United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1995

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____ to _____

Commission file number 1-5759

BROOKE GROUP LTD.
(Exact name of registrant as specified in its charter)

DELAWARE	51-0255124
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 S.E. 2ND STREET, MIAMI, FLORIDA	33131
(Address of principal executive offices)	(Zip Code)

(305) 579-8000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO
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As of November 13, 1995, there were outstanding 18,497,096 shares of common stock, par value $0.10 per share.

BROOKE GROUP LTD.

FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

BROOKE GROUP LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	September 30, 1995	December 31, 1994
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 16,998	$ 4,276
Accounts receivable - trade	20,253	31,325
Other receivables	1,085	1,558
Inventories	45,543	47,098
Other current assets	2,991	3,247
Total current assets	86,870	87,504
Property, plant and equipment, at cost, less accumulated depreciation of $26,795 and $24,460	27,716	25,806
Intangible assets, at cost, less accumulated amortization of $15,230 and $13,936	5,464	6,728
Investment in affiliate	82,503	97,520
Other assets	8,728	11,867
Total assets	$211,281	$229,425

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

Item 1. Consolidated Financial Statements - (Continued)

BROOKE GROUP LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS, CONTINUED
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	September 30, 1995	December 31, 1994
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT):		
Current liabilities:		
Notes payable and current portion of long-term debt	$ 10,082	$ 26,491
Accounts payable	11,539	12,415
Cash overdraft	2,043	4,860
Accrued promotional expenses	23,683	29,853
Unearned revenue	26	2,056
Net current liabilities of business held for disposition		4,974
Accrued taxes	17,863	19,126
Other accrued liabilities	34,098	44,576
Total current liabilities	99,334	144,351
Notes payable, long-term debt and other obligations, less current portion	397,236	405,798
Noncurrent employee benefits	31,850	31,119
Net long-term liabilities of business held for disposition		23,009
Other	9,286	
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 40,000,000 shares, issued 24,998,043 shares, outstanding 18,247,096 and 18,260,844 shares, respectively	1,825	1,826
Additional paid-in capital	80,121	66,245
Deficit	(404,749)	(420,746)
Other	29,961	11,365
Less: 6,750,947 and 6,737,199 shares of common stock in treasury, at cost	(33,583)	(33,542)
Total stockholders' equity (deficit)	(326,425)	(374,852)
Total liabilities and stockholders' equity (deficit)	$ 211,281	$ 229,425

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

Item 1. Consolidated Financial Statements - (Continued)

BROOKE GROUP LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	Sept. 30, 1995	Sept. 30, 1994	Sept. 30, 1995	Sept. 30, 1994
Revenues*	$ 124,100	$ 124,446	$ 341,718	$ 357,628
Cost of goods sold*	54,626	57,847	158,766	173,091
Gross profit	69,474	66,599	182,952	184,537
Selling, general and administrative expenses	58,818	57,564	173,322	162,220
Operating income	10,656	9,035	9,630	22,317
Other income (expenses):				
Interest income	43	49	893	119
Interest expense	(13,952)	(14,156)	(43,369)	(41,502)
Equity in earnings of affiliate	1,561		3,598	
Other, net	962	(9,992)	2,039	(9,435)
(Loss) from continuing operations before income taxes	(730)	(15,064)	(27,209)	(28,501)
Provision (benefit) for income taxes	394	(24,177)	464	(24,517)
(Loss) income from continuing operations	(1,124)	9,113	(27,673)	(3,984)
Discontinued operations:				
Income (loss) from discontinued operations, net of income taxes of $11 and $567 for the three and nine months ended September 30, 1995, respectively, and $(380) and $2,962 for the three and nine months ended September 30, 1994, respectively	98	(654)	2,860	1,944
Gain on disposal		10,459	13,138	18,135
Income from discontinued operations	98	9,805	15,998	20,079
(Loss) income before extraordinary item	(1,026)	18,918	(11,675)	16,095
Extraordinary (loss) from the early extinguishment of debt				(1,118)
Net (loss) income	(1,026)	18,918	(11,675)	14,977
Proportionate share of New Valley capital transaction, retirement of Class A Preferred Shares	2,798		16,802	
Net income applicable to common shares	$ 1,772	$ 18,918	$ 5,127	$ 14,977
Per common share:				
Income (loss) from continuing operations	$ 0.09	$ 0.52	$ (0.60)	$ (0.23)
Income from discontinued operations	$ 0.01	$ 0.55	$ 0.88	$ 1.15
Extraordinary item	$	$	$	$ (0.06)
Net income applicable to common shares	$ 0.10	$ 1.07	$ 0.28	$ 0.86
Weighted average common shares and common stock equivalents outstanding	18,247,094	17,617,629	18,248,673	17,483,163

* Revenues and Cost of goods sold include federal excise taxes of $32,643 and $33,932 for the three months ended September 30, 1995 and 1994, respectively, and $92,238 and $99,450 for the nine months ended September 30, 1995 and 1994, respectively.

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

Item 1. Consolidated Financial Statements - (Continued)

BROOKE GROUP LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	Common Stock		Additional Paid-In		Treasury		
	Shares	Amount	Capital	Deficit	Stock	Other	Total
Balance, December 31, 1994	18,260,844	$1,826	$66,245	$(420,746)	$(33,542)	$11,365	$(374,852)
Net loss				(11,675)			(11,675)
Distributions on common stock of BGL ($0.075 per share, per quarter)			(4,106)				(4,106)
Stock grant to directors	20,000	2	(2)		94		94
Stock grant to consultant			939			(609)	330
MAI spin-off				27,286		(201)	27,085
Net unrealized holding gain on investment in New Valley						12,815	12,815
Effect of New Valley capital transactions			17,043			6,591	23,634
Other, net			(1)	386			385
Treasury stock, at cost	(33,748)	(3)	3		(135)		(135)
Balance, September 30, 1995	18,247,096	$1,825	$80,121	$(404,749)	$(33,583)	$29,961	$(326,425)

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

Item 1. Consolidated Financial Statements - (Continued)

BROOKE GROUP LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	Nine Months Ended	
	September 30, 1995	September 30, 1994
Net cash (used in) operating activities	$(23,706)	$(36,037)
Cash flows from investing activities:		
Proceeds from sale of assets/equipment	14,149	17,334
Dividends from New Valley	61,832	
Investment in New Valley	(1,965)	
Capital expenditures	(5,008)	(467)
Impact of discontinued operations		(990)
Net cash provided by investing activities	69,008	15,877
Cash flows from financing activities:		
Proceeds from debt	3,028	9,261
Deferred financing costs		(2,397)
(Repayment) borrowing under revolver	(3,449)	4,532
Repayments of debt	(25,080)	(1,303)
Decrease in cash overdraft	(2,817)	(12,477)
Dividends paid on Series G preferred stock		(4,999)
CVR settlement, net		1,875
Distributions on common stock	(4,107)	
Treasury stock purchases	(135)	(82)
Stockholder loan and interest repayments		17,774
Impact of discontinued operations		(2,644)
Other, net	(20)	
Net cash (used in) provided by financing activities	(32,580)	9,540
Effects of exchange rate changes on cash and cash equivalents		3
Net increase (decrease) in cash and cash equivalents	12,722	(10,617)
Cash and cash equivalents, beginning of period	4,276	15,773
Cash and cash equivalents, end of period	$ 16,998	$ 5,156

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

Item 1. Consolidated Financial Statements - (Continued)

BROOKE GROUP LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

1. GENERAL

The consolidated financial statements included herein, prepared by Brooke Group Ltd. (the "Company"), are unaudited and, in the opinion of management, reflect all adjustments necessary (which are normal and recurring) to present fairly the Company's consolidated financial position, results of operations and cash flows. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto for the years ended December 31, 1994, 1993 and 1992, included in the Company's Annual Report on Form 10-K for the year ended December 31, 1994, as filed with the Securities and Exchange Commission ("SEC") on April 17, 1995. The consolidated results of operations for interim periods should not be regarded as necessarily indicative of the results that may be expected for the entire year.

Certain amounts in the 1994 consolidated financial statements have been reclassified to conform to the 1995 presentation.

2. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Liggett Group Inc. ("Liggett"), New Valley Holdings, Inc. ("NV Holdings") and other less significant subsidiaries.

As a result of the spinoff of the Company's equity interest in MAI Systems Corporation ("MAI") in February 1995 and the sale/redemption of the Company's common and preferred stock of SkyBox International, Inc. ("SkyBox"), both entities are reported as discontinued operations for the periods prior to their disposal by the Company. Results of discontinued operations for the three and nine months ended September 30, 1995 also reflect the Company's proportionate interest in the discontinued operations of New Valley Corporation ("New Valley"). See Note 3. Revenues for MAI were $6,652 for the period January 1, 1995 to February 6, 1995 and $49,766 for the nine months ended September 30, 1994.

3. INVESTMENT IN NEW VALLEY CORPORATION

The Company's investment in New Valley as of and for the nine months ended September 30, 1995 is summarized as follows:

	Number of Shares	Carrying Value	Equity in Continuing Operations
Common shares	79,794,229	$ (37,475)	$(18,377)
Class A Preferred shares	618,326	115,492	21,975
Class B Preferred shares	250,885	4,486	
		$ 82,503	$ 3,598

The $15.00 Class A Increasing Rate Cumulative Senior Preferred Shares ($100 Liquidation Value), $.01 par value (the "Class A Preferred Shares"), and the $3.00 Class B Cumulative Convertible Preferred ($25 Liquidation Value), $.10 par value per share (the "Class B Preferred Shares"), are

Item 1. Consolidated Financial Statements - (Continued)

BROOKE GROUP LTD. AND SUBSIDIARIES
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(UNAUDITED)

accounted for pursuant to the requirements of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", and are classified as available-for-sale. Because the Class A Preferred Shares are thinly traded, their fair value has been estimated with reference to the securities' preference features, including dividend and liquidation preferences, and the composition and nature of the underlying net assets of New Valley. The net unrealized holding gain on these securities, in the amount of $23,979, is accounted for as a separate component of stockholders' equity. Of this amount, $21,347 relates to the Class A Preferred Shares and $2,632 relates to the Class B Preferred Shares. At September 30, 1995, the Company's shares of New Valley common stock, representing a 41.7% common interest and which are accounted for under the equity method pursuant to APB 18, had a quoted market value of $32,716.

Summarized income statement information for New Valley for the three and nine month periods ended September 30, 1995 is as follows:

	3 Months Ended Sept. 30, 1995	9 Months Ended Sept. 30, 1995
Revenues	$21,514	$39,215
Cost and expenses	18,436	28,233
Income from continuing operations	2,784	11,699
Net income	3,019	16,014

In February 1995, New Valley repurchased 54,445 Class A Preferred Shares pursuant to a tender offer made as part of the New Valley First Amended Joint Chapter 11 Plan of Reorganization, as amended (the "Joint Plan"). During the nine months ended September 30, 1995, New Valley's Board of Directors authorized the repurchase of an additional 500,000 Class A Preferred Shares. At September 30, 1995, 339,400 of such shares had been repurchased on the open market at an aggregate cost of $43,405 or an average cost of $127.89 per share. The Company has recorded its proportionate interest in the excess of the carrying value of the shares over the cost of the shares repurchased as a credit to additional paid-in capital in the amount of $16,802, along with other New Valley capital transactions of $241 for the nine months ended September 30, 1995.

In August 1995, New Valley received approval from the Federal Trade Commission to purchase up to 15% of the voting securities of RJR Nabisco Holdings Corp. ("RJR Nabisco"). As of September 30, 1995, New Valley held approximately 3,300,000 shares of RJR Nabisco common stock, par value $.01 per share (the "RJR Nabisco Common Stock"), with a market value of $106,000 (cost of $97,000). New Valley's investment in RJR Nabisco collateralizes margin loan financing of $54,900 at September 30, 1995.

As a result of recent asset dispositions pursuant to the Joint Plan, New Valley has accumulated a significant amount of cash which it may be required to reinvest in operating companies in the near future in order to avoid potentially burdensome regulation under the Investment Company Act of 1940, as amended (the "Investment Company Act"). The Investment Company Act and the rules and regulations thereunder require the registration of, and impose various substantive restrictions on, companies that engage primarily in the business of investing, reinvesting or trading in securities or engage in the business of investing, reinvesting, owning, holding or trading in securities and own or propose to acquire "investment securities" having a value in excess of 40% of a company's "total assets". New Valley, which is now above this threshold as a result of dispositions of its operating businesses pursuant to the Joint Plan, is relying on the temporary exemption from registration under

Item 1. Consolidated Financial Statements - (Continued)

BROOKE GROUP LTD. AND SUBSIDIARIES
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the Investment Company Act provided by Rule 3a-2 thereunder. New Valley will attempt to be engaged, within the one-year period prescribed by Rule 3a-2, primarily in a business of businesses other than that of investing, reinvesting, owning, holding or trading in securities, or in the alternative, if New Valley is unable to accomplish this, it will seek to obtain an extension of such date or an exemption from the SEC or no-action position from the SEC staff with respect to registration under the Investment Company Act. However, no assurance can be given that New Valley will be successful in becoming engaged in such business or in obtaining an extension of such one-year period, and accordingly, there may be a risk that New Valley will become subject to the Investment Company Act. If either New Valley or the Company were required to register under the Investment Company Act, such company would be subject to a number of severe substantive restrictions on its operations, capital structure and management, including without limitation entering into transactions with affiliates. If New Valley were required to register under the Investment Company Act, the Company (as well as BGLS) would also have to register and, therefore, would be subject to the same substantive restrictions described above. In addition, registration under the Investment Company Act by BGLS would constitute a violation of certain of the indentures to which BGLS is a party.

Subsequent Event: On October 17, 1995, New Valley entered into an agreement, as amended (the "Agreement"), with High River Limited Partnership ("High River"), an entity owned by Carl C. Icahn. (The Company and BGLS also entered into a separate agreement with High River (see Note 10)). Pursuant to the agreement, New Valley sold approximately 1,600,000 shares of RJR Nabisco Common Stock to High River for an aggregate purchase price of $51,000 and the parties agreed that New Valley and High River would each invest up to approximately $250,000 in shares of RJR Nabisco Common Stock, subject to certain conditions and limitations. Any party to the Agreement may terminate it at any time, although under certain circumstances, the terminating party will be required to pay a fee of $50,000 to the nonterminating party. The agreement also provides for the parties to pay certain other fees to each other under certain circumstances, including a fee to High River equal to 20% of New Valley's profit in RJR Nabisco Common Stock, after certain expenses as defined in the Agreement. As of November 1, 1995, New Valley held approximately 4,900,000 shares in RJR Nabisco Common Stock. New Valley's cost of such shares and the amount of related margin loan financing were approximately $148,900 and $74,200, respectively, at November 1, 1995.

On October 31, 1995, New Valley sold substantially all the assets of its wholly owned subsidiary, Western Union Data Services Company, Inc. (the "Messaging Service Business"), and conveyed substantially all of the liabilities of the Messaging Service Business to First Financial Management Corporation ("FFMC") for $20,000 in cash. New Valley estimates that it will recognize a pre-tax gain on the sale of such business of approximately $13,300 during the fourth quarter of 1995.

4. BROOKE (OVERSEAS) LTD.

During the third quarter of 1995, Brooke (Overseas) Ltd., a wholly-owned subsidiary of the Company, increased its investment in Liggett-Ducat Ltd., a Russian joint stock company ("LDJSC") from approximately 58% to 68% through a direct purchase of stock from other shareholders. LDJSC has not been consolidated due to certain events which impair the ability of the Company to control LDJSC. Amounts invested in the Russian subsidiary's tobacco operation in 1994 and the nine months ended September 30, 1995, which totaled $5,723 and $8,500, respectively, were expensed based on the determination that there was significant uncertainty as to the recoverability of the amounts invested. In addition, the Company has invested $4,000 in the nine months ended September 1995 relating to the Russian subsidiary's real estate operations which amount has been

Item 1. Consolidated Financial Statements - (Continued)

BROOKE GROUP LTD. AND SUBSIDIARIES
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(UNAUDITED)

capitalized. The Company continues to monitor this foreign subsidiary and may consolidate it in the near future.

Subsequent Event: In October 1995, LDJSC entered into a loan agreement with the Russian Federation Foreign Trade Bank, Moscow, Russia, to borrow up to $20,000 to fund real estate development. Interest on the note is based on the London Interbank Offered Rate ("LIBOR") plus 10%. Principal repayments are due over the period April through October of 1997. The loan agreement was arranged through a third party for a net fee of $4,044 payable ratably over the term of the loan. The Company has guaranteed the payment of the note and the broker's fee. All of the stock of BrookeMil Ltd. ("BrookeMil"), a wholly-owned subsidiary of LDJSC, has been pledged as collateral for the loan.

Also in October 1995, BrookeMil purchased certain buildings, which it had previously leased from the Moscow Property Committee, for $4,369 net of related transaction costs. BrookeMil has developed, or is in the process of developing, these buildings for commercial use.

5. INVENTORIES

Inventories consist of:

	September 30, 1995	December 31, 1994
Finished goods	$16,350	$18,374
Work in process	3,088	2,952
Raw materials	19,707	20,609
Replacement parts and supplies	3,846	3,754
Inventories at current cost	42,991	45,689
LIFO adjustments	2,552	1,409
	$45,543	$47,098

At September 30, 1995, the Company had leaf tobacco purchase commitments of approximately $23,900.

6. CONTINGENCIES

Since 1954, the Company and other United States cigarette manufacturers have been named as defendants in a number of direct and third-party 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 exposures to secondary smoke (environmental tobacco smoke, "ETS") from cigarettes. These cases are generally described hereinafter as though having been commenced against Liggett (without regard to whether such actually were commenced against Liggett or the Company in its former name or in its present name), since all involve the tobacco manufacturing and marketing activities currently performed by Liggett. New cases continue to be commenced against Liggett and other cigarette manufacturers. As new cases are commenced, the costs associated with defending such cases and the risks attendant to the inherent unpredictability of litigation continue. To date a number of such actions, including several against Liggett, have been disposed of favorably to the defendants; no plaintiff has ultimately prevailed on the merits of any such action; and no payment

Item 1. Consolidated Financial Statements -(Continued)

BROOKE GROUP LTD. AND SUBSIDIARIES
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(UNAUDITED)

in settlement of any such claim has been made by Liggett nor, to Liggett's knowledge, any other cigarette manufacturer.

In the action entitled Cipollone v. Liggett Group Inc., et al., the United States Supreme Court, on June 24, 1992, issued an opinion regarding federal preemption of state law damage actions. The Supreme Court in Cipollone concluded that The Federal Cigarette Labeling and Advertising Act (the "1965 Act") did not preempt any state common law damage claims. Relying on The Public Health Cigarette Smoking Act of 1969 (the "1969 Act"), however, the Supreme Court concluded that the 1969 Act preempted certain, but not all, common law damage claims. Accordingly, the decision bars plaintiffs from asserting claims that, after the effective date of the 1969 Act, the tobacco companies either failed to warn adequately of the claimed health risks of cigarette smoking or sought to neutralize those claimed risks in their advertising or promotion of cigarettes. It does permit, however, claims for fraudulent misrepresentation (other than a claim of fraudulently neutralizing the warning), concealment (other than in advertising and promotion of cigarettes), conspiracy and breach of express warranty after 1969. The Court expressed no opinion on whether any of these claims are viable under state law, but assumed arguendo that they are viable.

In addition, bills have been introduced in Congress on occasion to eliminate the federal preemption defense. Enactment of any federal legislation with such an effect could result in a significant increase in claims, liabilities and litigation costs.

On May 11, 1993, in the case entitled Wilks v. The American Tobacco Company, et al., No. 91-12,355, Circuit Court of Washington County, State of Mississippi (a case in which Liggett was not a defendant), the trial court granted plaintiffs' motion to impose absolute liability on defendants for the manufacture and sale of cigarettes and struck defendants' affirmative defenses of assumption of risk and comparative fault/contributory negligence. The trial court ruled that the only issues to be tried in the case were causation and damages. No other court has ever imposed absolute liability on a manufacturer of cigarettes. After trial, the jury returned a verdict for defendants, finding no liability. The Company is a defendant in other cases in Mississippi and it cannot be stated that other courts will not apply the Wilks ruling as to absolute liability.

On May 12, 1992, an action entitled Cordova v. Liggett Group Inc., et al., Superior Court of the State of California, City of San Diego, was filed against Liggett and others. In her complaint, plaintiff, purportedly on behalf of the general public, alleges that defendants have been engaged in unlawful, unfair and fraudulent business practices by allegedly misrepresenting and concealing from the public scientific studies pertaining to smoking and health funded by, and misrepresenting the independence of, the Council for Tobacco Research and its predecessor. The complaint seeks equitable relief against the defendants, including the imposition of a corrective advertising campaign, restitution of funds, disgorgement of revenues and profits, and the imposition of a constructive trust. The case is presently in the discovery phase.

On October 31, 1991 an action entitled Broin et al. v. Philip Morris Companies, Inc., et al., Circuit Court of the 11th Judicial District in and for Dade County, Florida, was filed against Liggett and others. This case was the first class action commenced against the industry, and has been brought by plaintiffs on behalf of all flight attendants that have worked or are presently working for airlines based in the United States and who have never regularly smoked cigarettes but allege that have been damaged by an involuntary exposure to ETS. On December 12, 1994, plaintiffs' motion to certify the action as a class action was granted. Defendants have appealed this ruling.

Item 1. Consolidated Financial Statements - (Continued)

BROOKE GROUP LTD. AND SUBSIDIARIES
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On March 25, 1994, an action entitled Castano, et al. v. The American Tobacco Company, et al., United States District Court, Eastern District of Louisiana, was filed against Liggett and others. The class action complaint was brought on behalf of plaintiffs and residents of the United States who claim to be addicted to tobacco products, and survivors who claim their decedents were also addicted. The complaint is based upon the claim that defendants manipulated the nicotine levels in their tobacco products with the intent to addict plaintiffs and the class members and, inter alia, fraud, deceit, negligent misrepresentation, breach of express and implied warranty, strict liability and violation of consumer protection statutes. Plaintiffs seek compensatory and punitive damages, equitable relief including disgorgement of profits from the sale of cigarettes and creation of a fund to monitor the health of class members and to pay for medical expenses allegedly caused by defendants, attorneys' fees and costs. On February 17, 1995, the Court issued an Order that granted in part Plaintiffs' motion for class certification for certain claims together with punitive damages to the end of establishing a multiplier to compute punitive damage awards. Defendants made application for discretionary appeal to the Court of Appeals for the Fifth Circuit, which appeal has been granted.

On May 5, 1994, an action entitled Engle, et al. v. R. J. Reynolds Tobacco Company, et al., Circuit Court of the 11th Judicial District in and for Dade County, Florida, was filed against Liggett and others. The class action complaint was brought on behalf of plaintiffs and all persons in the United States who allegedly have become addicted to cigarette products and allegedly have suffered personal injury as a result thereof. Plaintiff seeks compensatory and punitive damages, equitable relief including but not limited to establishing a medical fund for future health care costs. On October 31, 1994, plaintiffs' motion to certify the action as a class action was granted. Defendants have appealed this ruling.

On May 23, 1994, an action entitled Mike Moore, Attorney General, ex rel State of Mississippi vs. The American Tobacco Company, et al., Chancery Court for the County of Jackson, State of Mississippi, was filed against Liggett and others. The State of Mississippi seeks restitution and indemnity for medical payments and expenses made or incurred by it on behalf of welfare patients for tobacco related illnesses. Similar actions (although not identical) have been filed recently by the State of Minnesota (together with Minnesota Blue Cross-Blue Shield) and by the State of West Virginia. In West Virginia, the trial Court, in a ruling issued on May 3, 1995, dismissed eight of the ten counts of the complaint filed therein, leaving only two counts of an alleged conspiracy to control the market and the market price of tobacco products and an alleged consumer protection claim. In a recent ruling, the trial Court has adjudged the contingent fee agreement entered into by the State of West Virginia and its counsel to be unconstitutional under the Constitution of the State of West Virginia.

On September 10, 1993, an action entitled Sackman v. Liggett Group Inc., United States District Court, Eastern District of New York, was filed against Liggett alleging, as injury, lung cancer. Discovery is scheduled to close on March 15, 1996. It is anticipated that the case will be scheduled for trial during 1996.

The State of Florida enacted legislation effective July 1, 1994 allowing certain state authorities or entities to commence litigation seeking recovery of Medicaid payments made on behalf of Medicaid recipients as a result of diseases allegedly caused by liable third parties. Though not limited to the tobacco industry, the statutory scheme imposes ultimate liability, if the issue of liability is adjudged against the defendant cigarette manufacturers, based upon market share and would include diseases allegedly caused by the smoking of cigarettes. The statute purportedly abrogates certain defenses typically available to defendants. A suit was commenced to challenge the constitutionality of the

Item 1. Consolidated Financial Statements - (Continued)

BROOKE GROUP LTD. AND SUBSIDIARIES
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(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) - (CONTINUED)
(UNAUDITED)

legislation, and although the trial Court upheld portions of this legislation, it adjudged the Agency For Health Care Administration to have been unconstitutionally organized. All parties have taken an appeal from the trial Court's rulings. On May 6, 1995, the Florida legislature voted in favor of a bill to repeal this legislation, but the Governor of Florida vetoed this repealer bill. It is uncertain at this time whether or not and at what time the Florida legislature can or will take action to override the Governor's veto. The Florida Legislature is not in session at this time. On February 22, 1995, suit was commenced by the State of Florida acting through the Agency For Health Care Administration, together with others, against the five domestic cigarette manufacturers and their respective parent companies, as well as others, seeking restitution of monies expended in the past and which may be expended in the future by the State of Florida to provide health care to Medicaid recipients for injuries and ailments allegedly caused by the use of cigarettes and other tobacco products. Plaintiffs also seek a variety of other forms of relief including a disgorgement of all profits from the sales of cigarettes in Florida.

The Commonwealth of Massachusetts has enacted legislation authorizing lawsuits similar to the suits filed by the States of Mississippi, Minnesota and West Virginia. Aside from the Florida and Massachusetts statutes, legislation authorizing the state to sue a company or individual to recover costs incurred by the state to provide health care to persons injured by the company or individual also has been introduced in at least nine other states. These bills contain some or all of the following provisions: eliminating certain affirmative defenses, permitting the use of statistical evidence to prove causation and damages, adopting market share liability and allowing class action suits without notification to class members.

Currently, in addition to Cordova, approximately 56 product liability lawsuits which have been filed in various jurisdictions, are pending and active in which Liggett is a defendant. Of these, 34 are pending in the State of Florida, with 32 of these 34 having been commenced during 1995. In most of these lawsuits, plaintiffs seek punitive as well as compensatory damages.

A Grand Jury investigation presently is being conducted by the office of the United States Attorney for the Eastern District of New York regarding possible violations of criminal law relating to the activities of The Council for Tobacco Research - USA, Inc. The Company was a sponsor of The Council for Tobacco Research - USA, Inc. at one time. The Company is unable at this time to predict the outcome of the investigation.

Liggett has been responding to a Civil Investigative Demand from the Antitrust Division of the United States Department of Justice, which requests certain information from Liggett. The request appears to focus on United States tobacco industry activities in connection with product development efforts regarding, in particular, "fire-safe" or self-extinguishing cigarettes. It also requests certain general information addressing Liggett's involvement with, and relationship to, its competitors. Liggett is unable to predict the outcome of this investigation.

In March and April 1994, the Health and the Environmental Subcommittee of the Energy and Commerce Committee of the House of Representatives held hearings regarding nicotine in cigarettes. On March 25, 1994, Commissioner David A. Kessler of the Food and Drug Administration (the "FDA") gave testimony as to the potential regulation of nicotine under the Food, Drug and Cosmetic Act, and the potential for jurisdiction over the regulation of cigarettes to be accorded to the FDA. In response to Commissioner Kessler's allegations about manipulation of nicotine by cigarette manufacturers, including Liggett, the chief executive of each of the major cigarette manufacturers, including Liggett, testified before the subcommittee on April 14, 1994, denying Commissioner

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BROOKE GROUP LTD. AND SUBSIDIARIES
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Kessler's claims. An FDA advisory panel has stated that it believes nicotine is addictive. On August 10, 1995, the FDA filed in the Federal Register a Notice of Proposed Rule-Making which would classify tobacco as a drug, assert jurisdiction by the FDA over the manufacture and marketing of tobacco products and impose restrictions on the sale, advertising and promotion of tobacco products. The FDA's stated objective and focus for its initiative is to limit access to cigarettes by minors by measures beyond the restrictions either mandated by existing federal, state and local laws or voluntarily implemented by major manufacturers in the industry. Liggett and the other four major cigarette manufacturers responded by filing a civil action in the United States District Court for the Middle District of North Carolina on that day challenging the legal authority of the FDA to assert such jurisdiction. Management is unable to predict whether such a classification will be made. Management is also unable to predict the effects of such a classification or of such regulations, if implemented, were it to occur, on Liggett's operations, but such actions could have an unfavorable impact thereon.

The Omnibus Budget Reconciliation Act of 1993 ("OBRA") required United States cigarette manufacturers to use at least 75% domestic tobacco in the aggregate of the cigarettes manufactured in the United States, effective January 1, 1994, on an annualized basis or pay a "marketing assessment" (penalty) 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. OBRA was repealed retroactively (as of December 31, 1994) coincident in time with the recent issuance of a Presidential proclamation effective September 13, 1995, imposing tariffs on imported tobacco in excess of certain quotas.

On February 14, 1995, Liggett filed with the Department of Agriculture its certification as to usage of domestic and imported tobaccos during 1994, and an audit was conducted during August 1995 to verify this certification. The audit has not yet been completed. Liggett is exploring avenues which might be available to it to realize relief from any marketing assessment or purchase requirement sanctions that may be imposed under OBRA. While Liggett is of the opinion that there would be a realistic potential to achieve such relief if sanctions were imposed, no assurance can be given that Liggett would be successful in doing so, either in whole or in part. If sanctions were to be imposed upon Liggett, such sanctions could have an unfavorable effect upon Liggett's financial position, results of operations and cash flows. No amount has been accrued.

The President of the United States, after negotiations with the affected countries, on September 13, 1995, declared a Tariff Rate Quota on certain imported tobacco, imposing prohibitive tariffs on imports of flue-cured and burley tobacco in excess of certain levels which vary from country to country. Oriental (or Turkish) tobacco is exempt from the quota, and all tobacco originating from Canada, Mexico or Israel is exempt. Management believes that the negotiated levels are sufficiently high to allow the company to operate without material disruption to the business.

With regard to each of the above cases pending against Liggett, Liggett believes, and has been so advised by counsel handling the respective cases, that Liggett has a number of valid defenses to the claim or claims asserted against Liggett. All cases are, and will continue to be, vigorously defended. Litigation is subject to many uncertainties, and it is possible that some of these actions could be decided unfavorably. 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 restrictive regulatory actions, adverse political decisions and other unfavorable developments concerning cigarette smoking and the tobacco industry, including the commencement of the purported class actions referred to above. These developments generally receive widespread media

Item 1. Consolidated Financial Statements - (Continued)

BROOKE GROUP LTD. AND SUBSIDIARIES
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attention. Liggett is not able to evaluate the effect of these developing matters on pending litigation or the possible commencement of additional litigation.

Liggett is unable to make a meaningful estimate of the amount or range of loss that could result from an unfavorable outcome of the cases pending against Liggett. It is possible that Liggett's financial position, results of operations or cash flows could be materially affected by an ultimate unfavorable outcome in any of such pending litigation.

There are several other proceedings, lawsuits and claims pending against Liggett unrelated to product liability. Management is of the opinion that the liabilities, if any, ultimately resulting from such proceedings, lawsuits and claims should not materially affect Liggett's financial position and results of operations.

On September 20, 1993, a group of Contingent Value Rights ("CVR") holders and the CVR trustee filed an action in the Delaware Court of Chancery, New Castle County, against the Company and certain of its present and former directors, challenging and seeking to enjoin or rescind the SkyBox Distribution. Pursuant to notice given on October 15, 1993, the Company redeemed its CVRs on December 9, 1993 for a payment of $.36 per CVR. On June 2, 1994, the Company entered into a Stipulation and Agreement of Compromise and Settlement (the "Stipulation") pursuant to which a class of CVR holders, which includes all persons who held CVRs at any time between September 20, 1993 and June 2, 1994, were to receive a total of $4,000 plus an award of attorneys' and experts' fees and expenses not to exceed $900 which expenses have been accrued. The $4,000 settlement fund has been deposited into an escrow account for eventual disbursement to all eligible CVR holders.

By order dated June 10, 1994, the Court of Chancery scheduled a settlement hearing to be held on August 16, 1994 to determine, inter alia, whether the Stipulation is fair, reasonable and adequate. That settlement hearing was adjourned at the named plaintiff CVR holders' request because of issues arising from filing of a motion for leave to amend the Company's complaint in a separate lawsuit pending against the CVR trustee. The named plaintiff CVR holders subsequently asked the court to rescind the Stipulation, stating, in substance, that they had mistakenly entered into it in the erroneous belief that the Company would be unable to assert claims against the trustee which those CVR holders might have to indemnify. On December 28, 1994, the court rescinded the Stipulation, finding that such a mistake had been made; however, the named plaintiff CVR holders and the defendants continued settlement discussions, seeking to address the named plaintiff CVR holders' concerns over their obligation to indemnify the trustee. On March 3, 1995, these parties advised the court that they had reached an agreement in principle to settle the case on a class basis, subject to the final resolution of certain remaining issues.

At September 30, 1995, there were several other proceedings, lawsuits and claims pending against the Company and its subsidiaries. The Company is of the opinion that the liabilities, if any, ultimately resulting from the CVR action and other proceedings, lawsuits and claims should not materially affect its consolidated financial position, results of operations or cash flows.

7. LONG-TERM DEBT

On June 12, 1995, the Company redeemed all of the Series 1 Senior Secured Notes due 1995 in the amount of $23,594 plus accrued interest of $670. In addition, the Company filed a registration

Item 1. Consolidated Financial Statements -(Continued)

BROOKE GROUP LTD. AND SUBSIDIARIES
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statement with the SEC for certain of its Series 2 Senior Secured Notes due 1997 which was declared effective September 7, 1995. Accordingly, the interest rate on these Notes reverted to 13.75%.

8. INCOME TAXES

BGL maintains a full valuation allowance of its deferred tax assets based on the Company's determination that it is more likely than not that such future tax benefits will not be realized. The provision for income taxes for the three and nine months ended September 30, 1995 does not bear a customary relationship with pre-tax accounting income due principally to state income taxes. In addition, during the three and nine month periods ended September 30, 1994, the Company determined its reserves for income taxes payable exceeded its current requirements by $24,200. As a result, the Company has recorded a tax benefit of $24,200 related to the completion of an audit by the Internal Revenue Service ("IRS") through December 31, 1991.

9. RESTRUCTURING AND OTHER

Liggett reduced its field sales force on January 10, 1994 by 150 permanent positions and added approximately 300 part-time positions. This restructuring has significantly reduced operating costs and enabled Liggett to expand its retail base coverage.

During the nine months ended September 30, 1995, Liggett completed a severance and benefit program to reduce personnel costs on an ongoing basis. The effect of this program resulted in a charge to operations of the Company amounting to $2,562 in the second quarter.

During the third quarter of 1995, Liggett adjusted certain accrual estimates recorded in prior quarters which had the effect of increasing operating income by approximately $1,352 for the three months ended September 30, 1995.

10. SUBSEQUENT EVENTS

On October 17, 1995, the Company and BGLS Inc., a wholly owned subsidiary, entered into an agreement, as amended (the "High River Agreement"), with High River, an entity owned by Carl C. Icahn. (New Valley also entered into a separate agreement with High River at that time (see Note 3)). Pursuant to each of these agreements, the parties agreed to take certain actions designed to cause RJR Nabisco to effectuate a spinoff of its food business, Nabisco Holdings Corp. ("Nabisco"), at the earliest possible date. Among other things, the Company agreed to solicit the holders of RJR Nabisco Common Stock to adopt a spinoff resolution, which is an advisory resolution to the Board of Directors of RJR Nabisco seeking a spinoff of the 80.5% of Nabisco held by RJR Nabisco to stockholders. Among other things, High River agreed in the High River Agreement to grant a written consent to the proposals with respect to all shares of RJR Nabisco Common Stock held by it and to grant a proxy with respect to all such shares in the event that the Company seeks to replace the incumbent Board of Directors of RJR Nabisco at the 1996 annual meeting of stockholders with a slate of directors committed to effect the spinoff. The Company and BGLS agreed not to engage in certain transactions with RJR Nabisco (including a sale of Liggett or a sale of its RJR Nabisco Common Stock to RJR Nabisco) and not to take certain other actions to the detriment of RJR Nabisco

Item 1. Consolidated Financial Statements -(Continued)

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stockholders. High River also agreed that it would not engage in such transactions or take such other actions while the agreement was in effect. In the event that any signatory engages in such transactions or takes such other actions, the High River Agreement provides that the party so doing must pay a fee of $50,000 to the other. Any party to the High River Agreement may terminate it at any time, although under certain circumstances, the terminating party will be required to pay a fee of $50,000 to the nonterminating party. The High River Agreement also provides that BGLS pay certain other fees to High River under certain circumstances.

On November 6, 1995 the Company filed preliminary copies of a Solicitation of Written Consents with the SEC relating, among other things, to the Spinoff Resolution.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

INTRODUCTION

The Company's Consolidated Financial Statements include the accounts of Liggett Group Inc. ("Liggett"), New Valley Holdings, Inc. ("NV Holdings") and other less significant subsidiaries.

The Company believes it will have sufficient liquidity for 1995. This is based on, among other things, the redemption/sale of the SkyBox International, Inc. ("SkyBox") preferred and common stock and certain funds available from New Valley Corporation ("New Valley") as described in the Company's indenture agreements and New Valley's Joint Plan. Forecasts of cash flow for the principal operating companies indicate that they will be self-sufficient; however, due to Liggett's leverage, if Liggett were to experience significant losses due to further adverse change in conditions in the tobacco industry or otherwise, it is possible that Liggett could be in violation of certain debt covenants. If its lenders were to exercise acceleration rights or refuse to advance under the revolving credit facility, Liggett may not be able to satisfy such demands.

For purposes of this discussion and other consolidated financial reporting, the Company's significant business segment is Tobacco.

RECENT DEVELOPMENTS

On October 17, 1995, BGL and the Company entered into an agreement, as amended, with High River, an entity owned by Carl C. Icahn. New Valley also entered into a separate agreement with High River at that time. Pursuant to each of these agreements, the parties agreed to take certain actions designed to cause RJR Nabisco to effectuate a spinoff of Nabisco at the earliest possible date. For additional information, see Notes 3 and 10 to the Consolidated Financial Statements.

In October 1995, Liggett-Ducat Ltd. ("LDJSC"), a subsidiary of Brooke (Overseas) Ltd. ("BOL"), entered into a loan agreement with the Russian Federation Foreign Trade Bank, Moscow, Russia, to borrow up to $20,000 to fund real estate development. Interest on the note is based on the London Interbank Offered Rate ("LIBOR") plus 10%. Principal repayments are due over the period April through October of 1997. The loan agreement was arranged through a third party for a net fee of $4,044 payable ratably over the term of the loan. The Company has guaranteed the payment of the note and the broker's fee. All of the stock of BrookeMil Ltd. ("BrookeMil"), a subsidiary of LDJSC, has been pledged as collateral for the loan. LDJSC intends to repay the loan out of proceeds from leased office space.

Also in October 1995, BrookeMil purchased certain buildings on Gasheka Street in Moscow, Russia, which it had previously leased from the Moscow Property Committee for $4,369. BrookeMil has developed or is in the process of developing these buildings for commercial use.

The Company is currently in discussion with the majority of holders of the 13.75% Series 2 Senior Secured Notes due 1997 (the "Series 2 Notes"), who are also holders of certain of the 14.50% Subordinated Debentures due 1998, regarding possible restructuring of the Company's debt.

RECENT DEVELOPMENTS IN THE CIGARETTE INDUSTRY

Price Increase. On May 5, 1995, R.J. Reynolds Tobacco Company ("RJR") initiated a list price increase on all brands of $.30/carton. Philip Morris and Brown & Williamson Tobacco Company ("B&W"), which together with RJR comprise 90% of the market, matched the price increase on the same day. Liggett followed on May 9, 1995.

Competitive Activity. In April 1994, BAT Industries, the parent of B&W, acquired American Brands' American Tobacco Company subsidiary for $1 billion cash.

Recent Legislation. The Omnibus Budget Reconciliation Act of 1993 ("OBRA") requires United States cigarette manufacturers to use at least 75% domestic tobacco in the aggregate of the cigarettes manufactured in the United States, effective January 1, 1994, on an annualized basis or pay a "marketing assessment" based upon price differentials between foreign and domestic tobacco and under certain circumstances make purchases of domestic tobacco from the stabilization cooperatives organized by the United States government. OBRA was repealed retroactively (as of December 31, 1994) coincident in time with the recent issuance of a Presidential proclamation effective September 13, 1995, imposing tariffs on imported tobacco in excess of certain quotas.

On February 14, 1995, Liggett filed with the Department of Agriculture its certification as to usage of domestic and imported tobaccos during 1994 and an audit was commenced during August 1995 to verify this certification. The audit has not yet been completed. Liggett is exploring avenues which might be available to it to realize relief from any marketing assessment or purchase requirement sanctions that may be imposed under the Act. While Liggett is of the opinion that there would be a realistic potential to achieve such relief if sanctions were imposed, no assurance can be given that Liggett would be successful in doing so, either in whole or in part. If sanctions were to be imposed upon Liggett, such could have an unfavorable effect upon Liggett's financial position, results of operations and cash flows. No amount has been accrued.

The President of the United States, after negotiations with the affected countries, on September 13, 1995, declared a Tariff Rate Quota on certain imported tobacco, imposing prohibitive tariffs on imports of flue-cured and burley tobacco in excess of certain levels which vary from country to country. Oriental (or Turkish) tobacco is exempt from the quota and all tobacco originating from Canada, Mexico or Israel is exempt. Management believes that the negotiated levels are sufficiently high to allow Liggett to operate without material disruption to the business.

The State of Florida enacted legislation effective July 1, 1994 allowing certain state authorities or entities to commence litigation seeking recovery of Medicaid payments made on behalf of Medicaid recipients as a result of diseases allegedly caused by liable third parties. Though not limited to the tobacco industry, the statutory scheme imposes ultimate liability, if the issue of liability is adjudged against the manufacturers, based upon market share and would include diseases allegedly caused by the smoking of cigarettes. The statute purportedly abrogates certain defenses typically available to defendants. A suit was commenced to challenge the constitutionality of the legislation and, although the trial court upheld portions of this legislation, it adjudged the Agency For Health Care Administration to have been unconstitutionally organized. All parties to this suit have taken appeal from the trial court's rulings. On May 6, 1995, the Florida legislature voted in favor of a bill to repeal this legislation, but the Governor of Florida vetoed this repealer bill. It is uncertain at this time whether or not and at what time the Florida legislature can or will take action to override the Governor's veto. On February 22, 1995, suit was commenced pursuant to the above-referenced enabling statute by the State of Florida, acting through the Agency For Health Care Administration against Liggett and others, seeking restitution of monies expended in the past and which may be

expended in the future by the State of Florida to provide health care to Medicaid recipients for injuries and ailments allegedly caused by the use of cigarettes and other tobacco products. Plaintiffs also seek a variety of other forms of relief including a disgorgement of all profits from the sale of cigarettes in Florida.

Recent Litigation. In 1994, four class action lawsuits were brought against Liggett and other cigarette manufacturers, representing the first time class actions were brought against the cigarette industry. In the three of these cases which remain pending, plaintiffs' motions for class certification were granted in whole or in part, and the defendants have appealed each of these rulings. In addition, the states of Mississippi, Minnesota and West Virginia brought actions against Liggett and other cigarette manufacturers seeking restitution and indemnity for certain Medicaid costs allegedly incurred as a result of tobacco-related illnesses, and in 1995 Florida commenced a similar action.

In West Virginia, the trial court, in a ruling issued on May 3, 1995, dismissed eight to the ten counts of the complaint filed therein, leaving only two counts of an alleged conspiracy to control the market and the market price of tobacco products and an alleged consumer protection claim. In a recent ruling, the trial Court has adjudged the contingent fee agreement entered into by the State of West Virginia and its counsel to be unconstitutional under the Constitution of the State of West Virginia. While Liggett is vigorously contesting this litigation, litigation is subject to a number of uncertainties, and accordingly there can be no assurance that this litigation will be decided favorably to Liggett and the industry in each instance.

Possible FDA Action. The Food and Drug Administration ("FDA") has announced that it is considering classifying tobacco as a drug, and an FDA advisory panel has stated that it believes nicotine is addictive. On August 10, 1995, the FDA announced that it intended to propose regulations under which the FDA would assert jurisdiction over the manufacture and marketing of tobacco products. Liggett and the other major manufacturers in the industry responded immediately thereafter by the filing of a civil action in United States District Court for the Middle District of North Carolina challenging the legal authority of the FDA to so assert such jurisdiction. Management is unable to predict the effects of such a classification or such regulations, if adopted, but such a classification or such regulations, if adopted, could have an unfavorable impact on Liggett's operations.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 1995 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 1994

Revenues. Consolidated total revenues were $124,100 for the three months ended September 30, 1995 versus $124,446 for the same period last year. Liggett's net sales were $122,648 for the three months ended September 30, 1995 versus $121,380 for the same period last year. The increase in revenues at Liggett was primarily due to the May 9, 1995 list price increase (see Recent Developments in the Cigarette Industry - Price Increase) and additional increases in the selling price of some of the Company's price/value products, partially offset by a 1.1% decline in unit sales volume. The decline in unit sales volume was comprised primarily of declines in the full-price branded, price/value (which includes generic, control label and branded discount products) and military categories. Both full-price branded and price/value products suffered a decline, believed to be temporary, in unit sales volume as a result of the implementation of a new distribution and marketing program in one of Liggett's sales zones during the third quarter

RESULTS OF OPERATIONS (continued)

of 1995. Additionally, full-price branded volume declined in light of heavy discounting of a competitor's product within the same consumer segment as Eve. Although there was an overall decline in the price/value category, Pyramid volume increased as a result of increased promotional spending, a reflection of Liggett's renewed emphasis on this product as its primary price/value product. The military category decline was due to increased competition.

Gross profit. Consolidated gross profit was $69,474 for the three months ended September 30, 1995, an increase of $2,875 from $66,599 for the same period last year. Liggett's gross profit was $69,018 for the three months ended September 30, 1995, an increase of $3,874 from $65,144 for the same period last year. Liggett's gross profit as a percent of revenues (excluding federal excise taxes) for the period increased to 76.7% compared to 74.5% last year, due primarily to the May 9, 1995 list price increase and lower per unit cost of sales. The reduction in cost of sales is a result of the effects of Liggett's continuing cost reduction programs begun in 1993. Liggett expects to continue its cost reduction programs.

Expenses. Consolidated selling, general and administrative expenses were $58,818 for the three months ended September 30, 1995 compared to $57,564 for the same period last year. The increase of $1,254 includes a $4,300 increase in marketing expenses at Liggett compared with the same period in the prior year offset by lower expenses at headquarters and other, small subsidiaries.

Other income (expenses). Consolidated interest expense was $13,952 for the three months ended September 30, 1995 compared to $14,156 for the same period last year. The equity in earnings of affiliate of $1,561 and the income from discontinued operations of $98 for the three months ended September 30, 1995 relates to the Company's investment in New Valley.

Other, net of $9,992 for the three months ended September 30, 1994 primarily relates to additional expense incurred as part of the Exchange and Termination Agreement entered into on September 30, 1994.

The tax benefit of approximately $24,000 for the three months ended September 30, 1994 related to the completion of an audit in 1994 by the Internal Revenue Service through the year ended December 31, 1991. The Company determined its reserves for income taxes payable exceeded its current requirements.

NINE MONTHS ENDED SEPTEMBER 30, 1995 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30,1994

Revenues. Consolidated revenues were $341,718 for the nine months ended September 30, 1995 compared to $357,628 for the nine months ended September 30, 1994, a decrease of $15,950 primarily due to a decline in sales at Liggett and other less significant subsidiaries. Net sales at Liggett were $337,217 for the nine months ended September 30, 1995 versus $347,880 for the same period last year. This 3.1% decrease in revenues was primarily due to a 7.1% decline in unit sales volume, partially offset by the effects of the May 9, 1995 list price increase and the change in sales mix. The decline in unit sales volume was comprised primarily of declines in the full-price branded, price/value and military categories. Both full-price branded and price/value products suffered a decline, believed to be temporary, in unit sales volume as a result of the implementation of a new distribution and marketing program in one of Liggett's sales zones during the third quarter of 1995. Also, Liggett offered trade programs on full-price branded and branded discount products to its direct customers during the first quarter of 1994 with no comparable

RESULTS OF OPERATIONS (continued)

programs offered during 1995. Increased competition in the form of heavy discounting of a competitor's product within the same consumer segment as Eve also contributed to the full-price branded volume decline. The decline in the military category was due to increased competition.

Gross profit. Consolidated gross profit of $182,952 for the nine months ended September 30, 1995 decreased $1,585 from gross profit of $184,537 for the same period in 1994, reflecting a decrease in gross profit at smaller subsidiaries somewhat offset by Liggett which had a slight increase in gross profit ($996) for the nine months ended September 30, 1995 compared to the same period in the prior year. Gross profit at Liggett as a percent of revenue (excluding federal excise taxes) for the period increased to 74.1% compared to 72.7% last year, due primarily to the May 9, 1995 list price increase and lower per unit cost of sales. The reduction in cost of sales is a result of the effects of Liggett's continuing cost reduction programs begun in 1993. In connection therewith, Liggett recorded a $621 charge to manufacturing operations in 1995. Liggett expects to continue its cost reduction programs.

Expenses. Consolidated selling, general and administrative expenses were $173,322 for the nine months ended September 30, 1995 compared to $162,220 for the same period last year, an increase of $11,102. The increase resulted from increased legal fees due to the increasing number of suits pending against Liggett, increased spending on trade and promotional programs, severance charges recorded in connection with the 1995 cost reduction programs at Liggett and increased expenses relating to the Company's Russian ventures.

Other income (expenses). Consolidated interest expense was $43,369 for the nine months ended September 30, 1995 compared to $41,502 for the same period last year. The increase of $1,867 relates to the incurrence of additional indebtedness by the Company for the Series 1 Notes (which were redeemed on June 12, 1995) and by Liggett for the Series C Notes in November 1994, increases in the interest rate on the Series 1 Notes and the Series 2 Notes from February 1 through September 6, 1995 (or, in the case of the Series 1 Notes, through June 12, 1995) and an increase in the interest rate of the Liggett Series C Notes, which were reset from 16.50% to 19.75% on February 1, 1995.

For the nine months ended September 30, 1995, equity in earnings of affiliate (New Valley) of $3,598 relates to income of $21,975 of such Class A Preferred Shares offset by a loss to common stock of $18,377.

The gain on disposal of discontinued operations of $13,138 for the nine months ended September 30, 1995 and $18,135 for the same period in the prior year primarily reflects the redemption/sale of SkyBox preferred and common stock.

CAPITAL RESOURCES AND LIQUIDITY

Net cash and cash equivalents increased $12,722 for the nine months ended September 30, 1995 as compared with a decrease of $10,617 for the nine months ended September 30, 1994.

Net cash used in operations for the nine months ended September 30, 1995 was $23,706 compared to net cash used in operations of $36,037 for the comparable period of 1994. The net loss for the nine months ended September 30, 1995 of $11,675 includes interest expense of $43,369 and a decrease in accounts payable and accrued expenses offset by a lease prepayment from a third party for space in an office building in Russia and a decrease in receivables.

CAPITAL RESOURCES AND LIQUIDITY (continued)

In the period ended September 30, 1994, net cash used in operations was $36,037 which included interest expense of $41,502 and a decrease in accounts payable and accrued expenses offset by a non-cash tax benefit of approximately $24,500 in taxes.

Net cash provided by investing activities was $69,008 for the nine-month period ended September 30, 1995 compared to cash provided by investing activities of $15,877 for the same period in 1994. Through the nine-month period ended September 30, 1995, cash was provided through a special $50.00 per share dividend in January 1995, a $12.50 per share dividend in June 1995 and a $37.50 per share dividend in September 1995 on New Valley's Class A Preferred Shares for a total of $61,832, and the redemption of SkyBox preferred stock for $4,000 and sale of the SkyBox common stock for $9,282 slightly offset by capital expenditures, particularly for leasehold improvements related to real estate development in Russia. In the nine-month period ended September 30, 1994, cash provided by investing activities was largely the result of the sale/redemption of SkyBox common and preferred stock offset by the impact of the Company's discontinuation of investment in MAI.

Cash used in financing activities for the nine months ended September 30, 1995 was $32,580 reflecting the redemption of the Series 1 Notes on June 12, 1995 in the amount of $23,594, repayments under Liggett's revolver of $3,449, distributions to stockholders of $4,107 and a decrease in cash overdraft of $2,817 slightly offset by proceeds from debt of $3,028. Cash provided for the same period in the prior year was $9,540 consisting of proceeds from debt issuance at Liggett, stockholder loan and interest repayments and borrowings under the revolver offset by a decrease in bank overdraft and dividends to preferred shareholders, payments of financing costs and impact of discontinued operations.

As discussed above, on June 12, 1995, the Company redeemed the Series 1 Notes in the amount of $23,594 plus accrued interest of $670. Accordingly, the Company's pledged equity interests in Liggett were released and the Series 2 Notes now have a senior and exclusive lien on the Pledged Collateral (as such term is defined in the Indenture).

The interest rate on the Series 2 Notes is 13.75% per annum, payable April 1 and October 1. Pursuant to the Indenture and the terms of the Series 2 Notes, the interest rate increased until a Registration Statement relating to the Series 2 Notes was declared effective by the SEC on September 7, 1995. As a result, interest on the Series 2 Notes during the interest period ending on October 1, 1995 (the first interest payment date following the effectiveness of the Registration Statement) reflects a blended rate of 14.17%.

The Series 2 Indenture places certain restrictions on the application of any payment from NV Holdings. So long as any Notes remain outstanding, the Company must apply the amount received on account of any payment paid out of current earnings of NV Holdings as follows: (a) the first $5,000 in the aggregate of such amounts may be retained by the Company for its own account free of any restriction not expressly set forth in the Indenture; (b) 50% of any payments in excess of the amount set forth in the foregoing clause (a) may be retained by the Company for its own account free of any restriction not expressly set forth in the Indenture, and the remaining 50% must be applied as follows: (i) first, to the payment of any accrued and unpaid interest then due on the Notes; (ii) second, to the payment of any accrued and unpaid interest then due on any other outstanding indebtedness of the Company; and (iii) third, to the mandatory redemption of the Notes until no Notes are outstanding. So long as any Notes remain outstanding, the Company shall apply 100% of the amount received on account of any payment which is paid other than out of current earnings of NV Holdings solely in accordance with clauses (i), (ii) and (iii) of the preceding sentence.

CAPITAL RESOURCES AND LIQUIDITY (continued)

On January 18, 1995, certain amendments (the "Indenture Amendments") to the 16.125% Senior Subordinated Reset Notes due 1997 (the "16 1/8% Reset Notes") and the 14.50% Subordinated Debentures due 1998 (the "14 1/2% Subordinated Debt") (collectively, the "Subordinated Debt Indentures") were effected. Generally, the Indenture Amendments require the Company to apply any amounts distributed to it (directly or through NV Holdings) from New Valley (i) by dividend or other distribution (other than equity securities of New Valley), (ii) through loans, advances or other payments or (iii) in connection with the repurchase or redemption of New Valley common stock or Class A Preferred Shares (collectively, "New Valley Distributions") in excess of $10,000, subject to the terms of the Indenture, first to the payment of interest on, and then to principal of, the Notes, the 16 1/8% Reset Notes and 14 1/2% Subordinated Debentures. The $10,000 threshold is increased on a dollar-for-dollar basis in the amount of payments made in respect of principal or interest on the Series 2 Notes or the Subordinated Indebtedness from sources other than New Valley Distributions. At September 30, 1995, the $10,000 threshold had been increased to approximately $21,701.

Pursuant to the Indenture Amendments, the Company may direct BGLS to make distributions of up to $38,000 between September 2, 1994 and January 18, 1996 (the "Initial Period"). Any portion not distributed during the initial period may be carried over to the subsequent periods discussed below. As of September 30, 1995, $17,956 had been distributed of which $9,608 were non-cash transactions. Following the Initial Period, the Company may distribute the sum of $3,000 per month with any unpaid portion of the monthly amount carried over to succeeding months. Additional distributions will be made from time to time as directed by the Company based on the Company's current quarterly dividend distribution of $1,369 (or $.075 per share) and corporate expense requirements. Commencing on January 1, 1995, any additional distributions in excess of the above-described distributions are computed on the basis of 50% of the Company's Modified Consolidated Net Income (as defined in the Subordinated Indentures). No distributions have been made on this basis.

The Company believes that it will have sufficient liquidity for 1995. Company expenditures in 1995 (excluding Liggett) include debt service estimated at $32,500 and redemption of all outstanding Series 1 Notes in the amount of $23,594 plus accrued interest on June 12, 1995. Current operations and debt service are being financed through funds received from the redemption/sale of SkyBox preferred and common stock in the amount of $13,284 and management fees and other charges to subsidiaries of approximately $5,000. In addition, the Company, through its subsidiary, NV Holdings, has received approximately $61,832 in distributions from New Valley since January 1995. Such distributions are required by the Subordinated Debt Indentures to be applied as described above. (See discussion of Indenture Amendments above).

For information concerning the possible regulation under the Investment Company Act of 1940, see footnote 3 to the Consolidated Financial Statements.

On March 8, 1994, Liggett entered into a revolving credit facility (the "facility") under which it can borrow up to $40,000 (depending on the amount of eligible inventory and receivables as determined by the lenders) from a syndicate of commercial lenders. Availability under the facility was approximately $13,814 at September 30, 1995. The facility expires on March 8, 1997 and is collateralized by all inventories and receivables of Liggett. Borrowings under the facility bear interest at a rate equal to 1.5% above Philadelphia National Bank's (the indirect parent of Congress Financial Corporation, the lead lender) prime rate, which was 8.75% at September 30, 1995. The facility requires Liggett's compliance with certain financial and other covenants and limits the amount of cash dividends and payments which can be made by Liggett. Liggett's management believes that the facility will continue to address adequately Liggett's liquidity requirements.

CAPITAL RESOURCES AND LIQUIDITY (continued)

On February 14, 1992, Liggett issued $150,000 of Senior Secured Notes (the "Series B Notes"). From the proceeds of $148,244, net of an original issue discount, $144,054 was dividended to BGLS (which reduced stockholder's equity) and $4,190 was paid as financing fees. Interest on the Series B Notes is payable semiannually on February 1 and August 1 at an annual rate of 11.5%. The Series B Notes and the Series C Notes, as defined below, require mandatory aggregate principal redemptions of $7,500 on February 1 in each of the years 1993 through 1997 and $37,500 on February 1, 1998 with the balance of the Notes due on February 1, 1999. The Series B and Series C Notes are collateralized by substantially all of the assets of Liggett, excluding accounts receivable and inventory. The Series B and Series C Notes may be redeemed, in whole or in part, at a price equal to 104%, 102% and 100% of the principal amount in the years 1996, 1997 and 1998, respectively, at the option of Liggett at any time on or after February 1, 1996. The Series B and Series C Notes contain restrictions on Liggett's ability to declare or pay cash dividends, incur additional debt, grant liens and enter into any new agreements with affiliates, among others.

On January 31, 1994, Liggett issued $22,500 of Series C Senior Secured Notes (the "Series C Notes"). Liggett received $15,000 from the issuance in cash and received $7,500 in Series B Notes which were credited against the mandatory redemption requirements for February 1, 1994. The Series C Notes have the same terms (other than interest rate) and stated maturity as the Series B Notes. The Series C Notes bore a 16.5% interest rate, which was reset on February 1 1995 to 19.75%. Liggett had received the necessary consents from the required percentage of holders of its Series B Notes allowing for an aggregate principal amount up to but not exceeding $32,850 of Series C Notes to be issued under the Series C Notes indenture. In connection with the consents, holders of Series B Notes received Series C Notes totaling two percent of their current Series B Notes holdings. The total principal amount of such Series C Notes issued was $2,842.

On November 20, 1994, Liggett issued the remaining $7,508 of Series C Notes in exchange for an equal amount of Series B Notes and cash of $375. The Series B Notes were credited against the mandatory redemption requirements for February 1, 1995.

If Liggett were to experience significant losses due to further adverse changes in conditions in the tobacco industry or otherwise, it is possible that Liggett could be in violation of certain debt covenants. If as a result of any such violations Liggett creditors were to exercise acceleration rights or refuse to advance funds under the Liggett Facility, Liggett may not be able to satisfy its obligations. Liggett's ability to satisfy its debt service obligations will depend on Liggett's liquidity, its ability to improve its operating performance as well as on prevailing economic conditions and on financial, business, industry and other factors which may be largely beyond Liggett's control.

The Company and its subsidiaries have substantial near-term debt service requirements with aggregate required principal payments of $315,494 due in the years 1996 through 1998, they expect to finance their long-term growth, working capital requirements, capital expenditures and debt service requirements through a combination of cash provided from operations, negotiation of secured bank credit lines, additional public or private debt financing and distributions from New Valley and possible restructuring of the Company's debt (see "Recent Developments", above). New Valley plans to use the cash from the sale of its money transfer business to acquire operating businesses through merger, purchase of assets, stock acquisition or other means, or to acquire control of operating companies through one of such means, with the purpose of being primarily engaged in a business or businesses other than that of investing, reinvesting, owning, holding or trading in securities.

CAPITAL RESOURCES AND LIQUIDITY (continued)

Liggett (and, in certain cases, the Company) 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 so-called secondary smoke (environmental tobacco smoke) from cigarettes. As new cases are commenced, the costs associated with defending such cases and the risk attendant on the inherent unpredictability of litigation continue. To date, a number of such actions, including several against Liggett, have been disposed of favorably to the defendants; no plaintiff has ultimately prevailed on the merits of any such action; and no payment in settlement of any such claim has been made by Liggett nor, to the Company's knowledge, any other cigarette manufacturer.

Liggett believes, and has been so advised by counsel handling the respective cases, that Liggett has a number of valid defenses to the claim or claims asserted against it. All cases are, and will continue to be vigorously defended. Litigation is subject to many uncertainties, and it is possible that some of these actions could be decided unfavorably. 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, including the commencement of the purported class actions referred to above. These developments generally receive widespread media attention. Neither the Company nor Liggett is able to evaluate the effect of these developing matters on pending litigation or the possible commencement of additional litigation.

Liggett is unable to make a meaningful estimate of the amount or range of loss that could result from an unfavorable outcome of the cases pending against Liggett. It is possible that Liggett's financial position, results of operations or cash flows could be materially affected by an ultimate unfavorable outcome in any of such pending litigation.

PART II.
OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to information entitled "Contingencies" in Note 6 to the Company's Consolidated Financial Statements included elsewhere in this report on Form 10-Q.

Item 3. Defaults Upon Senior Securities

As of September 30, 1995, New Valley Corporation, the Company's affiliate, had the following respective accrued and unpaid dividend arrearages on its 1,107,566 outstanding shares of $15.00 Class A Increasing Rate Cumulative Senior Preferred Shares ($100 Liquidation Value), $.01 par value per share (the "Class A Shares") and 2,790,776 outstanding shares of $3.00 Class B Cumulative Convertible Preferred Shares ($25 Liquidation Value), $.10 par value per share (the "Class B Shares"): (1) $111.2 million or $100.42 per Class A Share; and (2) $90.3 million or $32.34 per Class B Share.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10(a)	Letter Agreement among Brooke Group Ltd., BGLS Inc. and High River Limited Partnership, dated November 5, 1995.
10(b)	Agreement among Brooke Group Ltd., BGLS Inc. and High River Limited Partnership, dated October 17, 1995.
10(c)	Second Amendment to Services Agreement, dated as of October 1, 1995, by and between Brooke Management Inc., Brooke Group Ltd. and Liggett Group Inc.
10(d)	Expense Sharing Agreement, made and entered into as of January 18, 1995, by and between Brooke Group Ltd. and New Valley Corporation.
27	Financial Data Schedule (for SEC use only)

(b) Reports on Form 8-K

No current reports on Form 8-K were filed during the third quarter of 1995.

SIGNATURE

Pursuant to the requirements 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)

Date: November 14, 1995

By: /s/ Gerald E. Sauter
Gerald E. Sauter
Vice President and Chief Financial Officer

EXHIBIT 10(a)

High River Limited Partnership
100 South Bedford Road
Mount Kisco, New York 10549

November 5, 1995

Brooke Group Ltd.
BGLS Inc.
100 S. E. Second Street
Miami, Florida 33131
Attn: Bennett S. LeBow

Dear Bennett:

By executing this letter in the space provided below, Brooke Group Ltd., a Delaware corporation ("BGL"), BGLS Inc., a Delaware corporation and a direct wholly-owned subsidiary of BGL ("BGLS") and High River Limited Partnership, a Delaware limited partnership ("High River"), each hereby agree as follows:

1. All capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the Agreement by and among BGL, BGLS and High River, dated October 17, 1995 (the "BGL Agreement").

2. Section 1(a) of the BGL Agreement is deleted in its entirety and all reference thereto in the BGL Agreement is likewise deleted.

3. Section 1(c)(ii)(B) of the BGL Agreement is hereby amended to delete the subsection in its entirety and to substitute in lieu thereof the following:

"(B) Prior to the consummation of the Spinoff, the BGL Group will (I) not directly or indirectly exercise any management control over Nabisco or Nabisco, Inc., a Delaware corporation ("Nabisco, Inc."), (II) refrain from becoming involved in the ordinary course of business of Nabisco or Nabisco, Inc. and (III) use its best efforts to ensure that a majority of the directors of Nabisco and Nabisco, Inc. consists of individuals who are presently members of the board of directors of Nabisco and Nabisco, Inc., respectively and"

4. Section 3(c)(ix)(C) of the BGL Agreement is hereby amended to delete the subsection in its entirety and to substitute in lieu thereof the following:

"(C) fail to file the Solicitation Statement relating to the Annual Meeting preliminarily with the SEC prior to the earlier of (I) February 15, 1996 and (II) sixty (60) days following the record date for the solicitation of Written Consents with respect to the Spinoff Proposal and the By-Law Amendment Proposal,"

5. In the event that prior to February 1, 1996 (i) the BGL Group provides High River Group with notice of termination of the BGL Agreement or New Valley Group (as defined below) provides High River Group with notice of termination of the Agreement by and among New Valley Corporation, ALKI Corp. and High River, dated October 17, 1995 (the "New Valley Agreement") at a time when a Termination Event set forth in Section 3(c)(vii) or 3(c)(viii) of the BGL Agreement has occurred or (ii) High River Group provides BGL Group with notice of termination of the BGL Agreement or provides New Valley Group with notice of termination of the New Valley Agreement at a time when a Termination Event set forth in Section 3(c)(ix)(A) of the BGL Agreement has occurred, BGL Group shall not transfer any Shares beneficially owned by BLG Group until February 1, 1996 in consequence of or in reliance upon such notice of termination. If the notice of termination specified in clause (i) of the preceding sentence is provided after January 16, 1996, and the aggregate number of shares of common stock, par value $.01 per share, of RJR Nabisco Holdings Corp. ("Shares") beneficially owned by High River Group exceeds the aggregate number of Shares beneficially owned by (A) New Valley Corporation, ALKI Corp. and any assignee of the foregoing ("New Valley Group") plus (B) BGL Group (collectively, the "Aggregate LeBow Shares"), BGL Group shall not Transfer any Shares beneficially owned by BGL Group for fifteen (15) days following receipt by High River Group of BGL Group's or New Valley Group's notice of termination; provided, however, that on such date not before February 1, 1996 that the aggregate number of Shares beneficially owned by High River Group is equal to or less than the Aggregate LeBow Shares, and thereafter, BGL Group may Transfer any Shares beneficially owned by BGL Group.

6. In the event that High River Group provides BGL Group with notice of termination of the BGL Agreement or provides New Valley Group with notice of termination of the New Valley Agreement at a time when a Termination Event under any of Sections 3(c)(ix)(B) through (E) of the BGL Agreement has occurred and the aggregate number of shares beneficially owned by High River Group exceeds the Aggregate LeBow Shares, BGL Group shall not Transfer any Shares beneficially owned by BGL Group in consequence of or in reliance upon such notice of termination until the earlier of (i) fifteen (15) days following receipt by BGL Group or New Valley Group of High River Group's notice of termination specified in the preceding sentence and (ii) the date that the aggregate number of Shares beneficially owned by High River Group is equal to or less than the Aggregate LeBow Shares.

7. BGLS shall promptly make any payments due under Section 4(c) of the BGL Agreement. In the event that the High River Group believes that BGLS has breached any of its obligations under Section 4(c) of the BGL Agreement, the parties shall promptly follow the procedures set forth in Section 1(c)(v) of the New Valley Agreement in order to resolve the dispute. If the Arbitrator (as defined in the New Valley Agreement) determines that BGLS is required to make a payment pursuant to Section 4(c) of the BGL Agreement, BGLS shall make or cause to be made to High River Group such payment within twenty (20) days after receiving the Arbitrator's notice of decision. In the event that BGLS fails to make such payment within twenty (20) days after receipt of the Arbitrator's notice of decision, BGLS shall immediately pay or cause to be paid to High River Group an additional sum in the amount of $50 million.

8. Section 9(k) shall be added to the BGL Agreement to read as follows:

"(k) Anything in this agreement to the contrary notwithstanding, High River shall have no obligation with respect to the selection of the BGL Nominees or the solicitation of Written Consents or Proxies."

9. Nothing herein contained shall be construed to otherwise abrogate the rights and obligations of the parties to this letter agreement with respect to all other provisions of the BGL Agreement, the New Valley Agreement and the letter agreement by and among New Valley, ALKI Corp. and High River, dated October 17, 1995 ("the Letter Agreement").

If the foregoing reflects your understanding, please sign this letter below. Upon your execution hereof, this letter agreement will become a binding contract between us.

Very truly yours,

HIGH RIVER LIMITED PARTNERSHIP

By: RIVERDALE INVESTORS CORP., INC.
Its: General Partner

By:_____
Name:
Title:

Agreed to and Accepted:

BROOKE GROUP LIMITED

By:_____
Name:
Title:

BGLS INC.

By:_____
Name:
Title:

[Signature page for letter agreement by and among Brooke Group Limited, BGLS Inc. and High River Limited Partnership, dated November 5, 1995]

EXHIBIT 10(b)

AGREEMENT

This AGREEMENT among Brooke Group Ltd., a Delaware corporation ("BGL"), BGLS Inc., a Delaware corporation and a direct wholly owned subsidiary of BGL ("BGLS"), and High River Limited Partnership, a Delaware limited partnership ("High River"), dated October 17, 1995

W I T N E S S E T H:

WHEREAS, High River, directly or indirectly, and BGL and BGLS, indirectly through their ownership of stock of New Valley Corporation, a New York corporation ("New Valley"), are stockholders of RJR Nabisco Holdings Corp., a Delaware corporation ("RJRN");

WHEREAS, the parties hereto believe that the value of RJRN stockholders' investment can be substantially increased through a spinoff (the "Spinoff") of all or substantially all of RJRN's remaining investment in Nabisco Holding Corp., a Delaware corporation ("Nabisco");

WHEREAS, BGL and BGLS desire to obtain the assistance and advice of High River with respect to measures designed to effectuate the Spinoff at the earliest possible date;

WHEREAS, High River is willing to give such assistance and advice to BGL and BGLS in consideration of the agreements by BGL and BGLS set forth herein;

NOW, THEREFORE, in consideration of the foregoing and of the mutual promises set forth herein, the parties hereto, intending to be legally bound, agree as follows:

Section 1. Solicitation of Other Investors and RJRN Stockholders. (a) Each of the parties hereto intends to use its best efforts to encourage other investors to acquire shares of common stock, par value $.01 per share ("Shares"), of RJRN and to persuade such investors and other major stockholders of RJRN to cooperate with the parties hereto in order to cause RJRN to effectuate the Spinoff. The parties hereto anticipate that, as an inducement to such investors and stockholders, the parties hereto may enter into binding contractual arrangements with such investors and stockholders on terms which may but need not be similar to the terms of this Agreement, and that this Agreement may be amended or supplemented from time to time to reflect such arrangements. The parties hereto agree that, in the event any party hereto proposes to enter into any such contractual arrangement or so to amend or supplement this Agreement, the parties hereto shall attempt in good faith to reach mutually acceptable terms with respect to any such proposed arrangement, amendment or supplement.

(b) BGL and BGLS intend to seek RJRN stockholder approval, either at RJRN's 1996 annual meeting of stockholders (the "1996 Annual Meeting") or at a special meeting of RJRN stockholders (a "Special Meeting") or through action by written consent of the RJRN stockholders without a meeting, of any or all of the following proposals (the "Proposals"): (i) a proposal to recommend that the Board of Directors of RJRN (the "RJRN Board") cause RJRN to effectuate the Spinoff (the "Spinoff Proposal"), (ii) a proposal to remove the entire RJRN Board and to elect as directors of RJRN a slate of nominees who shall be selected by BGL (the "BGL Nominees") and who shall pledge to carry out the Spinoff as promptly as practicable following their election (the "Election Proposal"), (iii) a proposal for the combination, incident to the Spinoff, of the tobacco business of Liggett Group Inc., a Delaware corporation ("Liggett"), with the tobacco business of RJRN and (iv) a proposal to amend the by-laws of RJRN in any manner that may be necessary in order to ensure that RJRN stockholders are permitted to call a Special Meeting and to vote freely at such Special Meeting or at the 1996 Annual Meeting on any or all of the Proposals, or in any other way necessary to facilitate the Proposals (the "By-Law Amendment Proposal"). In

connection with the foregoing, BGL and BGLS may seek written demands or requests from RJRN stockholders ("Stockholder Demands") that a Special Meeting be held for the purpose of voting on any or all of the Proposals. BGL and BGLS may also seek written consents from RJRN stockholders ("Written Consents") to adopt any or all of the Proposals.

(c) Prior to the 1996 Annual Meeting, BGL or BGLS shall solicit Written Consents in favor of the Spinoff Proposal and the By-Law Amendment Proposal. BGL or BGLS may also, in its sole discretion, conduct solicitations, in addition to the solicitation described in the preceding sentence, of Stockholder Demands or Written Consents in favor of the other Proposals, or of proxies to be voted in favor of one or more of the Proposals at the 1996 Annual Meeting or a Special Meeting ("Proxies"). In respect of any such solicitation of Stockholder Demands, Written Consents or Proxies:

(i) BGL or BGLS shall prepare and file with the Securities and Exchange Commission (the "SEC") and mail to RJRN stockholders, a solicitation statement under Regulation 14A of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), relating to such solicitation (the "Solicitation Statement");

(ii) the Solicitation Statement relating to any solicitation of Written Consents or Proxies seeking RJRN stockholder approval of the Election Proposal, or of Stockholder Demands for a Special Meeting at which RJRN stockholder approval of the Election Proposal will be sought, shall contain a pledge (the "BGL Pledge") by BGL and BGLS stating, in substance, that (A) BGL, BGLS and their affiliates (the "BGL Group") will not engage in any Business Combination (as defined below in Section 3(a)) other than a Permitted Business Combination (as defined below in Section 3(b)) at any time (I) prior to the earlier of (x) the 1996 Annual Meeting and (y) the occurrence of a Termination Event (as defined below in Section 3(c)) described in Section 3(c)(iii) (in the case of a solicitation of Stockholder Demands), Section 3(c)(iv) (in the case of a solicitation of

Written Consents) or Section 3(c)(v) (in the case of a solicitation of Proxies), or (II) when BGL Nominees constitute a majority of the RJRN Board, (B) the BGL Group will not exercise any management control over Nabisco prior to the consummation of the Spinoff and (C) the BGL Group will halt its solicitation of Stockholder Demands, Written Consents or Proxies, as the case may be, if the RJRN Board takes any action described in Section 3(c)(vi); and

(iii) if BGL and BGLS take the actions described in clause (ii) with respect to any solicitation described in clause (i), then (A) promptly upon the request of BGL or BGLS, High River shall (and shall cause each of its affiliates to) execute and deliver to BGL or BGLS a valid Stockholder Demand, Written Consent or Proxy, as the case may be (and not withdraw such Stockholder Demand, Written Consent or Proxy), with respect to all of the Shares and all of the depositary shares representing Series C Conversion Preferred Stock, par value $.01 per share ("Series C Depositary Shares"), of RJRN beneficially owned by it and (B) each of BGL and BGLS shall (and shall cause each of its affiliates to) vote in favor of such Proposal all Shares and all Series C Depositary Shares beneficially owned by it.

Section 2. Termination. (a) This Agreement shall automatically terminate upon the earlier of (i) the first anniversary of the date hereof and (ii) the termination of the Agreement dated as of October 17, 1995 among New Valley, ALKI Corp., a Delaware corporation ("NV Sub"), and High River (the "New Valley Agreement") by High River, and any party hereto may terminate this Agreement sooner at any time in its sole discretion by written notice to the other parties hereto, provided, however, that if New Valley or NV Sub terminates the New Valley Agreement, then BGL and BGLS shall be deemed to have simultaneously terminated this Agreement.

(b) If this Agreement is terminated pursuant to this Section 2, this Agreement shall forthwith become null and void, and there shall be no liability or obligation on the part of any party hereto, except for the obligations of the parties hereto

pursuant to Section 4, Section 5 and Section 8, which shall remain in full force and effect for the periods set forth therein.

Section 3. Certain Definitions. For purposes of this Agreement, the following terms shall have the meanings indicated below:

(a) "Business Combination," with respect to any party hereto, means:

(i) Any material sale of capital stock or other equity interests of RJRN beneficially owned by such party or any of such party's affiliates to RJRN or any of RJRN's affiliates, other than a sale effected on a registered securities exchange or through the NASDAQ system that satisfies the following conditions: (A) such sale is not pursuant to any agreement, understanding or arrangement with RJRN or any of its affiliates, agents or representatives, (B) either (I) such party and its affiliates do not know that RJRN or one of its affiliates is the buyer or (II) such sale is pursuant to a market repurchase program which has previously been publicly announced by RJRN or one of its affiliates and (C) such party has given notice to the other parties at least one day prior to such sale of its intention to sell such Shares (which notice shall the approximate number of Shares to be sold and the approximate time period in which such sales will be made, but need not specify the exact number of Shares to be sold or the exact timing of such sales);

(ii) Any material sale of capital stock or other equity interests of such party or any of such party's affiliates to RJRN or any of RJRN's affiliates, other than pursuant to a sale effected on a registered securities exchange or through the NASDAQ system which is not pursuant to any agreement, understanding or arrangement with RJRN or any of its affiliates, agents or representatives and such party and its affiliates do not know that RJRN or one of its affiliates is the buyer;

(iii) Any merger, consolidation or combination of such party or any of such party's material affiliates with RJRN or any of RJRN's affiliates;

(iv) Any material borrowings by such party or any of such party's affiliates from RJRN or any of RJRN's affiliates, or by RJRN or any of RJRN's affiliates from such party or any of such party's affiliates, other than credit in the ordinary course of business substantially in accordance with industry practice or past practice;

(v) Any sale or other disposition of any material assets or properties of such party or any of such party's affiliates to RJRN or any of RJRN's affiliates, or of any material assets or properties of RJRN or any of RJRN's affiliates to such party or any of such party's affiliates, other than in the ordinary course of business substantially in accordance with industry practice or past practice; or

(vi) Any receipt by such party or any of such party's affiliates of any material benefit, including any material payment in cash or in kind from RJRN, other than benefits or payments in the ordinary course of business substantially in accordance with industry practice or past practice;

except, in each case, for a transaction that is made available to all other holders of Shares substantially at the same time on substantially equivalent terms.

(b) "Permitted Business Combination" means any Business Combination which is either (i) consummated substantially simultaneously with or subsequently to (A) a dividend or other distribution to RJRN's stockholders of all or substantially all of RJRN's remaining equity interest in Nabisco or (B) another transaction with respect to RJRN's investment in Nabisco which would provide substantially equivalent value to RJRN's stockholders or (ii) approved by the holders of a majority of the outstanding Shares not then beneficially owned by the BGL

Group or by New Valley and its affiliates (the "New Valley Group").

(c) "Termination Event" means any of the following events:

(i) Any judgment, ruling, order or decree of any court or any other governmental agency or authority prohibiting, enjoining or restraining, or which has the effect of prohibiting, enjoining or restraining, any party to this Agreement or the New Valley Agreement from fulfilling its material obligations under this Agreement or the New Valley Agreement, or which would otherwise render unlawful, the fulfillment of any party's material obligations under this Agreement or the New Valley Agreement, except any judgment, ruling, order or decree (A) arising out of a breach of any representation contained in Section 7 of this Agreement or in Section 8 of the New Valley Agreement or (B) prohibiting, enjoining or restraining, or which has the effect of prohibiting, enjoining or restraining, or otherwise rendering unlawful any Business Combination other than a Permitted Business Combination (an "Order") is in effect and such party has not appealed such Order by appropriate proceedings prior to or on the tenth day after such Order is entered, or any Order has been in effect for at least 30 days and has not been vacated or reversed, or any governmental agency or authority has indicated to any party, orally or in writing, its intention to issue or to seek to obtain an Order (an "Order Threat"); provided, however, that any such event shall be a Termination Event only if (x) in the case of any party which is (or a member of whose Group is) the subject of an Order or Order Threat, such party gives prompt notice thereof to the other party and thereafter terminates this Agreement or the New Valley Agreement prior to or on the tenth day after such event occurs and (y) in the case of a party which is not (and all of the members of whose Group are not) the subject of such an Order or Order Threat, such party thereafter terminates this Agreement or the New Valley

Agreement prior to or on the tenth day following the time such party receives notice thereof from the subject party;

(ii) The Federal Trade Commission (the "FTC") or the Antitrust Division of the Department of Justice (the "Antitrust Division") has instituted any action or proceeding seeking to prohibit, enjoin or restrain any party to this Agreement or the New Valley Agreement from fulfilling its material obligations under this Agreement or the New Valley Agreement or to require any such party or any of its affiliates to make any material divestitures as a condition to the fulfillment of such obligations, or otherwise to impose any conditions or restrictions which could have a material adverse effect on any party hereto or on the transactions contemplated by this Agreement or the New Valley Agreement, or the FTC or the Antitrust Division has indicated to any such party, orally or in writing, its intention to institute any such action or proceeding, in each case other than any action, proceeding, requirement, condition or restriction with respect to any Business Combination except a Permitted Business Combination; provided, however, that any such event shall be a Termination Event only if the party which is the subject of such action, proceeding, requirement, condition or restriction thereafter terminates this Agreement or the New Valley Agreement prior to or on the tenth day after such event occurs;

(iii) BGL or BGLS has commenced a solicitation of Stockholder Demands and has failed to receive within 120 days after the date of commencement the number of validly executed and unwithdrawn Stockholder Demands necessary to require RJRN to hold a Special Meeting, unless (A) the Special Meeting has otherwise been called or held or (B) on or prior to such 120th day, BGL and BGLS have taken all actions necessary to cause one or more of the Proposals to be brought before the 1996 Annual Meeting;

(iv) BGL or BGLS has commenced a solicitation of Written Consents with respect to one or more Proposals and

has failed to receive within 120 days after the date of commencement the number of validly executed and unwithdrawn Written Consents necessary to approve at least one such Proposal, unless (A) at least one such Proposal has been otherwise approved at the 1996 Annual Meeting or a Special Meeting or (B) on or prior to such 120th day, BGL and BGLS have taken all actions necessary to cause at least one such Proposal to be submitted for a stockholder vote at the 1996 Annual Meeting or a Special Meeting;

(v) A Special Meeting or the 1996 Annual Meeting has been held, and one or more of the Proposals has been voted upon thereat, the BGL Nominees have not been elected to constitute a majority of the RJRN directors then in office and either (A) BGL and BGLS have determined not to pursue any further judicial review of the results of the vote at the Special Meeting or the 1996 Annual Meeting, as the case may be, or (B) no such further judicial review is available;

(vi) The RJRN Board has irrevocably declared a dividend or other distribution to RJRN's stockholders of all or substantially all of RJRN's remaining equity interest in Nabisco or has made any other legally binding commitment to engage in a transaction with respect to RJRN's investment in Nabisco which would provide substantially equivalent economic benefits to RJRN's stockholders;

(vii) Any event has occurred, or RJRN has taken any action, which is reasonably likely to have a material adverse effect on the business, operations or financial condition of RJRN and its subsidiaries, taken as a whole;

(viii) BGL or BGLS determines, reasonably and in good faith, that any event has occurred as a result of which no solicitation of Stockholder Demands, Written Consents or Proxies with respect to the Proposals would have a reasonable chance of success; provided, however, that any such event shall be a Termination Event only if BGL or BGLS notifies High River of such determination (which notice

shall specify in reasonable detail the nature of the event which has occurred and the reasons for such determination) at least five business days prior to terminating this Agreement or the New Valley Agreement and thereafter BGL or BGLS terminates this Agreement, and New Valley or NV Sub terminates the New Valley Agreement, on such fifth business day; and provided that in any challenge by High River of a termination under this subpart (viii), High River shall bear the burden, in order to prevail, of establishing that BGL's or BGLS's determination as first set forth in this subpart (viii) was unreasonable or was made in bad faith;

(ix) BGL and BGLS (A) fail to nominate the BGL Nominees prior to November 20, 1995, or such later date as may be designated by RJRN as the final date for such nominations to be made, for election to the RJRN Board at the 1996 Annual Meeting in accordance with the procedures set forth in the most recent version of the by-laws of RJRN filed with the SEC prior to such date, (B) fail to mail to RJRN stockholders a Solicitation Statement relating to a solicitation of Written Consents with respect to the Spinoff Proposal and/or the By-Law Amendment Proposal prior to December 15, 1995, (C) fail to file the Solicitation Statement relating to the Annual Meeting preliminarily with the SEC prior to the earlier of (I) February 15, 1996 and (II) the date on which a Solicitation Statement described in clause (B) of this Section 3(c)(ix) is first mailed to RJRN stockholders, (D) fail to make the BGL Pledge in any Solicitation Statement relating to any solicitation of Written Consents or Proxies seeking RJRN stockholder approval of the Election Proposal, or of Stockholder Demands for a Special Meeting at which RJRN stockholder approval of the Election Proposal will be sought, or (E) take any action in violation of the BGL Pledge after it is made; provided, however, that any such event shall be a Termination Event only if High River thereafter terminates this Agreement or the New Valley Agreement prior to or on the tenth day after the first date that High River becomes aware that such event has occurred, but in no event shall the failure to terminate this Agreement after the occurrence of any such event

prohibit the termination of this Agreement upon the subsequent occurrence of any other such event; or

(x) Either Group sells any Shares under the circumstances described in clause (x) of the first proviso to the first sentence of Section 1(d)(i) of the New Valley Agreement, or is required to offer any Shares to another party pursuant to the first sentence of Section 1(d)(ii) of the New Valley Agreement; provided, however, that any such event shall be a Termination Event only if a party to the New Valley Agreement which is not a member of such Group thereafter terminates the New Valley Agreement prior to or on the tenth day after the first date that such party becomes aware that such event has occurred.

Section 4. Certain Fees and Percentage Payments. (a) BGLS shall pay or cause to be paid to High River the sum of $50 million promptly upon:

(i) any termination of this Agreement by BGL or BGLS at a time when (A) no Termination Event has occurred and (B) High River is not in material breach of its obligations (the "High River Obligations") under Section 1(c)(iii) or Section 8 of this Agreement or Section 1(a), the fourth sentence of Section 1(c)(v), the ninth sentence of Section 1(c)(v) or Section 1(d)(i) of the New Valley Agreement;

(ii) any termination of this Agreement by High River at a time when (A) no Termination Event has occurred, (B) BGL or BGLS is in material breach of its obligations (the "BGL Obligations") under Section 1(c)(iii) of this Agreement and (C) High River is not in material breach of the High River Obligations; or

(iii) the consummation of any Business Combination (including any Permitted Business Combination) with respect to the BGL Group, if:

(A) such Business Combination is consummated prior to the later of (I) the date of RJRN's annual meeting of stockholders for 1997 and (II) the first anniversary of the date of termination of this Agreement (the later of such dates being referred to herein as the "Reference Date");

(B) a legally binding agreement to enter into such Business Combination or any other Business Combination is entered into prior to the Reference Date and such Business Combination is consummated prior to the second anniversary of the date of such agreement; or

(C) the BGL Nominees are elected to constitute a majority of the RJRN Board prior to the Reference Date and such Business Combination is consummated prior to the fifth anniversary of the date of such election;

provided, however, that (x) High River shall not be entitled to more than one fee under this Section 4(a), (y) High River shall not be entitled to any fee under this Section 4(a) if BGL shall have previously or shall concurrently become entitled to the fee described in Section 4(b) of this Agreement or if New Valley shall have previously become entitled to the fee described in Section 5(b) of the New Valley Agreement and (z) the amount of any fee to which High River may be entitled at any time pursuant to this Section 4(a) shall be reduced by the amount of any fee (the "New Valley Fee") which High River shall theretofore have been paid pursuant to Section 5(a) of the New Valley Agreement and by any percentage payment (the "New Valley Percentage Payment") which High River shall theretofore have been paid pursuant to Section 5(d) of the New Valley Agreement, in either of which events BGL or BGLS shall promptly upon request by New Valley reimburse New Valley for all or any part of the New Valley Fee or the New Valley Percentage Payment paid by or on behalf of New Valley.

(b) High River shall pay or cause to be paid to BGL the sum of $50 million promptly upon:

(i) any termination of this Agreement by High River at a time when (A) no Termination Event has occurred, (B) BGL and BGLS are not in material breach of any of the BGL Obligations and (C) New Valley and NV Sub are not in material breach of any of their obligations (the "New Valley Obligations") under Section 1(a), the fourth sentence of Section 1(c)(v), the ninth sentence of Section 1(c)(v), Section 1(d)(i) or Section 2 of the New Valley Agreement;

(ii) any termination of this Agreement by BGL or BGLS at a time when (A) no Termination Event has occurred, (B) High River is in material breach of its obligations under Section 1(c)(iii) or Section 8 of this Agreement, (C) BGL and BGLS are not in material breach of the BGL Obligations and (D) New Valley and NV Sub are not in material breach of the New Valley Obligations;

provided, however, that (x) BGL shall not be entitled to more than one fee under this Section 4(b), (y) BGL shall not be entitled to any fee under this Section 4(b) if High River shall have previously or shall concurrently become entitled to the fee described in Section 4(a) of this Agreement or the fee described in Section 5(a) of the New Valley Agreement and (z) the amount of any fee to which BGL may be entitled at any time pursuant to this Section 4(b) shall be reduced by the amount of any fee which New Valley shall theretofore have been paid pursuant to Section 5(b) of the New Valley Agreement.

(c) Notwithstanding anything in this Agreement or the New Valley Agreement to the contrary,

(i) if the New Valley Group (as such term is defined in the New Valley Agreement) or the BGL Group sells any Shares or any Other Securities (as such term is defined in the New Valley Agreement) of any class or series prior to the Reference Date, then BGLS shall pay or cause to be paid to High River promptly upon the consummation of such sale a

percentage payment equal to the product of (A) the Net Profit Override (as such term is defined in the New Valley Agreement) realized in such sale, multiplied by (B) a fraction (the "Sale Fraction," which shall be calculated separately for the Shares and for each class or series of Other Securities), the numerator of which is the number of Shares or such Other Securities (as the case may be) held as of the date hereof, or hereafter acquired prior to such sale, by the BGL Group and the denominator of which is the number of Shares or such Other Securities (as the case may be) held as of the date hereof, or hereafter acquired prior to such sale, by the BGL Group and the New Valley Group; and

(ii) if the New Valley Group or the BGL Group holds any Shares or any Other Securities of any class or series on the Reference Date, then New Valley shall pay or cause to be paid to High River promptly upon the Reference Date a percentage payment equal to the product of (A) the Net Profit Override existing on the Reference Date in respect of such Shares or such Other Securities, multiplied by (B) a fraction (the "Holdings Fraction," which shall be calculated separately for the Shares and for each class or series of Other Securities), the numerator of which is the number of Shares or such Other Securities (as the case may be) held as of the date hereof, or hereafter acquired prior to the Reference Date, by the BGL Group and the denominator of which is the number of Shares or such Other Securities (as the case may be) held as of the date hereof, or hereafter acquired prior to the Reference Date, by the BGL Group and the New Valley Group;

provided, however, that (x) the amount of any percentage payment to which High River is entitled at any time under this Section 4(c) shall be reduced by the product of (1) the amount of any fee which High River shall have theretofore been paid by or on behalf of New Valley under Section 5(a) of the New Valley Agreement or by BGLS under Section 4(a) of this Agreement, multiplied by (2) the Sale Fraction or the Holdings Fraction, as the case may be, (y) High River shall not be entitled to any percentage payment under this Section 4(c) if BGL shall have previously become

entitled to the fee described in Section 4(b) of this Agreement or if New Valley shall have previously become entitled to the fee described in Section 5(b) of the New Valley Agreement and (z) in the event that the New Valley Group or the BGL Group realizes a Net Loss (as defined in the New Valley Agreement) on any sale of any Shares or any Other Securities of any class or series, or that any Net Loss exists on the Reference Date in respect of any Shares or any Other Securities of any class or series held by the New Valley Group or the BGL Group on the Reference Date, then in each such event High River shall repay or cause to be repaid to BGLS promptly upon receipt of notice from BGLS an amount equal to the product of (1) the excess, if any, of (X) 20% of such Net Loss over (Y) the aggregate amount of such percentage payments theretofore received by High River, multiplied by (2) a fraction, the numerator of which is the aggregate amount of such percentage payments theretofore paid by or on behalf of BGLS and the denominator of which is the aggregate amount of such percentage theretofore paid by or on behalf of New Valley and BGLS. BGL and BGLS shall use their reasonable best efforts to provide to High River (x) once each calendar week, commencing from the date of this Agreement, a report containing a reasonably detailed calculation of the number of Shares and the amount of Other Securities then held by the BGL Group and the Weighted-Average Cost (as defined in the New Valley Agreement) of such Shares and Other Securities and (y) promptly after the close of business on each business day on which any Shares are sold by the BGL Group, a report setting forth the number of Shares or Other Securities sold since the close of business on the previous business day, the aggregate price realized in such sales and the aggregate commissions paid in such sales; provided, however, that BGL and BGLS shall not incur any liability or suffer any prejudice as a result of its provision of any such estimate.

(d) The parties hereto hereby acknowledge and agree that the arrangements in Section 4(c) with respect to percentage payments constitute a partnership for Federal income tax purposes and that the parties hereto shall file income tax returns in a consistent manner.

(e) Each of BGL and High River shall give notice to the other promptly upon becoming aware that a Termination Event has occurred or that any event has occurred that would be a Termination Event but for the giving of notice or the termination of this Agreement.

Section 5. Costs and Expenses. (a) Except as set forth in Section 5(b), the BGL Group shall be responsible for all out-of-pocket costs and expenses of soliciting Stockholder Demands, Written Consents and Proxies from the stockholders of RJRN, including without limitation, to the extent related thereto, (i) all registration and filing fees under the Exchange Act or the Securities Act of 1933, as amended (the "Securities Act"), (ii) all printing, messenger, telephone and delivery expenses, (iii) all fees and disbursements of counsel and (iv) all fees and disbursements of public relations firms, proxy solicitation firms, investment bankers and other financial advisors.

(b) Notwithstanding the provisions of Section 5(a), each party hereto shall be solely responsible for (i) all costs and expenses relating to the acquisition of the Shares beneficially owned or hereafter acquired by such party and its affiliates, (ii) its internal expenses (including, without limitation, all salaries and expenses of its officers and employees performing duties relating to the transactions contemplated by this Agreement) and (iii) all other expenses incurred by it, other than expenses described in Section 5(a), all of which shall be the sole responsibility of the BGL Group.

Section 6. Required Filings; Publicity. (a) Each of the parties hereto shall (and shall cause each of its affiliates to) (i) take all actions necessary to comply promptly with all legal requirements which may be imposed on such party (or its affiliates) as a result of this Agreement or any of the transactions contemplated hereby, and (ii) without limiting the foregoing, make all required filings pursuant to the Securities Act and the Exchange Act.

(b) To the extent reasonably practicable, the parties hereto shall consult with each other prior to all public statements or filings to be issued or made by any of them or their affiliates with respect to this Agreement and the transactions contemplated hereby.

Section 7. Representations and Warranties. (a) Each of the parties hereto hereby represents and warrants to the other parties hereto as follows:

(i) Such party is a corporation or partnership duly organized, validly existing and in good standing under the laws of the state of its incorporation or organization, and has full corporate or partnership power and authority to execute and deliver this Agreement and to perform its obligations hereunder and to consummate the transactions contemplated hereby.

(ii) The execution and delivery by such party of this Agreement and the performance by such party of its obligations hereunder have been duly and validly authorized by all necessary corporate or partnership action. This Agreement has been duly and validly executed and delivered by such party and constitutes a legal, valid and binding obligation of such party enforceable against such party in accordance with its terms.

(iii) The execution and delivery by such party of this Agreement do not, and the performance by such party of its obligations under this Agreement will not, conflict with or result in a violation or breach of any of the provisions of the certificate of incorporation, bylaws or other organizational documents of such party, any law or order applicable to such party or any of such party's contractual obligations to other persons, in each case, in any manner that would prevent or materially impede such party from fulfilling its obligations hereunder.

(b) BGL and BGLS hereby represent and warrant to High River that as of the date hereof the BGL Group owns beneficially

and of record 200 Shares, free and clear of all liens and encumbrances whatsoever, which Shares were purchased by the BGL Group at an aggregate cost (including all brokerage fees and commissions incurred in the acquisition of such Shares) of $5,675, and in respect of which the BGL Group has not received any dividends, except dividends of $75 received on July 3, 1995 and dividends of $75 received on October 2, 1995.

(c) High River represents and warrants to BGL and BGLS that High River has as of the date hereof, and will have on each prior to the termination of this Agreement, net partners' equity of at least $22 million.

Section 8. Certain Actions. High River shall not (and shall cause its affiliates not to) engage in, agree to engage in or propose (either publicly or to RJRN or any of its affiliates) to engage in, individually or in combination with any other person, any Business Combination at any time prior to the earliest of (a) the Reference Date, (b) any termination of this Agreement that occurs at or after the time when a Termination Event has occurred and (c) any termination of this Agreement by BGL or BGLS, or of the New Valley Agreement by New Valley or NV Sub, at a time when High River is not in material breach of the High River Obligations.

Section 9. Miscellaneous. (a) For purposes of this Agreement, (i) the terms "affiliate" and "associate" have the meanings assigned to them in Rule 12b-2 promulgated under the Exchange Act, provided, however, that New Valley and NV Sub shall not be deemed to be "affiliates" or "associates" of the BGL Group for any purpose of this Agreement, (ii) Liggett shall be deemed to be a material affiliate of BGL and BGLS, (iii) the term "shall" is used herein to refer to actions which are compulsory and thus to create binding obligations among the parties hereto, (iv) the terms "will," "expect," "expectation," "intend" and "intention," and other terms of similar import, are used herein solely to refer to the aspirations and objectives of the parties hereto and thus are not used herein to create binding obligations among the parties hereto and (v) the term "may" is used herein to refer solely to conduct which is optional and not compulsory and

thus is not used herein to create binding obligations among the parties hereto.

(b) The parties hereto shall have no rights, power or duties except as specified herein, and no such rights, powers or duties shall be implied. Nothing herein shall give any party hereto the power to bind any other party hereto to any contract, agreement or obligation to any third party.

(c) All notices and other communications hereunder shall be in writing and shall be deemed given when received by the parties hereto at the following addresses (or at such other address for any party hereto as shall be specified by like notice):

If to BGL or BGLS:

100 S.E. Second Street
Miami, Florida 33131
Attention: Bennett S. LeBow
Telecopy: (305) 579-8001

With a copy to:

Michael L. Hirschfeld, Esq.
Milbank, Tweed, Hadley & McCloy
1 Chase Manhattan Plaza
New York, NY 10005-1413
Telecopy: (212) 530-5219

If to High River:

c/o Icahn Associates Corp.
114 West 47th Street
19th Floor
New York, New York 10036
Attention: Carl C. Icahn
Telecopy: (212) 921-3359

With a copy to:

Marc Weitzen, Esq.
Gordon Altman Butowsky Weitzen
Shalov & Wein
114 West 47th Street
20th Floor
New York, NY 10036
Telecopy: (212) 626-0799

(d) This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement.

(e) This Agreement constitutes the entire agreement among the parties hereto and supersedes all prior agreements and understandings among the parties hereto with respect to the subject matter hereof.

(f) This Agreement shall be governed and construed in accordance with the laws of the state of New York applicable to a contract executed and performed in such State, without giving effect to the conflicts of laws principles thereof.

(g) Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of the other parties hereto; provided, however, that High River may assign any of its rights and interests hereunder to (i) any corporation incorporated in any state of the United States or in the District of Columbia if at least 98.5% of the shares of each class of capital stock of such corporation are by Carl C. Icahn (a "wholly-owned Icahn subsidiary"), either directly or through one or more wholly-owned Icahn subsidiaries or (ii) any partnership whose partners are all wholly-owned Icahn subsidiaries; and provided further that no such assignment shall relieve High River of any of its obligations hereunder. Subject to the preceding sentence, this Agreement shall be binding upon, inure to the benefit of and

be enforceable by the parties hereto and their respective successors and assigns.

(h) This Agreement may be amended, supplemented or modified only by a written instrument duly executed by or on behalf of each party hereto. No waiver of any term or condition in this Agreement shall be effective unless set forth in writing and signed by or on behalf of the waiving party. No waiver by any party hereto of any term or condition of this Agreement shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion.

(i) The terms and provisions of this Agreement are intended solely for the benefit of the parties hereto and their successors and permitted assigns and are not intended to confer upon any other person any rights or remedies hereunder, except that the provisions of clause (z) of the proviso to Section 4(a), as they relate to the reimbursement obligations of BGL and BGLS, are expressly for the benefit of New Valley and shall be enforceable by New Valley against BGL and BGLS (but not against High River) by appropriate proceedings in any court of competent jurisdiction.

(j) In the event that any party hereto prevails in any or proceeding alleging a breach of this Agreement, such party shall be entitled to recover all reasonable attorney's fees and other costs of prosecuting such action or proceeding and, in addition, shall be entitled to receive simple interest on any damages awarded in such action or proceeding at the rate of 10% per annum from the date of such breach.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed by their representatives thereunto duly authorized, all as of the date first above written.

BROOKE GROUP LTD.

By:

BGLS INC.

By:

HIGH RIVER LIMITED PARTNERSHIP

By:

[Signature page to Agreement among Brooke Group Ltd., BGLS Inc. and High River Limited Partnership dated October 17, 1995]

BGL
EXHIBIT 10(c)

SECOND AMENDMENT TO SERVICES AGREEMENT

SECOND AMENDMENT TO SERVICES AGREEMENT, dated as of October 1, 1995, by and between Brooke Management Inc., a Delaware corporation ("BMI"), having an office at 100 S.E. Second Street, 32nd Floor, Miami, Florida 33131, Brooke Group Ltd., a Delaware corporation ("BGL"), having an office at 100 S.E. Second Street, 32nd Floor, Miami, Florida 33131, and Liggett Group Inc., a Delaware corporation (the "Company"), having an office at 700 West Main Street, Durham, North Carolina 27702.

WITNESSETH:

WHEREAS, BMI and the Company are parties to a Services Agreement, dated as of February 26, 1991, by and between BMI and the Company, as amended by a First Amendment to Services Agreement, dated as of November 30, 1993 (the Agreement, as so amended, hereinafter referred to as the Services Agreement).

WHEREAS, BMI desires to assign to BGL and BGL desires to assume the rights and obligations embodied in the Services Agreement (the Assignment);

WHEREAS, the Company desires to consent to the Assignment; and

WHEREAS, upon giving effect to the Assignment, BGL and the Company wish to extend the term of the Services Agreement on the terms set forth below;

NOW, THEREFORE, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Effective as of the date hereof, the Company hereby consents to the Assignment and agrees that:

(i) BGL shall be a permitted assignee of the rights and obligations of BMI pursuant to Section 6.02 of the Services Agreement;
and
(ii) BMI shall have no further obligations under the Services Agreement.

2. Section 2 of the Services Agreement is hereby amended to provide for a termination date of November 30, 2001.

3. Except as amended hereby, the terms and provisions of the Services Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment to the Services Agreement as of the date first above written.

BROOKE MANAGEMENT INC.

By:

BROOKE GROUP LTD.

By:

LIGGETT GROUP INC.

By:

BGL
EXHIBIT 10(d)

EXPENSE SHARING AGREEMENT

THIS AGREEMENT, is made and entered into as of January 18, 1995 (the "Agreement"), by and between Brooke Group Ltd., a Delaware corporation ("Brooke") and New Valley Corporation, a New York corporation ("New Valley") (collectively, the "Parties").

R E C I T A L S :

WHEREAS, Brooke is the sublessee of 12,356 square feet of office space, on the 32nd floor in the office building now known as International Place, located at 100 S.E. 2nd Street, Miami, Florida (the "Premises"), pursuant to that certain Sublease dated July 27, 1992 (the "Sublease") by and between Brooke and Carnival Cruise Lines, Inc. (the "Sublessor"); and

WHEREAS, the Sublease expires on February 28, 1999 (the "Expiration Date") and provides, among other things, for the payment of rent by Brooke, to Sublessor, in the amount of $21,716.91 per month (the "Rent") (escalating over the duration of the Sublease); and

WHEREAS, the Sublease also requires a security deposit of $492,000.00 (the "Security Deposit"), which amount has been paid by Brooke and is currently held in an interest bearing escrow account by Sublessor (the "Security Deposit Account"); and

WHEREAS, Brooke, in connection with its use and occupancy of the Premises, incurs ordinary and customary expenses, including but not limited to expenses for, office supplies and equipment, telephone, maintenance, insurance and taxes (collectively, the "Operating Expenses"); and

WHEREAS, Brooke, in connection with the operation of its business and affairs, employs an in-house legal staff and various other support personnel (the "Personnel") which Personnel spend approximately fifty percent (50%) of their working day on New Valley matters; and

WHEREAS, New Valley has relocated its principal offices to the Premises, effective January 18, 1995, and in order to achieve certain economies, desires to share in and reimburse Brooke for, the Rent, Operating Expenses and utilization of Personnel.

NOW THEREFORE, the Parties hereto, for good and adequate consideration, agree as follows:

1. The Parties shall equally divide all Rent and Operating Expenses from the date of this Agreement through the Expiration Date.

2. New Valley shall, via wire transfer, reimburse Brooke for $263,369.40, which sum represents fifty percent (50%) of the Security Deposit, with accrued interest, through May 26, 1995. From the date hereof, the Parties shall jointly own all proceeds in the Security Deposit Account and shall share in all distributions, if any, equally.

3. Brooke shall be responsible for payment, on a current basis, of one hundred percent (100%) of the Rent, Personnel and monthly Operating Expenses.

4. New Valley shall reimburse Brooke for fifty percent (50%) of the cost of the Rent, Personnel and monthly Operating Expenses, within one (1) day of invoice by Brooke.

5. Brooke shall reimburse New Valley for twenty-five percent (25%) of salaries, wages and benefits of certain New Valley officers and employees performing services for Brooke, which percentage represents the estimate of time spent by New Valley personnel on Brooke matters, within one (1) day of invoice by New Valley to Brooke.

6. New Valley has read and agrees to be bound by the terms, conditions and restrictions contained in the Sublease, (including those contained in the Master Lease, as defined in the and shall be fully and completely responsible for any and all breaches of the terms, conditions and restrictions contained therein.

7. Both New Valley and Brooke represent and warrant that they have full authority to enter into this Agreement.

8. This Agreement contains the entire agreement between the Parties and supersedes all previous negotiations and understandings leading thereto. This Agreement may be modified only by an agreement, in writing, signed by both parties. This Agreement shall be governed by Florida law and shall bind and inure to the benefit of the parties and their respective successors and assigns.

IN WITNESS WHEREOF, the undersigned have, this date, set their hands and seals

BROOKE GROUP LTD.

BY:

NEW VALLEY CORPORATION

BY:

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JAN-01-1995
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