of Liggett-Ducat which were purchased from the Company in 1996 and to cancel its option agreements to acquire additional shares of Liggett-Ducat. At December 31, 1999, the Company held 99.9% of the common shares of Liggett-Ducat through its subsidiary, Western Tobacco Investments.

2. LIQUIDITY

At December 31, 1999, the Company had a net working capital deficiency of \$49,806 which included \$39,982 of payments due over the next twelve months to third parties under credit facilities and notes payable. The Company plans to use cash flows from operating activities to fund ongoing working capital needs in 2000 and is in the process of negotiating with a number of Russian banks for revolving credit facilities that would be used to repay existing credit lines. Furthermore, the Company may request additional funding from its parent in order to meet its liquidity needs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) BASIS OF PRESENTATION:

The consolidated financial statements and accompanying notes include the accounts of the Company and its subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation. Certain amounts in the 1998 and 1997 financial statements have been reclassified to conform to the 1999 presentation.

b) FOREIGN CURRENCY TRANSLATION:

The Company's Russian subsidiaries historically operate in a highly inflationary economy. The financial statements of the Russian subsidiaries have been remeasured as if the U.S. dollar were the functional currency. Therefore, certain assets (principally inventories and property, plant and equipment) are translated at historical exchange rates while monetary assets and liabilities are translated at year-end exchange rates. All translation adjustments are reflected in the consolidated statements of operations.

The ruble to U.S. dollar exchange rate will not necessarily reflect the relative inflation levels of the Russian and U.S. economies. Future movements in the exchange rate between the ruble and the U.S. dollar will affect the carrying value of the Company's ruble denominated monetary assets and liabilities. Such

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Thousands, Except Per Share Amounts) - (Continued)

movements may also affect the Company's ability to realize non-monetary assets represented in U.S. dollars in these financial statements. Accordingly, translation of ruble amounts to U.S. dollars should not be construed as a representation that such ruble amounts have been, could be, or will in the future be converted into U.S. dollars at the exchange rate shown or at any other exchange rate.

c) ESTIMATES AND ASSUMPTIONS:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

d) CASH AND CASH EQUIVALENTS:

For purposes of the statements of cash flows, cash includes cash on hand, cash on deposit in banks and cash equivalents, comprised of short-term investments which have an original maturity of 90 days or less. Interest on short-term investments is recognized when earned.

e) INVENTORIES:

Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out (FIFO) basis.

f) PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment are stated at cost. Depreciation has been calculated on the straight-line method based upon the following useful lives: buildings - 20 years, factory machinery and equipment - 10 to 15 years, office furniture and equipment - 5 years, and computers and vehicles - 3 years. Depreciation is not provided on construction-in-progress until the related assets are placed in service.

Interest costs are capitalized in connection with the construction of major facilities in accordance with Statement of Financial Accounting Standards No. 34. Capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life.

The cost of major renewals and betterments are capitalized. The cost and related accumulated depreciation of property, plant and equipment are removed from the financial statements upon retirement or other disposition and any resulting gain or loss is reflected in the consolidated statements of operations. Repairs and maintenance are charged to expense as incurred.

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Thousands, Except Per Share Amounts) - (Continued)

g) GOODWILL:

Goodwill is generally amortized using the straight-line method and related in 1998 and 1997 to the purchase by the Company of additional shares of Liggett-Ducat stock. Amortization expense for the years ended December 31, 1998 and 1997 was \$1,001 and \$118, respectively.

h) IMPAIRMENT OF LONG-LIVED ASSETS:

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When impairment has occurred, the carrying amount of the asset is reduced to fair value and a loss is recognized in the statements of operations.

i) DEFERRED FINANCE COSTS:

Deferred finance costs consist of fees incurred in obtaining a bank loan which are being amortized over the term of the loan.

j) REVENUE RECOGNITION:

Sales are generally recognized upon the shipment of finished goods to customers. Revenue for goods which are sold under a consignment agreement are recognized when the goods are shipped from the distributor to final customer.

k) INCOME TAXES:

Applicable income and deferred taxes have been provided for based on tax rates applicable to the Company in the United States and Russia. A valuation allowance is provided against deferred tax assets when it is deemed more likely than not that some portion or all of the deferred tax assets will not be realized.

l) CONCENTRATION OF CREDIT AND OTHER RISKS:

The Company sells its products primarily to companies in the wholesale distribution and retail industries in the Russian Federation. Four distributors accounted for approximately 40% of sales in 1999, three distributors accounted for 54% of sales in 1998 and two distributors accounted for approximately 47% of sales in 1997. Although certain distributors account for concentrations of the Company's revenues, in some cases, prepayments are received for goods and services which is a customary business practice in Russia. Since the Company does not require collateral and, as a consequence, is exposed to credit risk with respect to its tobacco operations, the Company does perform ongoing credit evaluations of its customers and suppliers and believes that its trade accounts receivable and prepayments risk exposure is limited.

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Thousands, Except Per Share Amounts) - (Continued)

At December 31, 1999, 1998 and 1997, the Company had made prepayments of \$453, \$1,232 and \$8,756, respectively, to suppliers of raw materials. The Company also had made prepayments for equipment of \$2,160, \$4,279 and \$483 at December 31, 1999, 1998 and 1997, respectively.

The Company maintains its cash deposits with United States and various foreign banks and assesses the financial condition of the institutions on an on-going basis.

(m) FAIR VALUE OF FINANCIAL INSTRUMENTS:

The fair value of financial instruments, consisting of cash and cash equivalents, trade accounts receivable, trade accounts payable, credit facilities and amounts due affiliates which are included in current assets and current liabilities is considered to be the carrying value.

It is not practicable to estimate the value of notes payable to equipment suppliers due to the current instability in the Russian economy and its effect on interest rates appropriate for determining fair value. Management believes that the fair value of these notes payable does not exceed carrying value.

4. SALE OF BROOKEMIL

On January 31, 1997, the Company sold its 99.1% of the outstanding shares of BrookeMil to New Valley Corporation ("New Valley") for \$21,500 in cash and a \$33,500 9% note. The note was paid in full in 1997. The Company distributed to BGCS the proceeds from the sale. In connection with the sale, the Company, Brooke and BGLS contributed to the capital of BrookeMil, through the cancellation of all indebtedness of BrookeMil owned to each such entity, the aggregate amount of \$19,275 including accrued interest.

The consideration received in the sale of the BrookeMil shares exceeded the carrying value of the Company's investment in BrookeMil by \$52,500. The Company recognized a gain on the sale in 1997 in the amount of \$25,500. The remaining \$27,000 was deferred, reflecting recognition that the Company's parent, BGLS, retained an interest in BrookeMil

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Dollars in Thousands, Except Per Share Amounts) - (Continued)

through its then 42% equity ownership in New Valley and that a portion of the property sold (the proposed site of the third phase of the Ducat Place real estate project being developed by BrookeMil) was subject to a put option held by New Valley. The option expired when Liggett-Ducat ceased factory operations at the site in March 1999. The Company recognized that portion of the deferred gain, \$8,448, in March 1999. As of June 1, 1999, New Valley became a consolidated subsidiary of Brooke. The remaining deferred gain of \$11,913 related to the sale of BrookeMil was reclassified as a contribution to capital.

In 1998, New Valley contributed the BrookeMil real estate assets to Western Realty Development LLC ("Western Realty Development"), a joint venture between New Valley and Apollo Real Estate Investment Fund III, L.P. ("Apollo"). The Company recognized a portion of the deferred gain, \$5,106, to the extent of Apollo's interest in Western Realty Development LLC. (Refer to Note 10.)

In 1997, BrookeMil sold one of its office buildings, Ducat Place I, to a third party. Accordingly, the Company recognized approximately \$1,490 of the deferred gain.

5. NON-MONETARY TRANSACTIONS

During 1999, 1998 and 1997, certain supplies and inventory purchase transactions were made whereby payment for such transactions was facilitated by the Company's customers who forwarded payment on the Company's behalf to raw material suppliers. Such transactions amounted to approximately \$9,843, \$6,860 and \$4,753 in 1999, 1998 and 1997, respectively. Sales and purchases were priced at what management believes are the normal sales prices for cigarettes and the normal market price for tobacco, other materials and services. No gain or loss was recognized as a result of these transactions.

6. INVENTORIES

Inventories consist of:

	December 31, 1999	December 31, 1998
	-----	-----
Leaf tobacco	\$ 6,727	\$ 3,086
Other raw materials	4,582	3,215
Work-in-process	959	173
Finished goods	3,201	2,888
Replacement parts and supplies	2,617	980
	-----	-----
	\$18,086	\$10,342
	=====	=====

Replacement parts and supplies are shown net of a provision for obsolescence of \$100 at December 31, 1999 and \$545 at December 31, 1998.

Purchase commitments are for quantities not in excess of anticipated requirements and are at prices, including carrying costs, established at the date of the commitment. At

BROOKE (OVERSEAS) LTD. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Dollars in Thousands, Except Per Share Amounts) - (Continued)

December 31, 1999, the Company had leaf tobacco purchase commitments of approximately \$45,311.

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of:

	December 31, 1999	December 31, 1998
	-----	-----
Buildings	\$ 46,510	\$
Factory machinery and equipment	64,385	10,589
Computers and software	1,343	466
Office furniture and equipment	1,205	470
Vehicles	3,839	1,767
Construction-in-progress	4,263	66,953
	-----	-----
	121,545	80,245
Less accumulated depreciation	(5,376)	(2,959)
	-----	-----
	\$ 116,169	\$ 77,286
	=====	=====

Depreciation expense for the years ended December 31, 1999, 1998 and 1997 was \$4,730, \$996 and \$641, respectively. Capitalized interest included in property, plant and equipment was \$3,287, \$2,215 and \$693 at December 31, 1999, 1998 and 1997, respectively.

8. EMPLOYEE BENEFITS

The Company complies with Russian Federation regulations covering pensions, education, day care, medical and other benefits to employees. These items are funded as a percentage of gross wages and are paid on a current basis. Medical clinic and day care facilities are provided on site and related costs are expensed as incurred. All Russian citizen employees are required to participate in the pension fund. The total expense for these programs was approximately \$3,184 in 1999, \$3,385 in 1998 and \$2,638 in 1997.

9. CREDIT FACILITIES AND NOTES PAYABLE

Credit facilities and notes payable consist of the following:

	December 31, 1999	December 31, 1998
	-----	-----
Notes payable	\$ 23,090	\$ 28,057
Credit facilities	29,470	11,600
	-----	-----
Total notes payable and credit facilities	52,560	39,657
Less current portion	(39,982)	(20,005)
	-----	-----
Amount due after one year	\$ 12,578	\$ 19,652
	=====	=====

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At December 31, 1999, Liggett-Ducat had various credit facilities under which approximately \$29,470 was outstanding. Facilities denominated in dollars amount to \$23,000, all of which have been fully utilized, bear interest at rates ranging from 13% to 20% and expire within the next eight to twelve months. The remaining facilities, denominated in rubles (approximately \$6,470 at the December 31, 1999 exchange rate), have terms of six to twelve months with interest rates of 40% to 50%. The facilities are collateralized by the new factory building, factory equipment and tobacco inventory.

At December 31, 1998, the Company had two credit facilities outstanding. One, for \$10,000, expired in May 1999 and was fully utilized at December 31, 1998 with an interest rate of 25%. The second, for \$5,000, expired in December 1999 with an interest rate of 21%. This facility had \$1,600 utilized at December 31, 1998. The facilities were collateralized by the new factory building, factory equipment and tobacco inventory.

Interest expense on facilities outstanding during 1999, 1998 and 1997 was \$7,350, \$1,910 and \$944.

Western Tobacco Investments has entered into several contracts for the purchase of cigarette manufacturing equipment. Approximately 85% of the amount of the contracts were financed with promissory notes generally payable over a period of five years. The outstanding balance on these notes, which are denominated in various European currencies, is \$17,678 at December 31, 1999. In addition, at December 31, 1999, the Company had several short-term notes payable totaling \$4,109 to equipment suppliers. The terms of these notes ranged from four to twelve months and carried interest rates of up to 16%.

The Company also has issued a promissory note for \$1,303 due March 31, 2000 covering deposits for equipment being purchased for the factory.

On July 29, 1998, the Company borrowed \$3,000 from an unaffiliated third party with interest at 14% per annum. The remaining principal of the note and accrued interest of \$1,950 was paid on August 2, 1999.

Scheduled maturities of notes payable for each of the next five year are as follows:

Year ending December 31:	
2000	\$10,512
2001	4,226
2002	4,226
2003	4,126

Total	\$23,090
	=====

10. PARTICIPATING LOAN

In February 1998, New Valley and Apollo organized Western Realty Development to make real estate and other investments in Russia. Through December 31, 1999, Western Realty Development had made a \$30,000 participating loan to Western Tobacco

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Investments with the proceeds used by the Company to reduce intercompany debt to BGLS and for payments on the new factory construction contracts. The loan bears no fixed interest and is payable only out of 30% of distributions made by Western Tobacco Investments to the Company. After the prior payment of debt service on loans to finance the construction of the new factory, 30% of distributions from Western Tobacco Investments to the Company will be applied first to pay the principal of the loan and then as contingent participating interest on the loan. In addition, Western Realty Development is entitled to receive a 15% cumulative annual rate of return on amounts advanced under the participating loan agreement under certain circumstances in the event of sale or refinancing of Western Tobacco Investments or the new factory. Any rights of payment on the loan are subordinate to the rights of all other creditors of the Company. For the twelve months ended December 31, 1999 and December 31, 1998 the net effect of these preference requirements is recorded as interest expense of \$5,858 and \$1,991, respectively.

11. COMMITMENTS

The following is a schedule of the Company's future minimum rental payments required under operating leases with noncancelable lease terms in excess of one year as of December 31, 1999:

Year ending December 31:	
2000	\$ 361
2001	361
2002	361
2003	361
2004	361
Thereafter	6,210

Total	\$8,015
	=====

Lease commitments for 2004 and thereafter relate primarily to the 43 years remaining under the land lease for the new facility site.

The Company's rental expense for the years ended December 31, 1999, 1998 and 1997 was \$1,278, \$679 and \$375, respectively.

12. RELATED PARTY TRANSACTIONS

In 1998 and 1997, the Company obtained funding through a revolving credit facility with Brooke and BGLS at an annual interest rate of 20% to cover certain expenses including the cost of certain administrative services and personnel, tobacco and material purchases and upgrades of factory equipment. In February 1998, Brooke and BGLS cancelled a note and interest thereon which amounted to \$20,384 and Brooke also made a capital contribution of \$9,000 to the Company, which was used to repay additional intercompany indebtedness to BGLS. Amounts due to Brooke and BGLS under this facility at December 31, 1998 were \$51,533, including interest of \$25,451. On August 31, 1999, Brooke and BGLS cancelled all of the Company's remaining notes and interest thereon

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which amounted to \$74,098. This amount is recorded as a capital contribution in the consolidated statements of stockholder's equity.

In 1996, the Company entered into a consulting and non-compete agreement with the former chairman. Under the terms of the agreements, the Company agreed to pay him approximately \$5,232 over five years. At December 31, 1999, the remaining liability under the agreements was \$1,700.

Refer to Note 10 for information concerning the participating loan to Western Tobacco Investments by Western Realty Development.

13. INCOME TAXES

The provision for income taxes relates to income taxes payable in United States and Russian jurisdictions.

The provision (benefit) for income taxes consists of the following:

	December 31, 1999	December 31, 1998	December 31, 1997
	-----	-----	-----
Current	\$(4,263)	\$(4,311)	\$11,868
Deferred	4,554	(445)	-----
	\$ 291	\$(4,756)	\$11,868
	=====	=====	=====

Deferred taxes have been recognized for significant temporary differences arising between the financial statement and tax basis of assets and liabilities. The tax effect of these temporary differences and net deferred taxes recorded as of December 31, 1999 and 1998 are summarized as follows:

	December 31, 1999	December 31, 1998
	-----	-----
Deferred tax assets:		
Property, plant and equipment	\$ 110	\$ 336
Tax loss carryforwards	6,632	3,354
Inventory	46	110
Accruals	214	190
	-----	-----
Total Deferred tax assets	7,002	3,990
Valuation allowance	(7,002)	(3,545)
	-----	-----
Net deferred tax assets	\$	\$ 445
	=====	=====

The net deferred tax asset at December 31, 1998 is allocated between other current assets (\$110) and other assets (\$335). A full valuation allowance on deferred tax assets has been recognized at December 31, 1999 as management believes that, based on the weight of available evidence, it is more likely than not that of the deferred tax assets will not be realized. The Company no longer expects to utilize carryforwards losses prior to their expiration because in 1999 the Company was granted a new enterprises profits tax allowance by the local tax authorities.

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In Russia, tax loss carryforwards can be used during the next five years after the year when the loss was incurred. The relief available is limited to 20% of the tax loss carryforwards in each of the five years, not to exceed 50% of taxable profit in any given year.

As a result of changes in Russian tax legislation, a profit tax rate of 30% has been enacted starting from April 1, 1999 (35% in 1998). The deferred taxes, net of the valuation allowance, have been adjusted accordingly.

In 1998 and 1999, the financial statements of the Company prepared for Russian statutory purposes showed a loss. The major differences between the Company's actual tax provision and tax expense computed at by applying the 30% statutory tax rate relates to translation gains and losses, non-deductible expenses, and changes in deferred tax balances.

14. CONTINGENCIES

BGLS NOTES. BGLS has pledged its ownership interest in the Company's common stock as collateral in connection with the issuance of BGLS' 15.75% Senior Secured Notes due 2001 ("BGLS Notes").

In March 1998, BGLS entered into an agreement with AIF II, L.P. and an affiliated investment manager on behalf of a managed account (together, the "Apollo Holders"), who then held approximately 41.8% of the BGLS Notes, in which the Apollo Holders (and any transferees) agreed to defer the payment of interest on the BGLS Notes held by them, commencing with the interest payment that was due July 31, 1997, which they had previously agreed to defer, through the interest payment due July 31, 2000. The deferred interest payments will be payable at final maturity of the BGLS Notes on January 31, 2001 or upon an event of default under the Indenture for the BGLS Notes. In connection with the agreement, the Company pledged 50.1% of Western Tobacco Investments to collateralize the BGLS Notes held by the Apollo Holders (and any transferees).

OPERATING ENVIRONMENT. The Russian Federation continues to experience economic difficulties following the financial crisis of August 1998. Consequently, the country's currency continues to devalue, there is continued volatility in the debt and equity markets, hyperinflation persists, confidence in the banking sector has yet to be restored and there continues to be a general lack of liquidity in the economy. In addition, laws and regulations affecting businesses operating within the Russian Federation continue to evolve.

The Russian Federation's return to economic stability is dependent to a large extent on the effectiveness of the measures taken by the government, decisions of international lending organizations, and other actions, including regulatory and political developments, which are beyond the Company's control.

The Company's assets and operations could be at risk if there are any further significant adverse changes in the political and business environment. Management is unable to predict what effect those uncertainties might have on the future financial position of the

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Company. No adjustments related to these uncertainties have been included in the accompanying consolidated financial statements.

TAXATION. Russian tax legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Company may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Company may be assessed additional taxes, penalties and interest, which can be significant.

Management regularly reviews the Company's taxation compliance with applicable legislation, laws and decrees and current interpretations and from time to time potential exposures are identified. At any point in time a number of open matters may exist; however, management believes that adequate provision has been made for all material liabilities. The periods remain open to review by the tax and customs authorities with respect to tax payments for three years.